FARM CREDIT
PROUD PARTNER
SERVING AGRICULTURE

2014 ANNUAL REPORT

FARM CREDIT BANK OF TEXAS

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FARM CREDIT BANK OF TEXAS
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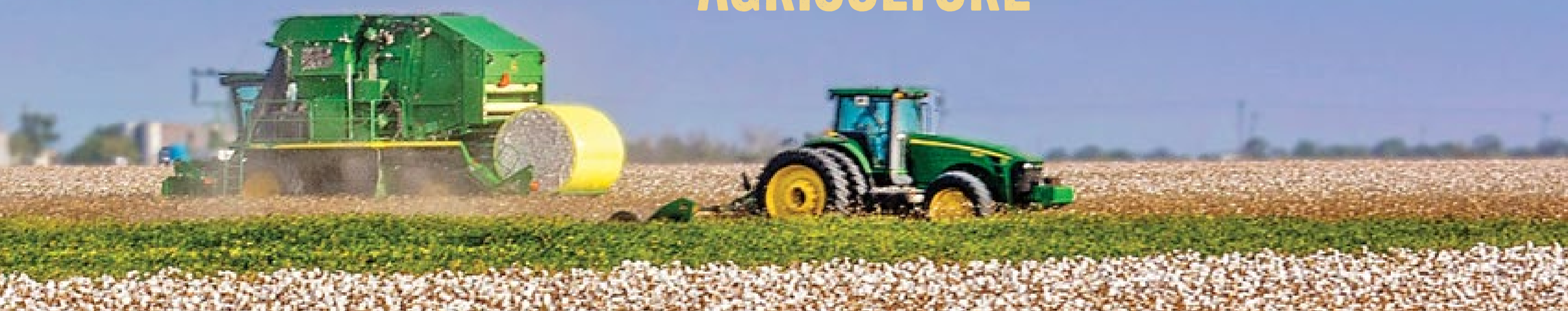
OUR MISSION is to enhance the quality of life in rural America by following cooperative principles to provide competitive credit and superior service to our member-owners.

FARM CREDIT

PROUD PARTNER

SERVING AGRICULTURE



Reliable, strong, dedicated.

Those are the qualities that we all look for in a partner. And for 98 years, Farm Credit has been that loyal partner to farmers, ranchers and agribusiness owners.

Our cooperative structure makes us the lender our customers can count on to have their best interests at heart. With our steady source of funding, we have the financial muscle to meet the credit needs of borrowers of varying types and sizes. And our only mission, to provide sound and dependable credit for agriculture, underpins our unwavering dedication to enhancing the quality of life in rural America.

We are proud of our long partnership, and embrace the opportunity to serve the generations to come.

TO OUR STOCKHOLDERS

2014 KEY ACCOMPLISHMENTS

Bank achieves record net income for ninth consecutive year.
Net income increased 4.7 percent to $188.3 million, benefiting from strong growth across the bank's portfolios.

Cooperative business model lowers associations' cost of funds.
The bank paid its association owners a patronage of 43 basis points on direct note loan volume, effectively reducing their cost of funds to the bank's cost.

Loan volume and asset volume reach new highs.
Total assets rose 11.1 percent to a record $18.01 billion, reflecting increases in direct notes to our affiliated lending associations and Other Financing Institutions (OFIs), capital markets participation loans and investments. Total loan volume was a record $13.26 billion, with very high credit quality.

Capital and liquidity position bank for growth or adversity.
Our strong capital position, investments in high-quality liquid assets, diversified portfolio, interest rate risk management and debt management provide both opportunities for growth and protection from losses.

New business systems help serve the marketplace.
The bank made progress in its operational and technology initiatives to enhance efficiency, flexibility, customer service, data privacy and regulatory compliance.

Farm Credit is all about helping people in agriculture and rural America be successful.

We have remained true to that mission ever since Congress created our network of cooperatively owned institutions in 1916 to fill the need for a permanent source of reliable, competitive credit.

In that time, Farm Credit Bank of Texas has advanced alongside the complex and capital-intensive agriculture industry, building a large and diverse asset base to generate the earnings required to provide our services and pass along the greatest value to our member cooperatives and their borrowers.

We are proud of our long partnership with the agriculture industry, and ended 2014 with strong income, assets, credit quality, capital and liquidity that will enable us to meet its needs in the future.

Financial Highlights

By every measure, Farm Credit Bank of Texas achieved excellent financial results in 2014.

We reported $188.3 million in net income, marking our tenth consecutive year of rising earnings and our ninth consecutive record year. Our asset growth and debt-management strategy contributed to a 5.1 percent increase in net interest income despite pressure on interest rate spreads and an ongoing low rate environment.

Total assets topped $18 billion for the first time, benefiting from increases of 12.6 percent in loans and 12.3 percent in investments. Most significant was a $1.14 billion increase in direct notes to our affiliated lending associations and Other Financing Institutions (OFIs). Gains in several lending areas within the district, particularly in agricultural real estate, production agriculture, agribusiness and rural homes, demonstrate their commitment to serving the broad needs of the rural marketplace. The bank also had a $336.6 million increase in capital markets participation loans that provide capital and liquidity for food, agribusiness, energy and rural infrastructure companies.

Our assets not only grew, but also maintained excellent credit quality, thanks to the strong balance sheets and financial positions of our borrowers, our sound underwriting standards and portfolio management, and the positive economic conditions in our five-state territory. At year end, 98.8 percent of our overall portfolio was considered acceptable and special mention.

In keeping with our mission, we partnered with several Farm Credit banks and associations in a new Rural Investment Business Company (RBIC) in 2014. Together, our institutions pledged $150 million that will enable the U.S. Department of Agriculture to facilitate investments in small agriculture-related businesses, providing capital for job growth in rural areas.

We ended the year with over $1.4 billion in shareholders' equity, $4.5 billion in cash and investments, and 232 days of liquidity. Our solid capital and liquidity levels far exceed current regulatory requirements, and position us to meet or exceed new requirements anticipated from our regulator, the Farm Credit Administration.

The Cooperative Advantage

Managing our capital and our business for the benefit of our owners lies at the heart of our cooperative philosophy.

A good cooperative reflects the breadth and diversity of the community it serves. When run well, it benefits members equitably because its profits flow to all, not just a few. These returns are a tangible indication of the co-op's financial health, keeping the owners who supply its capital engaged in its performance and governance.

By embracing this business model, we have been able to maintain strong capital while returning the majority of our earnings to our stockholders. In December 2014, we distributed a patronage payment representing 43 basis points on direct notes to 15 associations and three other financing institutions, effectively lowering their cost of borrowing and enabling them to pass the value along to the agricultural operators, agribusinesses and rural property owners they serve.

In total, the bank returned $76.4 million in cash through its four patronage programs and allocated another $4.0 million for potential cash payout to one of our participations partners:

Earnings Patronage on Direct Note	$ 49.5 million
Participations Patronage	23.7 million
Stock Investment Patronage	3.8 million
Capitalized Participation Pool Patronage	3.4 million
Total	$ 80.4 million

The bank distributed another $50.25 million in preferred stock dividends, returning a total of $130.7 million in total patronage and dividends, or 69.4 percent of its 2014 net income, to its affiliated lending cooperatives and other stockholders.

Collaborating for the Best Service

Providing low-cost funding is just one way we help our owners be successful. Our federated cooperative also centralizes many support services at the bank, absorbing their expense, minimizing duplicated effort and freeing the associations to focus on their relationships with their member-owners.

In 2014, Farm Credit Bank of Texas devoted additional resources to providing technology, credit, accounting and other services. We increased the number of budgeted full-time bank positions by nearly 5 percent, continuing our efforts to recruit and retain a diverse and knowledgeable staff in one of the nation's most competitive hiring environments and fastest-growing cities. We augmented our in-house expertise with contract labor and strategic partnerships with companies that provide technology services. And we fostered new talent by giving to several educational and professional development causes and by partnering with our associations to fund university scholarships.

We are using much of the income generated by our growing assets to invest in operational and technology initiatives to enhance our efficiency, business intelligence and responsiveness. As custodians of our customers' personal information, we are serious about guarding their privacy, and have implemented policies and procedures for handling and protecting their data. We also have made progress in several large-scale projects that will put more capabilities in the hands of our associations and their retail borrowers.

Looking Ahead

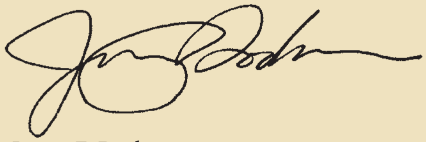
Farm Credit Bank of Texas is entering 2015 on a solid financial footing that positions us well for a variety of scenarios.

Although agricultural income is falling off its record levels in some commodity areas, improving weather conditions and lower input costs have improved prospects for many of our owners. In addition, our large and diverse portfolio offers considerable protection and is not overly dependent on the agricultural economy.

Diversification in our portfolio and our region's economy also acts as a safeguard from fluctuations in oil and gas prices, which could affect the profitability of some district association portfolios. While we are monitoring potential effects on district land values, the bank has minimal exposure to oil and gas, and the industry represents a relatively small percentage of employment in the district's territory.

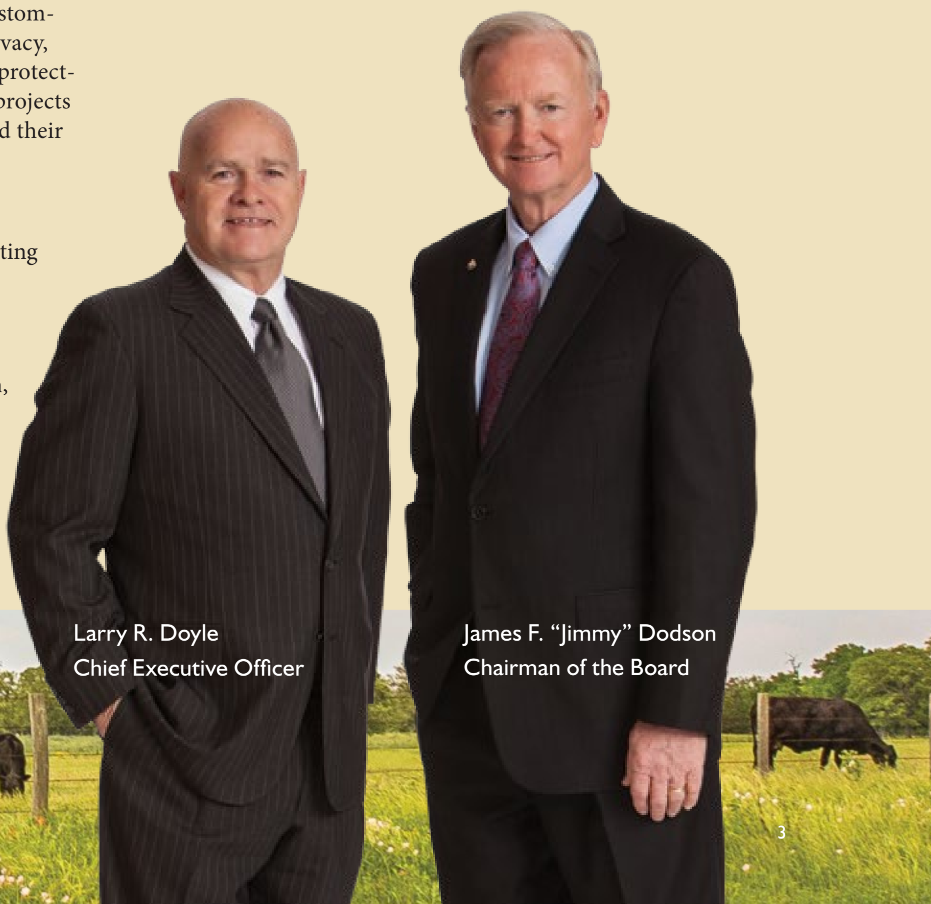
Like other financial institutions, we are watching Federal Reserve actions and movement in interest rates. Fortunately, our management of interest rate risk and our access to low-cost funding through the sale of Farm Credit securities prepare us for increases or decreases in rates.

For nearly a century, we have successfully navigated periods of stability and volatility, remaining the dependable source of credit that agriculture needs in good times and bad. We are confident that with our strong financial foundation, cooperative business model, our emphasis on relationship lending and our attention to diverse and new markets, we can look forward to continued success in the years to come.



James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer



Larry R. Doyle
Chief Executive Officer

James F. "Jimmy" Dodson
Chairman of the Board

2014 FARM CREDIT BANK OF

TOP FINANCIAL MARKERS

RECORD
NET EARNINGS
$188.3
MILLION

$130.7
MILLION

Patronage and preferred stock dividends of approximately $130.7 million, which represents 69.4% of net income

Direct note patronage of **43 basis points**, resulting in zero cost of funding to our associations

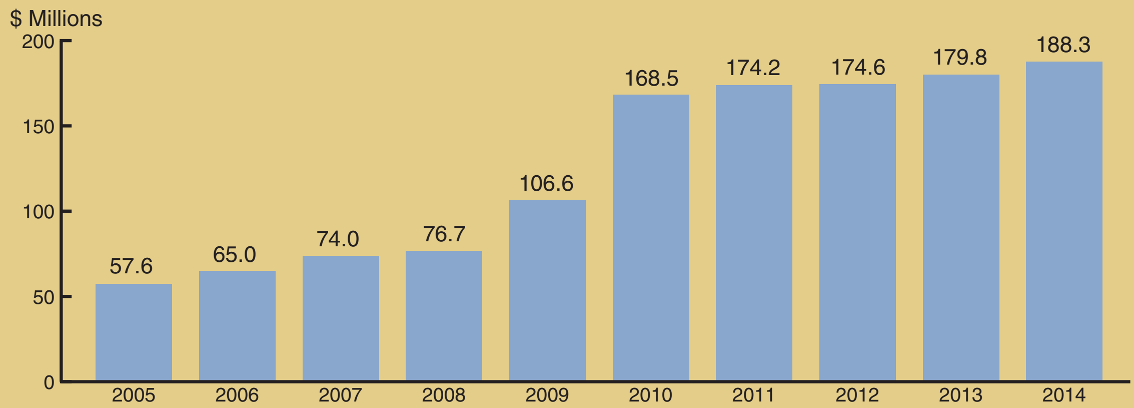
CREDIT QUALITY
98.3%
ACCEPTABLE

Capital level in excess of $1.4 billion, resulting in regulatory permanent capital of 18.33%, which is above 7% regulatory minimum requirement

ASSOCIATION DIRECT NOTE GROWTH OF
$1.1 billion
or 15.6%

ASSET GROWTH
11.1%

BANK NET INCOME



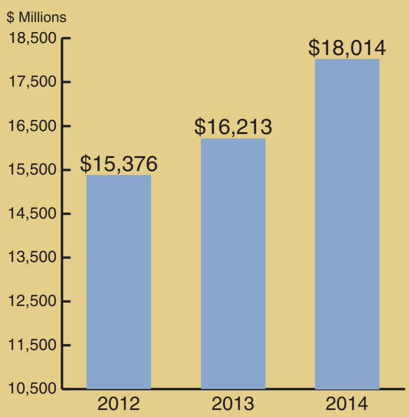
TEXAS

FINANCIAL HIGHLIGHTS

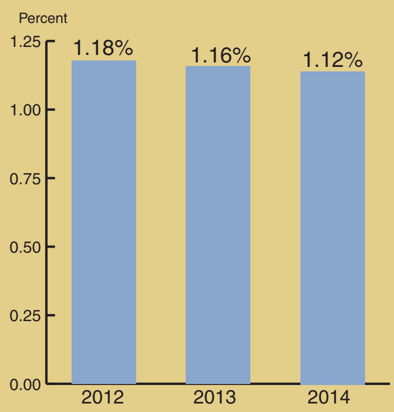
For the Year (in thousands)	**2014**	2013	2012
Net interest income	**$ 226,659**	$ 215,720	$ 220,824
Negative provision (provision) for credit losses	**5,433**	(6,253)	(27,121)
Noninterest expense, net	**(43,832)**	(29,647)	(19,123)
Net income	**$ 188,260**	$ 179,820	$ 174,580
Rate of return on:			
Average assets	**1.12%**	1.16 %	1.18%
Average shareholders' equity	**12.68**	12.31	13.56
Cash patronage declared	**$ 76,414**	$ 71,505	$ 65,843

At Year End (in millions)			
Total loans	**$ 13,260**	$ 11,779	$ 11,339
Total assets	**18,014**	16,213	15,376
Total liabilities	**16,534**	14,820	14,102
Total shareholders' equity	**1,479**	1,393	1,274
Permanent capital ratio	**18.33%**	21.64%	18.64%
Total surplus ratio	**15.86**	17.29	15.92
Core surplus ratio	**10.07**	10.12	9.92
Net collateral ratio	**108.00**	108.67	107.94

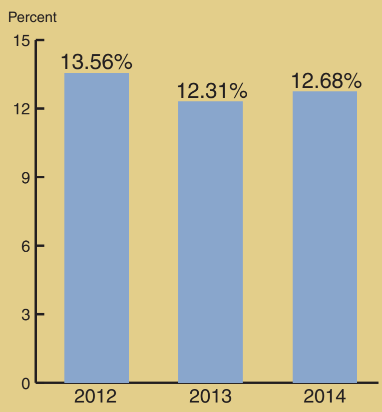
Total Assets Outstanding at Year End



Return on Average Assets for the Year



Return on Average Equity for the Year



BOARD OF DIRECTORS

The seven-member board of directors establishes policies for the bank, provides strategic direction, oversees management and ensures that the bank operates in a safe and sound manner.

Possessing a commitment to transparency and the principles behind the bank's cooperative business model, the board members have extensive business and leadership experience in a variety of backgrounds. Five of the directors are farmers or ranchers and were elected by the local financing cooperatives that own the bank. The two board-appointed members who served in 2014 have banking backgrounds.

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

SENIOR MANAGEMENT TEAM

The bank's leaders are guided by the experience they have gained during their long tenures in the Farm Credit System and in lending, finance, government, information technology, agriculture and farmer-owned cooperatives.

In addition to overseeing day-to-day operations, the senior management team sets the course for the bank's future success by working with the board to establish business goals and strategies.

Through their vision, combined experience and conservative approach to risk, they ensure that the bank is a stable source of funding and an earnings engine for the five-state district it serves, strengthening our affiliated lenders' ability to provide competitive credit and superior service for the rural marketplace.

(Left to right)
Susan Wallar, VP/Chief Audit Executive
Kurt Thomas, SVP/Chief Credit Officer
Michael Elliott, VP/Chief Information Officer
Larry Doyle, Chief Executive Officer
Amie Pala, VP/Chief Financial Officer
Stan Ray, VP/Chief Administrative Officer
Carolyn Owen, SVP/General Counsel

FARM CREDIT

PROUD PARTNER SERVING AGRICULTURE

At Farm Credit, we've been working hand in glove with farmers and ranchers for nearly a century to help them achieve their goals and dreams. In many ways, we're an extension of the farm and ranch.

We offer the agricultural financing expertise our member-owners often can't find elsewhere. We understand the risks and rewards involved in running an agricultural operation. And our only purpose is to be a reliable source of funds for agriculture and rural America.

Farm Credit is proud to be the lending partner of ag producers, agribusiness owners and other rural Americans from all backgrounds, whether they are young and new to the land or older, seasoned operators. We invite you to turn the pages and meet just a few of our many member-owners across the Texas Farm Credit District.

FARMING AS A FAMILY

Frank Zboril and Sons Farm
El Campo, Texas

Frank Zboril Jr. and his wife, Marianne, have always put needs ahead of wants. That philosophy has helped them build a successful rice-farming and cattle-ranching operation that today supports three generations of Zborils.

Located in Wharton County, west of Houston in the heart of the Texas rice-growing belt, Frank Zboril and Sons Farm traces its roots to 1950, when Frank Jr. began buying land with the slim wages he earned working for his brothers. Over the years, he and Marianne instilled a strong work ethic and sense of teamwork in sons Frank III, Floyd and Farley, and daughter Cynthia Zboril Garrett, who partner in the farm. During busy seasons, spouses and grandchildren all pitch in to help.

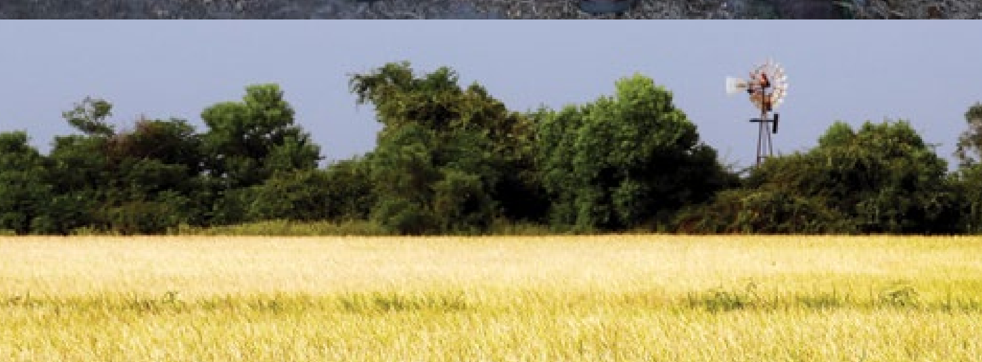
The farm consists of about 6,000 acres of owned and leased land, where they grow rice, their favorite crop, as well as corn or soybeans most years. They also have a herd of 550 primarily Hereford- and Brahman-crossbed cows that they breed to Angus and Charolais bulls.

"We don't try to get too big," says Floyd, who shares the workload with his dad and brothers. "We're in a comfort zone so we can be good at a particular size of operation and do most of it ourselves."

For decades, the family has relied on Capital Farm Credit as their financing partner for land purchases, operating expenses and construction of a grain dryer and storage bins, and consider Farm Credit to be a part of their team.

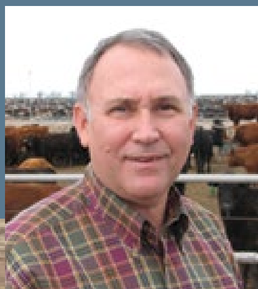
"Without their help, we wouldn't be where we are today," says Marianne.

Marianne and Frank Zboril Jr., foreground, with their sons and daughters-in-law: Frank III and Linda on the steps; Floyd and Tammy on the tire; and Jalisa and Farley standing at top



FOCUS ON CAT

Since the days when cowboys drove cattle from Texas up the Chisholm Trail to railheads in the Midwest, beef production has been a mainstay of our rural economy. Much has changed in the industry since then, including the way that cattle are fed and marketed. But one thing that has not changed in Farm Credit's



Dr. Michael Engler

Cactus Feeders L.P.
Amarillo, Texas

With a mission statement of "Feeding a Hungry World: Families, Friends and Neighbors," Cactus Feeders is focused on meeting the growing demand for proteins. The largest privately-owned cattle feeding company in the world, Cactus operates 10 feedyards throughout the Texas Panhandle and southwestern Kansas, producing over 1 million finished animals annually.

"We know that protein demand is rising worldwide as people in emerging economies seek to improve the quality of their diets, and we also know that domestic food insecurity continues to be a concern, with approximately one in five children in the U.S. facing hunger challenges. That is why we are committed to producing more protein at a lower cost while using fewer natural resources," says Cactus Feeders President Brad Hastings.

Established with one location in 1975 by cattleman Paul Engler, the company has grown to over 550 employees, and in 2010 became 100-percent employee-owned. In recent years, under the leadership of Chief Executive Officer Dr. Michael Engler, Cactus has devoted significant resources to research and development of efficient animal production technologies. The company also has diversified into swine production with the purchase of two pork companies — a step to becoming a multi-species food-animal production company offering affordable, quality proteins.

To meet its enormous daily cash flow, Cactus Feeders relies on a banking syndicate consisting primarily of Farm Credit entities. "Farm Credit is pleased to provide Cactus with capital, cash management products, leasing and other services," says AgTexas Farm Credit Vice President Colton Long. "When we support Cactus, we're also contributing to the success of producers and the overall agricultural economy."

Cactus Feeders Chief Financial Officer Heath Wilson echoes these comments. "The Farm Credit System and AgTexas in particular are central to our success. The ability to partner with lenders that understand agriculture and share our commitment to feeding a hungry world gives us a competitive advantage and allows us to meet the significant credit demands of production agriculture challenges even as we grow the company," he says.

TLE FEEDING

history is our support for the cattle-feeding sector. Today, Farm Credit is extremely proud to be the financial partner of numerous cattle feedyards throughout our district, including two of the oldest and largest feeders in the United States — Cactus Feeders and Friona Industries, both headquartered in Amarillo, Texas.

Friona Industries L.P.
Amarillo, Texas

Established in 1962 as a single feedyard, Friona Industries now includes four separate feeding operations across the West Texas plains: the original Friona Feedyard, Littlefield Feedyard, Randall County Feedyard and Swisher County Cattle Company. Together, these facilities have a combined one-time capacity of 305,000 head of cattle, making Friona Industries the third-largest cattle-feeding company in the United States.

Friona Industries continues to grow and succeed through innovation. Under the visionary direction of Chief Executive Officer James Herring, the company is a leader in changing the way that beef is produced to meet consumer demand. Friona Industries promotes a vertically aligned beef production system, in which the feedyard works with processors and retailers to market branded products that are tender, consumer-friendly and uniform in quality.

Currently, the company produces 37 branded beef products that are offered by seven major retailers in nearly 3,000 stores, which resulted in more than $1.3 billion in beef sales in 2014.

While the capital requirements of an operation of this size exceed the capacity of most lenders, they are not beyond Farm Credit's. Last year, Friona's local lender, Capital Farm Credit, partnered with 14 other Farm Credit lending cooperatives and one commercial bank to assemble a financing package that would meet the company's extensive needs.

"Farm Credit is proud to serve Friona Industries as they continue their tradition of leadership in the beef industry," says Phil Peabody, senior vice president of correspondent lending with Capital Farm Credit in Lubbock, Texas.

J.K. Lovett, foreground, and son Wayne Lovett

A DIVERSIFIED OPERATION

J.K. and Wayne Lovett

Heidelberg, Mississippi

From logging to raising cattle to producing chickens, Mississippi's J.K. Lovett and his son Wayne have always been willing to do what it takes to be successful farmers.

J.K. did factory work and operated his own logging business before taking a friend's advice to enter the broiler chicken business in 1990. Wayne, after studying education in college, worked with his dad, logging and running the poultry houses until he could build his own chicken houses. Along the way, both father and son's flocks were struck by tragedy, yet neither man lost his enthusiasm for farming. Instead, they built more poultry houses, buoyed by an indomitable can-do spirit.

Through all the ups and downs, the Lovetts have enjoyed the financing support of their Farm Credit lender.

"The Lovett families are success stories," says Glenn Sowell, their longtime loan officer at Southern AgCredit. "We're pleased to partner with them in their individual journeys to reach their financial goals."

Today, J.K. and Wayne own 10 poultry houses between them, and both raise cattle. Wayne has further diversified, tending 20 acres of loblolly pines that he planted and growing hay to sell to horse owners in the wintertime. He also has implemented a number of conservation measures to improve the land and water resources.

"It's always better when you can be self-employed," says J.K., who's the third generation of his family to farm in this community. Farming has given them the opportunity to do just that.

CO-OPS SUPPORTING CO-OPS

Louisiana Sugarcane Cooperative Inc.

St. Martinville, Louisiana

From the time the sugarcane ripens in the fields of south Louisiana each fall until the first hard freeze, the Louisiana Sugar Cooperative (LaSuCa) mill in St. Martinville, La., is a hive of activity. The cooperative's 40 grower-members deliver raw sugarcane here daily during harvest season to be crushed and processed into sugar and molasses. Each ton of raw cane yields an average of 220 pounds of sugar, which translated to 125,000 tons of raw sugar produced by the mill in 2013-14.

LaSuCa sends its sugar to Louisiana Sugar Refining (LSR), owned jointly by Cargill Inc. and Louisiana Sugar Grower and Refiners cooperative, of which LaSuCa is a member. Here the sugar is further refined and distributed under various labels. At year end, LaSuCa in true co-op fashion keeps only enough income to cover costs and then returns the remainder to members, often paying above market prices, thanks in part to the premiums earned from LSR.

Operated as a cooperative for decades, LaSuCa has relied on Farm Credit financing throughout most of its history.

"The major benefit has been their understanding of agriculture, sugar processing and what sugar growers go through," says Mike Comb, LaSuCa general manager.

Rusty Jenkins, Louisiana Land Bank regional manager, has worked with LaSuCa over the years to finance new equipment, operating expenses and improvements for the 154-year-old mill.

"Louisiana Land Bank is a co-op, and we enjoy helping another co-op be successful," Jenkins says.

Top photo: LaSuCa Board President Mike Melancon, left, and Louisiana Land Bank Vice President David Bergeron

At left: LaSuCa General Manager Mike Comb, in white hat, walks behind the mill with, from left to right, Jarrod Sellar, Rusty Jenkins and David Bergeron of Louisiana Land Bank.

GROWING, PACKING AND PROCESSING

The Franzoy family, from left to right: Brian, Billy, Chris, Mark and Justin

Billy Franzoy and Family

Deming and Hatch, New Mexico

In southern New Mexico — world-famous for its green chile — Billy Franzoy and sons Chris, Brian, Justin and Mark operate a farm and three thriving businesses that are helping to satisfy Americans' growing taste for green chile, onions and pinto beans.

Their Billy the Kid Produce in the town of Deming features a state-of-the-art onion-drying facility, where the Franzoys pack and ship more than 1 million 50-pound units of red, white and yellow onions every summer. Up the highway in Hatch, Young Guns Produce has been processing and packaging fresh green chile since 1986. Meanwhile, Hatch Green Chile Factory, owned by Chris and his wife, Tammy, fire-roasts, freezes and packages green chile and sun-dried red chile puree — an operation that extends the family's marketing season to year-round.

Like Billy's grandfather, who started farming here nearly a century ago, the family grows their own chile and onions and also processes and markets those crops for other area farmers. That's not all. Combined, they grow chile, onions, pumpkins, pecans, pinto beans, alfalfa, wheat and silage corn on about 2,500 acres.

As the Franzoys' operations have expanded over the years, so has their need for capital and their relationship with their Farm Credit lender, Ag New Mexico.

"Ag New Mexico allowed us to capitalize on an opportunity to vertically integrate and bring in new packing technology," says Chris. "With their help, we were able to reduce costs and sustain our business."

The Tran family, from left to right: Sasha, Quang, Julia and John

The Tran Family
Glenwood, Alabama

South Alabama's Tran family is proof that hard work and determination can pay off for beginning farmers.

Born in Vietnam and now U.S. citizens, Quang and Julia Tran immigrated to the United States in search of a better life. Initially, Quang ran grocery stores and was a shrimper, but the shrimping business was seasonal, and Julia wanted a more stable and lucrative business for the family. Attracted to the income potential of chicken farming, Julia located an existing farm with six chicken houses for sale, and put together a down payment for the farm. With financing from Alabama Ag Credit, the Trans purchased the place and started raising broilers.

"The Trans are very hard-working and business-focused, and if there is a way to make money, Julia will find it," says their loan officer, Alabama Ag Credit Vice President Lee Hughes. "Alabama Ag Credit was pleased to help them get started in farming, and we're thrilled that they've become successful with their poultry operation."

After seven years, the couple sold the farm for a profit and purchased their present farm and four broiler houses near Glenwood, where they raise 880,000 chickens and produce 6.6 million pounds of meat annually.

Today, the Trans are teaching other Vietnamese families how to get started and make it in the poultry business, and Julia even introduces the prospective chicken producers to Alabama Ag Credit.

"If you want something, you have to work really hard and not give up — because if you give up you're a failure," she says.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Bank of Texas

(dollars in thousands)	**2014**	2013	2012	2011	2010
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 450,447**	$ 624,261	$ 526,379	$ 445,354	$ 457,304
Investment securities	**4,086,391**	3,637,855	3,346,479	3,160,683	3,076,946
Loans	**13,259,837**	11,778,741	11,338,830	10,287,377	10,464,034
Less allowance for loan losses	**10,112**	13,660	17,258	15,659	28,678
Net loans	**13,249,725**	11,765,081	11,321,572	10,271,718	10,435,356
Other property owned	**10,310**	13,812	30,739	28,748	2,838
Other assets	**216,677**	171,708	150,500	142,731	135,759
Total assets	**$ 18,013,550**	$ 16,212,717	$ 15,375,669	$ 14,049,234	$ 14,108,203
Obligations with maturities of one year or less	**$ 6,474,695**	$ 5,288,760	$ 5,113,949	$ 4,896,287	$ 5,239,734
Obligations with maturities greater than one year	**10,059,634**	9,530,710	8,987,877	7,942,591	7,717,611
Total liabilities	**16,534,329**	14,819,470	14,101,826	12,838,878	12,957,345
Preferred stock	**600,000**	600,000	482,000	482,000	482,000
Capital stock	**233,468**	220,543	212,588	216,839	228,399
Allocated retained earnings	**22,508**	20,314	16,984	14,438	11,144
Unallocated retained earnings	**643,067**	585,503	534,438	471,933	407,821
Accumulated other comprehensive (loss) income	**(19,822)**	(33,113)	27,833	25,146	21,494
Total shareholders' equity	**1,479,221**	1,393,247	1,273,843	1,210,356	1,150,858
Total liabilities and shareholders' equity	**$ 18,013,550**	$ 16,212,717	$ 15,375,669	$ 14,049,234	$ 14,108,203
Statement of Income Data					
Net interest income	**$ 226,659**	$ 215,720	$ 220,824	$ 226,829	$ 212,520
Negative provision (provision) for credit losses	**5,433**	(6,253)	(27,121)	(16,465)	(28,523)
Noninterest expense, net	**(43,832)**	(29,647)	(19,123)	(36,168)	(15,547)
Net income	**$ 188,260**	$ 179,820	$ 174,580	$ 174,196	$ 168,450
Financial Ratios (unaudited)					
Rate of return on:					
Average assets	**1.12%**	1.16%	1.18%	1.24%	1.20%
Average shareholders' equity	**12.68%**	12.31%	13.56%	14.14%	16.78%
Net interest income to average earning assets	**1.39%**	1.44%	1.55%	1.68%	1.57%
Net charge-offs to average loans	**0.02%**	0.09%	0.19%	0.28%	0.30%
Total shareholders' equity to total assets	**8.21%**	8.59%	8.28%	8.62%	8.16%
Debt to shareholders' equity (:1)	**11.18**	10.64	11.07	10.61	11.26
Allowance for loan losses to total loans	**0.08%**	0.12%	0.15%	0.15%	0.27%
Permanent capital ratio	**18.33%**	21.64%	18.64%	20.85%	22.00%
Total surplus ratio	**15.86%**	17.29%	15.92%	17.36%	17.83%
Core surplus ratio	**10.07%**	10.12%	9.92%	10.48%	10.67%
Net collateral ratio	**108.00%**	108.67%	107.94%	108.27%	107.91%
Net Income Distributions					
Net income distributions declared and accrued					
Preferred stock cash dividends	**$ 50,250**	$ 49,931	$ 43,761	$ 43,761	$ 45,601
Patronage distributions declared					
Cash	**$ 76,414**	$ 71,505	$ 65,843	$ 63,362	$ 73,609
Allocated retained earnings	**4,032**	3,253	2,471	2,961	2,489

AVERAGE BALANCES AND NET INTEREST EARNINGS

Farm Credit Bank of Texas
(unaudited)
December 31,

	2014			2013			2012		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Investment securities and federal funds sold	**$ 3,880,310**	**$ 52,924**	**1.36%**	$ 3,504,150	$ 51,266	1.46%	$ 3,282,825	$ 55,315	1.68%
Loans	**12,438,960**	**336,899**	**2.71**	11,472,881	318,217	2.77	10,919,403	335,049	3.07
Total interest-earning assets	**16,319,270**	**389,823**	**2.39**	14,977,031	369,483	2.47	14,202,228	390,364	2.75
Cash	**354,998**			401,666			392,231		
Accrued interest receivable	**37,881**			35,132			35,248		
Allowance for loan losses	**(11,145)**			(16,086)			(16,002)		
Other noninterest-earning assets	**174,808**			170,849			165,308		
Total average assets	**$ 16,875,812**			$ 15,568,592			$ 14,779,013		
Liabilities and Shareholders' Equity									
Bonds, medium-term notes and subordinated debt, net	**$ 13,696,533**	**$ 160,985**	**1.18%**	$ 12,835,829	$ 151,917	1.18%	$ 11,546,068	$ 161,958	1.40%
Discount notes, net, and other	**1,548,500**	**2,179**	**0.14**	1,138,958	1,846	0.16	1,814,013	7,582	0.42
Total interest-bearing liabilities	**15,245,033**	**163,164**	**1.07**	13,974,787	153,763	1.10	13,360,081	169,540	1.27
Noninterest-bearing liabilities	**146,405**			132,698			131,928		
Total liabilities	**15,391,438**			14,107,485			13,492,009		
Shareholders' equity and retained earnings	**1,484,374**			1,461,107			1,287,004		
Total average liabilities and shareholders' equity	**$ 16,875,812**			$ 15,568,592			$ 14,779,013		
Net interest rate spread		**$ 226,659**	**1.32%**		$ 215,720	1.37%		$ 220,824	1.48%
Net interest margin			**1.39%**			1.44%			1.55%

The following commentary is a discussion and analysis of the financial position and the results of operations of the Farm Credit Bank of Texas (the bank or FCBT) for the years ended December 31, 2014, 2013 and 2012. The commentary should be read in conjunction with the accompanying financial statements, notes to the financial statements (notes) and additional sections of this annual report. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank, together with its affiliated associations (the district), are part of the federally chartered Farm Credit System (System). The district serves Texas, Alabama, Mississippi, Louisiana and most of New Mexico. The bank provides funding to the district associations, which, in turn, provide credit to their borrower-shareholders. As of December 31, 2014, the bank served one Federal Land Credit Association (FLCA), 14 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs) which are not part of the System. The FLCA and ACAs are collectively referred to as associations. See Note 1, "Organization and Operations," to the accompanying financial statements for an expanded description of the structure and operations of the bank.

Forward-Looking Information

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

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Critical Accounting Policies

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

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

bank's investments. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, certain mortgage-related securities, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the bank's results of operations.

- **Pensions** — The bank and its related associations participate in the district's defined benefit (DB) retirement plan. The plan is noncontributory, and benefits are based on salary and years of service. In addition, the bank and its related associations also participate in defined contribution retirement savings plans.

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

  The liability and expense for other postemployment benefits is determined actuarially based on certain assumptions, including discount rate and mortality assumptions. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to the Aon Hewitt AA Only Above-Median Yield Curve, actuarial analyses and industry norms. The Aon Hewitt yield curves are determined based on actual corporate bond yields for bonds rated AA as of the measurement date. The discount rate at December 31, 2014, was 4.55 percent, compared to 5.20 percent at December 31, 2013. In October 2014, the Society of Actuaries issued revised mortality tables (RP 2014) and a mortality improvement scale (MP 2014) for use by actuaries, insurance companies, governments, benefit-plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000). The adoption of these new tables resulted in an increase of $1,375 to our retiree welfare plans' projected benefit obligations.

OVERVIEW

General

The bank's loan portfolio totaled $13.3 billion at December 31, 2014, a 12.6 percent increase from the prior year. The increase in the bank's loan portfolio was mainly due to an increase in the bank's direct loans to associations and other financing institutions and an increase in the bank's capital markets loan portfolio. The bank's $8.4 million increase in net income for 2014 was driven primarily by an $11.7 million decrease in provision for credit losses and a $10.9 million increase in net interest income, offset by a $7.2 million decrease in noninterest income and a $7.0 million increase in noninterest expenses. The decrease in provision for credit losses was due primarily to a decrease in required allowances related to loans and unfunded commitments which are individually evaluated for impairment. During 2014, market conditions continued to compress rate spreads on earning assets. The decline in effective rates on earning assets is reflective of the low interest rate environment combined with competitive pressures.

Funding

During 2014, the System continued to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. Investor demand for Systemwide debt securities has remained favorable across all products. The bank has continued to have reliable access to funding at competitive rates and terms necessary to support our lending and business operations. Future ratings action affecting the U.S. government and related entities (including the System) may affect our borrowing cost and/or limit our access to the debt capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve.

Conditions in the Texas District

During the fourth quarter of 2014, additional rains have benefited most parts of Texas and New Mexico; however, more rain is needed to replenish ground moisture, stock tanks and lakes, as certain parts of these states remain under long-term drought conditions. Meanwhile, very limited portions of Alabama, Mississippi and Louisiana remain in a state of drought, as moisture levels, in general, have been plentiful. Across the district, this has generally resulted in healthier pasture and range conditions, as well as sufficient moisture for the production of field crops. While the threat of drought remains, adequate topsoil and subsoil moisture levels across the district should continue to support pasture and range conditions, as well as promote optimism and planting activity during the next planting season.

For the 2014 farm season, almost all crops across the Texas District states have been harvested, and some farmers have already begun field preparations for the upcoming planting season. With the United States Department of Agriculture (USDA) estimating that a record corn and soybean crop was harvested during 2014, stocks of both commodities have increased, resulting in weaker prices than in past years. While better growing conditions in the state of Texas improved cotton production and lowered abandonment rates, higher domestic cotton production and elevated global stocks drove cotton prices lower during the year. Looking forward to the next planting season, the potential for a lower price environment could determine total acres planted, while changes in price relationships may cause crop allocations to shift. Farmers in the district continue to use risk management tools, such as programs under the U.S. Farm Bill, multi-peril crop insurance, and forward, futures and options contracts.

Across most of the district, reduced feed prices, coupled with the continuation of historically high protein prices, have had a positive impact on the livestock, poultry and dairy industries. The cattle industry continues to experience contracted herd levels, due to the previous prolonged drought conditions in the U.S. Plains states. However, cattle ranchers in many areas of the district have begun the process of expanding their herds through increased cow and heifer retention. While cattle feedlots continue to manage through the effects of smaller herds, elevated beef prices and a strong corn crop have aided profitability. During the year, dairy producers benefited from very strong milk prices and continued to feel relief from reduced feed costs, allowing many dairy producers to strengthen their balance sheet before moving into the next cycle of expansion. Given the limited supplies of meat caused by the recent reduction in the cattle herd, the effects of the porcine virus on pork production and the continued decline in feed costs, poultry integrators were able to maintain strong margins. As livestock producers manage profitability, risk management of operations will continue to provide protection from commodity price volatility and the threat of rising production costs.

Labor markets are generally improving, and the housing and construction sector continues to recover. Global supply and demand dynamics remain supportive of the agricultural concentrations in the district loan portfolio, which is expected to contribute to the preservation of credit quality. As always, weather conditions as well as other macro-economic forces, such as oil prices, unemployment and foreign demand, might impact portfolio profitability going forward. Moreover, land values in certain areas of the Texas District could be adversely impacted by lower oil prices, if such prices persist over the medium to long term. However, the district continues to be supported by strong credit quality and well-balanced portfolio diversification.

RESULTS OF OPERATIONS

Net Income

The bank's net income of $188,260 for the year ended December 31, 2014, reflects an increase of 4.7 percent over 2013, while 2013 income of $179,820 increased by 3.0 percent from 2012. The return on average assets was 1.12 percent for the year ended December 31, 2014, down from 1.16 percent reported for the year ended December 31, 2013. The return on average assets was 1.18 percent for the year ended December 31, 2012. Changes in the major components of net income for the referenced periods are outlined in the table below and in the discussion following:

	2014 vs. 2013	2013 vs. 2012
Net income (prior period)	$ 179,820	$ 174,580
Increase (decrease) due to:		
Increase (decrease) in interest income	20,340	(20,881)
(Increase) decrease in interest expense	(9,401)	15,777
Net interest income	10,939	(5,104)
Negative provision for credit losses	11,686	20,868
Noninterest income	(7,182)	(4,370)
Noninterest expense	(7,003)	(6,154)
Total change in net income	8,440	5,240
Net income	$ 188,260	$ 179,820

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

Interest Income

Total interest income for the year ended December 31, 2014, was $389,823, an increase of $20,340, or 5.5 percent, compared to 2013. Total interest income for the year ended December 31, 2013, was $369,483, a decrease of $20,881, or 5.3 percent, compared to 2012. The increase for 2014 was due primarily to a $1.34 billion increase in average earning assets, net of the effects of an 8-basis-point decrease in the average yield. The decrease for 2013 was due primarily to changes in the interest rate environment during 2013.

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

	Year Ended December 31, 2014 vs. 2013	Year Ended December 31, 2013 vs. 2012
Increase (decrease) in average earning assets	$ 1,342,239	$ 774,803
Average yield (prior year)	2.47%	2.75%
Interest income variance attributed to change in volume	33,153	21,307
Average earning assets (current year)	16,319,270	14,977,031
Decrease in average yield	(0.08)%	(0.28)%
Interest income variance attributed to change in yield	(12,813)	(42,188)
Net change in interest income	$ 20,340	$ (20,881)

Interest Expense

Total interest expense for the year ended December 31, 2014, was $163,164, an increase of $9,401, or 6.1 percent, compared to the same period of 2013. Total interest expense for the year ended December 31, 2013, was $153,763, a decrease of $15,777, or 9.3 percent, compared to the same period of 2012. The increase for 2014 was due primarily to a $1.27 billion increase in average interest-bearing liabilities, net of the effects of a 3-basis-point decrease in the average cost of debt, while the decrease for 2013 was due primarily to the effects of the decreasing interest rate environment during 2013. During 2014, 2013, and 2012 the bank called debt totaling $2.3 billion, $3.0 billion and $8.9 billion, respectively, replacing it with debt with lower rates, reducing interest expense.

During 2014, the bank was able to reduce its interest expense by calling and replacing $2.3 billion in debt with debt that had lower interest rates, which resulted in a savings of approximately $8.2 million, net of related concession expenses. During 2013, the bank called and replaced $3.0 billion in debt, which resulted in a reduction of interest expense of approximately $8.9 million, net of related concession expenses. During 2012, the bank called and replaced $8.9 billion in debt, securing more favorable terms.

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

	Year Ended December 31, 2014 vs. 2013	Year Ended December 31, 2013 vs. 2012
Increase (decrease) in average interest-bearing liabilities	$ 1,270,246	$ 614,706
Average rate (prior year)	1.10%	1.27%
Interest expense variance attributed to change in volume	13,973	7,807
Average interest-bearing liabilities (current year)	15,245,033	13,974,787
Decrease in average rate	(0.03)%	(0.17)%
Interest expense variance attributed to change in rate	(4,572)	(23,584)
Net change in interest expense	$ 9,401	$ (15,777)

Net Interest Income

Net interest income, the excess of interest income over interest expense, increased by $10,939 from 2013 to 2014, and decreased by $5,104 from 2012 to 2013. The increase in 2014 was due to the effects of a $1.34 billion increase in average interest-earning assets, slightly offset by a 5-basis-point decrease in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt. The bank's increase in average earning assets included growth in direct notes to district associations, the investment portfolio, and the bank's Capital Markets loan portfolio.

Net interest income in 2013 was $5,104 less than 2012. The decrease in 2013 was due to the effects of an 11-basis-point decrease in the interest rate spread, slightly offset by a $774,803 increase in average interest-earning assets.

ANALYSIS OF NET INTEREST INCOME

	2014		2013		2012	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 12,438,960**	**$ 336,899**	$ 11,472,881	$ 318,217	$ 10,919,403	$ 335,049
Investments	**3,880,310**	**52,924**	3,504,150	51,266	3,282,825	55,315
Total earning assets	**16,319,270**	**389,823**	14,977,031	369,483	14,202,228	390,364
Interest-bearing liabilities	**15,245,033**	**163,164**	13,974,787	153,763	13,360,081	169,540
Impact of capital	**$ 1,074,237**		$ 1,002,244		$ 842,147	
Net Interest Income		**$ 226,659**		$ 215,720		$ 220,824

	2014 Average Yield	2013 Average Yield	2012 Average Yield
Yield on loans	**2.71%**	2.77%	3.07%
Yield on investments	**1.36%**	1.46%	1.68%
Yield on earning assets	**2.39%**	2.47%	2.75%
Cost of interest-bearing liabilities	**1.07%**	1.10%	1.27%
Interest rate spread	**1.32%**	1.37%	1.48%
Impact of capital	**0.07%**	0.07%	0.07%
Net interest income/average earning assets	**1.39%**	1.44%	1.55%

Provision for Credit Losses

The bank's negative provision for credit losses for 2014 totaled $5,433, a decrease of $11,686 from the provision for 2013. The decrease is primarily due to a $10.3 million decrease of required allowances related to loans and unfunded commitments which are individually evaluated for impairment, a $936 decrease in the general allowance on unused loan commitments and a $463 decrease in the general allowance for loan losses. The $10.3 million decrease in specific provisions was related primarily to credit improvement in the dairy and ethanol sectors. In addition to its allowance for loan losses, the bank also maintains a general reserve for credit losses on unfunded commitments, including letters of credit and on unused loan commitments. The $6,253 provision for 2013 was a decrease of $20,868 from the $27,121 provision for loan losses recorded in 2012. The decrease was primarily due to a $15.4 million decrease of required allowances related to loans which were individually evaluated for impairment and a $5.5 million decrease in provision for credit losses on standby letters of credit. The bank attributes improvements in provisions for credit losses to improved economic conditions.

Noninterest Income

Noninterest income for the year ended December 31, 2014, was $37,845, a decrease of $7,182, or 16.0 percent, compared to 2013. The decrease is due primarily to a $7.4 million decrease in fees for loan-related services, a $626 decrease in fair value on loans purchased in the secondary market and a $212 increase in losses on the sale of securities, offset by a $604 decrease in credit losses recognized on other-than-temporarily impaired investments which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," to the accompanying financial statements, a $533 increase in fees for services billed to associations and a $209 increase in patronage income.

Noninterest income for the year ended December 31, 2013, was $45,027, a decrease of $4,370, or 8.8 percent, compared to 2012. The decrease is due primarily to a $9.8 million decrease in Farm Credit System Insurance Corporation (FCSIC or Insurance Corporation or Insurance Fund) refund distributions of excess reserves received in the second quarter of 2012, a $2.5 million decrease in fair value on loans purchased in the secondary market and a $565 increase in credit losses recognized on other-than-temporarily impaired investments which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," to the accompanying financial statements, offset by a $3.9 million increase in fees for loan-related services, a $2.1 million increase in patronage income, a $587 increase in fees for services billed to associations and a $1.9 million increase in net gains on the sale of loans. The increase in loan-related fee income is primarily due to an increase in prepayment fees.

Noninterest Expenses

Noninterest expenses totaled $81,677 for 2014, an increase of $7,003, or 9.4 percent, from 2013. This increase was primarily due to a $2,541 increase in occupancy and equipment expenses, a $2,087 increase in salaries and employee benefits, a $1,730 increase in premiums to the FCSIC and a $1,038 increase in other operating expenses, offset by a $393 decrease in losses related to other property owned (OPO). The $2,541 increase in occupancy and equipment expenses includes a $2,773 increase in computer expenses, which is primarily an increase in software maintenance. The $2,087 increase in salaries and employee benefits was primarily due to a $2,024 increase in compensation and related payroll taxes and a $625 decrease in capitalization of salaries and benefits related to internally developed software, net of a $644 decrease in pension and retirement benefits. Premiums to the Insurance Fund increased as a result of the rate increase from 10 basis points in 2013 to 12 basis points in 2014 and an increase in debt required to fund earning assets. The Insurance Fund has announced a rate increase to 13 basis points on outstanding debt in 2015. The increase in other operating expenses included a $387 increase in professional and contract services, a $260 increase in communications expense, a $243 increase in assessment fees from the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and a $148 increase in all other operating expenses, collectively. The $393 decrease in losses related to OPO included an $824 decrease in carrying value adjustments on the underlying collateral and a $227 decrease in net expenses on OPO, net of a $658 decrease in net gains on disposals.

Noninterest expenses totaled $74,674 for 2013, an increase of $6,154, or 9.0 percent, from 2012. This increase was primarily due to a $4,388 increase in other operating expenses, a $3,068 increase in premiums to the FCSIC, a $2,764 increase in salaries and employee benefits and a $1,422 increase in occupancy and equipment expenses, offset by a $5,488 decrease in losses related to other property owned (OPO). The increase in other operating expenses included a $3,551 increase in professional and contract services, a $377 increase in advertising and member relations expenses, a $313 increase in assessment fees from the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and a $147 increase in all other operating expenses, collectively. Premiums to the Insurance Fund increased as a result of the rate increase from 5 basis points in 2012 to 10 basis points in 2013 and an increase in debt required to fund earning assets. The $2,764 increase in salaries and employee benefits was primarily due to a $2,096 increase in compensation and related payroll taxes, a $519 increase in pension and retirement benefits and a $512 increase in other benefits, net of a $363 increase in capitalization of salaries and benefits related to internally developed software. The $1,422 increase in occupancy and equipment expenses includes a $1,735 increase in computer expenses, which is due to an increase in software depreciation. The $5,488 decrease in losses related to OPO included a $4,653 decrease in carrying value adjustments on OPO, a $753 increase in net gains on disposals and an $82 decrease in net expenses on OPO.

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

	2014	2013	2012
Excess of net interest income over operating expense	**$ 144,668**	$141,125	$157,871
Operating expense as a percentage of net interest income	**36.2%**	34.6%	28.5%
Operating expense as a percentage of net interest income and noninterest income	**31.0**	28.6	23.3
Operating expense as a percentage of average loans	**0.66**	0.65	0.58
Operating expense as a percentage of average earning assets	**0.50**	0.50	0.44

The increase in 2014 of excess net interest income over operating expense reflects a $10.9 million, or 5.1 percent, increase in net interest income, offset by a $7.4 million, or 9.9 percent, increase in operating expense. The decrease in operating efficiency for 2014, reflected in the ratio of operating expenses to net interest income plus noninterest income, is due primarily to the $7.4 million increase in operating expenses and a $7.2 million decrease in noninterest income.

CORPORATE RISK PROFILE

Overview

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

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

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

Structural Risk Management

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

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

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

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

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

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

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

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

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

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

During the three years ended December 31, 2014, all banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2014, all banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2014, the banks met the defined CIPA score required by the MAA.

Credit Risk Management

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

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

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

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

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

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

Loans

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

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank actively pursues the purchase of participations and syndications originated outside of the district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or sub-participated to the associations or to other System entities.

Gross loan volume of $13.260 billion at December 31, 2014, reflected an increase of $1.481 billion, or 12.6 percent, from December 31, 2013. The balance of $11.779 billion at December 31, 2013, reflected an increase of $439.9 million, or 3.9 percent, from the $11.339 billion balance at December 31, 2012. The increase in the loan portfolio from 2013 to 2014 is mainly attributable to a $1.145 billion increase in the bank's direct loans to associations and other financing institutions and a $336.6 million increase in the bank's capital markets loan portfolio.

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

	December 31,		
	2014	2013	2012
Direct notes receivable from district associations and OFIs	**64.1%**	62.5%	63.9%
Participations purchased	**35.9**	37.5	36.0
Other bank-owned loans	—	—	0.1
Total	**100.0%**	100.0%	100.0%

The following table discloses the credit quality of the bank's loan portfolio:

	December 31,		
	2014	2013	2012
Acceptable	**98.3%**	97.9%	96.8%
Special mention	**0.5**	0.3	0.7
Substandard	**1.2**	1.8	2.5
Total	**100.0%**	100.0%	100.0%

Bank credit quality has improved in 2014, with association and OFI direct notes rated (under the Farm Credit Administration's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" (special mention) being 98.3, 98.0 and 97.8 percent of total direct notes at December 31, 2014, 2013 and 2012, respectively. The increase in acceptable loans on the bank's total portfolio from December 31, 2013, to December 31, 2014, is mainly driven by highly rated participation loans being added to the loan portfolio. One association's direct note of $149.1 million has been rated substandard since 2012. The bank has a first lien position on the assets of the associations, and the earnings, capital and loan loss reserves of the associations serve as an additional layer of protection against losses. As a result, while the downgrade reflected credit deterioration in the underlying retail loans held by the association in 2012, they are not indicative of an increased risk of loss related to the bank's direct note to the association. No provision for loan losses has been recorded on any of the direct notes to associations, and the bank does not anticipate any further material deterioration in the credit quality of its direct notes to affiliated associations. During 2013, the bank sold $250.0 million of association direct notes and $23.1 million of OFI direct notes to another System bank. The balance of the bank's association direct notes sold to another System bank was $3.7 billion at December 31, 2014 and 2013, and $3.4 billion at December 31, 2012. The bank's OFI direct notes sold to another System bank totaled $15.9 million at December 31, 2014 and $23.1 million at December 31, 2013.

Credit quality for all loans and accrued interest receivable other than direct notes to associations and OFIs classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable was 99.7, 98.5 and 97.1 percent at December 31, 2014, 2013 and 2012, respectively.

Association Direct Notes

As the preceding table illustrates, 64.1 percent of the bank's portfolio consisted of direct notes from associations and OFIs at December 31, 2014. Terms of loans to associations and OFIs are specified in a separate general financing agreement between each association and OFI and the bank, and all assets of each association secure the direct notes to the bank. Each association is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). See Note 1, "Organization and Operations," to the accompanying financial statements for further discussion of the Farm Credit System.

The credit exposure of the bank's loans to associations, which are evidenced by direct notes with full recourse, is dependent on the associations' creditworthiness and the ability of their borrowers to repay loans made to them. The credit risk to the bank is mitigated by diversity in the associations' loan portfolios in terms of underlying collateral and income sources, geography and range of individual loan amounts. In addition, the risk-bearing capacities of the associations are assessed quarterly by the bank and are currently deemed adequate to absorb most interest-related shocks. Each association maintains an allowance for loan losses determined by its management and is capitalized to serve its unique market area.

Associations are subject to FCA regulations concerning minimum capital, loan underwriting and portfolio management, and are audited annually by independent auditors. In addition, associations are required by condition of the general financing agreement with the bank to provide copies of their risk-based internal credit review reports. The associations are required to maintain a risk-based internal credit review program including procedures addressing: reviewer qualification and independence, review frequency, accuracy of risk ratings, credit administration, regulatory compliance, scope selection, documentation of audit committee approval of reviewers and audit committee review of the internal control reports. As of December 31, 2014, all associations were in compliance with their general financing agreements with the bank.

Loans held by district associations totaled $14.548 billion at December 31, 2014, an increase of $1.287 billion, or 9.7 percent, from loan volume at December 31, 2013, due to more robust lending at the district associations. During 2014, there were increases in direct loans to 14 of the 15 associations. In 2013 and 2012, association loan volume increased by $565.1 million and $489.1 million, respectively.

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

	Percentage of Portfolio		
Commodity Group	**2014**	2013	2012
Livestock	**33%**	34%	35%
Crops	**13**	14	13
Timber	**9**	9	9
Cotton	**4**	4	4
Poultry	**3**	3	3
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**34**	32	32
Total	**100%**	100%	100%

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

	December 31,		
	2014	2013	2012
Texas	**53%**	53%	54%
Alabama	**7**	7	7
Mississippi	**7**	7	7
Louisiana	**4**	4	4
Illinois	**3**	4	2
All other states	**26**	25	26
Total	**100%**	100%	100%

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

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

Size (thousands)	**2014**	2013	2012
<$250	**23%**	24%	24%
$250-$500	**13**	13	13
$500-$1,000	**13**	13	13
$1,000-$5,000	**25**	25	25
$5,000-$25,000	**18**	19	20
$25,000-$100,000	**8**	6	5
Total	**100%**	100%	100%

Credit quality at the district's associations remained strong, with loans classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans of 98.2, 97.6 and 96.7 percent at December 31, 2014, 2013 and 2012, respectively. Association nonearning assets as a percentage of total loans at December 31, 2014, were 1.3 percent, compared to 1.6 percent and 2.6 percent at December 31, 2013 and 2012, respectively. The decrease in association nonearning assets from 2013 to 2014 was largely due to a $10.9 million decrease in OPO at the district's associations.

High-Risk Assets

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

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

	2014	2013	2012
Nonaccrual loans	**$ 10,568**	$ 28,132	$ 63,697
Formally restructured loans	**16,481**	12,482	12,001
Loans past due 90 days or more and still accruing interest	**—**	—	—
Other property owned	**10,310**	13,812	30,739
Total	**$ 37,359**	$ 54,426	$ 106,437

High-risk assets decreased by $17,067 from December 31, 2013, to $37,359 at December 31, 2014. The decrease in nonaccrual loans is attributable to repayments of $23.2 million, transfers to accrual loans of $4.1 million and charge-offs of $2.4 million, offset by advances on nonaccrual loans of $9.3 million and transfers to nonaccrual of $2.8 million. The decrease in OPO is attributable mainly to disposals totaling $3.8 million and carrying value adjustments on OPO of $159, offset by $461 in foreclosures on collateral underlying loans. The increase in formally restructured loans is mainly due to the movement of a formally restructured dairy loan from nonaccrual status to accrual status. During 2014, the bank recorded charge-offs totaling $2.4 million against the allowance for loan losses due to known losses, primarily related to loans in the ornamental nursery products. At December 31, 2014, $21, or 0.20 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $13,239 (47.1 percent) and $10,562 (16.6 percent) at December 31, 2013 and 2012, respectively.

Allowance and Reserve for Credit Losses

The allowance for loan losses at December 31, 2014, was $10,112, compared to $13,660 at December 31, 2013, and $17,258 at December 31, 2012. The decrease from 2013 to 2014 reflects current negative provisions of $5.4 million and net charge-offs of $2.3 million, net of a negative provision for credit losses in unfunded commitments of $4.2 million. The reserve for credit losses on standby letters of credit and unfunded commitments was $1.3 million, $5.5 million and $5.6 million at December 31, 2014, 2013 and 2012, respectively. Because analysis indicates that an allowance on the association direct notes is not warranted, the entire balance of the allowance and reserve for credit losses reflects reserves for risks identified in the bank's participations.

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

	2014	2013	2012
Allowance and reserve for credit losses as a percentage of:			
Average loans	**0.09%**	0.17%	0.21%
Loans at year end			
Total loans	**0.09**	0.16	0.20
Participations	**0.24**	0.43	0.56
Nonaccrual loans	**108.38**	68.21	35.89
Total high-risk loans	**42.35**	47.25	30.20
Net charge-offs to average loans	**0.02**	0.09	0.19
(Negative provision) provision expense to average loans	**-0.04**	0.05	0.25

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

Interest Rate Risk Management

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

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

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

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

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

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

FCBT uses complex modeling tools to manage and measure the risk characteristics of its earning assets and liabilities, including gap and simulation analyses. The following interest rate gap analysis sets forth the bank's interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2014, which are expected to mature or reprice in each of the future time periods shown:

INTEREST RATE GAP ANALYSIS

as of December 31, 2014

	Interest-Sensitive Period						
	One Month or Less	More Than One Through Six Months	More Than Six Through Twelve Months	**Total Twelve Months or Less**	More Than One Year but Less Than Five Years	More Than Five Years and Non-Rate-Sensitive	**Total**
Interest-Earning Assets							
Total loans	$ 1,817,629	$ 2,428,335	$ 2,090,105	**$ 6,336,069**	$ 6,119,177	$ 804,591	**$ 13,259,837**
Total investments	1,536,732	276,337	251,143	**2,064,212**	1,280,475	763,790	**4,108,477**
Total interest-earning assets	3,354,361	2,704,672	2,341,248	**8,400,281**	7,399,652	1,568,381	**17,368,314**
Interest-Bearing Liabilities							
Total interest-bearing funds	3,031,002	2,248,243	4,581,515	**9,860,760**	5,421,283	1,109,238	**16,391,281**
Excess of interest-earning assets over interest-bearing liabilities	—	—	—	**—**	—	977,033	**977,033**
Total interest-bearing liabilities	3,031,002	2,248,243	4,581,515	**9,860,760**	5,421,283	2,086,271	**$ 17,368,314**
Interest rate sensitivity gap	$ 323,359	$ 456,429	$ (2,240,267)	**$ (1,460,479)**	$ 1,978,369	$ (517,890)	
Cumulative interest rate sensitivity gap	$ 323,359	$ 779,788	$ (1,460,479)	**$ (1,460,479)**	$ 517,890		

The amount of assets or liabilities shown in each of the time periods was determined based on the earlier of repricing date, contractual maturity or anticipated loan payments, or projected exercise date on callable debt. To reflect the expected cash flow and repricing characteristics of the bank's balance sheet, an estimate of expected prepayments on loans and mortgage-related investments is used to adjust the maturities of the loans and investments in the earning assets section of the gap analysis. Changes in market interest rates will affect the volume of prepayments on loans. Correspondingly, adjustments have been made to reflect the characteristics of callable debt instruments and the effect derivative financial instruments have on the repricing structure of the bank's balance sheet. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the bank has a negative gap position, indicating that the bank has an exposure to increasing interest rates. This would occur when interest expense on maturing or repricing interest-bearing liabilities increases sooner than interest income on maturing or repricing assets.

The cumulative gap, which is a static measure, does not take into consideration the changing value of options available to the bank in order to manage this exposure, specifically the ability to exercise or not exercise options on callable debt. These options are considered when projecting the effects of interest rate changes on net income and on the market value of equity in the following tables.

Interest rate risk exposure as measured by simulation modeling calculates the bank's expected net interest income and market value of equity based upon projections of interest-rate-sensitive assets, liabilities, derivative financial instruments and interest rate scenarios. The bank monitors its financial exposure to multiple interest rate scenarios. The bank's policy guideline for the maximum negative impact as a result of a 200-basis-point change in interest rates is 16 percent for net interest income and 20 percent for market value of equity. Per FCA regulations, when the current three-month Treasury bill interest rate is less than 4 percent, the minus 200-basis-point scenario should be replaced with a downward shock equal to one-half of the three-month Treasury bill rate. The bank manages its interest rate risk exposure within these guidelines. As of December 31, 2014, projected annual net interest income would increase by $5,433, or 2.34 percent, if interest rates were to increase by 100 basis points, and would decrease by $655, or 0.28 percent, if interest rates were to decrease by 2 basis points. Market value of equity is projected to decrease by 6.66 percent as a result of a 100-basis-point increase in interest rates and increase by 0.02 percent if interest rates were to decline by 2 basis points as of December 31, 2014.

The following tables set forth the bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of December 31, 2014, based on the bank's interest-earning assets and interest-bearing liabilities at December 31, 2014.

Net Interest Income

Scenario	Net Interest Income	% Change
+ 200 BP Shock	$237,603	2.14%
+ 100 BP Shock	238,050	2.34
0 BP	232,617	—
– 2 BP Shock*	231,962	(0.28)

Market Value of Equity

Scenario	Assets	Liabilities*	Equity*	% Change
Book value	$18,013,550	$17,134,329	$879,221	24.25%
+ 200 BP Shock	17,067,389	16,495,175	572,214	(19.13)
+ 100 BP Shock	17,531,678	16,871,157	660,521	(6.66)
0 BP	17,973,532	17,265,918	707,614	N/A
– 2 BP Shock*	17,973,721	17,265,998	707,723	0.02

*For interest rate risk management, the $600.0 million noncumulative perpetual preferred stock is included in liabilities.

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

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

At December 31, 2014, the bank had no fair value interest rate swap contracts. At December 31, 2014, the bank held interest rate caps with a notional amount of $615.0 million and a fair value of $748. See Note 15, "Derivative Instruments and Hedging Activity," to the accompanying financial statements for further discussion. Unrealized losses on interest rate caps, the difference between their amortized cost and fair value, are recorded as a reduction of accumulated other comprehensive income. To the extent that its derivatives have a negative fair value, the bank has a payable on the instrument and the counterparty is exposed to the credit risk of the bank. To the extent that its derivatives have a positive fair value, the bank has a receivable on the instrument and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the bank monitors the credit ratings of its counterparties and has bilateral collateral agreements with counterparties. At December 31, 2014, the bank had credit risk exposure to five counterparties on derivative contracts totaling $0.8 million. The bank's activity in derivative financial instruments for 2014 is summarized in the table below:

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	
Balance at January 1, 2014	$ 695
Additions	50
Maturities/amortizations	(130)
Balance at December 31, 2014	**$ 615**

Liquidity Risk Management

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

The Insurance Corporation insures the timely payment of principal and interest on Systemwide debt securities. The Insurance Corporation maintains the Insurance Fund for this purpose and for certain other purposes. In the event a System bank is unable to timely pay principal or interest on any insured debt obligation for which that bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the System banks on the debt obligation cannot be invoked until the Insurance Fund is exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in demanding market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2015, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is in the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding will be available if needed by the System.

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

FCA regulations require each bank to maintain a minimum of 90 days of liquidity coverage on a continuous basis, assuming no access to the capital markets. Liquidity coverage is defined as the number of days that maturing Systemwide debt securities could be funded with cash and eligible liquidity investments maintained by the bank. Regulations on liquidity reserve requirement divided the existing eligible liquidity reserve requirement into three levels: Level 1 consists of cash and cash-like instruments and must provide 15 days of coverage; Level 2 consists primarily of government guaranteed securities and must provide 30 days of coverage (combined with Level 1); and Level 3 consists primarily of agency guaranteed securities and must provide a total of 90 days of coverage (combined with Level 1 and Level 2). Additionally, regulations require the bank to maintain a supplemental liquidity reserve above the 90-day minimum to cover cash flow requirements unique to the bank. At December 31, 2014, the bank met all individual level criteria and had a total of 232 days of liquidity coverage, as compared with 268 days at December 31, 2013.

Funding Sources

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

The types and characteristics of securities are described in Note 8, "Bonds and Notes," to the accompanying financial statements. As a condition of the bank's participation in the issuance of Systemwide debt securities, the bank is required by regulation to maintain specified eligible assets as collateral in an amount equal to or greater than the total amount of bonds and notes outstanding for which the bank is liable. At December 31, 2014, the bank had excess collateral of $1.4 billion. Management expects the bank to maintain sufficient collateral to permit its continued participation in Systemwide debt issuances in the foreseeable future.

In September 2008, the bank issued $50.0 million in subordinated debt in a private placement to one investor. The debt is a 10-year instrument with a coupon rate of 8.406 percent. Prior to the bank's issuance of its Class B noncumulative subordinated perpetual preferred stock (Class B Series 1) in August 2010, the subordinated debt received preferential regulatory capital and collateral treatment, being includible in portions of permanent capital and total surplus and being excludable from total liabilities for purposes of net collateral ratio calculation. Regulatory conditions related to the issuance of the Class B Series 1 preferred stock reduced the benefit of these preferential ratio treatments, which would previously have been ratably removed 20.0 percent per year during years six to 10 of the debt's term.

The bank receives ratings from two rating agencies:

- On September 23, 2014, Fitch Ratings affirmed the bank's long-term and short-term issuer default ratings (IDRs) at "AA-" and "F1+," respectively, with a stable outlook. Fitch also affirmed the bank's subordinated debt rating at "A+," its noncumulative perpetual preferred stock rating at "BBB" and its support floor at "AA-." Fitch also affirmed the Farm Credit System's long-term and short-term issuer default ratings (IDRs) at "AAA" and "F1+," respectively, with a stable outlook, and its support floor at "AAA." As a government-sponsored entity, the System benefits from implicit government support, and thus, the ratings and rating outlook are directly linked to the U.S. sovereign rating. The affirmation of the System banks' IDRs reflect their prudent, conservative credit culture, their unique funding advantage and their structural second-loss position on the majority of their loan portfolio.
- On October 30, 2014, Moody's Investors Service (Moody's) affirmed the bank's issuer rating at "Aa3," its subordinated debt rating at "A2," and its noncumulative preferred stock rating at "Baa1 (hyb)," with a stable outlook. The Aa3 issuer rating reflects the bank's "a1" baseline credit assessment (BCA), very high cooperative support from the other Federal Farm Credit Banks and moderate support from the U.S. government, which has an "Aaa," stable outlook. The bank's stable outlook reflects the strong market conditions for agricultural lending, as well as Moody's expectation that the bank's consistent performance and strong capital level will continue.

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

(dollars in millions)	December 31, 2014	2013	2012
Bonds and term notes outstanding	**$ 14,762**	$ 13,427	$ 12,481
Average effective interest rates	**1.08%**	1.13%	1.08%
Average remaining life (years)	**2.7**	3.1	3.0
Subordinated debt outstanding	**$ 50**	$ 50	$ 50
Average effective interest rates	**8.41%**	8.41%	8.41%
Average remaining life (years)	**3.8**	4.8	5.8
Discount notes outstanding	**$ 1,579**	$ 1,175	$ 1,429
Average effective interest rates	**0.12%**	0.10%	0.17%
Average remaining life (days)	**140**	112	93

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

	For the years ended December 31, 2014	2013	2012
Average interest-bearing liabilities outstanding	**$ 15,245**	$ 13,975	$ 13,360
Average interest rates on interest-bearing liabilities	**1.07%**	1.10%	1.27%

Investments

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

FCA regulations also define eligible investments by specifying credit rating criteria, final maturity limit and percentage of investment portfolio limit for each investment type. Generally, the bank's investments must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's, Standard & Poor's or Fitch Ratings. If an investment no longer meets eligibility criteria, the investment becomes ineligible.

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

	2014		2013	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 159,334**	**$ 155,190**	$ 135,738	$ 130,024
Corporate debt	**241,516**	**241,530**	250,312	249,579
Federal agency collateralized mortgage-backed securities:				
GNMA	**1,708,215**	**1,701,417**	1,690,952	1,680,426
FNMA & FHLMC	**1,829,075**	**1,825,894**	1,431,037	1,421,578
Other collateralized mortgage-backed securities	**7**	**7**	7,736	7,529
Asset-backed securities	**81,806**	**81,770**	51,320	51,296
Total liquidity investments	**$ 4,019,953**	**$ 4,005,808**	$ 3,567,095	$ 3,540,432

While the bank's investments in federal agency collateralized mortgage-backed securities have increased, demand for those instruments has resulted in smaller margins. The bank has increased investments in equipment-related asset-backed securities and in agency-guaranteed debt, consisting of debt guaranteed by the Export-Import Bank of the United States.

The bank's other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), purchased from three district associations as a part of the bank's Capitalized Participation Pool (CPP) program. The AMBS are not included in the bank's liquidity portfolio. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements. As a part of the CPP program, any positive impact to the net income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool.

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

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

	2014		2013	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 82,539**	**$ 80,583**	$ 101,063	$ 97,423

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

At December 31, 2014, the bank had one investment which was ineligible for liquidity purposes as a result of credit downgradings. This investment had credit ratings at December 31, 2014, that were below AAA by Moody's, Standard & Poor's and Fitch Ratings. This investment had an amortized cost of $7 and a fair value of $7, with no unrealized losses at December 31, 2014. To date, the FCA has not required disposition of this security. While this investment does not meet the FCA's standards for liquidity, it is included in the net collateral calculation, albeit at its lower market value rather than the normal book value for qualifying investments.

During 2014, the bank recognized credit losses on the sale of one other-than-temporarily impaired investment (OTTI) security with a book value of $301, realizing a loss of $37. During 2013, the bank recognized credit losses on the sale of five OTTI securities totaling $641. The sales of OTTI securities were in March 2013, November 2013 and December 2013, and had book values of $5.1 million, $1.8 million and $10.9 million, respectively, realizing losses of $143, $199 and $299, respectively.

In December 2014, the bank sold five ineligible securities, which were not OTTI, with a combined book value of $7.0 million, realizing a net loss of $212.

Farm Credit Administration regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of investment portfolio limit for each investment type. At the time of purchase, the bank's investments must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard and Poor's Ratings Services 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 Nationally Recognized Statistical Rating Organizations, investment portfolio limit or other requirements.

Credit Rating Criteria by Eligible Investment Type

	Moody's	Standard & Poor's	Fitch
Overnight federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Term federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Commercial paper	P-1	A-1+, A-1	F1
Corporate securities	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA
Mortgage-backed securities	Aaa	AAA	AAA
Asset-backed securities	Aaa	AAA	AAA

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

	Eligible				**Ineligible**						
December 31, 2014	**AAA/Aaa**	**AA/Aa**	**F1/P1/A1**	**Split Rated***	**AA/Aa**	**A/A**	**BBB/Baa**	**B/B**	**CCC/Caa**	**CC/Ca**	**Total**
Agency-guaranteed debt**	$ —	$ —	$ —	$ 155,190	$ —	$ —	$ —	$ —	$ —	$ —	$ 155,190
Corporate debt	—	97,475	—	144,055	—		—	—	—	—	241,530
Federal agency collateralized mortgage-backed securities**											
GNMA	—	—	—	1,701,417	—	—	—	—	—	—	1,701,417
FNMA and FHLMC	—	—	—	1,825,894	—	—	—	—	—	—	1,825,894
Other collateralized mortgage-backed securities	—	—	—	—	7	—	—	—	—	—	7
Asset-backed securities	81,770	—	—	—	—	—	—	—	—	—	81,770
Total	$ 81,770	$ 97,475	$ —	$3,826,556	$ 7	$ —	$ —	$ —	$ —	$ —	$4,005,808

*Investments that received the highest credit rating from at least one rating organization.

**At December 31, 2014, due to credit ratings of the U.S. government which remain "AA+" and related lowered long-term credit ratings of government-sponsored enterprises due to the potential reduction in the capacity of the U.S. government to support these securities, these investments were reported as eligible split-rated investments.

	Eligible				Ineligible						
December 31, 2013	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated*	AA/Aa	A/A	BBB/Baa	B/B	CCC/Caa	CC/Ca	Total
Agency-guaranteed debt**	$ —	$ —	$ —	$ 130,024	$ —	$ —	$ —	$ —	$ —	$ —	$ 130,024
Corporate debt	—	75,832	—	173,747	—		—	—	—	—	249,579
Federal agency collateralized mortgage-backed securities**											
GNMA	—	—	—	1,680,426	—	—	—	—	—	—	1,680,426
FNMA and FHLMC	—	—	—	1,421,578	—	—	—	—	—	—	1,421,578
Other collateralized mortgage-backed securities	—	—	—	—	2,696	—	4,833	—	—	—	7,529
Asset-backed securities	50,138	—	—	—	—	882	—	—	276	—	51,296
Total	$ 50,138	$ 75,832	$ —	$3,405,775	$ 2,696	$ 882	$ 4,833	$ —	$ 276	$ —	$3,540,432

*Investments that received the highest credit rating from at least one rating organization.

**At December 31, 2013, due to credit ratings of the U.S. government which remain "AA+" and related lowered long-term credit ratings of government-sponsored enterprises due to the potential reduction in the capacity of the U.S. government to support these securities, these investments were reported as eligible split-rated investments.

Capital Adequacy

Total shareholders' equity at December 31, 2014, was $1,479,221, compared to $1,393,247 and $1,273,843 at December 31, 2013 and 2012, respectively. The increase during 2014 was due primarily to net income of $188.3 million, a $14.7 million issuance of capital stock and a decrease in accumulated other comprehensive loss of $13.3 million, offset by patronage declared and paid of $76.4 million, dividends on preferred stock totaling $50.3 million and a $3.6 million retirement of capital stock. The bank's $76.4 million in declared and paid patronage included $49.5 million in direct loan patronage, $19.7 million patronage on certain participations, $3.8 million patronage based on the associations' and OFIs' stock investment in the bank, and Capitalized Participation Pool (CPP) patronage of $3.4 million. The bank's goal is to provide direct note patronage at a level that would result in a cost of funds to district associations equal to the bank's marginal cost of funds, which was achieved for the year ended 2014.

At a special stockholders' meeting held on February 28, 2013, the bank's Class A common stockholders approved amendments to the bank's capitalization bylaws that increased the amount of preferred stock the bank is authorized to issue and have outstanding at any one time from $500 million to $1 billion and that provide greater flexibility in determining the par value of such stock. At the same time, the Class A common stockholders also approved an Omnibus Approval of Preferred Stock Revolver that allows the bank to issue up to $1 billion of preferred stock outstanding at any time for a period of 10 years. On July 23, 2013, the bank issued $300.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 2 (Class B-2 preferred stock), representing three million shares at $100 per share par value, for net proceeds of $296.0 million.

Preferred stock totaled $600.0 million, $600.0 million and $482.0 million at December 31, 2014, 2013 and 2012. On December 15, 2013, the bank redeemed the $182.0 million of Class A cumulative perpetual preferred stock. Class B noncumulative subordinated perpetual preferred stock, which totaled $600.0 million at December 31, 2014 and 2013, included $300.0 million of Class B-1, issued in 2010, and $300.0 million of Class B-2, issued in July 2013. Dividends on the Class B-1 preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. Dividends on the Class B-2 preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2013, at an annual fixed rate of 6.75 percent of par value of $100 per share, up to, but excluding September 15, 2023, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 4.01 percent. The Class B preferred stock ranks senior to all of our outstanding common stock. For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to the preferred stock issuance, regulatory limitations on third-party capital reduced the benefit of the subordinated debt's favorable treatment in net collateral ratio calculations. "Dividend/patronage stopper" clauses in the preferred stock offerings require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and were required before payment of the December 31, 2014, bank investment and direct note patronage to associations and OFIs could be paid.

Accumulated other comprehensive loss (AOCL) decreased $13.3 million, or 40.1 percent, to a $19.8 million loss at December 31, 2014, from a $33.1 million loss at December 31, 2013, due to a decrease of $14.2 million in unrealized net losses on the bank's investments and a decrease of $1.8 million in unrealized losses on the bank's cash flow hedges, net of a $2.7 million increase related to retirement benefits. The decrease in unrealized net losses on investments was primarily attributable to the effects of market interest rate changes on the bank's fixed-rate investments. The $1.8 million decrease of unrealized losses on cash flow hedges is the result of changes in the valuation of interest rate caps the bank held during 2014. The bank held no cash flow interest rate swaps at December 31, 2014, 2013 or 2012. The $2.7 million increase related to retirement benefits included a $2.5 million actuarial loss and $192 in amortization of prior service credits. The actuarial loss included the effects of a decrease in the discount rate used to determine the present value of our future benefit obligations and the effects of the adoption of new mortality tables which indicate substantial life expectancy improvements.

Capital adequacy is evaluated using various ratios for which the FCA has established regulatory minimums. The following table reflects the bank's capital ratios at December 31,

	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	**18.33%**	21.64%	18.64%	7.00%
Total surplus ratio	**15.86**	17.29	15.92	7.00
Core surplus ratio	**10.07**	10.12	9.92	3.50
Collateral ratio	**108.00**	108.67	107.94	103.00

The regulatory minimum for the collateral ratio is 103.00 or, if there is outstanding subordinated debt, 104.00. The required minimum for the bank in 2014, 2013 and 2012 was 104.00. For additional information about the bank's capital, see Note 9, "Shareholders' Equity," to the accompanying financial statements.

Operational Risk Management

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

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

In general, we address operational risk through the organization's internal governance structure. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are risk-based and are re-evaluated on an annual basis, or more frequently, if necessary. The board of directors is responsible for defining the role of the audit committee in providing oversight and review of the institution's internal controls.

Reputational Risk Management

Reputational risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the bank, the System or any of its entities. The bank and its affiliated associations could be harmed if its reputation were impacted by negative publicity about the System as a whole, an individual System entity or the agriculture industry in general.

Reputational risk is the direct responsibility of each System entity. For reputational issues that have broader consequences for the System as a whole, System governance will communicate guidance to the System supporting those business practices that are consistent with our mission.

Political Risk Management

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

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

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Revenue From Contracts With Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The bank is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

Regulatory Matters

On January 22, 2014, the Farm Credit Administration withdrew its proposed rule on Rural Community Investments that would have authorized System institutions to make certain investments in rural communities. The withdrawal terminated the rulemaking.

On February 20, 2014, the Farm Credit Administration published a proposed rule to amend its regulations governing standards of conduct of directors, employees and agents of Farm Credit System institutions, excluding the Federal Agricultural Mortgage Corporation. The amendments would clarify and strengthen reporting requirements and prohibitions, require institutions to establish a Code of Ethics and enhance the role of the Standards of Conduct Official. The public comment period ended on June 20, 2014.

On February 26, 2014, the Farm Credit Administration published a final rule establishing an effective date of February 21, 2014, for a rule published on December 24, 2013, to establish a regulatory framework for the reliable, timely, accurate and complete reporting of Farm Credit System (System) accounts and exposures for examination activities and risk evaluation. The final rule specifies the reporting requirements and performance responsibilities, including, but not limited to, establishing uniform and standard data fields to be collected from all System institutions and a disciplined and secure delivery of information. The final rule authorizes a Reporting Entity (defined as the Federal Farm Credit Banks Funding Corporation or an entity approved by FCA) to collect data from all banks and associations and serve as the central data repository manager. Additionally, the final rule requires all banks and associations to provide data to the Reporting Entity to facilitate the collection, enhancement and reporting of data to FCA.

On March 31, 2014, the Farm Credit Administration published an interim final rule rescinding all requirements for advisory votes, including those on senior officer compensation at System banks and associations. The comment period for the interim rule ended on April 30, 2014, and the final rule became effective on June 18, 2014.

On July 25, 2014, the Farm Credit Administration published a proposed rule to revise the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014.

On September 4, 2014, the Farm Credit Administration published a proposed rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The public comment period ended on February 16, 2015.

On September 24, 2014, the Farm Credit Administration, along with several other federal agencies (together, the Agencies), published a proposed joint rule to establish minimum margin and capital requirements for registered swap dealers, major swap participants, security-based swap dealers and major security-based swap participants. This proposed rule implements sections 731 and 764 of the Dodd-Frank Wall Street Reform and Consumer Protection act, which require the Agencies to adopt rules jointly to establish capital requirements and initial and variation margin requirements for such entities and their counterparties on all non-cleared swaps and non-cleared security-based swaps in order to offset the greater risk to such entities and the financial system arising from the use of swaps and security-based swaps that are not cleared. The public comment period ended on November 24, 2014.

On February 26, 2015, the Farm Credit Administration published a final rule amending its regulations related to System bank and association disclosures to shareholders and investors. Under the final rule, there would be no reporting requirement for employees that are not senior officers and would not otherwise be considered "highly compensated employees" but for payments related to the change(s) in value of the employees' qualified pension plan. Under the final rule, such employees' pension plans must have been available to all similarly situated employees on the same basis. The regulation will become effective thirty days after publication in the Federal Register during which time either one or both Houses of Congress are in session.

Other

The merger of two district associations became effective subsequent to December 31, 2014. The merger of AgTexas Farm Credit Services and Great Plains Ag Credit, ACA, was approved by FCA and the respective associations' stockholders and became effective January 1, 2015.

The bank and a district association are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC will facilitate private equity investments in agriculture-related businesses that will create growth and job opportunities in rural America. Each limited partner has a commitment to contribute up to $20.0 million over five years and, as of December 31, 2014, we have invested $757 thousand, included in "Other assets" on the Balance Sheets.

REPORT OF MANAGEMENT

The financial statements of the Farm Credit Bank of Texas (bank) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, except as noted. Other financial information included in this annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the bank's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. To monitor compliance, the internal audit staff of the Farm Credit Bank of Texas audits the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are audited by PricewaterhouseCoopers LLP (PwC), independent auditors, who also conduct a review of internal accounting controls to establish a basis for reliance thereon in determining the nature, extent and timing of the audit tests applied in the examination of the financial statements. In addition, the bank is examined annually by the Farm Credit Administration.

In the opinion of management, the financial statements are true and correct and fairly state the financial position of the Farm Credit Bank of Texas at December 31, 2014, 2013 and 2012. The independent auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of the bank.

The undersigned certify that we have reviewed the December 31, 2014, annual report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

March 11, 2015

REPORT OF AUDIT COMMITTEE

The audit committee (committee) is composed of the entire board of directors of the Farm Credit Bank of Texas (bank). The committee oversees the bank's system of internal controls and the adequacy of management's action with respect to recommendations arising from those internal control activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's website at www.farmcreditbank.com. In 2014, eight committee meetings were held, with some of these meetings including executive sessions between the committee and PricewaterhouseCoopers LLP (PwC) and the bank's internal auditor. The committee approved the appointment of PwC as independent auditors for 2014.

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

In this context, the committee reviewed and discussed the bank's audited financial statements for the year ended December 31, 2014, with management and PwC. The committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communications With Those Charged With Governance).

PwC has provided to the committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees). The committee discussed with appropriate representatives of PwC the firm's independence from the bank. The committee also approved the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the auditor's independence. Furthermore, throughout 2014 the committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate. Both PwC and the bank's internal auditor directly provided reports on significant matters to the committee.

Brad C. Bean, Chairman
Lester Little, Vice Chaiman
Ralph W. Cortese
James F. Dodson
Elizabeth G. Flores
Jon M. Garnett

Audit Committee Members

March 11, 2015

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2014. In making the assessment, management used the updated Internal Control – Integrated Framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission on May 14, 2013, commonly referred to as the "COSO 2013 Framework." The adoption of the COSO 2013 Framework had no material impact on the bank's process for internal control over financial reporting.

Based on the assessment performed, the bank concluded that as of December 31, 2014, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the bank determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2014. A review of the assessment performed was reported to the bank's audit committee.

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

March 11, 2015

Independent Auditor's Report

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

We have audited the accompanying financial statements of Farm Credit Bank of Texas (the Bank), which comprise the balance sheets as of December 31, 2014, 2013 and 2012, and the related statements of comprehensive income, of changes in shareholders' equity and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit Bank of Texas at December 31, 2014, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 11, 2015

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BALANCE SHEETS

Farm Credit Bank of Texas

(dollars in thousands)	2014	December 31, 2013	2012
Assets			
Cash	**$ 428,361**	$ 602,452	$ 502,242
Federal funds sold and overnight investments	**22,086**	21,809	24,137
Investment securities	**4,086,391**	3,637,855	3,346,479
Loans (includes $40,532, $58,461 and $60,310 at fair value held under fair value option)	**13,259,837**	11,778,741	11,338,830
Less allowance for loan losses	**10,112**	13,660	17,258
Net loans	**13,249,725**	11,765,081	11,321,572
Accrued interest receivable	**44,429**	37,657	35,635
Other property owned	**10,310**	13,812	30,739
Premises and equipment, net	**25,197**	23,214	19,349
Other assets	**147,051**	110,837	95,516
Total assets	**$ 18,013,550**	$ 16,212,717	$ 15,375,669
Liabilities and Shareholders' Equity			
Liabilities			
Bonds and notes, net	**$ 16,341,281**	$ 14,602,012	$ 13,910,860
Subordinated debt	**50,000**	50,000	50,000
Accrued interest payable	**38,122**	37,749	32,328
Reserve for credit losses	**1,342**	5,529	5,600
Preferred stock dividends payable	**20,063**	20,063	21,881
Other liabilities	**83,521**	104,117	81,157
Total liabilities	**16,534,329**	14,819,470	14,101,826
Commitments and contingencies (Note 12)			
Shareholders' Equity			
Preferred stock	**600,000**	600,000	482,000
Capital stock	**233,468**	220,543	212,588
Allocated retained earnings	**22,508**	20,314	16,984
Unallocated retained earnings	**643,067**	585,503	534,438
Accumulated other comprehensive (loss) income	**(19,822)**	(33,113)	27,833
Total shareholders' equity	**1,479,221**	1,393,247	1,273,843
Total liabilities and shareholders' equity	**$ 18,013,550**	$ 16,212,717	$ 15,375,669

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

STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Bank of Texas

(dollars in thousands)	2014	Year Ended December 31, 2013	2012
Interest Income			
Investment securities	$ 52,924	$ 51,266	$ 55,315
Loans	336,899	318,217	335,049
Total interest income	389,823	369,483	390,364
Interest Expense			
Bonds, notes and subordinated debt	163,164	153,763	169,540
Net Interest Income	226,659	215,720	220,824
(Negative provision) provision for credit losses	(5,433)	6,253	27,121
Net interest income after (negative provision) provision for credit losses	232,092	209,467	193,703
Noninterest Income			
Patronage income	19,534	19,325	17,231
Fees for services to associations	3,806	3,273	2,686
Fees for loan-related services	12,968	20,390	16,503
Refunds from Farm Credit System Insurance Corporation	—	—	9,820
Loss on sale of securities	(212)	—	—
(Loss) gain on loans held under fair value option	(367)	259	2,751
Other income, net	2,153	2,421	482
Impairment losses on investments			
Total other-than-temporary impairment losses	(37)	(641)	(76)
Less: portion of loss recognized in other comprehensive income	—	—	—
Net impairment loss recognized in earnings	(37)	(641)	(76)
Total noninterest income	37,845	45,027	49,397
Noninterest Expenses			
Salaries and employee benefits	35,583	33,496	30,732
Occupancy and equipment	12,599	10,058	8,636
Insurance Fund premiums	7,444	5,714	2,646
(Gains) losses on other property owned	(314)	79	5,567
Other operating expenses	26,365	25,327	20,939
Total noninterest expenses	81,677	74,674	68,520
Net Income	$ 188,260	$ 179,820	$ 174,580
Other comprehensive income (loss)			
Change in postretirement benefit plans	(2,669)	1,698	(1,307)
Change in unrealized gain (loss) on investments	14,203	(64,407)	4,527
Change in cash flow derivative instruments	1,757	1,763	(533)
Total other comprehensive income (loss)	13,291	(60,946)	2,687
Comprehensive Income	$ 201,551	$ 118,874	$ 177,267

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Farm Credit Bank of Texas

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2011	$ 482,000	$ 216,839	$ 14,438	$ 471,933	$ 25,146	$ 1,210,356
Net income	—	—	—	174,580	—	174,580
Other comprehensive income	—	—	—	—	2,687	2,687
Capital stock and allocated retained earnings issued	—	4,533	75	—	—	4,608
Capital stock retired	—	(8,784)	—	—	—	(8,784)
Preferred stock dividends accrued and paid	—	—	—	(43,761)	—	(43,761)
Patronage distributions						
Cash	—	—	—	(65,843)	—	(65,843)
Shareholders' equity	—	—	2,471	(2,471)	—	—
Balance at December 31, 2012	482,000	212,588	16,984	534,438	27,833	1,273,843
Net income	—	—	—	179,820	—	179,820
Other comprehensive loss	—	—	—	—	(60,946)	(60,946)
Issuance of Class B Series 2 preferred stock	300,000	—	—	—	—	300,000
Redemption of Class A preferred stock	(182,000)	—	—	—	—	(182,000)
Issuance costs on preferred stock	—	—	—	(4,066)	—	(4,066)
Capital stock and allocated retained earnings issued	—	12,548	77	—	—	12,625
Capital stock retired	—	(4,593)	—	—	—	(4,593)
Preferred stock dividends accrued	—	—	—	(20,063)	—	(20,063)
Preferred stock dividends accrued and paid	—	—	—	(29,868)	—	(29,868)
Patronage distributions						
Cash	—	—	—	(71,505)	—	(71,505)
Shareholders' equity	—	—	3,253	(3,253)	—	—
Balance at December 31, 2013	600,000	220,543	20,314	585,503	(33,113)	1,393,247
Net income	—	—	—	188,260	—	188,260
Other comprehensive gain	—	—	—	—	13,291	13,291
Capital stock and allocated retained earnings issued	—	14,714	—	—	—	14,714
Capital stock and allocated retained earnings retired	—	(1,789)	(1,838)	—	—	(3,627)
Preferred stock dividends accrued	—	—	—	(20,063)	—	(20,063)
Preferred stock dividends accrued and paid	—	—	—	(30,187)	—	(30,187)
Patronage distributions						
Cash	—	—	—	(76,414)	—	(76,414)
Shareholders' equity	—	—	4,032	(4,032)	—	—
Balance at December 31, 2014	**$ 600,000**	**$ 233,468**	**$ 22,508**	**$ 643,067**	**$ (19,822)**	**$ 1,479,221**

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

STATEMENTS OF CASH FLOWS

Farm Credit Bank of Texas

(dollars in thousands)	Year Ended December 31, 2014	2013	2012
Cash Flows From Operating Activities			
Net income	**$ 188,260**	$ 179,820	$ 174,580
Reconciliation of net income to net cash provided by operating activities			
(Negative provision) provision for credit losses	**(5,433)**	6,253	27,121
Carrying value adjustments on other property owned	**159**	983	5,636
Depreciation and amortization on premises and equipment	**4,737**	4,116	2,990
Accretion of net discount (premium) on loans	**6,060**	1,763	(2,878)
Amortization and accretion on debt instruments	**(1,834)**	(3,366)	(3,789)
Accretion of net premium (discount) on investments	**1,381**	(106)	620
Decrease (increase) in fair value of loans held under fair value option	**367**	(259)	(1,962)
Gain on sale of loans	**—**	(1,902)	—
Loss on sale of investment securities	**212**	—	—
Loss on impairment of available-for-sale investments	**37**	641	76
Allocated equity patronage from System bank	**(13,083)**	(12,406)	(12,440)
Gain on sales of other property owned	**(461)**	(1,119)	(366)
Gain on sales of premises and equipment	**(24)**	(11)	—
(Increase) decrease in accrued interest receivable	**(6,772)**	(2,022)	5,679
(Increase) decrease in other assets, net	**(21,374)**	(1,243)	3,586
Increase (decrease) in accrued interest payable	**373**	5,421	(3,423)
(Decrease) increase in other liabilities, net	**(994)**	4,340	3,827
Net cash provided by operating activities	**151,611**	180,903	199,257
Cash Flows From Investing Activities			
Net (increase) decrease in federal funds sold	**(277)**	2,328	(3,450)
Investment securities			
Purchases	**(1,340,127)**	(1,374,908)	(1,280,239)
Proceeds from maturities, calls and prepayments	**897,091**	998,889	1,087,700
Proceeds from sales	**7,073**	19,844	10,573
Increase in loans, net	**(1,514,932)**	(768,883)	(1,089,455)
Proceeds from sale of loans	**—**	323,318	—
Proceeds from sale of other property owned	**3,804**	26,629	4,884
Proceeds from sale of premises and equipment	**70**	20	—
Expenditures for premises and equipment	**(6,766)**	(7,990)	(8,525)
Net cash used in investing activities	**(1,954,064)**	(780,753)	(1,278,512)
Cash Flows From Financing Activities			
Bonds and notes issued	**10,361,565**	9,333,855	15,306,425
Bonds and notes retired	**(8,620,462)**	(8,639,246)	(14,037,395)
Preferred stock issued	**—**	300,000	—
Preferred stock retired	**—**	(182,000)	—
Issuance cost on preferred stock	**—**	(4,066)	—
Capital stock issued	**14,714**	12,625	4,608
Capital stock retired and allocated retained earnings distributed	**(3,627)**	(4,593)	(8,784)
Cash dividends on preferred stock	**(50,250)**	(49,931)	(43,761)
Cash patronage distributions paid	**(73,578)**	(66,584)	(64,263)
Net cash provided by financing activities	**1,628,362**	700,060	1,156,830
Net (decrease) increase in cash	**(174,091)**	100,210	77,575
Cash at beginning of year	**602,452**	502,242	424,667
Cash at End of Year	**$ 428,361**	$ 602,452	$ 502,242
Supplemental Schedule of Noncash Investing and Financing Activities			
Loans transferred to other property owned	**$ —**	$ 9,566	$ 12,145
Net increase (decrease) in unrealized gains on investment securities	**14,203**	(64,407)	4,527
Preferred stock dividends payable	**20,063**	20,063	21,881
Patronage distributions payable	**19,698**	16,862	11,941
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
(Decrease) increase in bonds and notes	**$ —**	$ (91)	$ 78
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 162,791**	$ 148,342	$ 172,963

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

Farm Credit Bank of Texas

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

Note 1 — Organization and Operations

A. Organization:

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

As of December 31, 2014, the nation was served by three Farm Credit Banks (FCBs), each of which has specific lending authority within its chartered territory, and one Agricultural Credit Bank (ACB) — collectively, the "System banks" — which has nationwide lending authority for lending to cooperatives. The ACB also has the lending authorities of an FCB within its chartered territories. The bank is chartered to serve the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Federal Land Credit Associations (FLCAs) and/or Agricultural Credit Associations (ACAs). The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (district). The district's one FLCA, 14 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs) and preferred stockholders jointly owned the bank at December 31, 2014. The FLCA and ACAs collectively are referred to as associations.

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

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

B. Operations:

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

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

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, human resources and marketing. The fees charged by the bank for these services are included in the bank's noninterest income.

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

The accompanying financial statements include the accounts of the bank and reflect the investments in and allocated earnings of the service organizations in which the bank has partial ownership interests. The multiemployer structure of certain retirement and benefit plans of the district results in the recording of these plans only in the combined financial statements of the district.

A. Cash:

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

B. Investment Securities and Federal Funds:

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

The bank's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2014, 2013 and 2012. These investments are reported at fair value, and unrealized holding gains and losses on investments are netted and reported as a separate component of members' equity in the balance sheet (accumulated other comprehensive gain [loss]). Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other-than-temporarily impaired. The bank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the bank would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value. Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The bank does not hold investments for trading purposes.

The bank may also hold additional investments in accordance with mission-related investment programs, approved by the Farm Credit Administration. These programs allow the bank to make investments that further the System's mission to serve rural America. Mission-related investments are not included in the bank's liquidity calculations and are not covered by the eligible investment limitations specified by the FCA regulations. Mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) are considered other investments in the available-for-sale portfolio and are also excluded from the limitation and the bank's liquidity calculations.

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

C. Loans and Reserves for Credit Losses:

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

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

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

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

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

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

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

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

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

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

Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. The bank capitalizes origination fees, premiums and discounts and amortizes them over the lives of the related loans on a straight-line basis, which does not yield results that are materially different from the effective interest method.

D. Other Property Owned:

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

E. Premises and Equipment:

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

F. Other Assets and Other Liabilities:

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

The bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the bank on such balances. There were no significant balances of ACPs at December 31, 2014, 2013 and 2012.

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

G. Employee Benefit Plans:

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

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

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

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

H. Income Taxes:

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

I. Derivative Instruments and Hedging Activity:

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

In accordance with authoritative accounting guidance, for fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value. For cash flow hedges, which hedge the exposure to variability in expected future cash flows, changes in the fair value of the derivative will generally be offset by an entry to accumulated other comprehensive income in shareholders' equity. The bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific liabilities on the balance sheet. The bank may use interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of authoritative accounting guidance, and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively if it was determined that a hedge has not been or is not expected to be effective as a hedge. In the event that hedge accounting were discontinued and the derivative remained outstanding, the bank would carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings. See Note 15, "Derivative Instruments and Hedging Activity," for additional disclosures about derivative instruments.

J. Fair Value Measurements:

The Financial Accounting Standards Board (FASB) guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

It describes three levels of inputs that may be used to measure fair value:

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

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

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

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

K. Recently Issued or Adopted Accounting Pronouncements:

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Revenue From Contracts With Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The bank is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

L. Off-Balance-Sheet Credit Exposures:

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

Note 3 — Investment Securities

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of agency-guaranteed debt instruments, mortgage-backed investments, asset-backed investments and corporate debt. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations during the second quarter of 2010, the first quarter of 2012 and the second quarter of 2014, as a part of the bank's Capitalized Participation Pool (CPP) program. In accordance with this program, any positive impact to the net income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

Investments in the available-for-sale liquidity portfolio at December 31, 2014, 2013 and 2012, follow:

	December 31, 2014				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agency-guaranteed debt	**$ 159,334**	**$ —**	**$ (4,144)**	**$ 155,190**	**1.45%**
Corporate debt	**241,516**	**313**	**(299)**	**241,530**	**0.76**
Federal agency collateralized mortgage-backed securities					
GNMA	**1,708,215**	**6,212**	**(13,010)**	**1,701,417**	**1.54**
FNMA and FHLMC	**1,829,075**	**6,174**	**(9,355)**	**1,825,894**	**1.36**
Other collateralized mortgage-backed securities	**7**	**—**	**—**	**7**	**2.42**
Asset-backed securities	**81,806**	**10**	**(46)**	**81,770**	**0.59**
Total liquidity investment	**$ 4,019,953**	**$ 12,709**	**$ (26,854)**	**$ 4,005,808**	**1.39%**

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 135,738	$ —	$ (5,714)	$ 130,024	1.53%
Corporate debt	250,312	482	(1,215)	249,579	0.83
Federal agency collateralized mortgage-backed securities					
GNMA	1,690,952	9,400	(19,926)	1,680,426	1.43
FNMA and FHLMC	1,431,037	4,838	(14,297)	1,421,578	1.16
Other collateralized mortgage-backed securities	7,736	—	(207)	7,529	2.76
Asset-backed securities	51,320	43	(67)	51,296	0.61
Total liquidity investment	$ 3,567,095	$ 14,763	$ (41,426)	$ 3,540,432	1.28%

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

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

	December 31, 2014				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	**$ 82,539**	**$ —**	**$ (1,956)**	**$ 80,583**	**4.17%**

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 101,063	$ —	$ (3,640)	$ 97,423	4.29%

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

There were no investments in the held-to- maturity portfolio at December 31, 2014, December 31, 2013 or December 31, 2012.

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of available-for-sale liquidity portfolio at December 31, 2014, follows:

	Due in one year or less	**Due after one year through five years**	**Due after five years through 10 years**	**Due after 10 years**	**Total**
Agency-guaranteed debt	$ —	$ —	$ 36,852	$ 118,338	$ 155,190
Corporate debt	105,063	136,467	—	—	241,530
Federal agency collateralized mortgage-backed securities					
GNMA	—	1,279	20,414	1,679,724	1,701,417
FNMA and FHLMC	—	28,476	175,091	1,622,327	1,825,894
Other collateralized mortgage-backed securities	—	—	—	7	7
Asset-backed securities	—	75,971	—	5,799	81,770
Total	$105,063	$ 242,193	$ 232,357	$ 3,426,195	$ 4,005,808
Total amortized cost	$105,001	$ 241,757	$ 233,211	$ 3,439,984	$ 4,019,953
Weighted average yield	0.55%	0.93%	1.87%	1.41%	1.39%

Collateralized mortgage obligations (CMOs) have stated contractual maturities in excess of 15 years. However, the security structure of the CMOs is designed to produce a relatively short-term life. At December 31, 2014, the CMO portfolio had a weighted average remaining life of approximately three years.

In December 2014, the bank sold five securities, which were not other-than-temporarily impaired, with a combined book value of $7.0 million, realizing a net loss of $212.

Investments in the available-for-sale other investments portfolio at December 31, 2014, follows:

	Due after one year through five years
Fair value of agricultural mortgage-backed securities	$ 80,583
Total amortized cost	$ 82,539
Weighted average yield	4.17%

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

If an investment no longer meets the credit rating criteria, the investment becomes ineligible. At December 31, 2014, the bank held one investment that was ineligible for liquidity purposes by FCA standards. That ineligible security had an amortized cost basis of $7 and a fair value of $7 at December 31, 2014.

There were sales of other-than-temporarily-impaired investments in 2014 (one security) and in 2013 (five securities). Proceeds and related losses on sales or impairments of specific investment securities follow:

	Year Ended December 31,		
	2014	2013	2012
Proceeds on sales	**$ 7,073**	$ 19,844	$ 10,573
Realized losses on sales	**37**	641	75
Realized losses due to impairment	**—**	—	1

At December 31, 2014, the bank had 98 investments that were in a loss position. The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position. The continuous loss position is based on the date the impairment occurred.

	December 31, 2014					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	**$ 64,869**	**$ (128)**	**$ 90,321**	**$ (4,016)**	**$ 155,190**	**$ (4,144)**
Corporate debt	**77,228**	**(290)**	**14,991**	**(9)**	**92,219**	**(299)**
Federal agency collateralized mortgage-backed securities						
GNMA	**567,669**	**(2,188)**	**394,308**	**(10,822)**	**961,977**	**(13,010)**
FNMA and FHLMC	**431,074**	**(2,343)**	**437,178**	**(7,012)**	**868,252**	**(9,355)**
Other collateralized mortgage-backed securities	**—**	**—**	**7**	**—**	**7**	**—**
Asset-backed securities	**47,256**	**(46)**	**—**	**—**	**47,256**	**(46)**
Total	**$ 1,188,096**	**$ (4,995)**	**$ 936,805**	**$ (21,859)**	**$ 2,124,901**	**$ (26,854)**

	December 31, 2013					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	$ 130,024	$ (5,714)	$ —	$ —	$ 130,024	$ (5,714)
Corporate debt	63,918	(1,005)	19,791	(209)	83,709	(1,214)
Federal agency collateralized mortgage-backed securities						
GNMA	726,115	(15,916)	61,698	(4,011)	787,813	(19,927)
FNMA and FHLMC	913,673	(14,298)	—	—	913,673	(14,298)
Other collateralized mortgage-backed securities	4,833	(6)	2,696	(200)	7,529	(206)
Asset-backed securities	14,682	(2)	1,157	(65)	15,839	(67)
Total	$ 1,853,245	$ (36,941)	$ 85,342	$ (4,485)	$ 1,938,587	$ (41,426)

	December 31, 2012					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	$ 29,640	$ (171)	$ —	$ —	$ 29,640	$ (171)
Corporate debt	44,767	(224)	—	—	44,767	(224)
Federal agency collateralized mortgage-backed securities						
GNMA	151,676	(698)	—	—	151,676	(698)
FNMA and FHLMC	32	—	—	—	32	—
Other collateralized mortgage-backed securities	5,749	(2)	21,189	(1,142)	26,938	(1,144)
Asset-backed securities	—	—	3,096	(780)	3,096	(780)
Total	$ 231,864	$ (1,095)	$ 24,285	$ (1,922)	$ 256,149	$ (3,017)

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary, including: (i) whether or not an entity intends to sell the security, (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs or (iii) whether or not an entity expects to recover the security's entire amortized cost basis (even if it does not intend to sell).

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

During 2014, the bank recognized credit losses on the sale of one other-than-temporarily impaired investment (OTTI) security with a book value of $301, realizing a loss of $37. There are no remaining credit or noncredit losses on OTTI securities at December 31, 2014. During 2013, the bank recognized credit losses on the sale of five other-than-temporarily impaired investment (OTTI) securities totaling $641. Noncredit losses on these investments, totaling $51, were included as a charge against accumulated other comprehensive income at December 31, 2013. There were sales of OTTI securities in March 2013, November 2013 and December 2013, which had book values of $5.1 million, $1.8 million and $10.9 million, respectively, realizing losses of $143, $199 and $299, respectively. During 2012, the bank recognized credit losses on one OTTI investment security still held totaling $1 and $75 on the sale of another OTTI security. Noncredit losses on these investments, totaling $1.5 million, were included as a charge against accumulated other comprehensive income at December 31, 2012. There were sales of two OTTI securities in September 2012 and November 2012, which had book values of $6.5 million and $4.2 million, respectively, realizing a gain of $14 and a loss of $89, respectively.

To measure the amount related to credit loss in the determination of other-than-temporary impairment, the bank may utilize an independent third party's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. 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. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses.

At December 31, 2014, the bank had one mortgage-backed security that was evaluated for other-than-temporary impairment and no remaining OTTI asset-backed securities.

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

	For the Twelve Months Ended December 31,		
	2014	2013	2012
Credit loss component, beginning of period	**$ 454**	$ 5,084	$ 9,921
Additions:			
Subsequent credit impairment	**37**	641	76
Reductions:			
For securities sold	**(491)**	(5,271)	(4,913)
Credit loss component, end of period	**$ —**	$ 454	$ 5,084

Note 4 — Loans and Reserves for Credit Losses

Loans comprised the following categories at December 31:

	2014	2013	2012
Direct notes receivable from district associations and OFIs	**$ 8,504,806**	$ 7,360,025	$ 7,250,641
Participations purchased	**4,753,363**	4,416,737	4,080,135
Other bank-owned loans	**1,668**	1,979	8,054
Total loans	**$ 13,259,837**	$ 11,778,741	$ 11,338,830

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

	2014	2013	2012
Direct notes receivable from district associations	**$ 8,465,887**	$ 7,325,645	$ 7,183,535
Real estate mortgage	**337,777**	387,766	328,873
Production and intermediate term	**567,721**	458,351	425,312
Agribusiness			
Loans to cooperatives	**141,478**	139,994	139,671
Processing and marketing	**1,951,908**	1,725,617	1,544,518
Farm-related business	**227,125**	131,366	116,567
Communications	**252,117**	230,499	241,697
Energy (rural utilites)	**1,109,552**	1,177,463	1,143,723
Water and waste disposal	**134,644**	114,704	99,120
Rural home	**16**	21	25
Agricultural export finance	**—**	19,651	13,450
Mission-related	**32,693**	33,284	35,233
Loans to other financial institutions	**38,919**	34,380	67,106
Total	**$ 13,259,837**	$ 11,778,741	$ 11,338,830

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank actively pursues the purchase of participations and syndications originated outside of the district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or subparticipated to the associations or to other System entities.

The bank purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information on loan participations, excluding syndications, at December 31, 2014.

	Other Farm Credit Institutions		Non–Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 329,215	$ 266,842	$ —	$ —	$ 329,215	$ 266,842
Production and intermediate term	1,529,088	1,017,344	1,240	26,403	1,530,328	1,043,747
Agribusiness	1,323,979	466,305	38,317	—	1,362,296	466,305
Communications	341,479	89,065	—	—	341,479	89,065
Energy (rural utilites)	1,289,251	189,270	—	—	1,289,251	189,270
Water and waste disposal	135,102	19,282	—	—	135,102	19,282
Loans to other financing institutions	—	15,943	—	—	—	15,943
Direct note receivable from district associations	—	3,650,000	—	—	—	3,650,000
Mission-related	4,918	—	—	—	4,918	—
Total	**$ 4,953,032**	**$ 5,714,051**	**$ 39,557**	**$ 26,403**	**$ 4,992,589**	**$ 5,740,454**

A substantial portion of the bank's loan portfolio consists of direct notes receivable from district associations. As described in Note 1, "Organization and Operations," these notes are used by the associations to fund their loan portfolios, and therefore the bank's implicit concentration of credit risk in various agricultural commodities approximates that of the district as a whole. Loan concentrations are considered to exist when there are amounts loaned to borrowers engaged in similar activities, which could cause them to be similarly impacted by economic or other conditions. The percentages on the following page represent the district portfolio's diversification of credit risk as it relates to recorded loan principal. A substantial portion of the associations' lending activities is collateralized and the associations' exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the bank's credit risk exposure is considered in the bank's allowance for loan losses.

At December 31, 2014, the bank had a total of $3.650 billion of district association direct notes sold to another System bank. The sales included participations of 10 of its direct notes receivable from district associations. These sales provide diversification benefits between Farm Credit entities.

The bank has 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 $40,532 at

December 31, 2014. 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 12 months ended December 31, 2014:

Balance at January 1, 2014	$ 58,461
Maturities, repayments and calls by issuers	(15,500)
Net losses on financial instruments under fair value option	(367)
Change in premium amortization	(2,062)
Balance at December 31, 2014	$ 40,532

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

Commodity	**2014**	2013	2012
Livestock	**33%**	34%	35%
Crops	**13**	14	13
Timber	**9**	9	9
Cotton	**4**	4	4
Poultry	**3**	3	3
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**34**	32	32
Total	**100%**	100%	100%

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

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

In March 2010, the bank purchased loans which had experienced credit deterioration and other property owned from a district association. The two remaining loans in that portfolio totaled $1.2 million, with no related allowance for loan losses at December 31, 2014. These loans were transferred to accrual status in November 2013 and are included in "other bank-owned loans." Subsequent to December 31, 2014, the loans were sold at par to a district association.

The bank has purchased loan participations from two district associations in Capitalized Participation Pool (CPP) transactions ($4,228 in April 2014). As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value. CPP loans held at December 31, 2014, totaled $35,794.

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, collectively referred to as "impaired loans." Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties. The bank's impaired loans consisted of participations purchased; no direct notes to district associations were impaired at December 31, 2014, 2013 and 2012.

	December 31,		
	2014	2013	2012
Nonaccrual loans			
Current as to principal and interest	**$ 21**	$ 13,239	$ 10,562
Past due	**10,547**	14,893	53,135
Total nonaccrual loans	**10,568**	28,132	63,697
Impaired accrual loans			
Restructured accrual loans	**16,481**	12,482	12,001
Total impaired accrual loans	**16,481**	12,482	12,001
Total impaired loans	**$ 27,049**	$ 40,614	$ 75,698

The decrease in nonaccrual loans is attributable to repayments of $23.2 million, transfers to accrual loans of $4.1 million, and charge-offs of $2.4 million, offset by transfers to nonaccrual of $2.8 million and advances on nonaccrual loans of $9.3 million.

The increase in restructured accrual loans is mainly due to the movement of a formally restructured dairy loan from nonaccrual status to accrual status.

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

	December 31, 2014	December 31, 2013	December 31, 2012
Nonaccrual loans:			
Real estate mortgage	**$ 3,545**	$ 5,722	$ 36,405
Production and intermediate term	**—**	19,091	1,441
Agribusiness	**—**	2,148	23,107
Communications	**—**	—	2,744
Energy & water waste disposal	**7,023**	1,171	—
Mission-related	**—**	—	—
Total nonaccrual loans	**10,568**	28,132	63,697
Accruing restructured loans:			
Real estate mortgage	**870**	897	914
Production and intermediate term	**12,805**	8,752	8,668
Agribusiness	**—**	—	2,419
Mission-related	**2,806**	2,833	—
Total accruing restructured loans	**16,481**	12,482	12,001
Total nonperforming loans	**27,049**	40,614	75,698
Other property owned	**10,310**	13,812	30,739
Total nonperforming assets	**$ 37,359**	$ 54,426	$ 106,437

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

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

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

	2014	2013	2012
Real estate mortgage:			
Acceptable	**89.5%**	95.3%	80.6%
OAEM	**9.2**	2.2	6.6
Substandard/Doubtful	**1.3**	2.5	12.8
	100.0%	100.0%	100.0%
Production and intermediate term:			
Acceptable	**99.2%**	91.3%	93.6%
OAEM	**0.8**	2.5	3.7
Substandard/Doubtful	**—**	6.2	2.7
	100.0%	100.0%	100.0%
Agribusiness:			
Acceptable	**99.2%**	99.4%	95.8%
OAEM	**0.8**	0.5	2.3
Substandard/Doubtful	**—**	0.1	1.9
	100.0%	100.0%	100.0%
Energy & water/waste disposal:			
Acceptable	**98.5%**	98.0%	98.0%
OAEM	**0.9**	—	—
Substandard/Doubtful	**0.6**	2.0	2.0
	100.0%	100.0%	100.0%
Communications:			
Acceptable	**100.0%**	100.0%	98.9%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	1.1
	100.0%	100.0%	100.0%
Rural home:			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	100.0%	100.0%	100.0%
Agricultural export finance:			
Acceptable	**—**	100.0%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	—	100.0%	100.0%
Direct notes to associations:			
Acceptable	**98.2%**	97.9%	97.7%
OAEM	**—**	—	—
Substandard/Doubtful	**1.8**	2.1	2.3
	100.0%	100.0%	100.0%
Loans to other financing institutions:			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	100.0%	100.0%	100.0%
Mission-related:			
Acceptable	**93.4%**	92.3%	92.6%
OAEM	**—**	—	—
Substandard/Doubtful	**6.6**	7.7	7.4
	100.0%	100.0%	100.0%
Total loans:			
Acceptable	**98.3%**	97.9%	96.8%
OAEM	**0.5**	0.3	0.7
Substandard/Doubtful	**1.2**	1.8	2.5
	100.0%	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2014:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	**$ —**	**$ 3,574**	**$ 3,574**	**$ 337,316**	**$ 340,890**	**$ —**
Production and intermediate term	**—**	**—**	**—**	**569,642**	**569,642**	**—**
Agribusiness	**—**	**—**	**—**	**2,331,382**	**2,331,382**	**—**
Energy & water/waste disposal	**4,916**	**2,086**	**7,002**	**1,242,382**	**1,249,384**	**—**
Communications	**—**	**—**	**—**	**252,336**	**252,336**	**—**
Rural residential real estate	**—**	**—**	**—**	**16**	**16**	**—**
Direct notes to associations	**—**	**—**	**—**	**8,482,934**	**8,482,934**	**—**
Loans to OFIs	**—**	**—**	**—**	**38,966**	**38,966**	**—**
Mission-related	**—**	**—**	**—**	**32,960**	**32,960**	**—**
Total	**$ 4,916**	**$ 5,660**	**$ 10,576**	**$ 13,287,934**	**$ 13,298,510**	**$ —**

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2013:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	$ —	$ 5,746	$ 5,746	$ 385,162	$ 390,908	$ —
Production and intermediate term	2,154	6,993	9,147	450,582	459,729	—
Agribusiness	—	—	—	2,005,361	2,005,361	—
Energy & water/waste disposal	—	—	—	1,296,223	1,296,223	—
Communications	—	—	—	230,715	230,715	—
Rural residential real estate	—	—	—	21	21	—
Agricultural export finance	—	—	—	19,691	19,691	—
Direct notes to associations	—	—	—	7,340,822	7,340,822	—
Loans to OFIs	—	—	—	34,421	34,421	—
Mission-related	2,364	—	2,364	31,195	33,559	—
Total	$ 4,518	$ 12,739	$ 17,257	$ 11,794,193	$ 11,811,450	$ —

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2012:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	$ —	$ 35,772	$ 35,772	$ 295,580	$ 331,352	$ —
Production and intermediate term	—	839	839	425,514	426,353	—
Agribusiness	—	16,526	16,526	1,790,695	1,807,221	—
Energy & water/waste disposal	—	—	—	1,247,205	1,247,205	—
Communications	—	—	—	241,909	241,909	—
Rural residential real estate	—	—	—	25	25	—
Agricultural export finance	—	—	—	13,479	13,479	—
Direct notes to associations	—	—	—	7,198,913	7,198,913	—
Loans to OFIs	—	—	—	67,196	67,196	—
Mission-related	—	—	—	35,474	35,474	—
Total	$ —	$ 53,137	$ 53,137	$ 11,315,990	$ 11,369,127	$ —

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

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

As of December 31, 2014, the total recorded investment of troubled debt restructured loans was $17,286, including $805 classified as nonaccrual and $16,481 classified as accrual, with specific allowance for loan losses of $72.

There was one troubled debt restructuring (TDR) during 2014 on a production loan of $4.1 million for which a principal deferral was granted. There were no payment defaults on troubled debt restructurings that occurred within the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2014. There was $32 in additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2013.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the years ended December 31, 2014 and 2013. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

For the year ended December 31, 2014:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Production & Intermediate term	$ 4,576	$ 4,051
Total	$ 4,576	$ 4,051

For the year ended December 31, 2013:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Mission-related	$ 2,857	$ 2,833
Total	$ 2,857	$ 2,833

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

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

	Loans Modified as TDRs			TDRs in Nonaccrual Status		
	December 31, 2014	December 31, 2013	December 31, 2012	**December 31, 2014**	December 31, 2013	December 31, 2012
Real estate mortgage	**$ 1,675**	$ 3,830	$ 2,657	**$ 805**	$ 2,933	$ 1,743
Production and intermediate term	**12,805**	8,752	8,668	—	—	—
Agribusiness	—	2,148	5,352	—	2,148	2,933
Mission-related	**2,806**	2,833	—	—	—	—
Total	**$ 17,286**	$ 17,563	$ 16,677	**$ 805**	$ 5,081	$ 4,676

Additional impaired loan information at December 31, 2014, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ —	$ —	$ —	$ 723	$ 448
Production and intermediate term	—	—	—	6,694	—
Energy & water/waste disposal	7,023	7,023	5,500	2,857	21
Mission-related	228	228	72	221	17
Total	$ 7,251	$ 7,251	$ 5,572	$ 10,495	$ 486
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,415	$ 11,056	$ —	$ 5,074	$ 955
Production and intermediate term	12,805	15,597	—	12,049	1,105
Processing and marketing	—	1,381	—	—	—
Energy & water/waste disposal	—	17,578	—	—	1
Mission-related	2,578	5,763	—	2,567	163
Total	$ 19,798	$ 51,375	$ —	$ 19,690	$ 2,224
Total impaired loans:					
Real estate mortgage	$ 4,415	$ 11,056	$ —	$ 5,797	$ 1,403
Production and intermediate term	12,805	15,597	—	18,743	1,105
Processing and marketing	—	1,381	—	—	—
Energy & water/waste disposal	7,023	24,601	5,500	2,857	22
Mission-related	2,806	5,991	72	2,788	180
Total	$ 27,049	$ 58,626	$ 5,572	$ 30,185	$ 2,710

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

Additional impaired loan information at December 31, 2013, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 4,225	$ 4,225	$ 1,725	$ 6,777	$ 1
Production and intermediate term	17,367	17,367	4,621	10,636	—
Processing and marketing	2,148	2,814	1,000	11,352	24
Energy & water/waste disposal	1,171	1,171	1,147	1,359	—
Communications	—	—	—	524	—
Mission-related	—	—	—	—	—
Total	$ 24,911	$ 25,577	$ 8,493	$ 30,648	$ 25
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,394	$ 6,956	$ —	$ 14,319	$ 385
Production and intermediate term	10,476	13,270	—	9,580	1,136
Processing and marketing	—	1,381	—	—	—
Energy & water/waste disposal	—	17,619	—	—	—
Communications	—	—	—	149	—
Mission-related	2,833	6,018	—	705	43
Total	$ 15,703	$ 45,244	$ —	$ 24,753	$ 1,564
Total impaired loans:					
Real estate mortgage	$ 6,619	$ 11,181	$ 1,725	$ 21,096	$ 386
Production and intermediate term	27,843	30,637	4,621	20,216	1,136
Processing and marketing	2,148	4,195	1,000	11,352	24
Energy & water/waste disposal	1,171	18,790	1,147	1,359	—
Communications	—	—	—	673	—
Mission-related	2,833	6,018	—	705	43
Total	$ 40,614	$ 70,821	$ 8,493	$ 55,401	$ 1,589

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

Additional impaired loan information at December 31, 2012, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 7,232	$ 11,709	$ 2,671	$ 13,060	$ —
Production and intermediate term	838	3,030	244	1,393	—
Processing and marketing	23,107	23,107	8,014	14,401	248
Energy & water/waste disposal	—	—	—	2,223	—
Communications	2,136	2,136	1,000	2,382	—
Mission-related	—	—	—	36	—
Total	$ 33,313	$ 39,982	$ 11,929	$ 33,495	$ 248
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 30,087	$ 30,087	$ —	$ 39,542	$ 611
Production and intermediate term	9,271	9,271	—	9,982	612
Processing and marketing	2,419	4,599	—	4,174	783
Energy & water/waste disposal	—	17,619	—	1,423	—
Communications	608	608	—	1,380	9
Mission-related	—	3,213	—	261	—
Total	$ 42,385	$ 65,397	$ —	$ 56,762	$ 2,015
Total impaired loans:					
Real estate mortgage	$ 37,319	$ 41,796	$ 2,671	$ 52,602	$ 611
Production and intermediate term	10,109	12,301	244	11,375	612
Processing and marketing	25,526	27,706	8,014	18,575	1,031
Energy & water/waste disposal	—	17,619	—	3,646	—
Communications	2,744	2,744	1,000	3,762	9
Mission-related	—	3,213	—	297	—
Total	$ 75,698	$ 105,379	$ 11,929	$ 90,257	$ 2,263

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

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

	2014	2013	2012
Interest income which would have been recognized under the original loan terms	**$ 4,724**	$ 4,167	$ 5,476
Less: interest income recognized	**2,710**	1,589	2,263
Foregone interest income	**$ 2,014**	$ 2,578	$ 3,213

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission- Related	Total
Allowance for Credit Losses:											
Balance at December 31, 2013	$ 1,954	$ 5,075	$ 2,781	$ 215	$ 3,596	$ —	$ 7	$ —	$ —	$ 32	$ 13,660
Charge-offs	(2,072)	—	(290)	—	—	—	—	—	—	—	(2,362)
Recoveries	13	—	5	—	41	—	—	—	—	—	59
Provision for credit losses	(146)	(4,621)	(757)	—	—	—	(7)	—	—	98	(5,433)
Other*	1,045	(150)	(619)	(15)	3,953	—	—	—	—	(26)	4,188
Balance at December 31, 2014	$ 794	$ 304	$ 1,120	$ 200	$ 7,590	$ —	$ —	$ —	$ —	$ 104	$ 10,112
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ 5,500	$ —	$ —	$ —	$ —	$ 72	$ 5,572
Collectively evaluated for impairment	794	304	1,120	200	2,090	—	—	—	—	32	4,540
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2014	$ 794	$ 304	$ 1,120	$ 200	$ 7,590	$ —	$ —	$ —	$ —	$ 104	$ 10,112
Recorded Investments in loans outstanding:											
Balance at December 31, 2014	$ 340,890	$ 569,642	$ 2,331,382	$ 252,336	$ 1,249,384	$ 16	$ —	$ 8,482,934	$ 38,966	$ 32,960	$13,298,510
Ending Balance for loans individually evaluated for impairment	$ 4,415	$ 12,805	$ —	$ —	$ 7,023	$ —	$ —	$ —	$ —	$ 2,806	$ 27,049
Ending Balance for loans collectively evaluated for impairment	$ 336,475	$ 556,837	$ 2,331,382	$ 252,336	$ 1,242,361	$ 16	$ —	$ 8,482,934	$ 38,966	$ 30,154	$13,271,461
Ending Balance for loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission- Related	Total
Allowance for Credit Losses:											
Balance at December 31, 2012	$ 2,992	$ 633	$ 10,448	$ 1,315	$ 1,859	$ —	$ 3	$ —	$ —	$ 8	$ 17,258
Charge-offs	(1,721)	(810)	(7,675)	—	—	—	—	—	—	—	(10,206)
Recoveries	12	—	271	—	—	—	—	—	—	—	283
Provision for credit losses	1,746	5,252	(263)	(1,100)	590	—	4	—	—	24	6,253
Other*	(1,075)	—	—	—	1,147	—	—	—	—	—	72
Balance at December 31, 2013	$ 1,954	$ 5,075	$ 2,781	$ 215	$ 3,596	$ —	$ 7	$ —	$ —	$ 32	$ 13,660
Individually evaluated for impairment	$ 1,725	$ 4,621	$ 1,000	$ —	$ 1,147	$ —	$ —	$ —	$ —	$ —	$ 8,493
Collectively evaluated for impairment	229	454	1,781	215	2,449	—	7	—	—	32	5,167
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2013	$ 1,954	$ 5,075	$ 2,781	$ 215	$ 3,596	$ —	$ 7	$ —	$ —	$ 32	$ 13,660
Recorded Investments in loans outstanding:											
Balance at December 31, 2013	$ 390,908	$ 459,729	$ 2,005,361	$ 230,715	$ 1,296,223	$ 21	$ 19,691	$ 7,340,822	$ 34,421	$ 33,559	$11,811,450
Ending Balance for loans individually evaluated for impairment	$ 6,619	$ 27,843	$ 2,148	$ —	$ 1,171	$ —	$ —	$ —	$ —	$ 2,833	$ 40,614
Ending Balance for loans collectively evaluated for impairment	$ 384,289	$ 431,886	$ 2,003,213	$ 230,715	$ 1,295,052	$ 21	$ 19,691	$ 7,340,822	$ 34,421	$ 30,726	$11,770,836
Ending Balance for loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission- Related	Total
Allowance for Credit Losses:											
Balance at December 31, 2011	$ 7,112	$ 424	$ 4,096	$ 2,163	$ 1,851	$ —	$ —	$ —	$ —	$ 13	$ 15,659
Charge-offs	(9,492)	(2,191)	—	—	(8,988)	—	—	—	—	(74)	(20,745)
Recoveries	31	—	185	—	—	—	—	—	—	—	216
Provision for credit losses	4,834	2,400	6,167	(848)	14,496	—	3	—	—	69	27,121
Other*	507	—	—	—	(5,500)	—	—	—	—	—	(4,993)
Balance at December 31, 2012	$ 2,992	$ 633	$ 10,448	$ 1,315	$ 1,859	$ —	$ 3	$ —	$ —	$ 8	$ 17,258
Individually evaluated for impairment	$ 1,859	$ —	$ 8,013	$ 1,000	$ —	$ —	$ —	$ —	$ —	$ —	$ 10,872
Collectively evaluated for impairment	320	389	2,435	315	1,859	—	3	—	—	8	5,329
Loans acquired with deteriorated credit quality	813	244	—	—	—	—	—	—	—	—	1,057
Balance at December 31, 2012	$ 2,992	$ 633	$ 10,448	$ 1,315	$ 1,859	$ —	$ 3	$ —	$ —	$ 8	$ 17,258
Recorded Investments in loans outstanding:											
Balance at December 31, 2012	$ 331,352	$ 426,353	$ 1,807,221	$ 241,909	$ 1,247,205	$ 25	$ 13,479	$ 7,198,913	$ 67,196	$ 35,474	$11,369,127
Ending Balance for loans individually evaluated for impairment	$ 34,425	$ 8,627	$ 25,526	$ 2,744	$ —	$ —	$ —	$ —	$ —	$ —	$ 71,322
Ending Balance for loans collectively evaluated for impairment	$ 294,034	$ 416,243	$ 1,781,695	$ 239,165	$ 1,247,205	$ 25	$ 13,479	$ 7,198,913	$ 67,196	$ 35,474	$11,293,429
Ending Balance for loans acquired with deteriorated credit quality	$ 2,893	$ 1,483	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 4,376

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

The bank's reserves for credit losses include the allowance for loan losses and a reserve for losses on unfunded commitments. The reserve for losses on unfunded commitments includes letters of credit and, for 2014 and 2013, unused loan commitments, and is recorded in "Other liabilities" in the Balance Sheets. At December 31, 2014, 2013 and 2012, the reserve totaled $1.3 million, $5.5 million and $5.6 million, respectively, representing management's estimate of probable credit losses related to letters of credit and other unfunded commitments.

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2014	2013	2012
Leasehold improvements	**$ 2,339**	$ 1,654	$ 1,237
Computer equipment & software	**41,688**	35,950	28,763
Furniture and equipment	**2,556**	2,545	2,625
	46,583	40,149	32,625
Accumulated depreciation	**(21,386)**	(16,935)	(13,276)
Total	**$ 25,197**	$ 23,214	$ 19,349

Included in computer equipment and software is $11.5 million related to the overall enterprise information technologies roadmap which outlines the needs and activities designed to enhance the accounting and informational capabilities related to district association lending and financial information management as well as the bank's capital markets loan portfolios.

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space. Under the terms of the lease amendment, the bank will pay annual base rental ranging from $18 per square foot in the first year to $26 per square foot in the last year. Annual lease expenses for the facility, including certain operating expenses passed through from the landlord, were $3.0 million, $3.1 million and $3.4 million for 2014, 2013 and 2012, respectively. As a part of lease extensions and renewals, there were abatements of pass-through costs for six months in 2014 and for two months in 2013.

Following is a schedule of the minimum lease payments remaining on building and computer leases:

	Minimum Lease Payments
2015	$ 1,856
2016	2,266
2017	2,333
2018	2,403
2019	2,476
Thereafter	12,566
Total minimum lease payments	$ 23,900

Note 6 — Other Property Owned

Other property owned (OPO), consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. OPO totaled $10,310, $13,812 and $30,739 at December 31, 2014, 2013 and 2012, respectively. OPO at December 31, 2014, consisted of $438 in residual value of an ethanol plant and $9,872 in preferred and common stock of an ethanol facility.

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

	December 31:		
	2014	2013	2012
Gain on sale, net	**$ 461**	$ 1,119	$ 366
Carrying value adjustments	**(159)**	(983)	(5,636)
Operating expense, net	**12**	(215)	(297)
Net gain (loss) on other property owned	**$ 314**	**$** (79)	$ (5,567)

Note 7 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2014	2013	2012
Investment in other System bank	**$ 85,369**	$ 72,286	$ 59,879
Participations accounts receivable	**21,806**	—	—
Other accounts receivable	**21,148**	20,083	18,978
Unamortized debt issue costs	**11,273**	12,696	11,531
RBIC investment	**757**	—	—
Fair value of derivatives	**748**	831	756
Other, net	**5,950**	4,941	4,372
Total	**$ 147,051**	$ 110,837	$ 95,516

Other liabilities comprised the following at December 31:

	2014	2013	2012
Payable to associations for cash management services	**$ 23,280**	$ 29,066	$ 35,617
Accounts payable – participations	—	23,508	3,592
Accounts payable - other	**10,246**	8,874	2,659
Patronage payable	**19,698**	16,862	12,941
Obligation for nonpension postretirement benefits	**11,026**	8,274	9,764
Mortgage life additional reserve	**3,431**	3,448	3,652
FCSIC premium payable	**7,444**	5,714	2,646
Accrued building lease payable	**3,183**	2,103	1,357
Other, net	**5,213**	6,268	8,929
Total	**$ 83,521**	$ 104,117	$ 81,157

Note 8 — Bonds and Notes

Systemwide Debt Securities:

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Systemwide bonds, medium-term notes and discount notes (Systemwide debt securities) are the joint and several liability of the System banks. Certain conditions must be met before the bank can participate in the issuance of Systemwide debt securities. The bank is required by the Farm Credit Act and

FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2014, the bank had such specified eligible assets totaling $17.8 billion and obligations and accrued interest payable totaling $16.4 billion, resulting in excess eligible assets of $1.4 billion.

The System banks and the Funding Corporation have entered into the second amended and restated Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2014, the bank was, and currently remains, in compliance with the conditions and requirements of the System banks' and the Funding Corporation's MAA.

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

The bank's participation in Systemwide debt securities at December 31, 2014, follows *(dollars in millions)*:

	Systemwide					
	Bonds		Discount Notes		Total	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2015	$ 4,702.4	0.35%	$ 1,579.2	0.12%	$ 6,281.6	0.30%
2016	3,429.5	0.60	—	—	3,429.5	0.60
2017	2,201.4	1.25	—	—	2,201.4	1.25
2018	1,306.0	1.45	—	—	1,306.0	1.45
2019	1,041.9	1.82	—	—	1,041.9	1.82
Subsequent years	2,080.9	2.72	—	—	2,080.9	2.72
Total	$ 14,762.1	1.08%	$ 1,579.2	0.12%	$ 16,341.3	0.99%

In the preceding table, the weighted average interest rate reflects the effects of interest rate caps used to manage the interest rate risk on the bonds and notes issued by the bank. The bank's interest rate swap strategy is discussed more fully in Note 2, "Summary of Significant Accounting Policies," and Note 15, "Derivative Instruments and Hedging Activity."

Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2014, was 140 days.

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2014 *(dollars in thousands)*:

Year of Maturity	Amount	Range of First Call Dates
2015	$ 205,000	1/10/2015-1/27/2015
2016	1,605,000	1/3/2015-3/10/2015
2017	1,270,000	1/1/2015-11/20/2015
2018	982,060	1/1/2015-12/17/2015
2019	758,174	1/1/2015-12/16/2015
Subsequent years	1,033,645	1/1/2015-3/1/2018
Total	$ 5,853,879	1/1/2015-3/1/2018

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

As described in Note 1, "Organization and Operations," the Insurance Fund is available to ensure the timely payment of principal and interest on bank bonds and Systemwide debt securities (insured debt) of insured System banks to the extent net assets are available in the Insurance Fund. All other liabilities in the financial statements are uninsured. At December 31, 2014, the assets of the Insurance Fund aggregated $3.8 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal and interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon.

The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2015, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is in the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding will be available if needed by the System.

Subordinated Debt:

In September 2008, the bank issued $50.0 million of 8.406 percent unsecured subordinated notes due in 2018, generating proceeds of $49.4 million. The proceeds were used to increase regulatory permanent capital and total surplus pursuant to Farm Credit Administration regulations and for general corporate purposes. Due to regulatory limitations on third-party capital (including preferred stock and subordinated debt) instituted upon the issuance of the bank's Class B Series 1 Noncumulative Subordinated Perpetual Preferred Stock, subordinated debt is no longer qualified for inclusion in permanent capital or total surplus. This debt is unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest is payable semi-annually on March 15 and September 15. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated debt. During such a period, the issuing bank may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt is not considered Systemwide debt and is not guaranteed by the Farm Credit System or any banks in the System. Payments on the subordinated notes are not insured by the Farm Credit Insurance Fund. In accordance with FCA's approval of the bank's subordinated debt offering, the bank's minimum net collateral ratio for all regulatory purposes while any subordinated debt is outstanding will be 104 percent, instead of the 103 percent stated by regulation.

Note 9 — Shareholders' Equity

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

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

A. Description of Bank Equities:

Class A Cumulative Perpetual Preferred Stock (Class A preferred stock) – On November 7, 2003, the bank issued 100,000 shares of $1,000 per share par value Class A preferred stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The dividend rate was 7.561 percent, payable semi-annually to December 15, 2013, after which dividends were payable quarterly at a rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. On September 26, 2005, the bank issued an additional 100,000 shares of cumulative perpetual preferred stock with the same terms. During 2010, the bank repurchased $18.0 million par value of the Class A preferred stock at a net premium and cost of $529. For regulatory purposes, the preferred stock was treated as equity, and was not mandatorily redeemable. Dividends on preferred stock were recorded as declared. The Class A preferred stock ranked, as to dividends and other distributions (including patronage) upon liquidation, dissolution or winding up, prior to all other classes and series of equity securities of the bank. "Dividend/patronage stopper" clauses in the preferred stock offerings required the payment or declaration of current period dividends on the preferred stock issuances before any other patronage could be declared, and was required before payment of bank investment and direct note patronage to associations and OFIs could be paid. In 2012, Class A preferred stock dividends of $13,761 were declared and paid. At December 31, 2012, dividends payable on Class A preferred stock totaled $6,881. In 2013, Class A preferred stock dividends of $13,761 were declared and paid. On December 15, 2013, the bank redeemed all outstanding 200,000 shares of the Class A preferred stock. The redemption was at the par value of $1,000 per share, plus all accrued and unpaid dividends up to, but not including, the redemption date of December 15, 2013. As the bank had repurchased 18,000 shares of the Class A preferred stock in 2010, the outlay for the remaining Class A preferred stock on December 15, 2013, totaled $182.0 million, at which time the final related dividends of $6,881 were paid.

Class B Series 1 Noncumulative Subordinated Perpetual Preferred Stock (Class B-1 preferred stock) – On August 26, 2010, the bank issued $300.0 million of Class B noncumulative subordinated perpetual preferred stock, representing 300,000 shares at $1,000 per share par value for net proceeds of $296.6 million. The net proceeds of the issuance were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B-1 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B-1 preferred stock ranks, both as to dividends and upon liquidation, senior to all outstanding capital stock. For regulatory purposes, the Class B-1 preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance required that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. Class B-1 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid. In 2012, 2013 and 2014, Class B-1 preferred stock dividends totaling $30.0 million were declared and paid. At December 31, 2014, dividends payable on Class B-1 preferred stock totaled $15.0 million.

Class B Series 2 Noncumulative Subordinated Perpetual Preferred Stock (Class B-2 preferred stock) – On July 23, 2013, the bank issued $300.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 2, representing three million shares at $100 per share par value, for net proceeds of $296.0 million. Dividends on the Class B-2 preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2013, at an annual fixed rate of 6.75 percent of par value of $100 per share up to, but excluding September 15, 2023, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 4.01 percent. The Class B-2 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank on any dividend payment date on or after September 15, 2023. The Class B-2 preferred stock ranks, both as to dividends and upon liquidation, pari passu with respect to the existing Class B-1 preferred stock, and senior to all of the bank's outstanding capital stock. For regulatory purposes, the Class B-2 preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Class B-2 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid. In 2013, Class B-2 preferred stock dividends totaling $13.1 million were declared and paid. In 2014, Class B-2 preferred stock dividends totaling $20,250 were declared and paid. At December 31, 2014, dividends payable on Class B-2 preferred stock totaled $5.1 million.

Class A Voting Common Stock – According to the bank's bylaws, the minimum and maximum stock investments that the bank may require of the ACAs and FLCA are 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of each association's average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock (with a par value of $5 per share) and allocated retained earnings. The current investment required of the associations is 2 percent of their average borrowings from the bank. No Class A voting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. There were 46,471 shares, 43,855 shares and 42,226 shares of Class A voting common stock issued and outstanding at December 31, 2014, 2013 and 2012, respectively. Class A voting common stock includes 991 shares purchased by district associations as a condition of the bank's Capitalized Participation Pool (CPP) program. Under the CPP program, the stock investment that the bank requires is 1.6 percent of each AMBS pool and 8 percent of each loan pool.

Class A Nonvoting Common Stock – The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of $5 per share) in the bank based on a minimum stock investment of 2 percent (or one thousand dollars, whichever is greater) and on a maximum of 5 percent, respectively, of the OFIs' average borrowings from the bank. The current investment required of the OFIs is 2 percent of their average borrowings from the bank. No Class A nonvoting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 223 shares, 253 shares and 291 shares of Class A nonvoting common stock issued and outstanding at December 31, 2014, 2013 and 2012, respectively.

Allocated retained earnings of $22,508 at December 31, 2014, consisted of allocated equity for the payment of patronage on loans participated with another System bank.

Allocated retained earnings of $20,314 at December 31, 2013, consisted of $1,838 of patronage refunds allocated to certain PCAs, and $18,476 of allocated equity for the payment of patronage on loans participated with another System bank.

Allocated retained earnings of $16,984 at December 31, 2012, consisted of $1,761 of patronage refunds allocated to certain PCAs, and $15,223 of allocated equity for the payment of patronage on loans participated with another System bank.

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

	2014	2013	2012
Class A voting common stock – Associations	**$ 232,354**	$ 219,277	$ 211,133
Class A nonvoting common stock – Other Financing Institutions	**1,114**	1,266	1,455
Total common stock	**233,468**	220,543	212,588
Preferred stock	**600,000**	600,000	482,000
Allocated retained earnings			
Associations	**—**	1,838	1,761
Other entities	**22,508**	18,476	15,223
Total allocated retained earnings	**22,508**	20,314	16,984
Total capital stock and allocated retained earnings	**$ 855,976**	$ 840,857	$ 711,572

Patronage may be paid to the holders of Class A voting common stock, Class A nonvoting stock and allocated retained earnings of the bank, as the board of directors may determine by resolution, subject to the capitalization requirements defined by the FCA. During 2014, $76,414 in cash patronages were declared to district associations, OFIs and other entities, compared to $71,505 in 2013 and $65,843 in 2012. Cash patronage in 2014 consisted of direct loan patronage of $49,533, patronage on certain participations of $19,705, patronage on association and OFI investment in the bank of $3,793 and capitalized participation pool patronage of $3,383.

B. Regulatory Capitalization Requirements and Restrictions:

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

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

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

	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	**18.33%**	21.64%	18.64%	7.00%
Total surplus ratio	**15.86**	17.29	15.92	7.00
Core surplus ratio	**10.07**	10.12	9.92	3.50
Collateral ratio	**108.00**	108.67	107.94	104.00

C. Accumulated Other Comprehensive (Loss) Income:

Following is a summary of the components of accumulated other comprehensive (loss) income (AOCI) and the changes occurring during the year ended December 31, 2014:

	Total	Unrealized Gain (Loss) on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2014	$ (33,113)	$ (30,303)	$ 1,642	$ (4,452)
Change in unrealized losses on available-for-sale securities				
Net change in unrealized losses on investment securities	13,940	13,940		
Reclassification adjustment for losses on sales of securities included in net income	212	212		
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	14	14		
Reclassification adjustment for OTTI credit losses included in net income	37	37		
Net change in unrealized losses on securities	14,203	14,203		
Change in retirement benefit plans				
Actuarial losses	(2,477)		(2,477)	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(192)		(192)	
Amortization of net losses	—		—	
Net change in retirement benefit plans	(2,669)		(2,669)	
Change in cash flow derivative instruments				
Losses on interest rate caps	(791)			(791)
Reclassification of loss recognized in interest expense	2,548			2,548
Net change in cash flow derivative instruments	1,757			1,757
Total other comprehensive income (loss)	13,291	14,203	(2,669)	1,757
Balance, December 31, 2014	$ (19,822)	$ (16,100)	$ (1,027)	$ (2,695)

Following is a summary of the components of accumulated other comprehensive income (loss) (AOCI) and the changes occurring during the year ended December 31, 2013:

	Total	Unrealized Gain (Loss) on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2013	$ 27,833	$ 34,104	$ (56)	$ (6,215)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	(65,903)	(65,903)		
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	855	855		
Reclassification adjustment for OTTI credit losses included in net income	641	641		
Net change in unrealized gains (losses) on securities	(64,407)	(64,407)		
Change in retirement benefit plans				
Actuarial losses	1,872		1,872	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(192)		(192)	
Amortization of net losses	18		18	
Net change in retirement benefit plans	1,698		1,698	
Change in cash flow derivative instruments				
Losses on interest rate caps	166			166
Reclassification of loss recognized in interest expense	1,597			1,597
Net change in cash flow derivative instruments	1,763			1,763
Total other comprehensive income (loss)	(60,946)	(64,407)	1,698	1,763
Balance, December 31, 2013	$ (33,113)	$ (30,303)	$ 1,642	$ (4,452)

Following is a summary of the components of accumulated other comprehensive income (loss) (AOCI) and the changes occurring during the year ended December 31, 2012:

	Total	Unrealized Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2012	$ 25,146	$ 29,577	$ 1,251	$ (5,682)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	(42)	(42)		
Increase in noncredit portion of other-than-temporary impairment (OTTI) losses	4,493	4,493		
Reclassification adjustment for OTTI credit losses included in net income	76	76		
Net change in unrealized gains (losses) on securities	4,527	4,527		
Change in retirement benefit plans				
Actuarial losses	(1,072)		(1,072)	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(235)		(235)	
Amortization of net losses	—		—	
Net change in retirement benefit plans	(1,307)		(1,307)	
Change in cash flow derivative instruments				
Losses on interest rate caps	(1,072)			(1,072)
Gains on cash flow interest rate swaps				
Reclassification of loss recognized in interest expense	539			539
Net change in cash flow derivative instruments	(533)			(533)
Total other comprehensive income (loss)	2,687	4,527	(1,307)	(533)
Balance, December 31, 2012	$ 27,833	$ 34,104	$ (56)	$ (6,215)

The following table summarizes amounts reclassified out of accumulated other comprehensive loss to current earnings:

Description	Amount Reclassified from Accumulated Other Comprehensive Loss		Location of Gain (Loss) Recognized in Statement of Comprehensive Income
	2014	2013	
Unrealized Losses on Securities			
Losses on sales of other-than-temporarily-impaired securities	**$ (37)**	$ (641)	Impairment losses on investments
Retirement Benefit Plans			
Amortization of prior service credits	**192**	192	Salaries and employee benefits
Amortization of net actuarial losses	**—**	(18)	Salaries and employee benefits
Cash Flow Derivative Instruments			
Losses on cash flow derivatives	**(2,548)**	(1,597)	Interest expense
	$ (2,393)	$(2,064)	

Note 10 — Employee Benefit Plans

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

The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The bank records current contributions to the DB plan as an expense in the current year.

The DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees. The plan sponsor is the board of directors of the bank. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2014.

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

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

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

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

The following table includes additional information regarding the funded status of the plan, the bank's contributions and the percentage of bank contribution to total plan contributions for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Funded status of plan	**67.5%**	77.3%	65.0%
Bank's contribution	**$ 2,133**	$ 2,977	$ 2,697
Percentage of bank's contribution to total contributions	**17.5%**	18.1%	17.1%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 74.5 percent, 86.1 percent and 72.7 percent at December 31, 2014, 2013 and 2012, respectively.

Actuarial information regarding the DB pension plan accumulated benefit obligation and plan assets is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and all employees hired on or after January 1, 1996. Participants in the non-elective pension feature of the DC plan direct the placement of their employers' contributions (5 percent of eligible compensation during 2014) made on their behalf into various investment alternatives.

The district also participates in the Farm Credit Benefits Alliance 401(k) plan, which offers a pre-tax and after-tax compensation deferral feature. Employers match 100 percent of employee contributions for the first 3 percent of eligible compensation and then match 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent of eligible compensation.

Certain executive or highly compensated employees in the bank are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (Supplemental 401(k) Plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- **Restored Employer Contributions** – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- **Elective Deferrals** – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- **Discretionary Contributions** – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

Contributions of $126, $11 and $10 were made to this plan for the years ended December 31, 2014, 2013 and 2012. There were no distributions from the plan in 2014. Distributions from the plan in 2013 totaled $85. The present value of accumulated benefits and funded balance in the plan totaled $298 at December 31, 2014.

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

	2014	2013	2012
District DB plan	**$ 2,133**	$ 2,977	$ 2,697
DC plan	**1,072**	1,014	868
401(k) plan	**864**	837	745
Supplemental 401(k) plan	**126**	11	10
Total	**$ 4,195**	$ 4,839	$ 4,320

Effective January 16, 2011, the bank's board of directors approved the termination and liquidation of the bank's supplemental pension plan which is a nonqualified deferred compensation plan. By terminating the supplemental pension plan, no further vesting or benefit accrual occurred under the plan following January 16, 2011, for the respective participants. All remaining unpaid vested benefits were distributed in a cash lump-sum payment to the participating bank employees in 2012.

The bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses at their expense but will be responsible for 100 percent of the related premiums. In October 2014, the Society of Actuaries issued revised mortality tables (RP 2014) and a mortality improvement scale (MP 2014) for use by actuaries, insurance companies, governments, benefit plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000). The adoption of these new tables resulted in an increase of $1,375 to our retiree welfare plans' projected benefit obligations.

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

	Supplemental Pension Benefits			Other Postretirement Benefits		
	2014	2013	2012	**2014**	2013	2012
Accumulated benefit obligation, end of year	**$ —**	$ —	$ —			
Change in projected benefit obligation						
Benefit obligation, beginning of year	**$ —**	$ —	$ 2,844	**$ 8,274**	$ 9,764	$ 8,348
Service cost	**—**	—	—	**212**	275	228
Interest cost	**—**	—	—	**423**	423	418
Plan participants' contributions	**—**	—	—	**111**	125	156
Plan amendments	**—**	—	—	**—**	—	—
Settlements	**—**	—	—	**—**	—	—
Curtailment loss	**—**	—	—	**—**	—	—
Actuarial (gain) loss	**—**	—	—	**2,477**	(1,872)	1,072
Benefits paid	**—**	—	(2,844)	**(449)**	(441)	(458)
Projected benefit obligation, end of year	**$ —**	$ —	$ —	**$ 11,048**	$ 8,274	$ 9,764
Change in plan assets						
Plan assets at fair value, beginning of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Actual return on plan assets	**—**	—	—	**—**	—	—
Company contributions	**—**	—	2,844	**338**	316	302
Plan participants' contributions	**—**	—	—	**111**	125	156
Benefits paid	**—**	—	(2,844)	**(449)**	(441)	(458)
Plan assets at fair value, end of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Funded status	$ —	$ —	$ —	**$ (11,048)**	$ (8,274)	$ (9,764)
Amounts recognized in the balance sheets consist of:						
Pension liabilities	**$ —**	$ —	$ —	$ **(11,048)**	$ (8,274)	$ (9,764)
Accumulated other comprehensive income (loss)	**—**	—	—	**1,027**	(1,642)	56
Amounts recognized in accumulated other comprehensive income						
Net actuarial loss (gain)	**$ —**	$ —	$ —	**$ 1,724**	$ (753)	$ 1,137
Prior service cost (credit)	**—**	—	—	**(697)**	(889)	(1,081)
Total	**$ —**	$ —	$ —	**$ 1,027**	$ (1,642)	$ 56
Net periodic benefit cost						
Service cost	**$ —**	$ —	$ —	**$ 212**	$ 275	$ 228
Interest cost	**—**	—	—	**423**	423	418
Expected return on plan assets	**—**	—	—	**—**	—	—
Amortization of:						
Transition obligation (asset)	**—**	—	—	**—**	—	—
Prior service cost (credit)	**—**	—	—	**(192)**	(192)	(235)
Net actuarial loss	**—**	—	—	**—**	18	—
Net periodic benefit cost	**$ —**	$ —	$ —	**$ 443**	$ 524	$ 411
Settlement/curtailment expense	**—**	—	—	**—**	—	—
Total benefit cost	**$ —**	$ —	$ —	**$ 443**	$ 524	$ 411
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income						
Net actuarial (gain) loss	**$ —**	$ —	$ —	**$ 2,477**	$ (1,872)	$ 1,072
Amortization of net actuarial gain	**—**	—	—	**—**	—	—
Settlement expense	**—**	—	—	**—**	—	—
Prior service costs	**—**	—	—	**—**	—	—
Amortization of prior service costs	**—**	—	—	**192**	192	235
Termination recognition of prior service costs	**—**	—	—	**—**	(18)	—
Net change	**$ —**	$ —	$ —	**$ 2,669**	$ (1,698)	$ 1,307
AOCI amounts expected to be amortized in 2015						
Prior service cost (credit)	**$ —**			**$ (186)**		
Net actuarial loss (gain)	**—**			**71**		
Total	**$ —**			**$ (115)**		

	Supplemental Pension Benefits			Other Postretirement Benefits		
Weighted-average assumptions used to determine benefit obligation as of December 31						
Measurement date	**N/A**	N/A	12/31/2012	**12/31/2014**	12/31/2013	12/31/2012
Discount rate	**N/A**	N/A	N/A	**4.55%**	5.20%	4.40%
Rate of compensation increase	**N/A**	N/A	N/A			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**7.25%/6.75%**	7.50%/6.50%	7.25%/6.50%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**6.75%**	6.50%	7.75%
Ultimate health care cost trend rate				**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				**2024**	2024	2023
Weighted-average assumptions used to determine net periodic cost for year ended December 31						
Measurement date	**N/A**	N/A	12/31/2011	**12/31/2013**	12/31/2012	12/31/2011
Discount rate	**N/A**	N/A	N/A	**5.20%**	4.40%	5.10%
Expected return on plan assets	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Rate of compensation increase	**N/A**	N/A	N/A			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**7.50%/6.50%**	7.25%/6.50%	8.5%/6.75%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**6.50%**	7.75%	8.00%
Ultimate health care cost trend rate				**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				**2024**	2023	2018

Effect of Change in Assumed Health Care Cost Trend Rates

Effect on total service cost and interest cost components	
One-percentage-point increase	**$ 160**
One-percentage-point decrease	**(124)**
Effect on year-end postretirement benefit obligation	
One-percentage-point increase	**2,089**
One-percentage-point decrease	**(1,650)**

Expected Future Cash Flow Information

	Supplemental Pension Benefits	Other Postretirement Benefits
Expected Benefit Payments		
Fiscal 2015	$ –	**$ 353**
Fiscal 2016	–	**407**
Fiscal 2017	–	**449**
Fiscal 2018	–	**446**
Fiscal 2019	–	**480**
Fiscal 2020 - 2024	–	**2,777**
Expected Contributions		
Fiscal 2015	$ –	**$ 353**

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

Note 11 — Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was $188,732, $175,115 and $194,211 for 2014, 2013 and 2012, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Reserves for Credit Losses," and Note 9, "Shareholders' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was $3,806, $3,273 and $2,686 for 2014, 2013 and 2012, respectively, and was included in the bank's noninterest income.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2014, 2013 or 2012.

Note 12 — Commitments and Contingencies

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

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of other System banks. The total bank and consolidated Systemwide debt obligations of the System at December 31, 2014, were approximately $225.4 billion.

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

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

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

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

The bank may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage its exposure to interest-rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2014, $2.637 billion of commitments to extend credit and $78.4 million of standby letters of credit were outstanding.

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

The bank also participates in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the bank. At December 31, 2014, $78.4 million of standby letters of credit with a fair value of $797 was included in other liabilities. Outstanding standby letters of credit generally have expiration dates ranging from 2015 to 2019.

The credit risk involved in issuing commitments and letters of credit is essentially the same as that involved in extending loans to customers, and the same credit policies are applied by management. In the event of funding, the credit risk amounts are equal to the contract amounts, assuming that counterparties fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. At December 31, 2014, 2013 and 2012, the bank had a reserve for losses on letters of credit and unfunded commitments of $1.3 million, $5.5 million and $5.6 million, respectively, representing management's estimate of probable credit losses related to letters of credit and unfunded commitments.

Note 14 — Fair Value Measurements

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2014, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2014	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	**$ 22,086**	$ —	$ 22,086	$ —
Investments available-for-sale:				
Corporate debt	**241,530**	—	241,530	—
Agency-guaranteed debt	**155,190**	—	155,190	—
Mortgage-backed securities	**3,527,318**	—	3,527,311	7
Asset-backed securities	**81,770**	—	81,770	—
Mission-related and other available-for-sale investments	**80,583**	—	—	80,583
Loans valued under the fair value option	**40,532**	—	40,532	—
Derivative assets	**748**	—	748	—
Assets held in nonqualified benefit trusts	**298**	298	—	—
Total assets	**$ 4,150,055**	$ 298	$ 4,069,167	$ 80,590
Liabilities:				
Standby letters of credit	**$ 797**	$ —	$ —	$ 797
Total liabilities	**$ 797**	**$ —**	**$ —**	**$ 797**

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the year ended December 31, 2014. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At December 31, 2014, Level 3 investments included one non-agency MBS. In 2014, one corporate debt security and three agency debt securities 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. The liability for standby letters of credit was transferred into Level 3 during 2014 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2014, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2014	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	**$ 4,996**	$ —	$ —	$ 4,996	$ (2,362)
Other property owned	**11,456**	—	—	11,456	314
Total assets	**$ 16,452**	$ —	$ —	$ 16,452	$ (2,048)

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2014:

	Assets					Liabilities	
	Corporate Debt	Agency-Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit	Total
Available-for-sale investment securities:							
Balance at January 1, 2014	$ 15,000	$ 26,949	$ 7,529	$ 97,423	$ 1,157	—	$ 148,058
Net (losses) gains included in other comprehensive loss	—	29	(75)	1,684	65	—	1,703
Net losses included in earnings	—	—	(207)	—	(42)	—	(249)
Purchases, issuances and settlements	—	(195)	139,690	(18,524)	(1,180)	(35)	119,756
Transfers into Level 3	—	—	—	—	—	832	832
Transfers out of Level 3	(15,000)	(26,783)	(146,930)	—	—	—	(188,713)
Balance at December 31, 2014	$ —	$ —	$ 7	$ 80,583	$ —	797	$ 81,387

None of the losses included in earnings in 2014 were attributable to assets still held at December 31, 2014.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2013, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2013

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 21,809**	$ —	$ 21,809	$ —
Investments available-for-sale:				
Corporate debt	**249,580**	—	234,580	15,000
Agency-guaranteed debt	**130,024**	—	103,075	26,949
Mortgage-backed securities	**3,109,532**	—	3,102,003	7,529
Asset-backed securities	**51,296**	—	50,139	1,157
Mission-related and other available-for-sale investments	**97,423**	—	—	97,423
Loans valued under the fair value option	**58,461**	—	58,461	—
Derivative assets	**831**	—	831	—
Assets held in nonqualified benefit trusts	**182**	182	—	—
Total assets	**$ 3,719,138**	$ 182	$ 3,570,898	$ 148,058
Liabilities:				
Standby letters of credit	**$ 1,190**	$ —	$ 1,190	$ —
Total liabilities	**$ 1,190**	**$** —	$ 1,190	$ —

None of the losses included in earnings in 2013 were attributable to assets still held at December 31, 2013.

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the year ended December 31, 2013. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At December 31, 2013, Level 3 investments included three agency MBS and one corporate debt instrument due to the fact that their valuations were based on Level 3 criteria (broker quotes) and one non-agency MBS and certain non-agency ABS backed by home equity. In 2013, corporate debt 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 December 31, 2013, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2013

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 19,639**	$ —	$ —	$ 19,639	$ (10,206)
Other property owned	**15,347**	—	—	15,347	(79)
Total assets	**$ 34,986**	$ —	$ —	$ 34,986	$ (10,285)

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2013:

	Corporate Debt	Agency-Securities	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Total
Available-for-sale investment securities:						
Balance at January 1, 2013	$ 59,958	$ 15,117	$ 26,938	$ 115,479	$ 3,096	$ 220,588
Net (losses) gains included in other comprehensive income	(76)	(1,232)	52	(1,552)	716	(2,092)
Net (losses) gains included in earnings	—	—	(442)	—	(199)	(641)
Purchases, issuances and settlements	(25,012)	54,891	144,744	(16,504)	(2,456)	155,663
Transfers into Level 3	—	—	15,821	—	—	15,821
Transfers out of Level 3	(19,870)	(41,827)	(179,584)	—	—	(241,281)
Balance at December 31, 2013	$ 15,000	$ 26,949	$ 7,529	$ 97,423	$ 1,157	$ 148,058

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

Fair Value Measurement at December 31, 2012

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 24,137**	$ —	$ 24,137	$ —
Investments available-for-sale:				
Corporate debt	**208,622**	—	148,664	59,958
Agency guaranteed debt	**65,766**	—	50,649	15,117
Mortgage-backed securities	**2,939,481**	—	2,912,543	26,938
Asset-backed securities	**17,131**	—	14,035	3,096
Mission-related and other available-for-sale investments	**115,479**	—	—	115,479
Loans valued under the fair value option	**60,310**	—	60,310	—
Derivative assets	**756**	—	756	—
Assets held in nonqualified benefit trusts	**215**	215	—	—
Total assets	**$ 3,431,897**	$ 215	$ 3,211,094	$ 220,588
Liabilities:				
Standby letters of Credit	**$ 1,469**	—	$ 1,469	$ —
Total liabilities	**$ 1,469**	$ —	$ 1,469	$ —

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the year ended December 31, 2012. Agricultural mortgage-backed securities were included in Level 3 due to limited activity or less transparency around inputs to their valuation. At December 31, 2012, Level 3 investments included one agency MBS and three corporate debt instruments due to the fact that their valuations were based on Level 3 criteria (broker quotes) and certain non-agency MBS and non-agency ABS backed by home equity. In 2012, corporate debt 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 December 31, 2012, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2012

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 51,769**	$ —	$ —	$ 51,769	$ (20,745)
Other property owned	**34,155**	—	—	34,155	(5,567)
Total assets	**$ 85,924**	$ —	$ —	$ 85,924	(26,312)

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2012:

	Corporate Debt	U.S. Agency Securities	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Total
Available-for-sale investment securities:						
Balance at January 1, 2012	$ 82,464	$ —	$ 40,872	$ 110,921	$ 3,450	$ 237,707
Net gains (losses) included in other comprehensive income	175	117	6,922	(412)	577	7,379
Net gains (losses) included in earnings	—	—	(76)	—	(1)	(77)
Purchases, issuances and settlements	60,000	15,000	145,656	4,970	11,070	236,696
Transfers out of Level 3	(82,681)	—	(166,436)	—	(12,000)	(261,117)
Balance at December 31, 2012	$ 59,958	$ 15,117	$ 26,938	$ 115,479	$ 3,096	$ 220,588
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2012	$ —	$ —	$ —	$ —	$ 1	$ 1

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:

	December 31, 2014					December 31, 2013					December 31, 2012	
		Fair Value Measurements Using					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	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	**$ 428,361**	$ 428,361	$ –	$ –	$ 428,361	$ 602,452	$ 602,452	$ –	$ –	$ 602,452	$ 502,242	$ 502,242
Net loans	**13,204,197**	–	–	13,182,903	13,182,903	11,686,981	–	–	11,655,947	11,655,947	11,209,493	11,366,931
Total assets	**$ 13,632,558**	$ 428,361	$ –	$ 13,182,903	$ 13,611,264	$ 12,289,433	$ 602,452	$ –	$ 11,655,947	$ 12,258,399	$ 11,711,735	$ 11,869,173
Liabilities:												
Systemwide debt securities	**$ 16,341,281**	$ –	$ –	$ 16,406,719	$ 16,406,719	$ 14,602,012	$ –	$ –	$ 14,563,935	$ 14,563,935	$ 13,910,860	$ 14,124,485
Subordinated debt	**50,000**	–	–	53,989	53,989	50,000	–	–	54,407	54,407	50,000	56,945
	$ 16,391,281	$ –	$ –	$ 16,460,708	$ 16,460,708	$ 14,652,012	$ –	$ –	$ 14,618,342	$ 14,618,342	$ 13,960,860	$ 14,181,430

VALUATION TECHNIQUES

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

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. At December 31, 2014, Level 3 securities included one non-agency mortgage-backed security valued using independent third-party valuation services. Level 3 assets at December 31, 2014, also include the bank's AMBS portfolio which is valued by the bank using a model that incorporates underlying rates and current yield curves.

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

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

Assets Held in Nonqualified Benefits Trusts

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

Derivatives

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

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

Standby Letters of Credit

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

Loans

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

The bank has 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. 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. The fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Accordingly, these assets are classified within Level 2.

Bonds and Notes

Systemwide debt securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury securities. We estimate an appropriate yield-spread taking into consideration selling group member (banks and securities dealers) yield indications, observed new government-sponsored enterprise debt security pricing and pricing levels in the related U.S. dollar interest rate swap market.

Subordinated Debt

The fair value of subordinated debt is estimated using discounted cash flows. Generally, the instrument would be classified as Level 2; however, due to limited activity and less transparency around inputs to the valuation, the securities are classified as Level 3.

Other Property Owned

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

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.

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

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

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 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 balance
Loans	Discounted cash flow	Prepayment forcasts
		Appropriate interest rate yield curve
		Probability of default
		Loss severity
Systemwide debt securities and subordinated debt	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk

Note 15 — Derivative Instruments and Hedging Activity

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

The bank may enter into derivatives, particularly fair value interest rate swaps and cash flow interest rate swaps, primarily to lower interest rate risk. The bank substantially offsets this risk by concurrently entering into offsetting agreements with non-System counterparties. Fair value hedges allow the bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the bank if floating-rate borrowings were made directly. Under fair value hedge arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index. At December 31, 2014, the bank had no fair value hedges.

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

The bank has also purchased interest rate caps in order to reduce the impact of rising interest rates on its floating-rate assets. At December 31, 2014, the bank held interest rate caps with a notional amount of $615.0 million and a fair value of $748. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the year ended December 31, 2014, is summarized in the following table:

	Receive Fixed Swaps	Pay Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2014	$ —	$ —	$ 695,000	$ 695,000
Additions	—	—	50,000	50,000
Maturities/Amortizations	—	—	(130,000)	(130,000)
Balance at December 31, 2014	**$ —**	**$ —**	**$ 615,000**	**$ 615,000**

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

To minimize the risk of credit losses, the bank maintains collateral agreements to limit exposure to agreed upon thresholds; the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of, and levels of exposure to, individual counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

At December 31, 2014, the bank had credit exposure to counterparties totaling $0.8 million, as compared with $0.8 million for the same period of the prior year.

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

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

(dollars in millions)	Remaining Years to Maturity: Less Than One Year	More Than One to Five Years	More Than Five Years	Total	Maturity Distribution Netting	Exposure	Collateral Held	Exposure Net of Collateral
Moody's Credit Rating								
A1	$ —	$ —	$ 0.3	$ 0.3	$ —	$ 0.3	$ —	$ 0.3
A2	—	—	—	—	—	—	—	—
Aa3	—	—	0.5	0.5	—	0.5	—	0.5

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

Fair-Value Hedges:

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

Cash Flow Hedges:

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At December 31, 2014, the bank held interest rate caps with a notional amount of $615.0 million and a fair value of $748, but held no cash flow interest rate swaps.

Derivatives Not Designated as Hedges:

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

Fair Values of Derivative Instruments:

The following table represents the fair value of derivative instruments as of December 31, 2014, 2013 and 2012:

	Balance Sheet Location	Fair Value 2014	Fair Value 2013	Fair Value 2012	Balance Sheet Location	Fair Value 2014	Fair Value 2013	Fair Value 2012
Receive fixed	Other assets	$ —	$ —	$ 91	Other liabilities	$ —	$ —	$ —
Pay fixed	Other assets	—	—	—	Other liabilities	—	—	—
Interest rate caps	Other assets	748	831	665	Other liabilities	—	—	—

The following table sets forth the amount of gain (loss) recognized in Other Comprehensive Income (OCI) for the year ended December 31, 2014 and 2013:

	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) December 31, 2014	2013
Interest rate caps	**$ (791)**	$ 166
Cash flow derivatives	—	—

	Amount of Gain Reclassified From AOCI Into Income (Effective Portion) December 31, 2014	2013
Interest expense	**$ 2,548**	$ 1,597

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

December 31, 2014 ($ in millions)	Maturities of 2014 Derivative Products and Other Financial Instruments 2015	2016	2017	2018	2019	Subsequent Years	Total	Fair Value
Total Systemwide debt obligations:								
Fixed rate	$ 4,012	$ 2,584	$ 2,151	$ 1,306	$ 1,042	$ 2,081	$ 13,176	$ 13,239
Weighted average interest rate	0.39%	0.75%	1.27%	1.45%	1.82%	2.72%	1.19%	
Variable rate	$ 2,270	$ 845	$ 50	$ —	$ —	$ —	$ 3,165	$ 3,168
Weighted average interest rate	0.13%	0.13%	0.22%	—	—	—	0.13%	
Total Systemwide debt obligations	$ 6,282	$ 3,429	$ 2,201	$ 1,306	$ 1,042	$ 2,081	$ 16,341	$ 16,407
Weighted average interest rate	0.30%	0.60%	1.25%	1.45%	1.82%	2.72%	0.99%	
Derivative instruments:								
Receive fixed swaps								
Notional value	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Weighted average receive rate	—	—	—	—	—	—	—	
Weighted average pay rate	—	—	—	—	—	—	—	
Pay fixed swaps								
Notional value	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Weighted average receive rate	—	—	—	—	—	—	—	
Weighted average pay rate	—	—	—	—	—	—	—	
Interest rate caps								
Notional value	$ 325	$ 140	$ 50	$ —	$ —	$ 100	$ 615	$ 1
Weighted average receive rate	—	—	—	—	—	—	—	
Weighted average pay rate	—	—	—	—	—	—	—	

Note 16 — Selected Quarterly Financial Information (Unaudited)

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

	2014 First	Second	Third	Fourth	Total
Net interest income	**$ 51,941**	**$ 56,142**	**$ 59,628**	**$ 58,948**	**$ 226,659**
(Negative provision) provision for credit losses	**(3)**	**(692)**	**(5,157)**	**419**	**(5,433)**
Noninterest expense (income), net	**7,138**	**10,346**	**9,698**	**16,650**	**43,832**
Net income	**$ 44,806**	**$ 46,488**	**$ 55,087**	**$ 41,879**	**$ 188,260**

	2013 First	Second	Third	Fourth	Total
Net interest income	$ 55,698	$ 54,500	$ 53,261	$ 52,261	$ 215,720
Provision (negative provision) for credit losses	895	4,250	1,444	(336)	6,253
Noninterest expense (income), net	1,031	7,649	8,315	12,652	29,647
Net income	$ 53,772	$ 42,601	$ 43,502	$ 39,945	$ 179,820

	2012 First	Second	Third	Fourth	Total
Net interest income	$ 55,251	$ 55,931	$ 53,545	$ 56,097	$ 220,824
Provision for credit losses	14,580	6,182	6,189	170	27,121
Noninterest expense (income), net	6,446	(4,542)	5,802	11,417	19,123
Net income	$ 34,225	$ 54,291	$ 41,554	$ 44,510	$ 174,580

Note 17 — Combined Association Financial Data (Unaudited)

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

Balance Sheet Data	Year Ended December 31, **2014**	2013	2012
Cash	**$ 8,840**	$ 7,604	$ 10,600
Investment securities	**39,086**	55,669	69,075
Loans	**14,547,612**	13,260,228	12,695,132
Less allowance for loan losses	**54,245**	60,504	89,584
Net loans	**14,493,367**	13,199,724	12,605,548
Accrued interest receivable	**122,702**	114,131	111,173
Other property owned	**22,400**	33,330	67,472
Other assets	**372,360**	334,355	321,533
Total assets	**$ 15,058,755**	$13,744,813	$13,185,401
Notes payable	**$ 12,110,352**	$10,962,399	$10,570,291
Other liabilities	**327,132**	312,219	276,076
Total liabilities	**12,437,484**	11,274,618	10,846,367
Capital stock and participation certificates	**208,306**	80,696	81,140
Retained earnings	**2,422,878**	2,387,250	2,264,408
Accumulated other comprehensive (loss) income	**(9,913)**	2,249	(6,514)
Total shareholders' equity	**2,621,271**	2,470,195	2,339,034
Total liabilities and shareholders' equity	**$ 15,058,755**	$13,744,813	$13,185,401

Income Statement	Year Ended December 31, 2014	2013	2012
Interest income	**$ 647,257**	$ 619,951	$ 617,189
Interest expense	**214,588**	200,744	218,806
Net interest income	**432,669**	419,207	398,383
(Negative provision) provision for loan losses	**(1,037)**	55	6,510
Net interest income after (negative provision) provision for loan losses	**433,706**	419,152	391,873
Noninterest income	**79,296**	74,662	89,101
Other expense	**198,856**	188,469	181,041
Provision for (benefit from) income taxes	**529**	(160)	985
Net income	**$ 313,617**	$ 305,505	$ 298,948
Other comprehensive (loss) income	**(12,162)**	8,764	(6,377)
Comprehensive income	**$ 301,455**	$ 314,269	$ 291,571

Note 18 — Subsequent Events

The merger of two district associations became effective subsequent to December 31, 2014. The merger of AgTexas Farm Credit Services and Great Plains Ag Credit, ACA, was approved by FCA and the respective associations' stockholders and became effective January 1, 2015.

In February 2015, other property owned, consisting of an equity interest in an ethanol facility with a book value of $9,872, was sold. Proceeds of $18,741 were received in February 2015.

The bank has evaluated subsequent events through March 11, 2015, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of March 11, 2015.

DESCRIPTION OF BUSINESS

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

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

Board of Directors and Senior Officers

FCBT is governed by a seven-member board of directors. Five directors are farmers or ranchers, who are elected by the customers of the 15 associations that own the bank. Two directors, who are not stockholders of any of the associations, are appointed by the elected board members. The board of directors is responsible for directing the operations of the bank. The bank's senior officers, through the bank's chief executive officer, are accountable to the board of directors and work with the board of directors to set the bank's direction, goals and strategies.

The following represents certain information regarding the board of directors and senior officers of the bank as of December 31, 2014, including business experience during the past five years:

DIRECTORS

James F. "Jimmy" Dodson, 61, chairman of the board of directors, is from Robstown, Texas. He grows cotton, corn, wheat and milo on four family farm operations and owns a seed sales business. Mr. Dodson serves on the bank's audit and compensation committees and is chairman of the Tenth District Farm Credit Council. In January 2015, he was designated the financial expert for the bank. Effective January 2015, he also serves on the national Farm Credit Council Board of Directors, where he is a member of the executive committee. He also is president of Dodson Farms, Inc. and Dodson Ag, Inc., and is a partner in Legacy Farms and 3-D Farms. He is a partner in Weber Greene, Ltd. and manager of Weber Station LLC, both of which are family farm real estate management firms. Mr. Dodson is a founding member of Cotton Leads, a responsible cotton production initiative of U.S. and Australian Cotton Producer organizations. He also serves on the boards of Gulf Coast Cooperative, an agricultural retail cooperative, and the Texas Agricultural Cooperative Council, an industry trade association. He is past chairman of the National Cotton Council of America, the American Cotton Producers and the Cotton Foundation, and formerly served as a director of Cotton Incorporated. He is past chairman of the Texas AgFinance, FCS board of directors and a former member of the Texas District's Stockholders Advisory Committee. Mr. Dodson became a director of the bank in 2003 and his current term expires at the end of 2017.

Lester Little, 64, vice chairman of the board of directors, is from Hallettsville, Texas. He owns and operates a farm and offers custom-farming services, primarily reclaiming farms and handling land preparation. His principal crops are corn, milo, hay and wheat. In January 2015, Mr. Little was elected vice chairman of the bank's audit committee and is a member of the bank's compensation committee. He also is a member of the Tenth District Farm Credit Council. In addition, he is a member of the Farm Bureau, an agriculture trade organization, and serves on the Lavaca Regional Water Planning Group, a regional water planning authority in Texas. He previously was a board member of the Lavaca Central Appraisal District, a county organization in Texas that hires the chief appraiser for the county for purposes of assigning real estate values for tax assessments, and board chairman of the Hallettsville Independent School District Board of Trustees. He is former chairman of the Capital Farm Credit board of directors and previously served as vice chairman of the Texas District's Stockholder Advisory Committee. Mr. Little became a director in 2009 and his term expires at the end of 2017.

Brad C. Bean, 54, is from Gillsburg, Mississippi. He is a dairy farmer with other farming interests, including corn, sorghum and timber. He was vice chairman of the bank's audit committee and is a member of the bank's compensation committee. In January 2015, Mr. Bean was elected chairman of the bank's audit committee. He also is a member of the Tenth District Farm Credit Council. Mr. Bean serves on the boards of the Amite County Farm Bureau and the Amite County Cooperative, both of which are trade organizations. Mr. Bean is a former chairman of Southern AgCredit, ACA board of directors and a former vice chairman of the Texas District's Stockholders Advisory Committee. He was elected to his first term on the board effective January 1, 2013, and his term will expire at the end of 2015.

Ralph W. "Buddy" Cortese, 68, is from Fort Sumner, New Mexico. He is president of Cortese Farm and Ranch Inc., a farming and ranching operation. He is chairman of the bank's compensation committee and is a member of the bank's audit committee. Mr. Cortese also is vice chairman of the Tenth District Farm Credit Council board. He currently serves on the board of the Federal Farm Credit Banks Funding Corporation. Mr. Cortese served as chairman of the board of directors of the bank from 2000 through 2011. He is a member of the Texas Agricultural Cooperative Council board of directors, an industry association. From 2003 to 2008, he served on the Federal Agricultural Mortgage Corporation (Farmer Mac), a government agency chartered to create a secondary market for agricultural loans, and is a former board member of the American Land Foundation, a property rights organization. Prior to joining the bank board, he was chairman of the PCA of Eastern New Mexico board of directors. Mr. Cortese became a director in 1995 and his term expires at the end of 2016.

Elizabeth G. "Betty" Flores, 70, is from Laredo, Texas, where she served as city mayor from 1998 to 2006. Ms. Flores is one of the two appointed members on the board and serves on the bank's audit and compensation committees. She also is a member of the Tenth District Farm Credit Council. Previously, she was senior vice president of the Laredo National Bank. Ms. Flores serves on the boards of the Texas Agricultural Cooperative Council, an industry association; Mercy Ministries of Laredo, a domestic violence nonprofit corporation; and Laredo Main Street, a nonprofit organization. In 2012, she was appointed to a three-year term on the Institute of Mexicans in the Exterior, a council that is supported by the Mexican Secretary of State Department and serves to advise the Mexican government on ways to improve the lives of Mexicans Living Abroad. She is a graduate of Leadership Texas 1995, a leadership program for women professional and community leaders for the state of Texas and Leadership America 2008, a national leadership program for women professional and community leaders. In 2010, she was appointed to serve as a member of the Farm Credit System Diversity Workgroup. Ms. Flores is a partner in a ranching and real estate partnership, E.G. Ranch, Ltd. She is a former member of the Federal Reserve Board Consumer Advisory Council. Ms. Flores became a director in 2006 and her term expires at the end of 2015.

Jon M. "Mike" Garnett, 70, is from Spearman, Texas. Mr. Garnett raises grain and forage crops and runs stocker cattle, and is president of Garnett Farms, Inc., a farming operation. He is vice chairman of the bank's compensation committee and a member of the bank's audit committee. He also is a member of the Tenth District Farm Credit Council. In January 2003, Garnett joined the national Farm Credit Council (FCC) Board of Directors as a district representative, became vice chairman of the FCC Board of Directors in 2009 and served as chairman from 2011 to 2013. In addition, he was vice chairman of the FCC Board's compensation and benefits committee and a member of the board's executive, governance and coordinating committees. He also is vice chairman of the Hansford County Soil and Water Conservation District, a county organization in Texas with the role of conservation of national resources, and serves as a member of the State Technical Committee for the Natural Resources Conservation Service, an agency of the United States Department of Agriculture. Mr. Garnett is a former director of a consumer cooperative; a director on the Spearman Chamber of Commerce, a trade organization; and a former member of the Spearman Independent School District Board of Trustees. Prior to joining the bank board, he was chairman of the Panhandle-Plains Land Bank, FLCA board of directors from 1995 to 1998. Mr. Garnett became a director in 1999 and his term expires at the end of 2016.

William F. Staats, 76, is from Baton Rouge, Louisiana, and was a board-appointed director. Dr. Staats is a professor emeritus of finance at Louisiana State University, where he held the Louisiana Bankers Association Chair of Banking and the Hermann Moyse Jr. Distinguished Professorship. Previously, he was vice president and corporate secretary of the Federal Reserve Bank of Philadelphia. He was chairman of the bank's audit committee and was the designated financial expert. Dr. Staats also served on the bank's compensation committee. He also was a member of the Tenth District Farm Credit Council. Dr. Staats was vice chairman of the Farm Credit System Audit Committee. He serves on the boards of the Money Management International Financial Education Foundation and Money Management International, both of which are credit counseling agencies. He also serves on the boards of SevenOaks Capital Associates, LLC, a diversified financial services company providing working capital to trucking firms, and Lakeside Bank, a community bank in Lake Charles, Louisiana. He also is a member of the Texas Lutheran University board of regents. Dr. Staats became a director in 1997 and his term expired at the end of 2014.

Committees

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

The disclosure of director and senior officer information included in this disclosure information and index was reviewed by the compensation committee prior to the annual report's issuance (including the disclosure information and index) on March 11, 2015.

Compensation of Directors

Directors of the bank are compensated in cash for service on the bank's board. An annual compensation amount is considered as a retainer for all services performed by the director in an official capacity during the year except for extraordinary services for which additional compensation may be paid. The annual retainer fee is to be paid in equal monthly installments. Compensation for 2014 was paid at the rate of $56,408 per year, payable at $4,700.66 per month. In addition to days served at board meetings, directors may serve additional days on other official assignments and under exceptional circumstances where extraordinary time and effort are involved, the board may approve additional compensation, not to exceed 30 percent of the annual maximum allowable by FCA regulations. No additional compensation was approved or paid by the board during 2014. No director received non-cash compensation exceeding $5,000 in 2014. Total cash compensation paid to all directors as a group during 2014 was $394,856.

Information for each director for the year ended December 31, 2014, is provided below:

Board Member	Days Served at Board Meetings*	Days Served on Other Official Assignments**	Total Compensation Paid
James F. Dodson	26.25	31.25	$ 56,408
Lester Little	28.75	23.75	56,408
Brad C. Bean	28.75	24.25	56,408
Ralph W. Cortese	28.75	22.00	56,408
Elizabeth G. Flores	28.75	25.75	56,408
Jon M. Garnett	29.00	18.75	56,408
William F. Staats	23.50	15.00	56,408
			$ 394,856

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

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

Directors are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. The aggregate amount of expenses reimbursed to directors in 2014, 2013 and 2012 totaled $119,718, $140,401 and $136,352, respectively. A copy of the bank's travel policy is available to shareholders upon request.

SENIOR OFFICERS

Name and Title	Time in Position	Experience – Past Five Years	Other Business Interests – Past Five Years
Larry R. Doyle, *Chief Executive Officer*	11.5 years	Chief Executive Officer, FCBT	He served as a member of the board of directors for the Federal Farm Credit Banks Funding Corporation, with his term expiring in 2011. He was chairman of the Farm Credit System Presidents Planning Committee (PPC) and currently serves on the PPC executive and business practices committees. He serves on the National Council of Farmer Cooperatives Executive Council.
Kurt Thomas, *Senior Vice President,* *Chief Credit Officer*	4.6 years	Vice President and Unit Manager Association Direct Lending Group, FCBT	He served as a member of the board of governors for the Farm Credit System Captive Insurance Corporation with his term expiring in February 2011 and serves on the System Credit Workgroup.
Carolyn Owen, *Senior Vice President,* *Corporate Affairs, General Counsel and Corporate Secretary*	1.8 years	Vice President, Corporate Affairs, Deputy General Counsel, FCBT	She serves as a member of the Farm Credit System Capital Workgroup.
Amie Pala, *Chief Financial Officer*	4.4 years	Vice President of Financial Management, FCBT	She serves as a member of the Farm Credit System Capital Workgroup and of the Farm Credit System Disclosure Committee.
Michael Elliott, *Chief Information Officer*	Appointed January 2014	Vice President of Information Technology, FCBT 2011-2013; Director of Business Systems, FCBT, prior to 2011	
Stan Ray, *Chief Administrative Officer*	4.4 years	Vice President of Marketing and Corporate Relations, FCBT	He serves on the AgFirst/FCBT Plan Sponsor Committee and the Texas District Benefits Administration Committee, Farm Credit System's Reputation Management Committee and is president of the Tenth District Farm Credit Council, a trade organization. He is a member of the board of directors for the following organizations: Texas Agriculture Finance Authority, a service providing arm of the Texas Department of Agriculture; Texas FFA Foundation, a nonprofit organization promoting youth in agriculture; Grow Texas Foundation, a nonprofit organization providing scholarships to students in agriculture; Texas Agricultural Cooperative Council, an industry association; and the Star of Texas Fair and Rodeo, a nonprofit organization promoting youth education and western heritage.
Susan Wallar, *Chief Audit Executive*	3 years	Vice President of Internal Audit, FCBT	She serves as a member of the board of governors and is chairman of the audit committee for the Farm Credit System Captive Insurance Corporation. She is a member of the Farm Credit System Review, Audit and Appraisal Workgroup (RAAW).

Allen Buckner served as Chief Operations Officer until his retirement effective March 31, 2014.

Compensation Discussion and Analysis – Senior Officers

Overview

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

A description of the bank's compensation plans is as follows.

Base Pay:

Market-based salaries along with the other incentive and benefits described below are critical to attracting and retaining needed talent in a highly competitive job market and at a time of high retirement risks.

Defined Benefit Pension Plan:

The Defined Benefit Pension Plan (Pension Plan) is a final average pay plan which was closed to new participants in 1996, and later fully closed to all participants, including rehires who had formerly participated in the plan. The Pension Plan benefits are based on the average monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35).

The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the employee's retirement age is 65, that the employee is married on the date the annuity begins, that the spouse is exactly 2 years younger than the employee and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Pension Plan benefit is offset by the pension benefits any employee may have from another Farm Credit System institution.

The Pension Plan was amended in 2013 to allow those retiring after September 1, 2013, to elect a lump-sum distribution option. The plan was also amended to allow participating employers to exclude from pension compensation new long-term incentive plans which began after January 1, 2014.

In 2014 the plan was amended to allow terminated employees with a vested benefit to also elect a lump-sum distribution beginning January 1, 2015.

401(k) Plan – Elective:

Farm Credit Benefits Alliance (FCBA) 401(k) Plan is open to all bank employees and includes up to a 4 percent employer match on employee deferrals up to Internal Revenue Service (IRS) directed limits. Employees become fully vested in the plan upon participation. The plan allows for self-directed investment choices by participants.

401(k) Plan – Non-Elective Defined Contribution Plan:

FCBA 401(k) Plan's Defined Contribution component is open to employees not participating in the Defined Benefit Pension Plan. Employees become fully vested in the plan upon participation and receive a 5 percent employer contribution each pay period up to IRS-directed limits to the participant's account and which is invested in the self-directed investment choices available.

Nonqualified Supplemental 401(k) Plan:

With the exception of the CEO, this plan is open to all employees who meet the minimum salary requirements set by the IRS. It has three features: elective deferral of employee compensation; discretionary employer contributions; and restored employer contributions that makes an employee "whole" when 401(k) IRS limitations are met. Deferred money is invested with similar investment fund choices as the qualified 401(k) Plan at the participant's direction.

Success Sharing Plan:

The purpose of the Farm Credit Bank of Texas Success Sharing Plan ("SSP") is to advance the mission of the bank by recognizing employees with variable pay through a discretionary bonus. The SSP (also categorized as a bonus or profit-sharing plan), rewards employees as the overall organization experiences success and performs within the realities of the current market environment and in accordance with business planning goals and objectives. Additionally, it is expected to help to attract, motivate and retain bank staff.

The SSP provides an annual award that is paid after the bank's operational results and strategic objectives are reported and assessed by the compensation committee of the board. The compensation committee has the final authority to determine if a success sharing award is to be paid and what percentage of the award target will be funded. The CEO does not participate in this plan; otherwise, all employees are eligible to participate in the SSP for that year (formerly employees hired after the third quarter were excluded from the plan). This program applies the concept of differential factors for all eligible bank participants, and is tiered into five groups according to employee job grades and their accountability level inside the entire organization. Each employee group has its own Success Sharing Award Factor for this plan. This factor is multiplied by the employee's December 31st annualized base salary to arrive at the Success Sharing Plan award target for the year.

An additional modification in 2014 included the following change. When a promotion or salary adjustment occurs during the year that elevates an employee's job grade into a higher Employee Group in the Plan, the Plan's award calculation will be prorated and paid at the separate employee group percentages for the periods the employee was in each of the employee groups. Additionally, when a salary adjustment occurs the Plan's award calculation will be prorated and paid at the separate employee salaries for the periods the employee was at each salary.

FCBT Retention Plan:

This is a nonqualified plan for bank employees that provides dollar incentives to remain employed for specific time periods to accomplish important bank initiatives or to aid in leadership succession. It is paid according to the agreement arranged for each participant. The CEO approves and recommends participants to the compensation committee, which approves plan provisions and participant agreements. One employee, who was not a senior officer, participated in a retention plan, with a minimal cash payment paid in the latter part of 2013. This employee retired during 2013 and no retention plans are currently in effect.

Spot Awards Program:

This bank program allows for discretionary awards to be paid to employees throughout the year in recognition of outstanding performance events or service provided to the bank's customers. Senior officers do not participate in this program.

Bank-Owned Vehicle Program:

Use of bank-owned vehicles is provided to three groups within the bank: the executive group is comprised of voting members of the bank's executive committee; the senior management group which includes members defined by the CEO exclusive of the voting members of the executive committee; and the other group consisting of employees who have been identified by executive committee members as requiring a vehicle for job performance. Any current employee who was in possession of a bank-provided vehicle when vehicle eligibility guidelines were set was grandfathered for their remaining uninterrupted employment term at the bank. Employees assigned use of a bank-owned vehicle are required to maintain written records of their business and personal use. This data is used to annually impute to the employee's taxable wages the personal use value of the vehicle following the IRS lease value rule.

Educational and Training Program:

This program was established in recognition that ongoing enrichment of employees' skills, knowledge and expertise is essential not only for the success of the bank and the retention of key employees, but for the realization of employees' personal growth and achievement.

This program is directed to employees at all levels and includes formal orientation of new hires, a continuing education and degree program, and a licensing and certification program. The degree program reimbursement is open to full-time employees who have been with the bank at least six months. This program covers tuition, lab fees, books and registration fees if the employee receives a grade of C or better in undergraduate courses and B or better in graduate-level courses and expenses are in excess of those reimbursable by a scholarship or other sources.

Tuition reimbursement will not normally exceed the cost per semester hour charged at state-supported universities. Expenses incurred above the state-supported university baseline are the responsibility of the employee. Certain positions in the bank must be staffed by employees who hold professional licenses and/or certifications. In these instances, the membership and license fees, training and educational expenses for obtaining and maintaining professional status, licenses and certifications are reimbursable.

Compensation, Risk and Performance:

One of the critical strategic goals of the bank is to provide market-driven financial products and support services to add value to our association customers. The bank succeeds at this through robust customer communications and relationships to stay aware of their business needs. Our staff provides technical, credit, operational and marketing support, and offers leadership in talent acquisition, retention and development. Our ability to succeed in these areas is dependent upon having a knowledgeable and experienced customer-service-focused workforce that is responsive but also proactive in meeting our district's business challenges and recognizing and taking advantage of opportunities, including promoting the bank's mission as a government-sponsored enterprise.

Market and higher compensation programs are required to keep Farm Credit competitive in the talent war currently being waged in Austin, Texas. The bank is located in the nation's top economic market. It is known as the "Silicon Hills" for the large number of technology firms located there that pay top salaries to IT professionals. The unemployment rate has for years been lower than the national average, which makes attracting talent a struggle with not only the aggressive tech sector, but also competition from major medical, real estate and government employers. Austin is in one of the country's fastest growing regions bringing new talent into the market, but also attracts new employers seeking those same resources. All these factors exert an upward pressure on all aspects of the employee value proposition and stress in acquiring and retaining the skilled workforce needed to achieve the bank's goals.

While external factors impact compensation programs, internal measures are in place to make certain there is alignment with the bank's performance. Market-driven base salaries are combined with a bonus program that is at risk each year. The compensation committee of the district board annually determines the structure and the award for the Success Sharing Plan (SSP), a short-term bonus plan. This gives them the agility to modify or discontinue the plan in response to changing circumstances. The bank is not locked into an incentive program for any extended period of time.

The SSP in regard to the total compensation mix is not overly significant or significantly larger than the market practice. Multiple performance measures are considered, which include financial and operational metrics. Although awards are based on a single year's performance, because the bank's customers are its cooperative associations, performance in the time period measured is less uncertain than in businesses with larger and lesser known customer bases. The board and compensation committee review the bank's financial and operational performance at each meeting, so SSP decisions are reviewed by the same centralized group who hear those reports all year. Additionally, the compensation committee has external resources to support its oversight and uses that independent compensation consultant to review SSP awards with its annual executive compensation update.

In making its decision on the SSP award at year end, the compensation committee analyzes the bank's performance against the business plan for the year. The business plan is approved by the full composition of the board at the beginning of the year and is monitored all year as the CEO and senior team members deliver management and other reporting on bank performance and respond to director questions. Financial metrics include net income, the associations' direct note volume, allowance for loan losses, nonaccrual loans, capital market and investment income, total asset growth, credit quality, net and permanent capital ratios, and at year-end, the association patronage. Operational accomplishments considered vary but typically include staff outreach to associations, participation and leadership in System workgroups and initiatives, debt issuances, credit and technology products and services delivered, marketing support, talent acquisition and talent management support, and continued progress in diversity and inclusion efforts.

Chief Executive Officer (CEO) Compensation Table and Policy

In December 2013, a memorandum of understanding between the bank and the CEO was executed with an effective date of January 1, 2014, which supersedes the previous memorandum of understanding effective January 2, 2011. The memorandum of understanding is effective for a term of three years, until December 31, 2016. The base salary for each year of the three-year term for the CEO will be $1,250,000. Bonus payments, if any, are at the sole discretion of the compensation committee. The employment relationship between the bank and CEO remains at-will, meaning the bank may terminate the CEO's employment at any time, and the CEO may choose to leave at any time.

As previously mentioned, the CEO bonus is discretionary and subject to the approval of the bank's compensation committee. The compensation committee reviews the same bank financial performance and operational metrics that the committee evaluates for purposes of the SSP. Additionally, for the CEO and senior officer group both, the compensation committee has annual peer market data it reviews with its third-party consultant before making CEO base and bonus pay decisions. The compensation committee also reviews seven dimensions of CEO performance and has discussions about goals set for the current year and successes in meeting those goals. The seven dimensions of CEO performance are: strategy and vision; leadership; innovation/technology; operating metrics; risk management; people management; and external relationships.

The following table summarizes the compensation paid to the CEO of the bank during 2014, 2013 and 2012.

Summary Compensation Table for the CEO

		Annual					
Name of Chief Executive Officer	Year	Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	Total
Larry R. Doyle	2014	$ 1,250,048	$ 1,250,000	$ 274,628	$ 21,523	$ —	$ 2,796,199
Larry R. Doyle	2013	1,250,048	1,000,000	(29,879)	17,543	—	2,237,712
Larry R. Doyle	2012	1,250,048	1,000,000	178,046	21,063	—	2,449,157

(a) Gross salary for year presented.

(b) Bonus compensation is presented in the year earned, and bonuses are paid within the first 30 days of the subsequent calendar year. For 2014, bonus compensation was paid in January 2015 of $1,250,000 for the performance of the bank during 2014. For 2013, bonus compensation was paid in January 2014 of $1,000,000 for the performance of the bank during 2013. For 2012, bonus compensation was paid in January 2013 of $1,000,000 for the performance of the bank during 2012.

(c) For 2014, 2013 and 2012, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. For 2014, the increase in the change in pension value is associated with a decline in the discount rate and a change in the mortality table used to calculate the present value of the pension plan as compared to 2013. For 2013, the negative (or decrease) change in pension value is due to the increase in the accounting disclosure rate for 2013 as compared to 2012.

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

(e) No values to disclose.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the aggregate number of officers of the bank during 2014, 2013 and 2012. Amounts reflected in the table are presented in the year the compensation is earned.

Summary Compensation Table for Other Officers

		Annual					
Aggregate Number in Group (excludes CEO)	Year	Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	Total
9 Officers	2014	$ 1,936,172	$ 887,312	$ 1,410,779	$ 264,664	$ 33,420	$ 4,532,347
8 Officers	2013	1,750,320	806,698	68,493	199,059	—	2,824,570
6 Senior Officers	2012	1,423,966	569,564	—	166,040	—	2,159,570

(a) Gross salary for year presented.
(b) Bonuses paid within the first 30 days of the subsequent calendar year.
(c) For 2014 and 2013, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. The value was not calculated or presented for the senior officers for 2012. The significant increase in the change in pension value for 2014 is due to a decline in the discount rate and a change in the mortality table used to calculate the present value of the pension plan as compared to 2013.
(d) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance. For 2012, Deferred/Perquisites also include educational assistance paid on behalf of a senior officer.
(e) For 2014, other represents payments to one senior officer for their remaining annual leave hours at retirement. For 2013 and 2012, there were no values to disclose.

For 2014, the aggregate number of officers includes one senior officer who retired from the bank during 2014.

Disclosure of the compensation paid during 2014 to any senior officer or officer included in the table is available and will be disclosed to shareholders of the institution and stockholders of the district's associations upon written request.

Neither the CEO nor any other senior officer received non-cash compensation exceeding $5,000 in 2014.

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

Pension Benefits Table for the CEO and Senior Officers as a Group

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO and senior officers as a group for the year ended December 31, 2014:

Name	**Plan Name**	**Number of Years Credited Service**	**Present Value of Accumulated Benefit**	**Payments During 2014**
Larry R. Doyle	Farm Credit Bank of Texas Pension Plan	41.061	$ 1,669,963	$ —
Name	**Plan Name**	**Average Years Credited Service**	**Present Value of Accumulated Benefit**	**Payments During 2014***
Officers, including Other Highly Compensated Employees	Farm Credit Bank of Texas Pension Plan	32.178	$ 6,349,062	$ 95,717

*Payments during 2014 represent distributions of pension benefits for a senior officer who retired effective March 31, 2014.

Description of Property

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility located at 4801 Plaza on the Lake Drive, Austin, Texas. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space and an "early out" option to terminate the lease in 2020.

Legal Proceedings

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

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 12, "Commitments and Contingencies," to the accompanying financial statements outlines the bank's position with regard to possible contingencies at December 31, 2014.

Description of Capital Structure

The bank is authorized to issue and retire certain classes of capital stock and retained earnings in the management of its capital structures. Details of the capital structures are described in Note 9, "Shareholders' Equity," to the accompanying financial statements, and in the "Management's Discussion and Analysis" included in this annual report to shareholders.

Description of Liabilities

The bank's debt outstanding is described in Note 8, "Bonds and Notes," to the accompanying financial statements. The bank's contingent liabilities are described in Note 12, "Commitments and Contingencies," to the accompanying financial statements. See also Note 10, "Employee Benefits Plans," with regard to obligations related to employee retirement plans.

Selected Financial Data

The selected financial data for the five years ended December 31, 2014, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Financial Data" included in this annual report to stockholders.

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

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

Transactions With Senior Officers and Directors

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

Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was $188,732, $175,115 and $194,211 for 2014, 2013 and 2012, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Reserves for Credit Losses," and Note 9, "Shareholders' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was $3,806, $3,273 and $2,686 for 2014, 2013 and 2012, respectively, and was included in the bank's noninterest income.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2014, 2013 or 2012.

Relationship With Public Accountants

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

Fees for professional services incurred (expensed) by the bank during 2014 by PricewaterhouseCoopers LLP, the bank's independent qualified public accountants, were as follows.

- Audit services of $350 thousand related to annual audits of the financial statements for the bank and district, of which $3 thousand was associated with the completion of the 2013 annual audit. Engagement letters for audit services for 2014 annual audit reflect an estimated fee of $335 thousand for the bank and district, plus out-of-pocket expenses and any additional fees for work on audit-related matters.
- Audit-related services of $161 thousand of which $50 thousand was associated with the completion of agreed upon procedures relating to certain business application activities performed by FCBT on behalf of our affiliated associations. An engagement letter estimated the fees for the agreed upon procedures engagement to be $35 to $40 thousand, plus any out-of-pocket expenses. The remaining $111 thousand of the total was related to procedures completed for the bank's SOC2 (Service Organization Control 2) assessment, specifically directed at

evaluating the suitability of design and operating effectiveness of controls related to loan origination, accounting, processing and related application hosting system to meet the criteria for the security and availability principles set forth in SOC2. An engagement letter estimated the fees for the SOC2 engagement to be $110 to $120 thousand, plus any out-of-pocket expenses.

- Non-audit services of $24 thousand related the completion of a SOC2 readiness assessment over the Security and Availability principle plus FCBT custom criteria related to certain loan accounting transactions in 2013. PricewaterhouseCoopers LLP also completed ballot counting for the bank with no fee incurred.

Fees for the audit of the Farm Credit Benefits Alliance (FCBA) 401(k) plan for 2013 as engaged by the AgFirst/FCBT Plan Fiduciary Committee totaled $13 thousand.

With the exception of the audit of the FCBA 401(k) plan, the non-audit services for the bank listed above required pre-approval of the bank's audit committee, which was obtained.

Relationships with Unincorporated Business Entities (UBEs)

The bank has relationships with the following seven UBEs, which are all limited liability companies organized for the purpose of acquiring and managing unusual or complex collateral associated with loans:

FCBT BioStar A LLC
FCBT BioStar B LLC
Crescent Lake Ranch LLC
East Portales Dairy LLC
North Portales Dairy LLC
MB/BP Properties Joint Venture LLC
Five Star Asset Holdings LLC

The bank and a district association are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC will facilitate private equity investments in agriculture-related businesses that will create growth and job opportunities in rural America. Each limited partner has a commitment to contribute up to $20.0 million over five years and as of December 31, 2014, we have invested $757 thousand, included in "Other assets" on the Balance Sheets.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 11, 2015, and the report of management in this annual report to shareholders, are incorporated herein by reference.

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

Borrower Information Regulations

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

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

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

In line with its mission, the district has policies and programs for making credit available to young, beginning and small farmers and ranchers.

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

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

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

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

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

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

(dollars in thousands)	December 31, 2014 Number of Loans	December 31, 2014 Volume
Total loans and commitments	69,917	$ 23,659,653
Loans and commitments to young farmers and ranchers	12,397	$ 1,999,906
Percent of loans and commitments to young farmers and ranchers	17.7%	8.5%
New loans and commitments to beginning farmers and ranchers	6,716	$ 2,191,203
Percent of new loans and commitments to beginning farmers and ranchers	42.8%	28.7%
Loans and commitments to beginning farmers and ranchers	35,946	$ 7,528,600
Percent of loans and commitments to beginning farmers and ranchers	51.4%	31.8%

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

(dollars in thousands)	For the Year Ended December 31, 2014 Number of Loans	For the Year Ended December 31, 2014 Volume
Total new loans and commitments	15,706	$ 7,637,704
New loans and commitments to young farmers and ranchers	2,678	$ 689,441
Percent of new loans and commitments to young farmers and ranchers	17.1%	9.0%
New loans and commitments to beginning farmers and ranchers	6,716	$ 2,191,203
Percent of new loans and commitments to beginning farmers and ranchers	42.8%	28.7%

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

	At December 31, 2014				
	Loan Size				
(dollars in thousands)	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
Total number of loans and commitments	14,025	16,626	21,649	17,617	69,917
Number of loans and commitments to small farmers and ranchers	10,595	13,183	16,542	10,043	50,363
Percent of loans and commitments to small farmers and ranchers	75.5%	79.3%	76.4%	57.0%	72.0%
Total loans and commitments volume	$ 2,565,695	$ 929,619	$ 2,848,976	$ 17,315,363	$ 23,659,653
Total loans and commitments to small farmers and ranchers volume	$ 265,589	$ 714,260	$ 2,090,966	$ 5,761,087	$ 8,831,902
Percent of loans and commitments volume to small farmers and ranchers	10.4%	76.8%	73.4%	33.3%	37.3%

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

	For the Year Ended December 31, 2014				
	Loan Size				
(dollars in thousands)	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
Total number of new loans and commitments	3,469	2,951	4,149	5,137	15,706
Number of new loans and commitments to small farmers and ranchers	2,561	2,224	2,805	2,074	9,664
Percent of new loans and commitments to small farmers and ranchers	73.8%	75.4%	67.6%	40.4%	61.5%
Total new loans and commitments volume	$ 91,677	$ 223,644	$ 688,614	$ 6,633,769	$ 7,637,704
Total new loans and commitments to small farmers and ranchers volume	$ 71,268	$ 168,128	$ 457,670	$ 1,566,118	$ 2,263,184
Percent of loan and commitment volume to small farmers and ranchers	77.7%	75.2%	66.5%	23.6%	29.6%