Fulfilling Our Mission

2013
ANNUAL REPORT

FARM CREDIT BANK OF TEXAS









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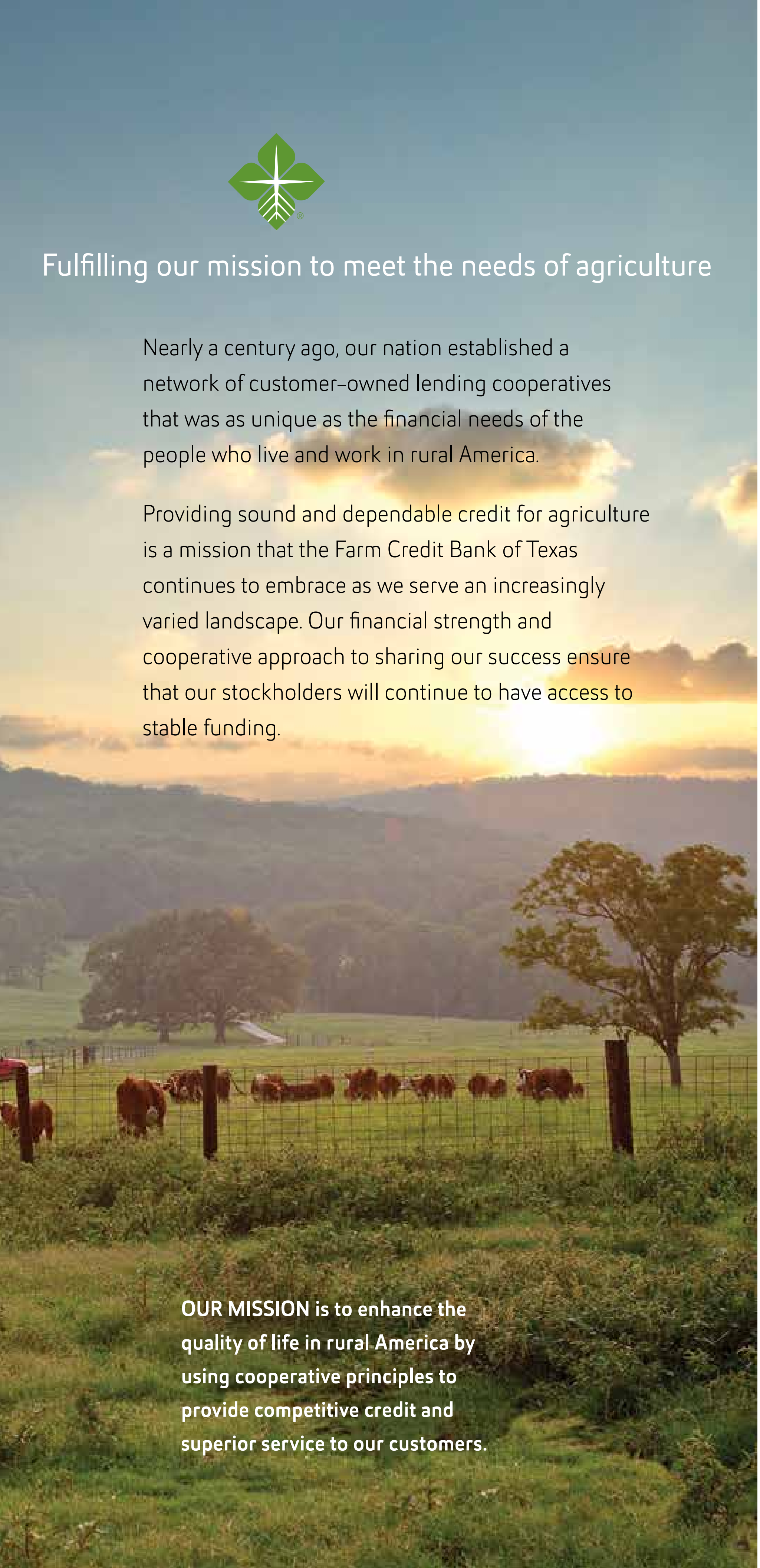

Fulfilling our mission to meet the needs of agriculture

Nearly a century ago, our nation established a network of customer-owned lending cooperatives that was as unique as the financial needs of the people who live and work in rural America.

Providing sound and dependable credit for agriculture is a mission that the Farm Credit Bank of Texas continues to embrace as we serve an increasingly varied landscape. Our financial strength and cooperative approach to sharing our success ensure that our stockholders will continue to have access to stable funding.

OUR MISSION is to enhance the quality of life in rural America by using cooperative principles to provide competitive credit and superior service to our customers.

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TO OUR STOCKHOLDERS:

Since 1916, Farm Credit Bank of Texas has been a stable source of funding for agriculture, agribusiness and the rural way of life. While we are proud of our long history, we are not content to look back. In 2013 we made substantial investments in our future so that we can continue to fulfill our mission.

In addition to achieving strong financial results, we expanded our products and services to assist our affiliated lending cooperatives in their efforts to serve the diverse needs of the rural market.

Larry R. Doyle
Chief Executive Officer (left)

James F. "Jimmy" Dodson
Chairman of the Board

Financial Highlights

Farm Credit Bank of Texas achieved record earnings for the eighth consecutive year, reporting $179.8 million in net income in 2013, a 3 percent increase over our 2012 earnings. Total assets grew 5.44 percent to $16.2 billion.

Our five-state territory is home to a vibrant and diverse agricultural industry, as well as general economic conditions that are among the best in the nation, contributing to nearly $440 million in loan growth in 2013. This includes a 1.5 percent increase in direct notes to our affiliated lending institutions, which provide financing and related services to agricultural producers and rural landowners. It also includes an 8.2 percent increase in our capital markets participation portfolio, which provides capital and liquidity for regional, national and multinational food, agribusiness, energy and rural infrastructure companies.

Our asset quality improved further in 2013, benefiting from a stabilizing economy and the bank's strong underwriting standards, loan servicing and portfolio management. At the end of 2013, 98.2 percent of the bank's overall portfolio was considered acceptable and special mention, up from 97.5 percent the year before.

The bank has maintained investment-grade ratings through a challenging banking climate, with an issuer credit rating of Aa3 from Moody's Investors Service and AA- from Fitch Ratings. Such positive ratings signal our stability to investors, ensuring our reliable access to funding through the nation's and world's capital markets.

We have a history of high levels of capital and liquidity, and in 2013 we returned to the market to issue $300 million in noncumulative subordinated preferred stock. This high-quality capital further strengthens our ability to support loan demand and growth in the future.

Partnering for a Common Cause

Our purpose as a funding bank is to help our affiliated lending institutions and other partners be successful so that they can help our nation's agricultural producers and rural communities succeed.

Through our participation lending, we partner with institutions inside and outside the Farm Credit System to finance ag-related businesses and rural infrastructure. Our $4.4 billion capital markets participation portfolio and our $3.7 billion liquidity investment portfolio strengthen the bank's earnings and patronage programs, enabling us to bring more value to the rural retail lenders that we fund.

Our philosophy as a federated cooperative is to centralize many functions at the bank, boosting our district's efficiency and freeing our association partners to focus on serving the rural market. We absorb the cost of the accounting, technology, human resources, training, marketing and other services that we provide, and also share our earnings with our associations through our patronage programs. As a result, our affiliated lenders effectively pay no more to borrow from the bank than the bank pays for funding, and can pass along the benefits to farmers, ranchers and rural landowners.

In December 2013, we again lowered those borrowing costs when we distributed a patronage payment representing 44 basis points on direct notes to our 17 associations and three other financing institutions.

In total, the bank returned $71.5 million in cash through its four patronage programs in 2013, and allocated another $3.3 million for potential cash payout to one of our participations partners:

• Earnings Patronage on Direct Note	$ 47.6 million
• Participations Patronage	20.2 million
• Stock Investment Patronage	3.7 million
• Capitalized Participation Pool Patronage	3.3 million
Total	$ 74.8 million

Preparing for a Strong Future

With more than 200 full-time employees, the Farm Credit Bank of Texas provides services, innovative tools and strategic business support to our association customers in order to enhance their performance as direct lenders. To help give them a competitive advantage, we have been investing heavily in our people and technology.

We are examining all of the ways that we automate our district's business processes, and have been upgrading our technology infrastructure and business systems to ensure the greatest flexibility, efficiency, speed, security and customer privacy. Our strategic direction is guided by a collaborative team of senior executives from all areas of the bank.

In 2013, we continued to develop products and services to meet the unique needs of Farm Credit. We provided technology that helps association and bank employees make faster and better-informed credit decisions, manage customer relationships, evaluate trends in rural property sales and values, comply with regulations and manage risk. We are also enhancing our products for borrowers, and introduced a mobile application that lets association customers make payments, transfer funds and check their account and patronage history.

To best serve our associations, we strive to recruit and retain a diverse and knowledgeable staff in every functional area, including credit, finance, technology, marketing, and legal and corporate affairs. Austin, Texas, ranks among the nation's top cities for economic strength, job growth and pay, and is an increasingly competitive labor market in technology and other sectors. In order to remain one of the city's best employers, the bank provides excellent compensation and benefits, fosters an inclusive business culture, and supports community service through paid volunteer time and matching donations. We also provide training on credit and appraisals, emerging customer markets, human capital planning, diversity awareness and other topics for our entire district.

In addition, we cultivate new talent through college internships, trainee programs and corporate giving for scholarships, professional development and agricultural education for youth.

Looking Ahead

Throughout 2013, we laid the groundwork to ensure the long-term health of the bank and our affiliated lending institutions, and we have been rewarded with record profitability and high levels of capital, liquidity and credit quality.

Our earnings and our efforts support our larger purpose of providing sound and dependable credit for the people who live and work in rural America. We continually look for opportunities to fulfill our mission and align our strategies with the needs of a changing marketplace.

Because of our stability, cooperative business structure, low funding costs and dedication to service, we are well positioned to support our associations as they serve their stockholders, explore new markets and expand their portfolios using Farm Credit's full lending authority.

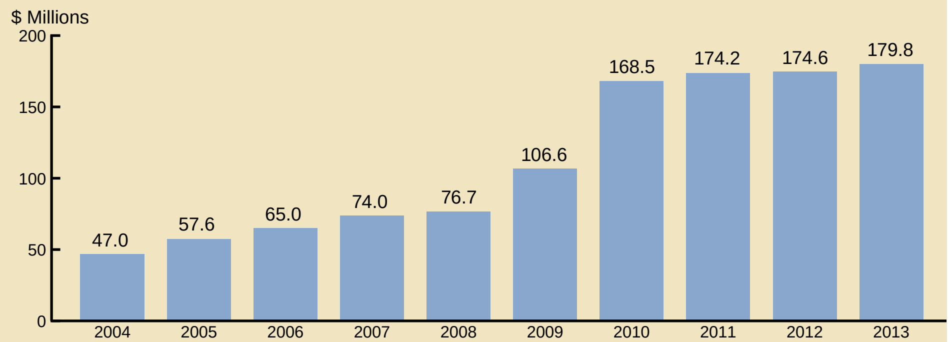
James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

2013 A notable year …

RECORD EARNINGS
$180 MILLION

BANK NET INCOME



$300 MILLION

PREFERRED STOCK ISSUED

- Higher quality form of capital due to noncumulative feature, compliant with Basel III
- Provides capital for loan growth opportunities over coming years

Aa3/AA- Issuer credit rating affirmed by Moody's and Fitch

CREDIT QUALITY improved to **97.9%** ACCEPTABLE

SOUND LIQUIDITY POSITION

Maintaining cash and a portfolio of high-quality liquid investments

PATRONAGE **$124.7 MILLION**

Bank declared and paid patronage and preferred stock dividends of approximately $124.7 million, which is 69.3% of net income, to our patrons and stockholders

DECLINE OF **48.9%** in NONPERFORMING ASSETS

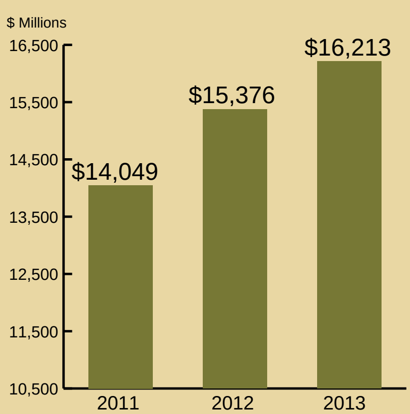
Capital markets participation portfolio growth of **8.2%**

FINANCIAL HIGHLIGHTS

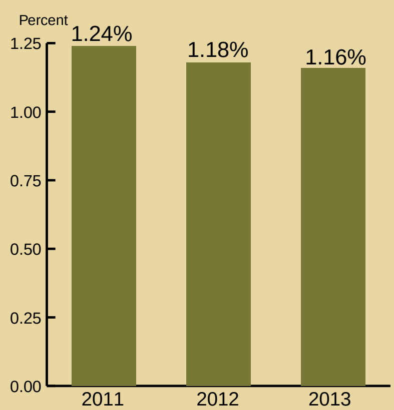
For the Year (in thousands)	**2013**	2012	2011
Net interest income	**$215,720**	$220,824	$226,829
Provision for credit losses	**(6,253)**	(27,121)	(16,465)
Noninterest expense, net	**(29,647)**	(19,123)	(36,168)
Net income	**$179,820**	$174,580	$174,196
Rate of return on:			
Average assets	**1.16%**	1.18%	1.24%
Average shareholders' equity	**12.31**	13.56	14.14
Cash patronage declared	**$ 71,505**	$ 65,843	$ 63,362

At Year End (in millions)			
Total loans	**$ 11,779**	$ 11,339	$ 10,287
Total assets	**16,213**	15,376	14,049
Total liabilities	**14,820**	14,102	12,839
Total shareholders' equity	**1,393**	1,274	1,210
Permanent capital ratio	**21.64%**	18.64%	20.85%
Total surplus ratio	**17.29**	15.92	17.36
Core surplus ratio	**10.12**	9.92	10.48
Net collateral ratio	**108.67**	107.94	108.27

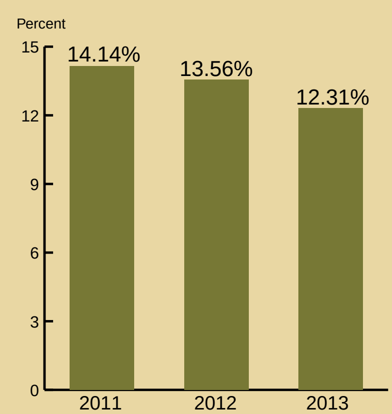
Total Assets Outstanding at Year End



Return on Average Assets for the Year



Return on Average Equity for the Year



FARM CREDIT BANK

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 bring business and leadership experience in a variety of backgrounds to their roles. Five of the directors are farmers or ranchers and were elected by the local financing cooperatives that own the bank. Two directors have banking backgrounds and were appointed by the elected board members.

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

OF TEXAS

SENIOR MANAGEMENT TEAM

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

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, agriculture and farmer-owned cooperatives.

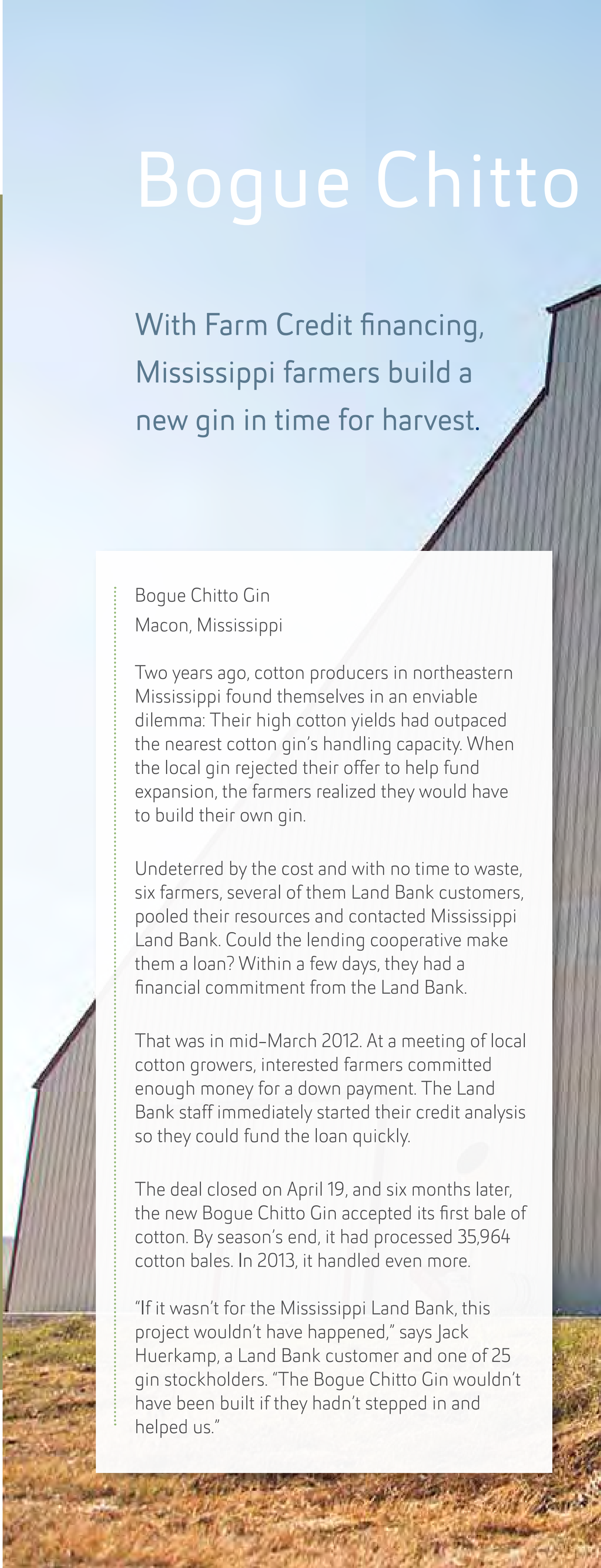
In addition to overseeing day-to-day operations, the senior management team sets the course for the bank's future success by working with the board to establish business goals and strategies.

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 agriculture and rural communities.

At Farm Credit, we're all about our customers.

For nearly a century, we have provided credit to farmers, ranchers, rural homeowners and agribusiness firms to help them achieve their goals and dreams. With diverse backgrounds, ambitions and financing needs, our customers represent the future of agriculture and rural America.

On the following pages, we share with you the stories and successes of a few of the many stockholders in the Texas Farm Credit District. Whether they are young or old, traditional farmers or new to the land, we are proud to be their lending partner, and yours too.



Bogue Chitto

With Farm Credit financing, Mississippi farmers build a new gin in time for harvest.

Bogue Chitto Gin
Macon, Mississippi

Two years ago, cotton producers in northeastern Mississippi found themselves in an enviable dilemma: Their high cotton yields had outpaced the nearest cotton gin's handling capacity. When the local gin rejected their offer to help fund expansion, the farmers realized they would have to build their own gin.

Undeterred by the cost and with no time to waste, six farmers, several of them Land Bank customers, pooled their resources and contacted Mississippi Land Bank. Could the lending cooperative make them a loan? Within a few days, they had a financial commitment from the Land Bank.

That was in mid-March 2012. At a meeting of local cotton growers, interested farmers committed enough money for a down payment. The Land Bank staff immediately started their credit analysis so they could fund the loan quickly.

The deal closed on April 19, and six months later, the new Bogue Chitto Gin accepted its first bale of cotton. By season's end, it had processed 35,964 cotton bales. In 2013, it handled even more.

"If it wasn't for the Mississippi Land Bank, this project wouldn't have happened," says Jack Huerkamp, a Land Bank customer and one of 25 gin stockholders. "The Bogue Chitto Gin wouldn't have been built if they hadn't stepped in and helped us."

Gin Becomes a Reality

Bogue Chitto Gin members are pleased that the gin produced 43 to 45 bales per hour in its first season. Pictured here with two Land Bank employees are Glenn Mast, front; and from left to right, second row, Paul Graber and Brad Judson; third row, Rodney Mast, Joe Huerkamp and Jack Huerkamp; back row, Bill Skinner, Doug Dahlem, Gin Manager Jay Hoover, and the Land Bank's Bart Harris and Tyler Anderson.

Reducing Risk With Cutting-Edge Technology

Siblings Annie and Mike Dee manage the 10,000-acre Dee River Ranch, where they raise cattle and grow wheat, soybeans, corn and hay. Six consecutive dry years inspired them to create an irrigation system that will supply up to 15 center pivots with runoff collected in their new 110-acre reservoir.

Alabama's Dee family aims to maximize crop efficiency with a computerized pumping and irrigation system.

Dee River Ranch
Aliceville, Alabama

Cutting-edge technology and sustainable agricultural practices are central to the success of Dee River Ranch, a diversified farming and ranching operation in west-central Alabama.

Owned and operated by two generations of the Dee family, the 10,000-acre farm produces corn, soybeans, wheat, hay and cattle using innovative tools and practices. But it is the Dees' 110-acre reservoir and computerized pumping and irrigation system financed by Alabama Ag Credit that is taking them to the next level in their effort to reduce drought risk and maximize returns.

Designed to collect rainwater in the wet winter months and store it for summer when it is needed most, the reservoir can deliver irrigation water to up to 15 center pivots based on crop, weather and soil conditions. The entire system is controlled by the Dees' own wireless network, which allows people and devices to communicate with each other over a 20-square-mile area.

"With the difference in yields, our irrigation project would have paid for itself within three full crops. We've given ourselves a little cushion and plan to pay the system off in seven to 10 years," says Annie Dee, who with her brother Mike manages the operation on behalf of their 10 siblings.

"The Dees are outstanding farm managers and stewards of the land, and Alabama Ag Credit is proud to support their investment in this state-of-the-art technology," says Ed Boyd, Alabama Ag Credit regional president.

Droughts have caused leaf curl on the corn and shrinking yields on several crops since 2006. The Dees responded by collecting rainwater when there is a winter surplus and irrigating during the growing season. Their first irrigated acres increased yields up to sevenfold.

Left to right: Mando, Tony, Beto and Junior Mandujano

Produce in the Trans-Pecos

Four brothers build a large diversified farming operation in Far West Texas.

Mandujano Brothers
Coyanosa, Texas

Some look at the Trans-Pecos region of Far West Texas and see dry, desolate land. But four brothers — Mando, Tony, Junior and Beto Mandujano — saw the opportunity to build their own farm. Today, Mandujano Brothers is an 8,000-acre diversified farming operation in Reeves and Pecos counties producing cantaloupes, watermelons, onions, peppers, pumpkins, cotton, alfalfa and hay.

The seed for the business was planted when the brothers were young. Growing up here in a family of 11 children, they worked with their father in the vegetable fields on weekends and holidays. After graduating from Angelo State University, they returned to the land and began working together again.

But now it's their own business, and they each have specific management responsibilities — labor, growing, harvesting, bookkeeping, sales, equipment, food safety, construction and logistics.

"The big key to our success is that we are involved in every aspect of our operation. We grow and harvest our vegetables. We bring in our own crews so we can better control quality. We have our own packing facility, and we direct-sell to stores such as Kroger, H.E.B., Safeway and Wal-Mart," says Mando. They even own their own trucks.

The Mandujano brothers also own most of the land they farm, including a 2,500-acre farm they financed with Capital Farm Credit in 2010.

"We needed more room to expand," Mando says. "We're glad Capital was able to work with us, and we're looking forward to doing more business with them. Their rates are very competitive, and their dividends are attractive, too."

A Veteran Returns to His Farming Roots

Orlando Cadena achieves a distant goal: to be a full-time farmer.

Orlando Cadena
Alice, Texas

Growing up on a South Texas farm, Orlando Cadena learned to work hard as a youngster. "I grew up driving tractors, and that's really all I wanted to do," he says.

Today, Cadena farms in two counties in the Texas Coastal Bend region and still likes to drive tractors. But the road to buying his own farm was long and winding.

Cadena joined the U.S. Army after high school, serving four years in seven countries and attaining the rank of sergeant. Upon his return to Texas, he worked as a firefighter and later as a police officer. While helping on his father's farm, he began farming 250 acres of his own. By 2006 he had acquired 2,000 acres, all while supporting a family and juggling two careers. "I didn't take any money out of my operation for a long time," he says.

When Cadena eventually needed financing to develop the farm further, his commercial bank referred him to Texas AgFinance, now known as Texas Farm Credit. Under the Farm Credit Young, Beginning and Small Farmer Program, the lending cooperative was able to structure loans especially for his operation.

"With the help of Texas AgFinance, I was able to really grow my farming operation and take on a substantial amount of acreage," says Cadena, who grows cotton, grain sorghum, sunflowers and sesame on 6,000 acres.

Equally important, he now farms full time — a goal he didn't imagine possible 10 years ago.

Orlando Cadena, center, with his two oldest daughters, Noreen, left, and Liana, right

Fresh Perspectives From a Young Cattleman

A busy young farmer makes time to bring new ideas and a can-do attitude to the Louisiana Land Bank board.

Sarah Beth and Cullen Kovac with their children, Callie, left, and Will

Cullen Kovac
Oak Grove, Louisiana

When the Louisiana Land Bank Board of Directors needed to fill a vacancy on the board two years ago, they appointed 29-year-old Cullen Kovac. The third-generation cattleman, elected later by stockholders, offered the kind of fresh perspective and new ideas that the lender was seeking.

"We were looking for someone who had plenty of drive and was interested in helping us reach out to young farmers," says Board Chairman Ernest Girouard. "Cullen was aggressive in bettering his leadership skills, and he had a good understanding of Farm Credit, having participated in the Farm Credit Young Leaders Program."

Kovac also brought solid cattle industry experience. While still in college, he purchased his own herd of 175 cows with a Farm Service Agency loan. Three years later, he and his dad formed Kovac Cattle Company, a cow-calf, stocker and hay operation, where he focuses on efficiency, sound conservation practices and growing top-quality grass on 5,200 acres of owned and rented land.

Kovac is quick to point out where they place their priorities.

"We're not cowboys, we're grass farmers!" he says. "If you can't grow grass, then your cattle won't perform. Every year, we invest in capital improvements on our ranch."

With operating, real estate and pasture loans from Louisiana Land Bank, Kovac calls the lending cooperative "a genuine partner" that he is honored to serve. "If you care about the industry you're in, you should want to be where decisions are made that set the direction of your industry," he says.

A FARM IN THE CITY

Brenton Johnson turns his backyard garden into a multi-million-dollar organic vegetable operation.

Johnson's Backyard Garden
Austin, Texas

Brenton Johnson, owner of Johnson's Backyard Garden in Austin, Texas, can attest to the popularity of locally grown food.

In 2005, he planted a 30-foot by 50-foot garden in his urban backyard. Today, he operates a 205-acre organic vegetable farm as a Community Supported Agriculture (CSA) farm. With 60 employees (plus volunteers), more than 1,000 members in four cities and gross sales of $3.5 million annually, it is the largest organic CSA farm in the southern United States.

The venture took off when Johnson grew more than his family could eat, and he started selling his organic vegetables at a farmers market. Before long, he needed to purchase land for the growing business, and secured financing from Capital Farm Credit and the Farm Service Agency. When profits increased, Johnson, who has a degree in agricultural engineering, quit his government job to become a full-time farmer.

Johnson structured the business as a CSA farm, a model in which members pay in advance for a share of the upcoming harvest, which ensures a consistent market for the farmer and high-quality produce for the consumer. In addition, the farm sells direct to restaurants and grocery retailers and at farmers markets.

Along the way, he financed equipment with Capital Farm Credit, and in 2012 he returned to Capital to refinance two more properties.

"You can't talk to Brenton for long without seeing how passionate he is about what he's doing," says Rob Randig, Capital Farm Credit vice president. "And he is also a good businessman. Every time he has approached us about a loan, he has had a good business plan lined out."

Forage Is Key in Dairy Family's Success

For three generations, Jones Dairy has been making milk in New Mexico.

Jones Dairy
Veguita, New Mexico

Jones Dairy has been producing milk in central New Mexico for more than 50 years. That's a long record in an industry that's frequently squeezed by high operating costs and low milk prices. By making key changes, the dairy has continued to perform well.

Nearly a decade ago, owners Ron Jones and his son, Dale, started growing most of their own forage crops, just as Ron's father did. "Raising your own forage is much cheaper than buying it," says Ron. "We're doing it out of necessity." They also save by using manure on the fields instead of buying chemical fertilizers.

In 2005, the Joneses expanded the operation, installing a rotary milking parlor and doubling their herd size from 1,500 to 3,000 cows. Over the next several years, they dramatically expanded their farming acreage, so they could increase forage production.

Meanwhile, milk production has increased, an accomplishment they attribute to the milking parlor, higher pregnancy rates, improved nutrition, and better artificial insemination and veterinary practices.

Ron also notes another key factor in their success: a dedicated lender. For many years, Jones Dairy borrowed from a local bank where his dad, D.C. Jones, served on the board. But the Jones operation grew, the bank was sold, and the family turned to Ag New Mexico for operating credit. "Working with a lender who understands our business saves us time," Ron says. "You can't be in this business without a good banker behind you."

Ron and Linda Jones, front, farm with their family, left to right on fence: son Dale, granddaughter Brittney, daughter-in-law Susie, and grandsons Bradley and Brandon.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Bank of Texas

(dollars in thousands)	**2013**	2012	2011	2010	2009
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 624,261**	$ 526,379	$ 445,354	$ 457,304	$ 490,915
Investment securities	**3,637,855**	3,346,479	3,160,683	3,076,946	2,143,485
Loans	**11,778,741**	11,338,830	10,287,377	10,464,034	11,033,114
Less allowance for loan losses	**13,660**	17,258	15,659	28,678	31,602
Net loans	**11,765,081**	11,321,572	10,271,718	10,435,356	11,001,512
Other property owned, net	**13,812**	30,739	28,748	2,838	639
Other assets	**171,708**	150,500	142,731	135,759	139,951
Total assets	**$ 16,212,717**	$ 15,375,669	$ 14,049,234	$ 14,108,203	$ 13,776,502
Obligations with maturities of one year or less	**$ 5,288,760**	$ 5,113,949	$ 4,896,287	$ 5,239,734	$ 5,005,558
Obligations with maturities greater than one year	**9,530,710**	8,987,877	7,942,591	7,717,611	7,949,652
Total liabilities	**14,819,470**	14,101,826	12,838,878	12,957,345	12,955,210
Preferred stock	**600,000**	482,000	482,000	482,000	200,000
Capital stock	**220,543**	212,588	216,839	228,399	237,361
Allocated retained earnings	**20,314**	16,984	14,438	11,144	8,029
Unallocated retained earnings	**585,503**	534,438	471,933	407,821	365,031
Accumulated other comprehensive (loss) income	**(33,113)**	27,833	25,146	21,494	10,871
Total shareholders' equity	**1,393,247**	1,273,843	1,210,356	1,150,858	821,292
Total liabilities and shareholders' equity	**$ 16,212,717**	$ 15,375,669	$ 14,049,234	$ 14,108,203	$ 13,776,502
Statement of Income Data					
Net interest income	**$ 215,720**	$ 220,824	$ 226,829	$ 212,520	$ 169,212
Provision for credit losses	**(6,253)**	(27,121)	(16,465)	(28,523)	(33,648)
Noninterest expense, net	**(29,647)**	(19,123)	(36,168)	(15,547)	(28,956)
Net income	**$ 179,820**	$ 174,580	$ 174,196	$ 168,450	$ 106,608
Financial Ratios (unaudited)					
Rate of return on:					
Average assets	**1.16%**	1.18%	1.24%	1.20%	0.74%
Average shareholders' equity	**12.31%**	13.56%	14.14%	16.78%	13.07%
Net interest income to average earning assets	**1.44%**	1.55%	1.68%	1.57%	1.22%
Net charge-offs to average loans	**0.09%**	0.19%	0.28%	0.30%	0.12%
Total shareholders' equity to total assets	**8.59%**	8.28%	8.62%	8.16%	5.96%
Debt to shareholders' equity (:1)	**10.64**	11.07	10.61	11.26	15.77
Allowance for loan losses to total loans	**0.12%**	0.15%	0.15%	0.27%	0.29%
Permanent capital ratio	**21.64%**	18.64%	20.85%	22.00%	15.98%
Total surplus ratio	**17.29%**	15.92%	17.36%	17.83%	12.47%
Core surplus ratio	**10.12%**	9.92%	10.48%	10.67%	7.11%
Net collateral ratio	**108.67%**	107.94%	108.27%	107.91%	105.83%
Net Income Distributions					
Net income distributions declared and accrued					
Preferred stock cash dividends	**$ 49,931**	$ 43,761	$ 43,761	$ 45,601	$ 15,122
Patronage distributions declared					
Cash	**$ 71,505**	$ 65,843	$ 63,362	$ 73,609	$ 62,959
Allocated earnings	**3,253**	2,471	2,961	2,489	2,022

AVERAGE BALANCES AND NET INTEREST EARNINGS

Farm Credit Bank of Texas

(unaudited)

December 31,

	2013			2012			2011		
(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	**$ 3,504,150**	**$ 51,266**	**1.46%**	$ 3,282,825	$ 55,315	1.68%	$ 3,174,814	$ 58,712	1.85%
Loans	**11,472,881**	**318,217**	**2.77**	10,919,403	335,049	3.07	10,293,662	363,767	3.53
Total interest-earning assets	**14,977,031**	**369,483**	**2.47**	14,202,228	390,364	2.75	13,468,476	422,479	3.14
Cash	**401,666**			392,231			461,137		
Accrued interest receivable	**35,132**			35,248			34,543		
Allowance for loan losses	**(16,086)**			(16,002)			(28,073)		
Other noninterest-earning assets	**170,849**			165,308			127,306		
Total average assets	**$ 15,568,592**			$ 14,779,013			$ 14,063,389		
Liabilities and Shareholders' Equity									
Bonds, medium-term notes and subordinated debt, net	**$ 12,835,829**	**$151,917**	**1.18%**	$ 11,546,068	$ 161,958	1.40%	$ 10,654,490	$ 186,475	1.75%
Discount notes, net, and other	**1,138,958**	**1,846**	**0.16**	1,814,013	7,582	0.42	2,042,773	9,175	0.45
Total interest-bearing liabilities	**13,974,787**	**153,763**	**1.10**	13,360,081	169,540	1.27	12,697,263	195,650	1.54
Noninterest-bearing liabilities	**132,698**			131,928			134,013		
Total liabilities	**14,107,485**			13,492,009			12,831,276		
Shareholders' equity and retained earnings	**1,461,107**			1,287,004			1,232,113		
Total average liabilities and shareholders' equity	**$ 15,568,592**			$ 14,779,013			$ 14,063,389		
Net interest rate spread		**$ 215,720**	**1.37%**		$ 220,824	1.48%		$ 226,829	1.60%
Net interest margin			**1.44%**			1.55%			1.68%

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, 2013, 2012 and 2011. 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, 2013, the bank served one Federal Land Credit Association (FLCA), 16 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. In addition to these specific allowances, in 2010 the bank began recording a general allowance for loan losses, which reflects expected credit deterioration and inherent losses in that portion of the bank's participation loans that are not individually evaluated. 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 for losses on unfunded commitments includes a specific reserve for impaired letters of credit as well as a general reserve for expected credit deterioration and expected losses on unfunded commitments that are not individually evaluated, including letters of credit and, beginning in the fourth quarter of 2013, unused loan commitments.

- **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, and certain qualified individuals in the bank were eligible for participation in a separate nonqualified supplemental defined benefit pension plan or a separate nonqualified 401(k) plan. Pension expense for all plans is recorded as part of salaries and employee benefits.

  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 supplemental defined benefit pension plan, which was terminated in 2011, was not considered a multiemployer plan and was therefore recorded in the financial statements. Effective January 16, 2011, the bank's board of directors approved the termination and liquidation of the bank's supplemental pension plan which was a nonqualified defined benefit 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 after a one-year deferral period. The impact of the termination and liquidation of the plan was not material to the bank's financial results and is reflected in salary and employee benefits in the 2011 statement of comprehensive income. For more information, see Note 10, "Employee Benefit Plans" to the accompanying financial statements. Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The 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.

OVERVIEW

General

The bank's loan portfolio totaled $11.8 billion at December 31, 2013, a 3.9 percent increase from the prior year. The bank's $5.2 million increase in net income for 2013 was driven primarily by a $20.9 million decrease in provision for credit losses, offset by a $4.4 million decrease in noninterest income, a $5.1 million decrease in net interest income and a $6.2 million increase in noninterest expenses. During 2013, market conditions continued to compress rate spreads on earning assets, and while the bank continued to benefit from debt management, gradual changes in the interest rate environment reduced its ability to call debt and replace it with lower interest rates during 2013, resulting in compression of the bank's net interest rate spread and interest margin.

Funding

During 2013, 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 System-wide 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

Weather conditions as a whole were generally improved across the district during 2013. States in the eastern portion of the district benefited from increased moisture, which generally resulted in improved crop production levels and healthier pasture and range conditions. Both Texas and New Mexico received average to better than average summer rainfall, helping to improve growing conditions. While ground moisture conditions have improved across the district, the threat of drought still persists and parts of northern and western Texas as well as New Mexico continue to be affected. As farmers move into the planting season, improved moisture levels across the district should promote planting activity; however, changes in price relationships may cause crop allocations to change.

For the 2013 farm season, farmers in the district planted fewer acres of cotton in response to expectations of elevated prices for both corn and soybeans. Although corn prices decreased due to higher production, district farmers benefited from improved corn yields resulting from more favorable moisture conditions, helping to offset the effects of the lower market prices. While total cotton acreage was down compared to 2012, conditions across the district varied widely. Farmers along the Texas coastline experienced lower yields and higher abandonment rates, the effects of which were mitigated by the use of multi-peril crop insurance. Meanwhile, those cotton farmers who did turn a cotton crop benefited from historically strong cotton prices, driven by fewer planted acres and lower domestic supply.

Across most of the district, lower feed prices coupled with generally higher protein prices have had a positive impact on the livestock, poultry and dairy industries. Throughout most of Texas and New Mexico, the cattle industry continues to experience significant contraction due to the prolonged drought. Feedlots continue to struggle with cattle numbers as well as margins; however, elevated beef prices and a strong corn crop have improved profitability. Dairy producers are currently benefiting from strong milk prices and are feeling some relief in the form of reduced feed cost. Given the declining number of cattle being fattened out to finish and the recent harvest of the record corn crop, poultry growers and hog producers should be able to maintain margins, despite increased production. 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 continue to play a supportive role in the agricultural concentrations in the district loan portfolio, which is expected to contribute to the preservation of credit quality moving into 2014. As always, weather conditions, as well as other macro-economic forces, such as unemployment and foreign demand, might impact portfolio profitability going forward. 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 $179,820 for the year ended December 31, 2013, reflects an increase of 3.0 percent over 2012, while 2012 income of $174,580 increased by 0.2 percent from 2011. The return on average assets was 1.16 percent for the year ended December 31, 2013, down from 1.18 percent reported for the year ended December 31, 2012. The return on average assets was 1.24 percent for the year ended December 31, 2011. Changes in the major components of net income for the referenced periods are outlined in the table below and in the discussion following:

	2013 vs. 2012	2012 vs. 2011
Net income (prior period)	$ 174,580	$ 174,196
Increase (decrease) due to:		
Decrease in interest income	(20,881)	(32,115)
Decrease in interest expense	15,777	26,110
Net interest income	(5,104)	(6,005)
Provision for credit losses	20,868	(10,656)
Noninterest income	(4,370)	20,712
Noninterest expense	(6,154)	(3,667)
Total change in net income	5,240	384
Net income	$ 179,820	$ 174,580

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, 2013, was $369,483, a decrease of $20,881, or 5.3 percent, compared to 2012. Total interest income for the year ended December 31, 2012, was $390,364, a decrease of $32,115, or 7.6 percent, compared to 2011. The decrease for 2013 and 2012 was due primarily to changes in the interest rate environment during 2013 and 2012.

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

	Year Ended December 31, 2013 vs. 2012	Year Ended December 31, 2012 vs. 2011
Increase (decrease) in average earning assets	$ 774,803	$ 733,752
Average yield (prior year)	2.75%	3.14%
Interest income variance attributed to change in volume	21,307	23,040
Average earning assets (current year)	14,977,031	14,202,228
Decrease in average yield	(0.28)%	(0.39)%
Interest income variance attributed to change in yield	(42,188)	(55,155)
Net change in interest income	$ (20,881)	$ (32,115)

Interest Expense

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. Total interest expense for the year ended December 31, 2012, was $169,540, a decrease of $26,110, or 13.4 percent, compared to the same period of 2011. The decrease for both 2013 and 2012 was due primarily to the effects of the decreasing interest rate environment during 2012 and early 2013. During 2013, the bank was able to reduce its interest expense by calling and replacing $3.0 billion in debt with debt that had lower interest rates, which resulted in a savings of approximately $8.9 million, net of related concession expenses. During 2012, the bank called and replaced $8.9 billion in debt, which resulted in a reduction of interest expense of approximately $21.9 million, net of related concession expenses. Changes in the interest rate environment have diminished the bank's ability to reduce the cost of debt by calling debt and replacing it with lower-rate debt.

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

	Year Ended December 31, 2013 vs. 2012	Year Ended December 31, 2012 vs. 2011
Increase (decrease) in average interest-bearing liabilities	$ 614,706	$ 662,818
Average rate (prior year)	1.27%	1.54%
Interest expense variance attributed to change in volume	7,807	10,207
Average interest-bearing liabilities (current year)	13,974,787	13,360,081
Decrease in average rate	(0.17)%	(0.27)%
Interest expense variance attributed to change in rate	(23,584)	(36,317)
Net change in interest expense	$ (15,777)	$ (26,110)

Net Interest Income

Net interest income, the excess of interest income over interest expense, decreased by $5,104 from 2012 to 2013, and decreased by $6,005 from 2011 to 2012. The decrease in 2013 was due to the effects of an 11-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, slightly offset by a $774,803 increase in average interest-earning assets. The bank has historically been able to reduce its cost of debt faster than asset yields have declined by taking advantage of callable debt features. While continuing to benefit from debt management in 2013, changes in the interest rate environment since early 2013 have diminished the bank's ability to benefit from the call and replacement of debt while asset yields have continued to decline, compressing the net interest rate spread and interest margin. During 2013, the bank called $3.0 billion in debt, replacing it with lower-cost debt. While the debt management in 2014 will continue to have some favorable impact on net interest income in the future, the spread decreases experienced in 2013 are expected to continue as the effects of repricing in the bank's earning assets occur.

Net interest income in 2012 was $6,005 less than 2011. The decrease in 2012 was due to the effects of a 12-basis-point decrease in the interest rate spread, slightly offset by a $733,752 increase in average interest-earning assets. During 2012, the bank called and replaced $8.9 billion in debt, securing more favorable terms.

ANALYSIS OF NET INTEREST INCOME

	2013		2012		2011	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 11,472,881**	**$ 318,217**	$ 10,919,403	$ 335,049	$ 10,293,662	$ 363,767
Investments	**3,504,150**	**51,266**	3,282,825	55,315	3,174,814	58,712
Total earning assets	**14,977,031**	**369,483**	14,202,228	390,364	13,468,476	422,479
Interest-bearing liabilities	**13,974,787**	**153,763**	13,360,081	169,540	12,697,263	195,650
Impact of capital	**$ 1,002,244**		$ 842,147		$ 771,213	
Net Interest Income		**$ 215,720**		$ 220,824		$ 226,829

	2013 Average Yield	2012 Average Yield	2011 Average Yield
Yield on loans	**2.77%**	3.07%	3.53%
Yield on investments	**1.46%**	1.68%	1.85%
Yield on earning assets	**2.47%**	2.75%	3.14%
Cost of interest-bearing liabilities	**1.10%**	1.27%	1.54%
Interest rate spread	**1.37%**	1.48%	1.60%
Impact of capital	**0.07%**	0.07%	0.08%
Net interest income/average earning assets	**1.44%**	1.55%	1.68%

Provision for Credit Losses

The bank's provision for credit losses for 2013, including provisions for loan losses and provision for losses on unfunded commitments, including standby letters of credit and unused loan commitments, totaled $6,253, a decrease of $20,868 from the provision for 2012. The decrease is primarily due to a $15.4 million decrease of required allowances related to loans which are individually evaluated for impairment, a $14 increase in the general allowance for loan losses, and a $5.5 million decrease in provision for credit losses on standby letters of credit. The specific provision of $5.3 million at December 31, 2013, reflects credit deterioration primarily in those borrowers impacted by the slow growth in the general economy and in agricultural sectors that continue to be impacted by volatility in commodity prices, primarily in the dairy, nursery products and ethanol sectors. The increase in the general provision reflects an increase in the bank's participation loan portfolio. The bank also maintains a general reserve for credit losses on unfunded commitments, including letters of credit and, beginning in the fourth quarter of 2013, on unused loan commitments. The provision for 2012 was a $10,656 increase from the $16,465 provision for loan losses recorded in 2011. The increase was primarily due to a $7.8 million increase of required allowances related to loans which were individually evaluated for impairment, a $2.9 million increase in the general allowance for loan losses, and a $5.0 million increase 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, 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 income for the year ended December 31, 2012, was $49,397, an increase of $20,712, or 72.2 percent, compared to 2011. The increase is due primarily to a $9.8 million increase in FCSIC refund distributions of excess reserves received in the second quarter of 2012, a $5.2 million increase in fees for loan-related services, a $2.8 million increase in fair value on loans purchased in the secondary market, a $2.1 million decrease in other losses due to a write-off recorded in November 2011 of capitalized costs incurred between 2008 and 2010 for the bank's data warehouse initiative that was redirected to another approach, a $2.0 million 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, and a $345 increase in all other noninterest items, collectively, offset by a $1.6 million decrease in fees for services to associations. The increase in loan-related fee income is primarily due to a $5.1 million increase in prepayment fees. Fees for services billed to associations decreased as a result of a decision by the bank's board of directors in April 2011 to bill associations only for direct pass-through expenses and not to bill for indirect, allocated charges.

Noninterest Expenses

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 Insurance Fund has announced a rate increase to 12 basis points on outstanding debt in 2014. 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, net of a $21 decrease in furniture and equipment and a $292 decrease in cost of space. Computer expense included a $1,147 increase in depreciation of software. The $5,488 decrease in losses related to OPO included a $4,653 decrease in provision for losses on OPO, a $753 increase in net gains on disposals, and an $82 decrease in net expenses on OPO.

Noninterest expenses totaled $68,520 for 2012, an increase of $3,667, or 5.7 percent, from 2011. This increase was primarily due to a $4,178 increase in losses related to other property owned (OPO), a $2,308 increase in other operating expenses, a $722 increase in occupancy and equipment expenses, and a $95 increase in premiums to the FCSIC, offset by a $3,636 decrease in salaries and employee benefits. The $4,178 increase in losses related to OPO included a $4,265 increase in provision for losses on OPO and a $174 increase in net expenses on OPO, offset by a $261 increase in net gains on disposals. The provision for loan losses on OPO reflects a decline in fair value or underlying collateral value on OPO. The increase in other operating expenses included a $1,594 increase in professional and contract services, a $473 increase in Funding Corporation assessment fees, a $206 increase in advertising and member relations expenses, and a $35 increase in all other operating expenses, collectively. The $722 increase in occupancy and equipment expenses includes a $734 increase in computer expenses and a $23 increase in furniture and equipment, net of a $35 decrease in cost of space. Computer expense included a $511 increase in depreciation of software. The increase in premiums to the Insurance Fund is primarily due to an increase in covered debt, offset by a decrease in the premium rate on outstanding debt from 6 basis points in 2011 to 5 basis points in 2012. The $3,636 decrease in salaries and employee benefits was primarily due to a $4,064 decrease in pension and retirement benefits and a $497 increase in capitalization of salaries and benefits related to internally developed software, net of a $795 increase in compensation and related payroll taxes and a $130 increase in other benefits. The decrease in pension and retirement expense included a $3,208 decrease in the supplemental DB plan and a $938 decrease in the bank's contribution to the district defined benefit plan.

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

	2013	2012	2011
Excess of net interest income over operating expense	**$ 141,125**	$157,871	$163,365
Operating expense as a percentage of net interest income	**34.6%**	28.5%	28.0%
Operating expense as a percentage of net interest income and noninterest income	**28.6**	23.3	24.8
Operating expense as a percentage of average loans	**0.65**	0.58	0.62
Operating expense as a percentage of average earning assets	**0.50**	0.44	0.47

The decrease in 2013 of excess net interest income over operating expense reflects the decrease in the net interest rate spread and an 18.5 percent increase in operating expense. The decrease in operating efficiency for 2013, reflected in the ratio of operating expenses to net interest income plus noninterest income, is due primarily to decreases in noninterest income, including the $9.8 million decrease in refunds from the FCSIC as well as an $11,642 increase in operating expenses. The increase in operating expenses as a percentage of average loans reflects the increases in the bank's operating expenses, which outpaced the growth in the bank's loan portfolio. The bank had increases in participation loans and, to a lesser extent, direct notes receivable from associations from 2012 to 2013. The bank's net interest income decreased 2.3 percent for the year ended December 31, 2013, and decreased 2.6 percent for the year ended December 31, 2012, while operating expenses increased 18.5 percent in 2013 and decreased 0.8 percent in 2012. Average loans increased 5.1 percent in 2013 and 6.1 percent in 2012, respectively. Average investments increased 6.7 percent in 2013 and 3.4 percent in 2012, respectively. Average earning assets increased 5.5 percent in 2013 and increased 5.5 percent in 2012, respectively.

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; 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 provision of the previous MAA. One important change requires the banks to maintain a net collateral ratio of at least 50 basis points greater than the regulatory minimum (104 percent for the bank) in order to avoid being placed in Category I.

During the three years ended December 31, 2013, all banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2013, all banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2013, 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, loan participations purchased, loans to qualifying financial institutions serving agriculture 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.

Gross loan volume of $11.779 billion at December 31, 2013, reflected an increase of $439.9 million, or 3.9 percent, from December 31, 2012. The balance of $11.339 billion at December 31, 2012, reflected an increase of $1.051 billion, or 10.2 percent, from the $10.287 billion balance at December 31, 2011. The increase in the loan portfolio from 2012 to 2013 is mainly attributable to a $336.6 million increase in the bank's participation loan portfolio and a $109.4 million increase in the bank's direct loans to associations and other financing institutions, offset by a $6.1 million decrease in other bank-owned loans.

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

	December 31,		
	2013	2012	2011
Direct notes receivable from district associations and OFIs	**62.5%**	63.9%	67.8%
Participations purchased	**37.5**	36.0	32.0
Other bank-owned loans	—	0.1	0.2
Total	**100.0%**	100.0%	100.0%

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

	December 31,		
	2013	2012	2011
Acceptable	**97.9%**	96.8%	88.3%
Special mention	**0.3**	0.7	2.9
Substandard	**1.8**	2.5	8.8
Total	**100.0%**	100.0%	100.0%

Bank credit quality has improved in 2013, 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 98.0, 97.8 and 89.2 percent of total direct notes at December 31, 2013, 2012 and 2011, respectively. The increase in acceptable loans on the bank's total portfolio from December 31, 2012, to December 31, 2013, is mainly driven by highly rated participation loans being added to the loan portfolio. One association's direct note of $150.4 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 reflects credit deterioration in the underlying retail loans held by the association, 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, 2013, and $3.4 billion at December 31, 2012, and December 31, 2011. The bank's OFI direct notes sold to another System bank totaled $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 98.5, 97.1 and 95.6 percent at December 31, 2013, 2012 and 2011, respectively. The bank anticipates ongoing stabilization in its overall credit quality due to improved expectations about the general economy and the return to profitability of certain commodity producers.

Association Direct Notes

As the preceding table illustrates, 62.5 percent of the bank's portfolio consisted of direct notes from associations and OFIs at December 31, 2013. 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, 2013, all associations were in compliance with their general financing agreements with the bank.

Loans held by district associations totaled $13.260 billion at December 31, 2013, an increase of $565.1 million, or 4.5 percent, from loan volume at December 31, 2012, due to more robust lending at the district associations. During 2013, there were increases in direct loans to 12 of the 17 associations. In 2012, association loan volume increased by $489.1 million, and in 2011, association loan volume decreased by $388.8 million. The decrease in direct association loan volume in 2011 was primarily related to general economic conditions, which resulted in a decline of demand for rural real estate, to loan repayments afforded by high commodity prices for some district borrowers, and to enhanced credit standards.

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	**2013**	2012	2011
Livestock	**34%**	35%	37%
Crops	**14**	13	13
Timber	**9**	9	10
Cotton	**4**	4	4
Poultry	**3**	3	3
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**32**	32	29
Total	**100%**	100%	100%

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

	December 31,		
	2013	2012	2011
Texas	**53%**	54%	56%
Alabama	**7**	7	8
Mississippi	**7**	7	7
Louisiana	**4**	4	4
Illinois	**4**	2	1
All other states	**25**	26	24
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)	2013	2012	2011
<$250	**24%**	24%	26%
$250-$500	**13**	13	13
$500-$1,000	**13**	13	13
$1,000-$5,000	**25**	25	26
$5,000-$25,000	**19**	20	18
$25,000-$100,000	**6**	5	4
Total	**100%**	100%	100%

Credit quality at the district's associations at December 31, 2013, 2012 and 2011 remained strong, with loans classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans of 97.6, 96.7 and 95.3 percent at December 31, 2013, 2012 and 2011, respectively. Association nonearning assets as a percentage of total loans at December 31, 2013, were 1.6 percent, compared to 2.6 percent and 3.6 percent at December 31, 2012 and 2011, respectively. The decrease from 2012 to 2013 was largely due to a $92.6 million decrease in nonaccrual loans 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,

	2013	2012	2011
Nonaccrual loans	**$ 28,132**	$ 63,697	$ 102,694
Formally restructured loans	**12,482**	12,001	2,552
Loans past due 90 days or more and still accruing interest	**—**	—	—
Other property owned, net	**13,812**	30,739	28,748
Total	**$ 54,426**	$ 106,437	$ 133,994

High-risk assets decreased by $52,011 from December 31, 2012, to $54,426 at December 31, 2013. The decrease in OPO is attributable mainly to disposals totaling $25.5 million and provisions for losses on OPO of $983, offset by $9.6 million in foreclosures on collateral underlying loans. The decrease in nonaccrual loans is attributable to repayments of $44.5 million, charge-offs of $10.2 million, transfers to OPO of $9.6 million, and transfers to accrual loans of $3.7 million, offset by transfers to nonaccrual of $28.8 million and advances on nonaccrual loans of $1.9 million. During 2013, the bank recorded charge-offs totaling $10.2 million against the allowance for loan losses due to known losses, primarily related to loans in the meatpacking plants, ethanol and land in transition sectors. At December 31, 2013, $13,239, or 47.1 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $10,562 (16.6 percent) and $52,561 (51.2 percent) at December 31, 2012 and 2011, respectively.

Allowance and Reserve for Credit Losses

The allowance for loan losses at December 31, 2013, was $13,660, compared to $17,258 at December 31, 2012, and $15,659 at December 31, 2011. The decrease from 2012 to 2013 reflects net charge-offs of $9.9 million, net of a negative reserve for credit losses in unfunded commitments of $71 and current provisions of $6.3 million. The reserve for credit losses on standby letters of credit and unfunded commitments was $5.5 million, $5.6 million and $607 at December 31, 2013, 2012 and 2011, 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 and other bank-owned loan portfolios. In the fourth quarter of 2013, the bank included a general reserve for unused loan commitments in its reserve for unfunded commitments.

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

	2013	2012	2011
Allowance and reserve for credit losses as a percentage of:			
Average loans	**0.17%**	0.21%	0.16%
Loans at year end			
Total loans	**0.16**	0.20	0.16
Participations	**0.43**	0.56	0.49
Nonaccrual loans	**68.21**	35.89	15.84
Total high-risk loans	**47.25**	30.20	15.46
Net charge-offs to average loans	**0.09**	0.19	0.28
Provision expense to average loans	**0.05**	0.25	0.16

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; monitoring the change in the market value of interest-rate-sensitive assets and liabilities under various interest rate scenarios; and simulating changes in net interest income under various interest rate scenarios.

The interest rate risk inherent in a district association's loan portfolio is substantially mitigated through its funding relationship with the bank. The bank manages 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.

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, 2013, which are expected to mature or reprice in each of the future time periods shown:

INTEREST RATE GAP ANALYSIS

as of December 31, 2013

	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	$ 1,437,603	$ 2,295,275	$ 1,862,730	**$ 5,595,608**	$ 5,434,270	$ 748,863	**$ 11,778,741**
Total investments	1,709,313	221,102	174,433	**2,104,848**	919,623	635,193	**3,659,664**
Total interest-earning assets	3,146,916	2,516,377	2,037,163	**7,700,456**	6,353,893	1,384,056	**15,438,405**
Interest-Bearing Liabilities							
Total interest-bearing funds	2,871,902	2,051,859	2,197,521	**7,121,282**	6,297,913	1,232,817	**14,652,012**
Excess of interest-earning assets over interest-bearing liabilities	—	—	—	—	—	786,393	**786,393**
Total interest-bearing liabilities	2,871,902	2,051,859	2,197,521	**7,121,282**	6,297,913	2,019,210	**$ 15,438,405**
Interest rate sensitivity gap	$ 275,014	$ 464,518	$ (160,358)	**$ 579,174**	$ 55,980	$ (635,154)	
Cumulative interest rate sensitivity gap	$ 275,014	$ 739,532	$ 579,174	**$ 579,174**	$ 635,154		

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. 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 positive gap position, indicating that the bank has an exposure to decreasing interest rates. This would occur when interest income on maturing or repricing assets decreases sooner than the maturing or repricing cycle of interest-bearing liabilities. 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 well within these guidelines. As of December 31, 2013, projected annual net interest income would increase by $13,039, or 6.34 percent, if interest rates were to increase by 100 basis points, and would decrease by $3,196, or 1.55 percent, if interest rates were to decrease by 4 basis points. Market value of equity is projected to decrease by 3.30 percent as a result of a 100-basis-point increase in interest rates and decline by less than 0.01 percent if interest rates were to decline by 4 basis points as of December 31, 2013.

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, 2013, based on the bank's interest-earning assets and interest-bearing liabilities at December 31, 2013.

Net Interest Income

Scenario	Net Interest Income	% Change
+ 200 BP Shock	$222,805	8.35%
+ 100 BP Shock	218,678	6.34
0 BP	205,639	—
– 4 BP Shock*	202,443	(1.55)

Market Value of Equity

Scenario	Assets	Liabilities	Equity	% Change
Book value	$16,212,717	$14,819,470	$1,393,247	(0.83)%
+ 200 BP Shock	15,366,353	14,087,841	1,278,512	(8.99)
+ 100 BP Shock	15,785,638	14,427,165	1,358,473	(3.30)
0 BP	16,190,023	14,785,166	1,404,857	N/A
– 4 BP Shock*	16,190,221	14,785,312	1,404,909	less than 0.01

*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, 2013, the bank had no fair value interest rate swap contracts. At December 31, 2013, the bank held interest rate caps with a notional amount of $695.0 million and a fair value of $831. 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, 2013, the bank had credit risk exposure to four counterparties on derivative contracts totaling $0.8 million. The bank's activity in derivative financial instruments for 2013 is summarized in the table below:

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	
Balance at December 31, 2012	$ 795
Maturities/amortizations	(100)
Balance at December 31, 2013	**$ 695**

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.

On September 24, 2013, the Insurance Corporation entered into 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 would then 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, 2014, unless otherwise extended. 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 when 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. In 2013, revised 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 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. The revised regulations do not materially change the liquidity management at the bank as the new requirements are not significantly different than existing management practices. At December 31, 2013, the bank met all individual level criteria and had a total of 268 days of liquidity coverage, as compared with 231 days at December 31, 2012.

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 change on long-term debt of the System from AAA to AA+ was in concert with its downgrade of the sovereign credit rating on the United States of America from AAA to AA+. Material changes to the factors considered could result in a different debt rating. However, as a result of the System's financial performance, credit quality and standing in the capital markets, we anticipate continued access to funding necessary to support System needs. The U.S. government does not guarantee, directly or indirectly, Systemwide debt securities.

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, 2013, 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 July 2, 2013, Fitch Ratings affirmed the bank's long-term and short-term issuer default ratings (IDRs) at "AA-" and "F1," respectively, while affirming the System's long-term and short-term IDRs at "AAA" and "F1," respectively. These rating actions follow Fitch's affirmation of the U.S. government's "AAA" IDR. 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 17, 2013, Fitch Ratings placed the long-term and short-term issuer default ratings, support rating and support rating floor of the Farm Credit System and all of the System banks on rating watch negative, following Fitch's placement of the U.S. government's "AAA" issuer default rating on rating watch negative on October 15, 2013.
- On July 23, 2013, Moody's Investor Service affirmed the bank's A3 (hyb) cumulative preferred stock rating, Baa1 (hyb) noncumulative preferred stock rating, Aa3 Issuer rating and A2 subordinated debt rating, as well as a stable outlook.

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

(dollars in millions)	December 31, 2013	2012	2011
Bonds and term notes outstanding	**$ 13,427**	$ 12,481	$ 11,031
Average effective interest rates	**1.13%**	1.08%	1.44%
Average remaining life (years)	**3.1**	3.0	3.1
Subordinated debt outstanding	**$ 50**	$ 50	$ 50
Average effective interest rates	**8.41%**	8.41%	8.41%
Average remaining life (years)	**4.8**	5.8	6.8
Discount notes outstanding	**$ 1,175**	$ 1,429	$ 1,614
Average effective interest rates	**0.10%**	0.17%	0.16%
Average remaining life (days)	**112**	93	149

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

	For the years ended December 31, 2013	2012	2011
Average interest-bearing liabilities outstanding	**$ 13,975**	$ 13,360	$ 12,697
Average interest rates on interest-bearing liabilities	**1.10%**	1.27%	1.54%

Investments

As permitted under FCA regulations, a bank is authorized to hold eligible investments for the purposes of maintaining a diverse source of liquidity, profitably managing short-term surplus funds and managing interest rate risk. The bank is authorized to hold an amount not to exceed 35.0 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 Investors (Moody's) Service, 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:

	2013		2012	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 135,738**	**$ 130,024**	$ 65,811	$ 65,766
Corporate debt	**250,312**	**249,579**	208,360	208,622
Federal agency collateralized mortgage-backed securities:				
GNMA	**1,690,952**	**1,680,426**	1,593,563	1,615,008
FNMA & FHLMC	**1,431,037**	**1,421,578**	1,281,140	1,297,535
Other collateralized mortgage-backed securities	**7,736**	**7,529**	28,082	26,938
Asset-backed securities	**51,320**	**51,296**	17,852	17,131
Total liquidity investments	**$ 3,567,095**	**$ 3,540,432**	$ 3,194,808	$ 3,231,000

While the bank's investments in federal agency collateralized mortgage-backed securities have remained relatively constant, demand for those instruments has resulted in smaller margins. The bank has increased investments in corporate debt 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 in June 2010 from two district associations for $159.4 million and from one association in January 2012 for $35.1 million as a part of the bank's Capitalized Participation Pool (CPP) program. 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:

	2013		2012	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 101,063**	**$ 97,423**	$ 117,567	$ 115,479

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

At December 31, 2013, the bank had seven investments which were ineligible for liquidity purposes as a result of credit downgradings. These investments had credit ratings at December 31, 2013, that were below AAA by Moody's, Standard & Poor's and Fitch Ratings. These investments had an amortized cost of $9.0 million and a fair value of $8.7 million, with an unrealized loss of $272 at December 31, 2013. To date, the FCA has not required disposition of any of these securities. While these investments do not meet the FCA's standards for liquidity, they are included in the net collateral calculation, albeit at their lower market value rather than the normal book value for qualifying investments.

During 2013, the bank recognized credit losses on the sale of five other-than-temporarily impaired investment (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.

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

	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**

*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.

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

*At December 31, 2012, due to credit rating actions in 2011 which downgraded the credit rating of the U.S. government from "AAA" to "AA+" and also lowered the long-term credit ratings of government-sponsored enterprises due to the potential reduction in the capacity of the U.S. government to support these securities, these investments were reported as eligible split-rated investments.

Capital Adequacy

Total shareholders' equity at December 31, 2013, was $1,393,247, compared to $1,273,843 and $1,210,356 at December 31, 2012 and 2011, respectively. The increase during 2013 was due primarily to net income of $179.8 million, a $300.0 million issuance of Class B Series 2 preferred stock net of costs of issuance totaling $4.1 million and a $12.5 million issuance of capital stock, offset by the redemption of the remaining $182.0 million Class A cumulative perpetual preferred stock, patronage declared and paid of $71.5 million, dividends on preferred stock totaling $49.9 million, a decrease in accumulated other comprehensive income of $60.9 million and a $4.6 million retirement of capital stock. The bank's $71.5 million in declared and paid patronage included $47.6 million in direct loan patronage, $16.9 million patronage on certain participations, $3.7 million patronage based on the associations' and OFIs' stock investment in the bank and Capitalized Participation Pool (CPP) patronage of $3.3 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.

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, $482.0 million and $482.0 million at December 31, 2013, 2012 and 2011. Preferred stock outstanding included Class A cumulative perpetual preferred stock totaling $182.0 million at December 31, 2012 and 2011, respectively. 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, 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 was required before payment of the December 31, 2013, bank investment and direct note patronage to associations and OFIs could be paid.

Accumulated other comprehensive income decreased $60.9 million, or 219.0 percent, to a $33.1 million loss at December 31, 2013, from a $27.8 million gain at December 31, 2012, due to a decrease of $64.4 million in unrealized net gains on the bank's investments, net of a $1.7 million increase related to retirement benefits and a decrease of $1.8 million in unrealized losses on the bank's cash flow hedges. The decrease in unrealized net gains on investments was primarily attributable to the effects of market interest rate changes on the bank's fixed-rate investments. The $1.7 million increase related to retirement benefits included a $1.9 million actuarial gain and $174 in amortization of prior service credits. 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 2013. The bank held no cash flow interest rate swaps at December 31, 2013 or 2012.

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,

	2013	2012	2011	Regulatory Minimum
Permanent capital ratio	**21.64%**	18.64%	20.85%	7.00%
Total surplus ratio	**17.29**	15.92	17.36	7.00
Core surplus ratio	**10.12**	9.92	10.48	3.50
Collateral ratio	**108.67**	107.94	108.27	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 2013, 2012 and 2011 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.

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

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

In February 2013, the FASB issued guidance, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date." The guidance requires entities to measure obligations from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. Further, any additional estimated amount an entity expects to pay on behalf of another entity also would be recognized at the reporting date. The accounting for guarantee obligations involving joint and several liability arrangements is not within the scope of the new guidance, as the FASB decided to retain existing authoritative accounting guidance for such guarantees. Accordingly, the existing accounting for the guarantee involving joint and several liability arrangements will not change. The new guidance becomes effective January 1, 2014, and is required to be applied retrospectively to all prior periods presented for obligations that exist as of January 1, 2014. Earlier adoption is permitted. The adoption of this guidance will not impact the financial condition or results of operations.

In July 2013, the FASB issued guidance entitled, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes." The guidance permits an entity to use the Fed Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes. Previously only interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate swap rate were considered benchmark interest rates. The benchmark interest rate is used to assess the interest rate risk associated with a hedged item's fair value or a hedged transaction's cash flows. Also, the changes remove the restriction on using different benchmark rates for similar hedges. These changes are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this guidance did not impact the financial condition or results of operations.

Regulatory Matters

As of December 31, 2013, the Farm Credit Administration had enforcement actions in place against three associations in the district, which have not had, and are not expected to have, a significant impact on the bank. The enforcement actions on two of the associations were removed by the Farm Credit Administration in January 2014.

On Tuesday, January 22, 2013, the Bureau of Consumer Financial Protection (Bureau) published a final rule that amends Regulation Z (Truth in Lending) to implement certain amendments to the Truth in Lending Act made by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Regulation Z currently requires creditors to establish escrow accounts for higher-priced mortgage loans secured by a first lien on a principal dwelling. The rule implements statutory changes made by the Dodd-Frank Act that lengthen the time for which a mandatory escrow account established for a higher-priced mortgage loan must be maintained. The rule also exempts certain transactions from the statute's escrow requirement. The primary exemption applies to mortgage transactions extended by creditors that operate predominantly in rural or underserved areas, originate a limited number of first-lien covered transactions, have assets below a certain threshold, and do not maintain escrow accounts on mortgage obligations they currently service. The rule became effective on June 1, 2013.

On Wednesday, January 30, 2013, the Bureau published a final rule amending Regulation Z, which implements the Truth in Lending Act (TILA). The rule implements sections 1411 and 1412 of the Dodd-Frank Act, which generally require creditors to make a reasonable, good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage or temporary loan) and establishes certain protections from liability under this requirement for "qualified mortgages." The rule also implements section 1414 of the Dodd-Frank Act, which limits prepayment penalties. Finally, the rule requires creditors to retain evidence of compliance with the rule for three years after a covered loan is consummated. The rule became effective on January 10, 2014.

On Thursday, January 31, 2013, the Bureau published a final rule amending Regulation Z (Truth in Lending) by expanding the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 (HOEPA), revising and expanding the tests for coverage under HOEPA, and imposing additional restrictions on mortgages that are covered by HOEPA, including a pre-loan counseling requirement. The final rule also amends Regulation Z and Regulation X (Real Estate Settlement Procedures Act) by imposing certain other requirements related to homeownership counseling, including a requirement that consumers receive information about homeownership counseling providers. The rule became effective on January 10, 2014.

On Thursday, January 31, 2013, the Bureau published a final rule amending Regulation B, which implements the Equal Credit Opportunity Act (ECOA), and the Bureau's official interpretations of the regulation, which interpret and clarify the requirements of Regulation B. The final rule revises Regulation B to implement an ECOA amendment concerning appraisals and other valuations that was enacted as part of the Dodd-Frank Act. In general, the revisions to Regulation B require creditors to provide to applicants free copies of all appraisals and other written valuations developed in connection with an application for a loan to be secured by a first lien on a dwelling, and require creditors to notify applicants in writing that copies of appraisals will be provided to them promptly. This rule became effective January 18, 2014.

On Wednesday, February 13, 2013, the Bureau, along with the Board of Governors of the Federal Reserve System; the Federal Deposit Insurance Corporation; the Federal Housing Finance Agency; the National Credit Union Administration; and the Office of the Comptroller of the Currency, Treasury; issued a final rule to amend Regulation Z and the official interpretation to the regulation. The revisions to Regulation Z implement a new provision requiring appraisals for "higher-risk mortgages" that was added to TILA by the Dodd-Frank Act. For mortgages with an annual percentage rate that exceeds the average prime offer rate by a specified percentage, the final rule requires creditors to obtain an appraisal or appraisals meeting certain specified standards, provide applicants with a notification regarding the use of the appraisals, and give applicants a copy of the written appraisals used. The final rule became effective on January 18, 2014.

On Thursday, February 14, 2013, the Bureau issued a final rule amending Regulation Z. This final rule implements provisions of the Dodd-Frank Act regarding mortgage loan servicing. Specifically, this final rule implements Dodd-Frank Act sections addressing initial rate adjustment notices for adjustable-rate mortgages, periodic statements for residential mortgage loans, prompt crediting of mortgage payments and responses to requests for payoff amounts. This final rule also amends current rules governing the scope, timing, content and format of disclosures to consumers regarding the interest rate adjustments of their variable-rate transactions. This final rule became effective on January 10, 2014.

On Thursday, February 14, 2013, the Bureau issued a final rule amending Regulation X, which implements the Real Estate Settlement Procedures Act of 1974, and implements a commentary that sets forth an official interpretation to the regulation. The final rule implements provisions of the Dodd-Frank Act regarding mortgage loan servicing. Specifically, this final rule implements Dodd-Frank Act sections addressing servicers' obligations to correct errors asserted by mortgage loan borrowers; to provide certain information requested by such borrowers; and to provide protections to such borrowers in connection with force-placed insurance. Additionally, this final rule addresses servicers' obligations to establish reasonable policies and procedures to achieve certain delineated objectives; to provide information about mortgage loss mitigation options to delinquent borrowers; to establish policies and procedures for providing delinquent borrowers with continuity of contact with servicer personnel capable of performing certain functions; and to evaluate borrowers' applications for available loss mitigation options. Further, this final rule modifies and streamlines certain existing servicing-related provisions of Regulation X. For instance, this final rule revises provisions relating to mortgage servicers' obligation to provide disclosures to borrowers in connection with transfers of mortgage servicing, and mortgage servicers' obligation to manage escrow accounts, including restrictions on purchasing force-placed insurance for certain borrowers with escrow accounts and requirements to return amounts in an escrow account to a borrower upon payment in full of a mortgage loan. This final rule became effective on January 10, 2014.

On Friday, February 15, 2013, the Bureau amended Regulation Z to implement amendments to TILA made by the Dodd-Frank Act.

The final rule implements requirements and restrictions imposed by the Dodd-Frank Act concerning loan originator compensation; qualifications of, and registration or licensing of loan originators; compliance procedures for depository institutions; mandatory arbitration; and the financing of single premium credit insurance. The final rule revises or provides additional commentary on Regulation Z's restrictions on loan originator compensation, including application of these restrictions to prohibitions on dual compensation and compensation based on a term of a transaction or a proxy for a term of a transaction, and to record-keeping requirements. The final rule also establishes tests for when loan originators can be compensated through certain profits-based compensation arrangements. This final rule is designed primarily to protect consumers by reducing incentives for loan originators to steer consumers into loans with particular terms and by ensuring that loan originators are adequately qualified. Most of the provisions of the rule became effective on January 1, 2014.

On Thursday, April 18, 2013, the Farm Credit Administration (FCA) adopted a final rule that amends its liquidity regulation. The objectives of the final rule are to: improve the capacity of Farm Credit System (FCS, Farm Credit, or System) banks to pay their obligations and fund their operations by maintaining adequate liquidity to withstand various market disruptions and adverse economic or financial conditions; strengthen liquidity management at all FCS banks; enhance the liquidity of assets that System banks hold in their liquidity reserves; require FCS banks to maintain a three-tiered liquidity reserve; establish a supplemental liquidity buffer that a bank can draw upon during an emergency and is sufficient to cover the bank's liquidity needs beyond 90 days; and strengthen each bank's Contingency Funding Plan (CFP). The final rule became effective on June 12, 2013.

On Tuesday, May 28, 2013, FCA issued a final rule to establish a regulatory framework for System institutions' use of unincorporated business entities (UBEs) organized under state law for certain business activities. A UBE includes limited partnerships (LPs), limited liability partnerships (LLPs), limited liability limited partnerships (LLLPs), limited liability companies (LLCs), and any other unincorporated business entities, such as unincorporated business trusts, organized under state law.

On Wednesday, June 12, 2013, the Bureau published a final rule amending Regulation Z, which generally prohibits a creditor from making a mortgage loan unless the creditor determines that the consumer will have the ability to repay the loan. The final rule provides an exemption to these requirements for creditors with certain designations, loans pursuant to certain programs, certain nonprofit creditors, and mortgage loans made in connection with certain federal emergency economic stabilization programs. The final rule also provides an additional definition of a qualified mortgage for certain loans made and held in portfolio by small creditors and a temporary definition of a qualified mortgage for balloon loans. Finally, the final rule modifies the requirements regarding the inclusion of loan originator compensation in the points and fees calculation. This rule became effective January 10, 2014.

On Tuesday, October 1, 2013, the Bureau published a final rule amending some of the final mortgage rules issued in January 2013. These amendments focus primarily on loss mitigation procedures under Regulation X's servicing provisions, amounts counted as loan originator compensation to retailers of manufactured homes and their employees for purposes of applying points and fees thresholds under the Home Ownership and Equity Protection Act and the Ability-to-Repay rules in Regulation Z; exemptions available to creditors that operate predominantly in "rural or underserved" areas for various purposes under the mortgage regulations; application of the loan originator compensation rules to bank tellers and similar staff; and the prohibition on creditor-financed credit insurance. The Bureau also is adjusting the effective dates for certain provisions of the loan originator compensation rules. In addition, the Bureau is adopting technical and wording changes for clarification purposes to Regulations B, X and Z. This final rule became effective on several dates in January 2014.

On Wednesday, October 30, 2013, FCA, along with the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the National Credit Union Administration (NCUA) (collectively, the Agencies) published a proposed rule to amend their regulations regarding loans in areas having special flood hazards to implement provisions of the Biggert-Waters Flood Insurance Reform Act of 2012. Specifically, the proposal would establish requirements with respect to the escrow of flood insurance payments, the acceptance of private flood insurance coverage to satisfy the mandatory purchase requirement, and the force-placement of flood insurance. The proposal also would clarify the Agencies' flood insurance regulations with respect to other amendments made by the Act and make technical corrections. The comment period for this proposed regulation expired on December 10, 2013. No final rule has been issued.

The Agricultural Act of 2014 (Farm Bill) was signed into law on February 7, 2014. This new Farm Bill will govern an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs for five years. The new Farm Bill eliminates $23 billion in mandatory federal spending, representing a significant reduction in the U.S. government farm policy support. The Farm Bill repeals direct payments and limits producers to risk management tools that offer protection when they suffer significant losses, such as insurance. The Farm Bill provides continued support for crop insurance programs, strengthens livestock disaster assistance and provides dairy producers with a voluntary margin protection program without imposing government-mandated supply controls.

Other

Two mergers of district associations became effective subsequent to December 31, 2013. The mergers of Lone Star, ACA and Texas Land Bank, ACA and of Texas AgFinance, Farm Credit Services and AgriLand, Farm Credit Services were approved by FCA and the respective associations' stockholders and became effective January 1, 2014.

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, 2013, 2012 and 2011. 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, 2013, 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

February 28, 2014

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 2013, 15 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 2013.

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, 2013, 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 2013 the committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate. Both PwC and the bank's internal auditor directly provided reports on significant matters to the committee.

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

Audit Committee Members

February 28, 2014

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, 2013. In making the assessment, management used the framework in Internal Control – Integrated Framework (1992), promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the bank concluded that as of December 31, 2013, 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, 2013. A review of the assessment performed was reported to the bank's audit committee.

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

February 28, 2014

Independent Auditor's Report

To the Board of Directors and Shareholders 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, 2013, 2012 and 2011, 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, 2013, 2012 and 2011, 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

February 28, 2014

PricewaterhouseCoopers LLP, 300 West 6th Street, Suite 1800, Austin, Texas 78701
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BALANCE SHEETS

Farm Credit Bank of Texas

(dollars in thousands)	2013	December 31, 2012	2011
Assets			
Cash	**$ 602,452**	$ 502,242	$ 424,667
Federal funds sold and overnight investments	**21,809**	24,137	20,687
Investment securities	**3,637,855**	3,346,479	3,160,683
Loans (includes $58,461, $60,310 and $0 at fair value held under fair value option)	**11,778,741**	11,338,830	10,287,377
Less allowance for loan losses	**13,660**	17,258	15,659
Net loans	**11,765,081**	11,321,572	10,271,718
Accrued interest receivable	**37,657**	35,635	41,314
Other property owned, net	**13,812**	30,739	28,748
Premises and equipment, net	**23,214**	19,349	13,814
Other assets	**110,837**	95,516	87,603
Total assets	**$ 16,212,717**	$ 15,375,669	$ 14,049,234
Liabilities and Shareholders' Equity			
Liabilities			
Bonds and notes, net	**$ 14,602,012**	$ 13,910,860	$ 12,645,541
Subordinated debt	**50,000**	50,000	50,000
Accrued interest payable	**37,749**	32,328	35,751
Reserve for credit losses	**5,529**	5,600	607
Preferred stock dividends payable	**20,063**	21,881	21,881
Other liabilities	**104,117**	81,157	85,098
Total liabilities	**14,819,470**	14,101,826	12,838,878
Commitments and contingencies (Note 12)			
Shareholders' Equity			
Preferred stock	**600,000**	482,000	482,000
Capital stock	**220,543**	212,588	216,839
Allocated retained earnings	**20,314**	16,984	14,438
Unallocated retained earnings	**585,503**	534,438	471,933
Accumulated other comprehensive (loss) income	**(33,113)**	27,833	25,146
Total shareholders' equity	**1,393,247**	1,273,843	1,210,356
Total liabilities and shareholders' equity	**$ 16,212,717**	$ 15,375,669	$ 14,049,234

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

STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Bank of Texas

(dollars in thousands)	2013	Year Ended December 31, 2012	2011
Interest Income			
Investment securities	**$ 51,266**	$ 55,315	$ 58,712
Loans	**318,217**	335,049	363,767
Total interest income	**369,483**	390,364	422,479
Interest Expense			
Bonds, notes and subordinated debt	**153,763**	169,540	195,650
Net Interest Income	**215,720**	220,824	226,829
Provision for credit losses	**6,253**	27,121	16,465
Net interest income after provision for credit losses	**209,467**	193,703	210,364
Noninterest Income			
Patronage income	**19,325**	17,231	17,028
Fees for services to associations	**3,273**	2,686	4,245
Fees for loan-related services	**20,390**	16,503	11,304
Refunds from Farm Credit System Insurance Corporation	**—**	9,820	—
Gain on loan held under fair value option	**259**	2,751	—
Other losses, net	**—**	—	(1,987)
Other income, net	**2,421**	482	182
Impairment losses on investments			
Total other-than-temporary impairment losses	**(641)**	(76)	(2,906)
Less: portion of loss recognized in other comprehensive income	**—**	—	(819)
Net impairment loss recognized in earnings	**(641)**	(76)	(2,087)
Total noninterest income	**45,027**	49,397	28,685
Noninterest Expenses			
Salaries and employee benefits	**33,496**	30,732	34,368
Occupancy and equipment	**10,058**	8,636	7,914
Insurance Fund premiums	**5,714**	2,646	2,551
Losses on other property owned	**79**	5,567	1,389
Other operating expenses	**25,327**	20,939	18,631
Total noninterest expenses	**74,674**	68,520	64,853
Net Income	**$ 179,820**	$ 174,580	$ 174,196
Other comprehensive (loss) income			
Change in postretirement benefit plans	**1,698**	(1,307)	2,037
Change in unrealized gain (loss) on investments	**(64,407)**	4,527	4,991
Change in cash flow derivative instruments	**1,763**	(533)	(3,376)
Total other comprehensive (loss) income	**(60,946)**	2,687	3,652
Comprehensive Income	**$ 118,874**	$ 177,267	$ 177,848

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, 2010	$ 482,000	$ 228,399	$ 11,144	$ 407,821	$ 21,494	$ 1,150,858
Net income	—	—	—	174,196	—	174,196
Other comprehensive income	—	—	—	—	3,652	3,652
Capital stock and allocated retained earnings issued	—	2,512	333	—	—	2,845
Capital stock retired	—	(14,072)	—	—	—	(14,072)
Preferred stock dividends accrued	—	—	—	(21,881)	—	(21,881)
Cash dividends – preferred stock	—	—	—	(21,880)	—	(21,880)
Patronage distributions						
Cash	—	—	—	(63,362)	—	(63,362)
Shareholders' equity	—	—	2,961	(2,961)	—	—
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**

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, 2013	2012	2011
Cash Flows From Operating Activities			
Net income	$ 179,820	$ 174,580	$ 174,196
Reconciliation of net income to net cash provided by operating activities			
Provision for credit losses	6,253	27,121	16,465
Provision for losses on other property owned	983	5,636	1,371
Depreciation and amortization on premises and equipment	4,116	2,990	2,466
Accretion of net discount on loans	1,763	(2,878)	(5,884)
Amortization and accretion on debt instruments	(3,366)	(3,789)	(4,319)
Accretion of net (discount) premium on investments	(106)	620	6,910
Increase in fair value of loans held under fair value option	(259)	(1,962)	—
Gain on sale of loans	(1,902)	—	—
Loss on impairment of available-for-sale investments	641	76	2,087
Allocated equity patronage from System bank	(12,406)	(12,440)	(12,460)
Gain on sales of other property owned, net	(1,119)	(366)	(105)
Gains on sales of premises and equipment	(11)	—	—
(Increase) decrease in accrued interest receivable	(2,022)	5,679	3,984
(Increase) decrease in other assets, net	(1,243)	3,586	(3,098)
Increase (decrease) in accrued interest payable	5,421	(3,423)	(8,118)
Increase (decrease) in other liabilities, net	4,340	3,827	(4,789)
Net cash provided by operating activities	180,903	199,257	168,706
Cash Flows From Investing Activities			
Net decrease (increase) in federal funds sold	2,328	(3,450)	(249)
Investment securities			
Purchases	(1,374,908)	(1,280,239)	(974,765)
Proceeds from maturities, calls and prepayments	998,889	1,087,700	887,022
Proceeds from sales	19,844	10,573	—
(Increase) decrease in loans, net	(768,883)	(1,089,455)	125,592
Proceeds from sale of loans	323,318	—	—
Proceeds from sales of other property owned, net	26,629	4,884	8,092
Proceeds from sales of premises and equipment	20	—	—
Expenditures for premises and equipment	(7,990)	(8,525)	(2,593)
Net cash (used in) provided by investing activities	(780,753)	(1,278,512)	43,099
Cash Flows From Financing Activities			
Bonds and notes issued	9,333,855	15,306,425	15,285,508
Bonds and notes retired	(8,639,246)	(14,037,395)	(15,413,746)
Preferred stock issued	300,000	—	—
Preferred stock retired	(182,000)	—	—
Issuance cost on preferred stock	(4,066)	—	—
Capital stock issued	12,625	4,608	2,845
Capital stock retired and allocated retained earnings distributed	(4,593)	(8,784)	(14,072)
Cash dividends on preferred stock	(49,931)	(43,761)	(21,880)
Cash patronage distributions paid	(66,584)	(64,263)	(62,659)
Net cash provided by (used in) financing activities	700,060	1,156,830	(224,004)
Net increase (decrease) in cash	100,210	77,575	(12,199)
Cash at beginning of year	502,242	424,667	436,866
Cash at End of Year	$ 602,452	$ 502,242	$ 424,667
Supplemental Schedule of Noncash Investing and Financing Activities			
Loans transferred to other property owned	$ 9,566	$ 12,145	$ 35,268
Net (decrease) increase in unrealized gains on investment securities	(64,407)	4,527	4,991
Preferred stock dividends payable	20,063	21,881	21,881
Patronage distributions payable	16,862	11,941	10,361
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
(Decrease) increase in bonds and notes	$ (91)	$ 78	$ (1,834)
Supplemental Disclosure of Cash Flow Information			
Interest paid	$ 148,342	$ 172,963	$ 203,768

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, 2013, 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, 16 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs), and preferred stockholders jointly owned the bank at December 31, 2013. 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. Effective April 2011, the bank decided to bill associations for direct pass-through expenses only, and not to bill for allocated expenses.

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, 2013, 2012 and 2011. 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 and, beginning in 2013, unused loan commitments, 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, net.

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, 2013, 2012 and 2011.

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. Certain qualified individuals in the bank participated in a separate nonqualified supplemental defined benefit pension plan which was terminated effective January 16, 2011.

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.

As described more fully in Note 10, "Employee Benefit Plans," the bank's supplemental pension plan was accounted for and reported in accordance with authoritative accounting guidance. 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 defined benefit 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 cash lump-sum payments to the participating bank employees after the one-year deferral period as required by Section 409A of the Internal Revenue Code. The impact of the termination and liquidation of the plan was not material to the bank's financial results and is reflected in salary and employee benefits in the December 31, 2011, statement of income. The cash lump-sum payments to the participating bank employees occurred in January 2012.

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 multi-employer 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 uses interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of authoritative accounting guidance, and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively 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 December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Balance Sheet — Disclosures About Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

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

In February 2013, the FASB issued guidance entitled, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date." The guidance requires entities to measure obligations from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. Further, any additional estimated amount an entity expects to pay on behalf of another entity also would be recognized at the reporting date. The accounting for guarantee obligations involving joint and several liability arrangements is not within the scope of the new guidance, as the FASB decided to retain existing authoritative accounting guidance for such guarantees. Accordingly, the existing accounting for the guarantee involving joint and several liability arrangements will not change. The new guidance becomes effective January 1, 2014, and is required to be applied retrospectively to all prior periods presented for obligations that exist as of January 1, 2014. Earlier adoption is permitted. The adoption of this guidance will not impact the financial condition or results of operations.

In July 2013, the FASB issued guidance entitled, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes." The guidance permits an entity to use the Fed Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes. Previously only interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate swap rate were considered benchmark interest rates. The benchmark interest rate is used to assess the interest rate risk associated with a hedged item's fair value or a hedged transaction's cash flows. Also, the changes remove the restriction on using different benchmark rates for similar hedges. These changes are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this guidance did not impact the 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 and the first quarter of 2012 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, 2013, 2012 and 2011, follow:

	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%

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

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

	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%

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

There were no investments in the held-to-maturity portfolio at December 31, 2013, December 31, 2012 or December 31, 2011.

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of available-for-sale liquidity portfolio at December 31, 2013, 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	$ —	$ —	$ —	$ 130,024	$ 130,024
Corporate debt	51,347	198,232	—	—	249,579
Federal agency collateralized mortgage-backed securities					
GNMA	—	—	35,680	1,644,746	1,680,426
FNMA and FHLMC	—	27,861	55,008	1,338,709	1,421,578
Other collateralized mortgage-backed securities	—	—	120	7,409	7,529
Asset-backed securities	—	42,997	—	8,299	51,296
Total	$ 51,347	$ 269,090	$ 90,808	$ 3,129,187	$ 3,540,432
Total amortized cost	$ 51,275	$ 269,271	$ 88,225	$ 3,158,324	$ 3,567,095
Weighted average yield	1.03%	0.87%	2.86%	1.27%	1.28%

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, 2013, the CMO portfolio had a weighted average remaining life of approximately four years.

Investments in the available-for-sale other investments portfolio at December 31, 2013, follows:

	Due after one year through five years
Fair value of agricultural mortgage-backed securities	$ 97,423
Total amortized cost	$ 101,063
Weighted average yield	4.29%

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, 2013, the bank held seven investments that were ineligible for liquidity purposes by FCA standards. Those ineligible securities had an amortized cost basis of $9.0 million and a fair value of $8.7 million at December 31, 2013.

There were sales of other-than-temporarily-impaired investments in 2013 (five securities) and in 2012 (two securities). Proceeds and related losses on sales or impairments of specific investment securities follow:

	Year Ended December 31,		
	2013	2012	2011
Proceeds on sales	**$ 19,844**	$ 10,573	$ —
Realized losses on sales	**641**	75	—
Realized losses due to impairment	**—**	1	2,087

At December 31, 2013, the bank had 94 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, 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)

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

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 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, are 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, are 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. The bank recognized other-than-temporary impairment losses on five mortgage-backed investments and one asset-backed investment during 2011. The credit portion of the impairment losses, totaling $2,087 for 2011, was recognized as a loss in earnings of $1,895 in the first quarter, and $192 in the second quarter. The non-credit-related impairment losses on the six investments, totaling $819, are included as a charge against other comprehensive income.

As the bank has no intent of selling the remaining security deemed other-than-temporarily impaired and will not more likely than not be required to sell the security before recovery, the credit loss portion of impairment has been recognized through cumulative earnings. To measure the amount related to credit loss in the determination of other-than-temporary impairment, the bank utilizes an independent third party's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan level data. Loan level data evaluated include loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The loss severity assumptions are obtained from independent third parties or through research using available data on the underlying collateral type from sources including broker/dealers and rating agencies. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses.

The following are the assumptions used at:

	December 31, 2013	
Assumptions Used	**Mortgage-backed securities**	**Asset-backed securities**
Default by range	**0.5% - 6.1%**	**8.1% - 12.4%**
Prepayments rate by range	**4.0% - 19.4%**	**2.8% - 6.8%**
Loss severity by range	**17.0% - 31.0%**	**55.9% - 59.7%**

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

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

The following 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,		
	2013	2012	2011
Credit loss component, beginning of period	**$ 5,084**	$ 9,921	$ 7,834
Additions:			
Initial credit impairment	—	—	241
Subsequent credit impairment	**641**	76	1,846
Reductions:			
For securities sold	**(5,271)**	(4,913)	—
Credit loss component, end of period	**$ 454**	$ 5,084	$ 9,921

Note 4 — Loans and Reserves for Credit Losses

Loans comprised the following categories at December 31:

	2013	2012	2011
Direct notes receivable from district associations and OFIs	**$ 7,360,025**	$ 7,250,641	$ 6,972,663
Participations purchased	**4,416,737**	4,080,135	3,296,472
Other bank-owned loans	**1,979**	8,054	18,242
Total loans	**$ 11,778,741**	$ 11,338,830	$ 10,287,377

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

	2013	2012	2011
Direct notes receivable from district associations	**$ 7,325,645**	$ 7,183,535	$ 6,889,762
Real estate mortgage	**387,766**	328,873	358,157
Production and intermediate term	**458,351**	425,312	413,077
Agribusiness			
Loans to cooperatives	**139,994**	139,671	154,942
Processing and marketing	**1,725,617**	1,544,518	1,094,211
Farm-related business	**131,366**	116,567	126,764
Communication	**230,499**	241,697	217,823
Energy (rural utilites)	**1,177,463**	1,143,723	813,577
Water and waste disposal	**114,704**	99,120	94,563
Rural home	**21**	25	29
Agricultural export finance	**19,651**	13,450	—
Mission-related	**33,284**	35,233	41,571
Loans to other financial institutions	**34,380**	67,106	82,901
Total	**$ 11,778,741**	$ 11,338,830	$ 10,287,377

The bank purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information on loan participations, excluding syndications, at December 31, 2013.

	Other Farm Credit Institutions		Non–Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 104,363	$ 154,502	$ 28,166	$ —	$ 132,529	$ 154,502
Production and intermediate term	297,849	336,958	23,940	17,623	321,789	354,581
Agribusiness	1,027,242	13,853	66,578	—	1,093,820	13,853
Communication	305,117	—	—	—	305,117	—
Energy (rural utilites)	1,347,134	3,396	—	—	1,347,134	3,396
Water and waste disposal	133,450	—	—	—	133,450	—
Agricultural export finance	19,651	—	—	—	19,651	—
Loans to other financing institutions	—	23,071	—	—	—	23,071
Direct note receivable from district associations	—	3,650,000	—	—	—	3,650,000
Mission-related	2,785	—	—	—	2,785	—
Total	**$ 3,237,591**	**$ 4,181,780**	**$ 118,684**	**$ 17,623**	**$3,356,275**	**$ 4,199,403**

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, 2013, the bank had a total of $3.650 billion of district association direct notes sold to another System bank. The sales included participations of 11 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 $58,461 at December 31, 2013. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in Noninterest Income on the Statements of Comprehensive Income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis.

The following is a summary of the transactions on loans for which the fair value option has been elected for the 12 months ended December 31, 2013:

Balance at January 1, 2013	$ 60,310
New transactions elected for fair value option	—
Maturities, repayments and calls by issuers	—
Net gains on financial instruments under fair value option	259
Change in premium amortization	(2,108)
Balance at December 31, 2013	$ 58,461

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

Commodity	**2013**	2012	2011
Livestock	**34%**	35%	37%
Crops	**14**	13	13
Timber	**9**	9	10
Cotton	**4**	4	4
Poultry	**3**	3	3
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**32**	32	29
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, 2013. These loans were transferred to accrual status in November 2013 and are included in "other bank-owned loans."

In 2011, 2012 and July 2013 the bank purchased $53,011 in loan participations from two district associations in Capitalized Participation Pool (CPP) transactions. 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, 2013, totaled $41,013.

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 and other bank-owned loans; no direct notes to district associations were impaired at December 31, 2013, 2012 and 2011.

	December 31,		
	2013	2012	2011
Nonaccrual loans			
Current as to principal and interest	**$ 13,239**	$ 10,562	$ 52,561
Past due	**14,893**	53,135	50,133
Total nonaccrual loans	**28,132**	63,697	102,694
Impaired accrual loans			
Restructured accrual loans	**12,482**	12,001	2,552
Total impaired accrual loans	**12,482**	12,001	2,552
Total impaired loans	**$ 40,614**	$ 75,698	$ 105,246

The decrease in nonaccrual loans is attributable to repayments of $44.5 million, charge-offs of $10.2 million, transfers to OPO of $9.6 million and transfers to accrual loans of $3.7 million, offset by transfers to nonaccrual of $28.8 million and advances on nonaccrual loans of $1.9 million.

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

	December 31, 2013	December 31, 2012	December 31, 2011
Nonaccrual loans:			
Real estate mortgage	**$ 5,722**	$ 36,405	$ 65,774
Production and intermediate term	**19,091**	1,441	14,190
Agribusiness	**2,148**	23,107	10,073
Communication	**—**	2,744	3,096
Energy & water waste disposal	**1,171**	—	9,043
Mission-related	**—**	—	518
Total nonaccrual loans	**28,132**	63,697	102,694
Accruing restructured loans:			
Real estate mortgage	**897**	914	132
Production and intermediate term	**8,752**	8,668	—
Agribusiness	**—**	2,419	2,420
Mission-related	**2,833**	—	—
Total accruing restructured loans	**12,482**	12,001	2,552
Total nonperforming loans	**40,614**	75,698	105,246
Other property owned, net	**13,812**	30,739	28,748
Total nonperforming assets	**$ 54,426**	$ 106,437	$ 133,994

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:

	2013	2012	2011
Real estate mortgage:			
Acceptable	**95.3%**	80.6%	69.3%
OAEM	**2.2**	6.6	10.7
Substandard/Doubtful	**2.5**	12.8	20.0
	100.0%	100.0%	100.0%
Production and intermediate term:			
Acceptable	**91.3%**	93.6%	93.1%
OAEM	**2.5**	3.7	3.0
Substandard/Doubtful	**6.2**	2.7	3.9
	100.0%	100.0%	100.0%
Agribusiness:			
Acceptable	**99.4%**	95.8%	91.5%
OAEM	**0.5**	2.3	6.1
Substandard/Doubtful	**0.1**	1.9	2.4
	100.0%	100.0%	100.0%
Energy & water/waste disposal:			
Acceptable	**98.0%**	98.0%	95.9%
OAEM	**—**	—	1.9
Substandard/Doubtful	**2.0**	2.0	2.2
	100.0%	100.0%	100.0%
Communication:			
Acceptable	**100.0%**	98.9%	98.6%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	1.1	1.4
	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%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	100.0%	100.0%	100.0%
Direct notes to associations:			
Acceptable	**97.9%**	97.7%	86.9%
OAEM	**—**	—	2.2
Substandard/Doubtful	**2.1**	2.3	10.9
	100.0%	100.0%	100.0%
Loans to other financing institutions:			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	100.0%	100.0%	100.0%
Mission-related:			
Acceptable	**92.3%**	92.6%	92.2%
OAEM	**—**	—	0.5
Substandard/Doubtful	**7.7**	7.4	7.3
	100.0%	100.0%	100.0%
Total loans:			
Acceptable	**97.9%**	96.8%	88.3%
OAEM	**0.3**	0.7	2.9
Substandard/Doubtful	**1.8**	2.5	8.8
	100.0%	100.0%	100.0%

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**	**—**
Communication	**—**	**—**	**—**	**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	—
Communication	—	—	—	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	$ —

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

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	$ 243	$ 33,597	$ 33,840	$ 327,136	$ 360,976	$ —
Production and intermediate term	—	4,316	4,316	410,173	414,489	—
Agribusiness	—	2,934	2,934	1,378,443	1,381,377	—
Energy & water/waste disposal	—	9,043	9,043	905,249	914,292	—
Communication	—	—	—	218,123	218,123	—
Rural residential real estate	—	—	—	29	29	—
Direct notes to associations	—	—	—	6,908,416	6,908,416	—
Loans to OFIs	—	—	—	83,023	83,023	—
Mission-related	—	—	—	41,792	41,792	—
Total	$ 243	$ 49,890	$ 50,133	$ 10,272,384	$ 10,322,517	$ —

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, 2013, the total recorded investment of troubled debt restructured loans was $17,563, including $5,081 classified as nonaccrual and $12,482 classified as accrual, with specific allowance for loan losses of $2,717.

There was one troubled debt restructuring (TDR) during 2013 on a mission-related loan 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.

Additional commitments to lend to borrowers whose loans have been modified in TDRs were $32 at December 31, 2013. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2012.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the year ended December 31, 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.

	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, 2013	December 31, 2012	December 31, 2011	**December 31, 2013**	December 31, 2012	December 31, 2011
Real estate mortgage	**$ 3,830**	$ 2,657	$ 3,032	**$ 2,933**	$ 1,743	$ 2,900
Production and intermediate term	**8,752**	8,668	9,098	**—**	—	9,098
Agribusiness	**2,148**	5,352	5,353	**2,148**	2,933	2,933
Mission-related	**2,833**	—	—	**—**	—	—
Total	**$17,563**	$16,677	$17,483	**$5,081**	$4,676	$14,931

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	—
Communication	—	—	—	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	—	—	—
Communication	—	—	—	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	—
Communication	—	—	—	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	—
Communication	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	—
Communication	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	—
Communication	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.

Additional impaired loan information at December 31, 2011, 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	$ 32,700	$ 44,635	$ 6,693	$ 40,888	$ 22
Production and intermediate term	2,982	3,015	37	2,741	12
Processing and marketing	3,217	3,487	2,155	9,190	4
Energy & water/waste disposal	9,043	9,043	850	8,511	—
Communication	2,455	2,455	2,000	2,504	—
Total	$ 50,397	$ 62,635	$ 11,735	$ 63,834	$ 38
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 33,206	$ 33,241	$ —	$ 61,339	$ 924
Production and intermediate term	11,208	11,208	—	11,763	279
Processing and marketing	9,276	11,640	—	7,158	157
Energy & water/waste disposal	—	8,575	—	1	4
Communication	641	641	—	1,278	—
Mission-related	518	3,657	—	2,534	1
Total	$ 54,849	$ 68,962	$ —	$ 84,073	$ 1,365
Total impaired loans:					
Real estate mortgage	$ 65,906	$ 77,876	$ 6,693	$ 102,227	$ 946
Production and intermediate term	14,190	14,223	37	14,504	291
Processing and marketing	12,493	15,127	2,155	16,348	161
Energy & water/waste disposal	9,043	17,618	850	8,512	4
Communication	3,096	3,096	2,000	3,782	—
Mission-related	518	3,657	—	2,534	1
Total	$ 105,246	$ 131,597	$ 11,735	$ 147,907	$ 1,403

*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:

	2013	2012	2011
Interest income which would have been recognized under the original loan terms	**$ 4,167**	$ 5,476	$ 6,374
Less: interest income recognized	**1,589**	2,263	1,403
Foregone interest income	**$ 2,578**	$ 3,213	$ 4,971

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, 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 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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses:										
Balance at December 31, 2010	$ 16,836	$ 1,323	$ 5,242	$ 3,417	$ 1,809	$ 4	$ —	$ —	$ 47	$ 28,678
Charge-offs	(19,278)	(641)	(3,469)	—	(3,319)	—	—	—	(3,139)	(29,846)
Recoveries	12	—	328	—	315	—	—	—	—	655
Provision for credit losses	9,835	(258)	1,995	(1,254)	3,046	(4)	—	—	3,105	16,465
Other	(293)	—	—	—	—	—	—	—	—	(293)
Balance at December 31, 2011	$ 7,112	$ 424	$ 4,096	$ 2,163	$ 1,851	$ —	$ —	$ —	$ 13	$ 15,659
Individually evaluated for impairment	$ 5,466	$ —	$ 2,155	$ 2,000	$ 850	$ —	$ —	$ —	$ —	$ 10,471
Collectively evaluated for impairment	$ 419	$ 387	$ 1,941	$ 163	$ 1,001	$ —	$ —	$ —	$ 13	$ 3,924
Loans acquired with deteriorated credit quality	$ 1,227	$ 37	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,264
Balance at December 31, 2011	$ 7,112	$ 424	$ 4,096	$ 2,163	$ 1,851	$ —	$ —	$ —	$ 13	$ 15,659
Recorded Investments in Loans Outstanding										
Balance at December 31, 2011	$ 360,976	$ 414,489	$ 1,381,377	$ 218,123	$ 914,292	$ 29	$ 6,908,416	$ 83,023	$ 41,792	$ 10,322,517
Ending Balance for loans individually evaluated for impairment	$ 65,907	$ 14,189	$ 12,493	$ 3,096	$ 9,043	$ —	$ —	$ —	$ 518	$ 105,246
Ending Balance for loans collectively evaluated for impairment	$ 287,211	$ 395,209	$ 1,368,884	$ 215,027	$ 905,249	$ 29	$ 6,908,416	$ 83,023	$ 41,274	$ 10,204,322
Ending Balance for loans acquired with deteriorated credit quality	$ 7,858	$ 5,091	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 12,949

The bank's reserves for credit losses include the allowance for loan losses and a reserve for losses on unfunded commitments, including letters of credit and, beginning in the fourth quarter of 2013, unused loan commitments. At December 31, 2013, 2012 and 2011, the reserve totaled $5.5 million, $5.6 million and $607, 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,		
	2013	2012	2011
Leasehold improvements	**$ 1,654**	$ 1,237	$ 1,158
Computer equipment & software	**35,950**	28,763	20,800
Furniture and equipment	**2,545**	2,625	2,627
	40,149	32,625	24,585
Accumulated depreciation	**(16,935)**	(13,276)	(10,771)
Total	**$ 23,214**	$ 19,349	$ 13,814

Included in the bank's computer equipment and software at December 31, 2013, is $7.8 million in capitalized costs related to the bank's development of a lending system. The system, designed for participation loans and direct notes, was implemented effective July 2010. Depreciation on that system began upon implementation. Also included in computer equipment and software is $8.5 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. Depreciation on the delivery systems began upon implementation in 2012.

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 $3.1 million, $3.4 million and $3.4 million for 2013, 2012 and 2011, respectively.

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

	Minimum Lease Payments
2014	$ 1,101
2015	1,856
2016	2,266
2017	2,333
2018	2,403
Thereafter	15,042
Total minimum lease payments	$ 25,001

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 $13,812, $30,739 and $28,748 at December 31, 2013, 2012 and 2011, respectively. OPO at December 31, 2013, consisted of $4,190 in four interests in real estate and $9,622 in preferred and common stock of one borrower.

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

	December 31:		
	2013	2012	2011
Gain on sale, net	**$ 1,119**	$ 366	$ 105
Carrying value adjustments	**(983)**	(5,636)	(1,371)
Operating expense, net	**(215)**	(297)	(123)
Net (loss) gain on other property owned	**$ (79)**	$ (5,567)	$ (1,389)

Note 7 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2013	2012	2011
Investment in other System bank	**$ 72,286**	$ 59,879	$ 47,439
Other accounts receivable	**20,083**	18,978	23,204
Unamortized debt issue costs	**12,696**	11,531	11,123
Fair value of derivatives	**831**	756	1,726
Other, net	**4,941**	4,372	4,111
Total	**$ 110,837**	$ 95,516	$ 87,603

Other liabilities comprised the following at December 31:

	2013	2012	2011
Payable to associations for cash management services	**$ 29,066**	$ 35,617	$ 29,619
Accounts payable – participations	**23,508**	3,592	14,765
Accounts payable - other	**8,874**	2,659	6,516
Patronage payable	**16,862**	12,941	10,361
Obligation for nonpension postretirement benefits	**8,274**	9,764	8,359
Mortgage life additional reserve	**3,448**	3,652	3,762
FCSIC premium payable	**5,714**	2,646	2,551
Supplemental pension	—	—	2,844
Accrued building lease payable	**2,103**	1,357	1,336
Fair value of derivatives	—	—	486
Other, net	**6,268**	8,929	4,499
Total	**$ 104,117**	$ 81,157	$ 85,098

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, 2013, the bank had such specified eligible assets totaling $16.1 billion and obligations and accrued interest payable totaling $14.7 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, 2013, 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, 2013, 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
2014	$ 3,896.7	0.40%	$ 1,174.6	0.10%	$ 5,071.3	0.33%
2015	2,422.3	0.61	—	—	2,422.3	0.61
2016	1,714.5	0.94	—	—	1,714.5	0.94
2017	1,789.9	1.36	—	—	1,789.9	1.36
2018	1,040.9	1.50	—	—	1,040.9	1.50
Subsequent years	2,563.1	2.54	—	—	2,563.1	2.54
Total	$ 13,427.4	1.13%	$ 1,174.6	0.10%	$ 14,602.0	1.05%

In the preceding table, the weighted average interest rate reflects the effects of interest rate swaps and 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, 2013, was 112 days.

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2013 *(dollars in thousands)*:

Year of Maturity	Amount	Range of First Call Dates
2014	$ 200,000	1/19/2014-1/30/2014
2015	1,090,000	1/3/2014-12/23/2014
2016	1,240,000	1/2/2014-11/14/2014
2017	1,010,000	1/1/2014-11/13/2014
2018	747,060	1/1/2014-12/11/2014
Subsequent years	1,391,781	1/1/2014-3/1/2018
Total	$ 5,678,841	1/1/2014-3/1/2018

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, 2013, the assets of the Insurance Fund aggregated $3.5 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.

On September 24, 2013, the Insurance Corporation entered into 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 would then 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, 2014, unless otherwise extended. 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 when 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 2011, Class A preferred stock dividends of $13,761 were declared and paid. At December 31, 2011, dividends payable on Class A preferred stock totaled $6,881. 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 three hundred thousand shares at $1,000 per share par value for net proceeds of $296.6 million. The net proceeds of the issuance were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B-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 junior, both as to dividends and upon liquidation, to Class A preferred stock, and 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 will require 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 2011, Class B-1 preferred stock dividends totaling $30.0 million were declared and paid. At December 31, 2011, dividends payable on Class B preferred stock totaled $15.0 million. In 2012, Class B preferred stock dividends totaling $30.0 million were declared and paid. At December 31, 2012, dividends payable on Class B preferred stock totaled $15.0 million. In 2013, Class B-1 preferred stock dividends totaling $30.0 million were declared and paid. At December 31, 2013, dividends payable on Class B 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 junior, both as to dividends and upon liquidation, to the bank's Class A preferred stock, 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. At December 31, 2013, dividends payable on Class B 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 43,855 shares, 42,226 shares and 43,078 shares of Class A voting common stock issued and outstanding at December 31, 2013, 2012 and 2011, respectively. Class A voting common stock includes 1,039 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 253 shares, 291 shares and 290 shares of Class A nonvoting common stock issued and outstanding at December 31, 2013, 2012 and 2011, respectively. One OFI paid off its direct note in December 2011, resulting in a retirement of stock of $231.

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

Allocated retained earnings of $14,438 at December 31, 2011, consisted of $1,686 of patronage refunds allocated to certain PCAs, and $12,752 allocated equity for the payment of patronage on loans participated with another System bank.

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

	2013	2012	2011
Class A voting common stock – Associations	**$ 219,277**	$ 211,133	$ 215,389
Class A nonvoting common stock – Other Financing Institutions	**1,266**	1,455	1,450
Total common stock	**220,543**	212,588	216,839
Preferred stock	**600,000**	482,000	482,000
Allocated retained earnings			
Associations	**1,838**	1,761	1,686
Other entities	**18,476**	15,223	12,752
Total allocated retained earnings	**20,314**	16,984	14,438
Total capital stock and allocated retained earnings	**$ 840,857**	$ 711,572	$ 713,277

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 2013, $71,505 in cash patronages were declared to district associations, OFIs and other entities, compared to $65,843 in 2012 and $63,362 in 2011. Cash patronage in 2013 consisted of direct loan patronage of $47,595, patronage on certain participations of $16,900, patronage on association and OFI investment in the bank of $3,692, and capitalized participation pool patronage of $3,318.

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:

	2013	2012	2011	Regulatory Minimum
Permanent capital ratio	**21.64%**	18.64%	20.85%	7.00%
Total surplus ratio	**17.29**	15.92	17.36	7.00
Core surplus ratio	**10.12**	9.92	10.48	3.50
Collateral ratio	**108.67**	107.94	108.27	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, 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)

Following is a summary of the components of accumulated other comprehensive income (loss) (AOCI) and the changes occurring during the year ended December 31, 2011:

	Total	Unrealized Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2011	$ 21,494	$ 24,586	$ (786)	$ (2,306)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	5,680	5,680		
Increase in noncredit portion of other-than-temporary impairment (OTTI) losses	(2,776)	(2,776)		
Reclassification adjustment for OTTI credit losses included in net income	2,087	2,087		
Net change in unrealized gains (losses) on securities	4,991	4,991		
Change in retirement benefit plans				
Actuarial gains	321		321	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	1,212		1,212	
Amortization of net losses	504		504	
Net change in retirement benefit plans	2,037		2,037	
Change in cash flow derivative instruments				
Losses on interest rate caps	(3,437)			(3,437)
Losses on cash flow interest rate swaps	5			5
Reclassification of loss recognized in interest expense	56			56
Net change in cash flow derivative instruments	(3,376)			(3,376)
Total other comprehensive income (loss)	3,652	4,991	2,037	(3,376)
Balance, December 31, 2011	$ 25,146	$ 29,577	$ 1,251	$ (5,682)

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
	2013	2012	
Unrealized Losses on Securities			
Holding losses on other-than-temporarily-impaired securities	**$ —**	$ (1)	Impairment losses on investments
Losses on sales of other-than-temporarily-impaired securities	**(641)**	(75)	Impairment losses on investments
Retirement Benefit Plans			
Amortization of prior service credits	**192**	235	Salaries and employee benefits
Amortization of net actuarial losses	**(18)**	—	Salaries and employee benefits
Cash Flow Derivative Instruments			
Losses on cash flow derivatives	**(1,597)**	(539)	Interest expense
	$ (2,064)	$ (380)	

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 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. 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, 2013.

Additionally, certain qualified individuals in the bank participated in a separate, nonqualified defined benefit supplemental pension plan. The bank accrued the cost and liability of the supplemental pension plan as incurred, and not as contributions were required.

The risks of participating in these multiemployer plans 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, 2013, 2012 and 2011:

	2013	2012	2011
Funded status of plan	**77.3%**	65.0%	64.9%
Bank's contribution	**$ 2,977**	$ 2,697	$ 3,635
Percentage of bank's contribution to total contributions	**18.1%**	17.1%	15.9%

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 86.1 percent, 72.7 percent and 72.6 percent at December 31, 2013, 2012 and 2011, 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. Actuarial information regarding the bank's nonqualified supplemental pension plan's benefit obligations and funded status is disclosed in the following tables.

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 2013) 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 $11, $10 and $2 were made to this plan for the years ended December 31, 2013, 2012 and 2011. Distributions from the plan in 2013 totaled $85. The present value of accumulated benefits and funded balance in the plan totaled $182 at December 31, 2013.

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

	2013	2012	2011
District DB plan	**$ 2,977**	$ 2,697	$ 3,635
Supplemental DB plan	**—**	—	3,208
DC plan	**1,014**	868	822
401(k) plan	**837**	745	717
Supplemental 401(k) plan	**11**	10	2
Total	**$ 4,839**	$ 4,320	$ 8,384

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 after the one-year deferral period as required by Section 409A of the Internal Revenue Code. The impact of the termination and liquidation of the plan was not material to the bank's financial results and was reflected in salary and employee benefits in the December 31, 2011, statement of income.

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 at their expense but will be responsible for 100 percent of the related premiums.

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					
	2013	2012	2011	**2013**	2012	2011
Accumulated benefit obligation, end of year	**$ —**	$ —	$ 2,844			
Change in projected benefit obligation						
Benefit obligation, beginning of year	**$ —**	$ 2,844	$ 1,905	**$ 9,764**	$ 8,348	$ 8,153
Service cost	**—**	—	—	**275**	228	219
Interest cost	**—**	—	95	**423**	418	455
Plan participants' contributions	**—**	—	—	**125**	156	165
Plan amendments	**—**	—	—	**—**	—	—
Settlements	**—**	—	—	**—**	—	—
Curtailment loss	**—**	—	1,108	**—**	—	—
Actuarial (gain) loss	**—**	—	(187)	**(1,872)**	1,072	(133)
Benefits paid	**—**	(2,844)	(77)	**(441)**	(458)	(511)
Projected benefit obligation, end of year	**$ —**	$ —	$ 2,844	**$ 8,274**	$ 9,764	$ 8,348
Change in plan assets						
Plan assets at fair value, beginning of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Actual return on plan assets	**—**	—	—	**—**	—	—
Company contributions	**—**	2,844	77	**316**	302	346
Plan participants' contributions	**—**	—	—	**125**	156	165
Benefits paid	**—**	(2,844)	(77)	**(441)**	(458)	(511)
Plan assets at fair value, end of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Funded status	$ —	$ —	$ (2,844)	**$ (8,274)**	$ (9,764)	$ (8,348)
Amounts recognized in the balance sheets consist						
Pension liabilities	**$ —**	$ —	$ —	$ **(8,274)**	$ (9,764)	$ (8,348)
Accumulated other comprehensive income (loss)	**—**	—	—	**(1,642)**	56	(1,251)
Amounts recognized in accumulated other comprehensive income						
Net actuarial loss (gain)	**$ —**	$ —	$ —	**$ (753)**	$ 1,137	$ 65
Prior service cost (credit)	**—**	—	—	**(889)**	(1,081)	(1,316)
Total	**$ —**	$ —	$ —	**$ (1,642)**	$ 56	$ (1,251)
Net periodic benefit cost						
Service cost	**$ —**	$ —	$ —	**$ 275**	$ 228	$ 219
Interest cost	**—**	—	95	**423**	418	455
Expected return on plan assets	**—**	—	—	**—**	—	—
Amortization of:						
Transition obligation (asset)	**—**	—	—	**—**	—	—
Prior service cost (credit)	**—**	—	—	**(192)**	(235)	(289)
Net actuarial loss	**—**	—	64	**18**	—	—
Net periodic benefit cost	**$ —**	$ —	$ 159	**$ 524**	$ 411	$ 385
Settlement/curtailment expense	**—**	—	3,049	**—**	—	—
Total benefit cost	**$ —**	$ —	$ 3,208	**$ 524**	$ 411	$ 385
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income						
Net actuarial (gain) loss	**$ —**	$ —	$ (187)	**$ (1,872)**	$ 1,072	$ (133)
Amortization of net actuarial gain	**—**	—	(505)	**—**	—	—
Settlement expense	**—**	—	—	**—**	—	—
Prior service costs	**—**	—	—	**—**	—	—
Amortization of prior service costs	**—**	—	(1,501)	**192**	235	289
Termination recognition of prior service costs	**—**	—	—	**(18)**	—	—
Net change	**$ —**	$ —	$ (2,193)	**$ (1,698)**	$ 1,307	$ 156
AOCI amounts expected to be amortized in 2014						
Prior service cost (credit)	**$ —**			**$ (192)**		
Net actuarial loss (gain)	**—**			**—**		
Total	**$ —**			**$ (192)**		

	Supplemental Pension Benefits			Other Postretirement Benefits		
Weighted-average assumptions used to determine benefit obligation as of December 31						
Measurement date	**12/31/2013**	12/31/2012	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%
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
Weighted-average assumptions used to determine net periodic cost for year ended December 31						
Measurement date	**12/31/2012**	12/31/2011	12/31/2010	**12/31/2012**	12/31/2011	12/31/2010
Discount rate	**N/A**	N/A	3.15%	**4.40%**	5.10%	5.70%
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	3.0%			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**7.25%/6.50%**	8.5%/6.75%	7.5%/6.5%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**7.75%**	8.00%	10.00%
Ultimate health care cost trend rate				**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				**2023**	2018	2017

Effect of Change in Assumed Health Care Cost Trend Rates

Effect on total service cost and interest cost components	
One-percentage-point increase	**$ 116**
One-percentage-point decrease	**(93)**
Effect on year-end postretirement benefit obligation	
One-percentage-point increase	**1,364**
One-percentage-point decrease	**(1,113)**

Expected Future Cash Flow Information

	Supplemental Pension Benefits	**Other Postretirement Benefits**
Expected Benefit Payments		
Fiscal 2014	$ –	**$ 322**
Fiscal 2015	–	**361**
Fiscal 2016	–	**417**
Fiscal 2017	–	**454**
Fiscal 2018	–	**448**
Fiscal 2019 - 2023	–	**2,549**
Expected Contributions		
Fiscal 2014	$ –	**$ 322**

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 $175,115, $194,211 and $244,215 for 2013, 2012 and 2011, 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 $3,273, $2,686 and $4,245 for 2013, 2012 and 2011, respectively, and was included in the bank's noninterest income. Effective in April 2011, the bank will only bill associations for direct pass-through expenses and no longer bills for allocated expenses.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2013, 2012 or 2011.

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, 2013, were approximately $207.5 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, 2013, $2.702 billion of commitments to extend credit and $93.9 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, 2013, $93.9 million of standby letters of credit with a fair value of $1.2 million was included in other liabilities. Outstanding standby letters of credit generally have expiration dates ranging from 2014 to 2020.

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, 2013, 2012 and 2011, the bank had a reserve for losses on letters of credit and unfunded commitments of $5.5 million, $5.6 million and $607, 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, 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	$ —

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-Guaranteed Debt	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

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

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. The net purchases and settlements in agricultural mortgage-backed securities include the bank's purchase of additional AMBS from a district association during the quarter ended March 31, 2012. At 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

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

Fair Value Measurement at December 31, 2011

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 20,687**	$ —	$ 20,687	$ —
Investments available-for-sale	**3,160,683**	—	2,922,977	237,706
Derivative assets	**1,726**	—	1,726	—
Assets held in nonqualified benefit trusts	**280**	280	—	—
Total assets	**$ 3,183,376**	$ 280	$ 2,945,390	$ 237,706
Liabilities:				
Derivative liabilities	**$ 486**	$ —	$ 486	$ —
Standby letters of credit	**2,320**	—	2,320	—
Total liabilities	**$ 2,806**	$ —	$ 2,806	$ —

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

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

Fair Value Measurement at December 31, 2011

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 103,908**	$ —	$ —	$ 103,908	$ (29,847)
Other property owned	**28,748**	—	—	28,748	(1,389)
Total assets	**$ 132,656**	$ —	$ —	$ 132,656	$ (31,236)

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

	Corporate Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Total
Available-for-sale investment securities:					
Balance at January 1, 2011	$ —	$ 100,385	$ 140,503	$ 6,760	$ 247,648
Net (losses) gains included in other comprehensive income	(842)	(2,286)	2,943	131	(54)
Net losses included in earnings	—	(1,934)	—	(153)	(2,087)
Purchases, issuances and settlements	83,306	85,440	(32,525)	(3,288)	132,933
Transfers out of Level 3	—	(140,734)	—	—	(140,734)
Balance at December 31, 2011	$82,464	$ 40,871	$ 110,921	$ 3,450	$ 237,706
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2011	$ —	$ 1,934	$ —	$ 153	$ 2,087

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, 2013					December 31, 2012					December 31, 2011	
		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	**$ 602,452**	$ 602,452	$ –	$ –	$ 602,452	$ 502,242	$ 502,242	$ –	$ –	$ 502,242	$ 424,667	$ 424,667
Net loans	**11,686,981**	–	–	11,655,947	11,655,947	11,209,493	–	–	11,366,931	11,366,931	10,167,810	10,512,453
Total assets	**$ 12,289,433**	$ 602,452	$ –	$ 11,655,947	$ 12,258,399	$ 11,711,735	$ 502,242	$ –	$ 11,366,931	$ 11,869,173	$ 10,592,477	$ 10,937,120
Liabilities:												
Systemwide debt securities	**$ 14,602,012**	$ –	$ –	$ 14,563,935	$ 14,563,935	$ 13,910,860	$ –	$ –	$ 14,124,485	$ 14,124,485	$ 12,645,541	$ 12,868,118
Subordinated debt	**50,000**	–	–	54,407	54,407	50,000	–	–	56,945	56,945	50,000	56,963
	$ 14,652,012	$ –	$ –	$ 14,618,342	$ 14,618,342	$ 13,960,860	$ –	$ –	$ 14,181,430	$ 14,181,430	$ 12,695,541	$ 12,925,081

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, 2013, Level 3 securities included primarily certain non-agency mortgage-backed and asset-backed securities valued using independent third-party valuation services. Level 3 assets at December 31, 2013, 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 basic interest rate swaps and 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.

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 swaps	Discounted cash flow	Appropriate interest rate yield curve
Interest rate swaps	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, subordinated debt and other bonds	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 enters 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, 2013, 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, 2013, the bank held interest rate caps with a notional amount of $695.0 million and a fair value of $831. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the year ended December 31, 2013, is summarized in the following table:

	Receive Fixed Swaps	Pay Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2013	$ 100,000	$ —	$ 695,000	$ 795,000
Additions	—	—	—	—
Maturities/Amortizations	(100,000)	—	—	(100,000)
Balance at December 31, 2013	**$ —**	**$ —**	**$ 695,000**	**$ 695,000**

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, 2013, 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	$ —	$ 0.1	$ —	$ 0.1	$ —	$ 0.1	$ —	$ 0.1
A2	—	—	—	—	—	—	—	—
Aa3	—	—	0.7	0.7	—	0.7	—	0.7

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, 2013, the bank held interest rate caps with a notional amount of $695.0 million and a fair value of $831, 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, 2013, 2012 and 2011:

	Balance Sheet Location	Fair Value 2013	Fair Value 2012	Fair Value 2011	Balance Sheet Location	Fair Value 2013	Fair Value 2012	Fair Value 2011
Receive fixed	Other assets	$ —	$ 91	$ 499	Other liabilities	$ —	$ —	$ 486
Pay fixed	Other assets	—	—	—	Other liabilities	—	—	—
Interest rate caps	Other assets	831	665	1,227	Other liabilities	—	—	—

The following table sets forth the amount of gain (loss) recognized in Other Comprehensive Income (OCI) for the year ended December 31, 2012 and 2011:

	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) December 31, 2013	2012
Interest rate caps	**$ 166**	$ (1,072)
Cash flow derivatives	—	—

	Amount of Gain Reclassified From AOCI Into Income (Effective Portion) December 31, 2013	2012
Interest expense	**$ 1,597**	$ 539

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, 2013	Maturities of 2013 Derivative Products and Other Financial Instruments							
($ in millions)	2014	2015	2016	2017	2018	Subsequent Years	Total	Fair Value
Total Systemwide debt obligations:								
Fixed rate	$ 3,151	$ 1,722	$ 1,715	$ 1,790	$ 1,041	$ 2,563	$ 11,982	$ 11,942
Weighted average interest rate	0.46%	0.80%	0.94%	1.36%	1.50%	2.54%	1.25%	
Variable rate	$ 1,920	$ 700	$ —	$ —	$ —	$ —	$ 2,620	$ 2,622
Weighted average interest rate	0.12%	0.14%	—	—	—	—	0.13%	
Total Systemwide debt obligations	$ 5,071	$ 2,422	$ 1,715	$ 1,790	$ 1,041	$ 2,563	$ 14,602	$ 14,564
Weighted average interest rate	0.33%	0.61%	0.94%	1.36%	1.50%	2.54%	1.05%	
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	$ 130	$ 325	$ 140	$ 50	$ —	$ 50	$ 695	$ 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:

	2013				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 55,698**	**$ 54,500**	**$ 53,261**	**$ 52,261**	**$ 215,720**
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

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 59,976	$ 56,862	$ 52,549	$ 57,442	$ 226,829
Provision for credit losses	10,452	(520)	559	5,974	16,465
Noninterest expense (income), net	7,719	7,920	7,539	12,990	36,168
Net income	$ 41,805	$ 49,462	$ 44,451	$ 38,478	$ 174,196

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.

	Year Ended December 31,		
Balance Sheet Data	**2013**	2012	2011
Cash	**$ 7,604**	$ 10,600	$ 8,052
Investment securities	**55,669**	69,075	127,245
Loans	**13,260,228**	12,695,132	12,205,997
Less allowance for loan losses	**60,504**	89,584	98,458
Net loans	**13,199,724**	12,605,548	12,107,539
Accrued interest receivable	**114,131**	111,173	118,908
Other property owned, net	**33,330**	67,472	59,208
Other assets	**334,355**	321,533	314,186
Total assets	**$ 13,744,813**	$13,185,401	$12,735,138
Notes payable	**$ 10,962,399**	$10,570,291	$10,286,567
Other liabilities	**312,219**	276,076	245,109
Total liabilities	**11,274,618**	10,846,367	10,531,676
Capital stock and participation certificates	**80,696**	81,140	81,311
Retained earnings	**2,387,250**	2,264,408	2,122,288
Accumulated other comprehensive income (loss)	**2,249**	(6,514)	(137)
Total shareholders' equity	**2,470,195**	2,339,034	2,203,462
Total liabilities and shareholders' equity	**$ 13,744,813**	$13,185,401	$12,735,138

Income Statement	Year Ended December 31, 2013	2012	2011
Interest income	**$ 619,951**	$ 617,189	$ 654,338
Interest expense	**200,744**	218,806	269,164
Net interest income	**419,207**	398,383	385,174
Provision for loan losses	**55**	6,510	28,583
Net interest income after provision for loan losses	**419,152**	391,873	356,591
Noninterest income	**74,662**	89,101	74,232
Other expense	**188,469**	181,041	186,458
(Benefit from) provision for income taxes	**(160)**	985	1,175
Net income	**$ 305,505**	$ 298,948	$ 243,190

Note 18 — Subsequent Events

Two mergers of district associations became effective subsequent to December 31, 2013. The mergers of Lone Star, ACA and Texas Land Bank, ACA and of Texas AgFinance, Farm Credit Services and AgriLand, Farm Credit Services were approved by FCA and the respective associations' stockholders and became effective January 1, 2014.

The bank has evaluated subsequent events through February 28, 2014, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of February 28, 2014.

DESCRIPTION OF BUSINESS

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

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

Board of Directors and Senior Officers

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

The following represents certain information regarding the board of directors and senior officers of the bank as of December 31, 2013, including business experience during the past five years:

DIRECTORS

James F. Dodson, 60, joined the board of directors in 2003, and his current term expires December 31, 2014. He served as vice chairman from 2009 through 2011, and was elected chairman in January 2012. He is a past chairman of the Texas AgFinance, FCS Board of Directors and a former member of the Texas District's Stockholders Advisory Committee. He is chairman of the Tenth District Farm Credit Council board and serves on the bank's audit and compensation committees. He is a member of the Texas Agricultural Cooperative Council Board of Directors. Dodson grows cotton, corn and milo, and operates a seed sales business with his family in Robstown, Texas. He is the president of Dodson Farms, Inc. and Dodson Ag, Inc., both family-owned cotton and milo operations, and is a partner in Legacy Farms and 3-D Farms, which are farming operations. He is also a partner in Weber Greene Ltd. and managing partner in Weber Station LLC, both of which are farm real estate management companies. Dodson is past chairman of the board of the National Cotton Council of America, a trade organization, and serves on the boards of Gulf Coast Cooperative, an agricultural retail cooperative, and the South Texas Cotton and Grain Association, a trade organization. He is also past chairman of the American Cotton Producers of the National Cotton Council of America, a trade organization. He formerly served on the board of Cotton Incorporated and is former chairman of the Cotton Foundation, both trade organizations.

Lester Little, 63, joined the board of directors in 2009 and his term will expire December 31, 2014. He was elected vice chairman in January 2012. Prior to joining the bank board, Little was chairman of the Capital Farm Credit Board of Directors and previously served as vice chairman of the Texas District's Stockholders Advisory Committee. He also was a member of the district's Association Business Advisory Committee. Little is a member of the bank's audit and compensation committees. He is also a member of the Tenth District Farm Credit Council. He is from Hallettsville, Texas, and owns and operates a farm headquartered in Lavaca County, Texas, with operations in Bexar and Brazoria counties. His principal crops include corn, milo, hay and wheat. Little also offers custom-farming services, primarily reclaiming farms and handling land preparation. 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. Little 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 was board chairman of Hallettsville Independent School District Board of Trustees.

Brad C. Bean, 53, was elected to his first term on the board of directors effective January 1, 2013, and his current term expires December 31, 2015. He serves as vice chairman of the bank's audit committee and is a member of the bank's compensation committee. He is also a member of the Tenth District Farm Credit Council. Bean is a dairy farmer from Gillsburg, Mississippi, with other farming interests, including corn, sorghum and timber. He serves on the boards of Amite County Farm Bureau and Amite County

Cooperative and is secretary-treasurer of the American Dairy Association of Mississippi, all of which are trade organizations. Bean is a former vice chairman of the Texas District's Stockholders Advisory Committee and former chairman of the Southern AgCredit, ACA Board of Directors.

Ralph W. Cortese, 67, joined the board of directors in 1995, and his current term expires December 31, 2016. Cortese served as chairman from 2000 through 2011. Prior to joining the bank board, Cortese was chairman of the PCA of Eastern New Mexico Board of Directors. Early in his career, he was employed by the Federal Intermediate Credit Bank of Wichita and was vice president of Roswell PCA. He is president of Cortese Farm and Ranch Inc., a farming and ranching operation, and is from Fort Sumner, New Mexico. He is vice chairman of the Tenth District Farm Credit Council board. Cortese is chairman of the bank's compensation committee and a member of the bank's audit committee. Currently, he serves on the board of the Federal Farm Credit Banks Funding Corporation. He is also a board member of the Texas Agricultural Cooperative Council, an industry association. From 2003 to 2008, Cortese served on the board of the Federal Agricultural Mortgage Corporation (Farmer Mac), a government agency chartered to create a secondary market for agricultural loans. He is a former board member of the American Land Foundation, a property rights organization.

Elizabeth G. Flores, 69, joined the board of directors in August 2006 as a board-appointed director, and her current term expires December 31, 2015. She was mayor of Laredo, Texas, where she resides, from 1998 to 2006. Previously, she was senior vice president of Laredo National Bank, a commercial bank headquartered in Laredo, Texas, which merged in 2008 and is now called BBVA Compass Bank. Flores is a member of the bank's audit and compensation committees. She is also a member of the Tenth District Farm Credit Council. She also 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, Flores 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. Flores received the 2006 Cathy Bonner Leadership Award from the Leadership Texas Alumnae Association. In 2010, Flores was appointed to serve as a member of the Farm Credit System Diversity Workgroup. She is a partner in a ranching and real estate limited partnership, E.G. Ranch, Ltd. She is a former member of the Federal Reserve Board Consumer Advisory Council.

Jon M. Garnett, 69, began his first term on the board of directors in 1999, and his current term expires December 31, 2016. He was board vice chairman from 2000 through 2008. Prior to joining the bank board, he was chairman of the Panhandle-Plains Land Bank, FLCA Board of Directors from 1995 to 1998. He is a former member of the Farm Credit Bank of Texas Retirement Committee. Garnett is vice chairman of the bank's compensation committee and a member of its audit committee. He is also a member of the Tenth District Farm Credit Council. In January 2003, he joined the national Farm Credit Council (FCC) Board of Directors as a district representative, became vice chairman in 2009 and served as chairman from 2011 to 2013. In addition, he is vice chairman of the FCC board's compensation and benefits committee, and a member of the executive, governance and coordinating committees. Garnett is a member of the State Technical Committee for the Natural Resources Conservation Service, an agency of the United States Department of Agriculture. He raises grain and forage and runs stocker cattle near Spearman, Texas, and is president of Garnett Farms, Inc., a farming operation. 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.

William F. Staats, 75, joined the board of directors in 1997 as a board-appointed director, and his current term expires December 31, 2014. Staats is a professor emeritus of finance at Louisiana State University (LSU), where he held the Louisiana Bankers Association Chair of Banking and the Hermann Moyse Jr. Distinguished Professorship. Prior to his retirement from LSU in June 2001, he was awarded an excellence in teaching award from the LSU College of Business Administration. Previously, he was vice president and corporate secretary of the Federal Reserve Bank of Philadelphia. Staats also serves on the boards of the Money Management International Financial Education Foundation and Money Management International, both of which are credit counseling agencies. He also serves on the boards of SevenOaks Capital Associates, LLC, a diversified financial services company providing working capital to trucking firms, and Lakeside Bank, a community bank in Lake Charles, Louisiana. He is vice chairman of the Farm Credit System audit committee, is chairman of the bank's audit committee, serves on the bank's compensation committee and is the bank's designated financial expert. Staats is also a member of the Tenth District Farm Credit Council, and a member of the Texas Lutheran University Board of Regents.

Committees

The board of directors has established an audit committee and a compensation committee. All members of the board serve on both the audit committee and the compensation committee.

As the need arises, a member of the board of directors will also participate in the functions of the bank's credit review committee. The responsibilities of each board committee are set forth in its respective approved charter.

The disclosure of director and senior officer information included in this disclosure information and index was reviewed by the compensation committee prior to the annual report's issuance (including the disclosure information and index) on February 28, 2014.

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 2013 was paid at the rate of $55,594 per year, payable at $4,632 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 2013. No director received non-cash compensation exceeding $5,000 in 2013. Total cash compensation paid to all directors as a group during 2013 was $389,158.

Information for each director for the year ended December 31, 2013, is provided below:

Board Member	Days Served at Board Meetings*	Days Served on Other Official Assignments**	Total Compensation Paid
James F. Dodson	32.5	22.5	$ 55,594
Lester Little	32.0	25.5	55,594
Brad C. Bean	32.5	27.5	55,594
Ralph W. Cortese	32.5	24.5	55,594
Elizabeth G. Flores	32.0	32.0	55,594
Jon M. Garnett	29.5	22.0	55,594
William F. Staats	32.0	25.5	55,594
			$ 389,158

*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 2013, 2012 and 2011 totaled $140,401, $136,352 and $144,376, 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*	10.5 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 is chairman of the Farm Credit System Presidents Planning Committee (PPC) and is a member of the PPC coordinating committee. He serves on the National Council of Farmer Cooperatives Executive Council.
Kurt Thomas, *Senior Vice President, Chief Credit Officer*	3.6 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.
Carolyn Owen, *Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary*	Appointed April 2013	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*	3.4 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.
Allen Buckner, *Chief Operations Officer*	3.5 years	Vice President of Lending Systems 2007-2010, FCBT; Vice President, Credit Operations and Risk Management 2006-2007, FCBT. Chief Executive Officer, Heritage Land Bank, ACA, January 2006–December 2006	
Stan Ray, *Chief Administrative Officer*	3.4 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*	2 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).

Kyle Pankonien served as Vice President, Corporate Affairs, General Counsel and Corporate Secretary until his retirement on June 1, 2013.

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 are 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 formally 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 begin after January 1, 2014.

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.

401K 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 hired by the end of the third quarter are eligible to participate in the SSP for that year. 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.

Amendments in 2013 included increases to senior team groups, advisory and executive, by 5 percent and 10 percent, respectively, based upon short-term incentive market data for senior officer peers and the overall compensation mix.

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, non-accrual 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 2013, 2012 and 2011.

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	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
Larry R. Doyle	2011	1,250,048	1,250,000	116,660	20,868	—	2,637,576

(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 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. For 2011, a signing bonus of $500,000 was paid in January 2011 for the execution and effective date of the memorandum of understanding in effect at that time. Also included in the 2011 bonus compensation is a bonus paid in January 2012 of $750,000 for the performance of the bank during 2011.

(c) For 2013, 2012 and 2011, 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 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 2013, 2012 and 2011. Amounts reflected in the table are presented in the year the compensation is earned.

Summary Compensation Table for Other Officers

Aggregate Number in Group (excludes CEO)	Year	Annual Salary (a)	Annual Bonus (b)	Annual Change in Pension Value (c)	Annual Deferred/Perquisites (d)	Annual Other (e)	Total
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
6 Senior Officers	2011	1,534,398	479,813	—	1,632,082	—	3,646,293

(a) Gross salary for year presented, including retention plan compensation for a senior officer in 2011.
(b) Bonuses paid within the first 30 days of the subsequent calendar year.
(c) For 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 or 2011.
(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. For 2011, Deferred/Perquisites also includes payments of $1,478,241 to certain senior officers from the discontinuation of the Supplemental Pension Plan effective January 16, 2011, with payment to the respective individuals on January 31, 2012, and educational assistance paid on behalf of a senior officer.
(e) No values to disclose.

For 2013, the aggregate number of officers includes one senior officer who retired from the bank during 2013.

On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. In addition, the regulation requires the bank to hold an advisory vote on CEO and/or senior officer compensation when 5 percent of the voting stockholders petition for the vote and to disclose the petition authority in the annual report to shareholders. The regulation became effective December 17, 2012, and the base year for determining whether there is a 15 percent or greater increase was 2013. The bank has not held an advisory vote based on a stockholder petition in 2013.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act, which includes language prohibiting the FCA from using any funds available to "to implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA to within 60 days of enactment of the law "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices." FCA has not yet taken any action with respect to their regulation in response to these actions.

Disclosure of the compensation paid during 2013 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 2013.

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, 2013:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2013
Larry R. Doyle	Farm Credit Bank of Texas Pension Plan	39.935	$ 1,395,335	$ —

Name	Plan Name	Average Years Credited Service	Present Value of Accumulated Benefit	Payments During 2013*
Officers, including Other Highly Compensated Employee	Farm Credit Bank of Texas Pension Plan	32.805	$ 7,981,218	$ 110,106

*Payments during 2013 represent distributions of pension benefits for a senior officer who retired effective June 1, 2013.

Effective January 16, 2011, the bank's board of directors approved the termination and liquidation of the Farm Credit Bank of Texas Supplemental Pension Plan (the "Supplemental Pension Plan"), a nonqualified deferred compensation plan. As previously noted, the Supplemental Pension Plan restores benefits under the Pension Plan that are limited or reduced (a) by the imposition of Internal Revenue Code limits, (b) by the exclusion of deferrals to a nonqualified deferred compensation plan from the definition of "Compensation" in the Pension Plan, (c) by the commencement of benefits prior to "Normal Retirement Age" for a participant who has satisfied the rule of 85 and is at least age 55, or (d) by a service period of greater than 35 years. By terminating the Supplemental Pension Plan, no further vesting or benefit accrual occurred under the Supplemental Pension Plan following January 16, 2011, for the respective participants. All remaining unpaid vested benefits were distributed in a cash lump-sum payment to the participating bank employees after the one-year deferral period as required by Section 409A of the Internal Revenue Code. The impact of the termination and liquidation of the Supplemental Pension Plan was not material to the bank's financial results and was reflected in the December 31, 2011, financial results of the bank. The cash lump-sum payment to the participating bank employees occurred on January 31, 2012.

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, 2013.

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, 2013, 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 $175,115, $194,211 and $244,215 for 2013, 2012 and 2011, 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 $3,273, $2,686 and $4,245 for 2013, 2012 and 2011, respectively, and was included in the bank's noninterest income. Effective in April 2011, the bank only bills associations for direct pass-through expenses and no longer bills for allocated expenses.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2013, 2012 or 2011.

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 2013 by PricewaterhouseCoopers LLP, the bank's independent qualified public accountants were as follows.

- Audit services of $403 thousand related to annual audits of the financial statements for the bank and district, of which $25 thousand was associated with the completion of the 2012 annual audit. Engagement letters for audit services for 2013 annual audit reflect an estimated fee of $329 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 $193 thousand of which $88 thousand was associated with procedures completed for the bank's preferred stock issuance and $105 thousand for completion of agreed upon procedures. An engagement letter estimated the fees for the agreed upon procedures engagement to be a range of $90 to $105 thousand, plus any out-of-pocket expenses.
- Non-audit services of $60 thousand related to procedures completed for the bank's SOC2 readiness assessment. PricewaterhouseCoopers LLP also complete any ballot counting for the bank with no fee incurred. An engagement letter estimated the fees for the work completed in 2013 for the SOC2 readiness assessment to be a range of $50 to $60 thousand, plus any out-of-pocket expenses.

Fees for the audit of the Farm Credit Benefits Alliance (FCBA) 401(k) plan for 2012 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

The bank has relationships with the following seven unincorporated business entities, 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

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2014, 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 e-mailing 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)	At December 31, 2013 Number of Loans	At December 31, 2013 Volume
Total loans and commitments	67,823	$ 21,977,456
Loans and commitments to young farmers and ranchers	11,965	$ 1,898,712
Percent of loans and commitments to young farmers and ranchers	17.6%	8.6%
New loans and commitments to beginning farmers and ranchers	6,460	$ 1,951,536
Percent of new loans and commitments to beginning farmers and ranchers	41.9%	27.8%
Loans and commitments to beginning farmers and ranchers	34,754	$ 7,093,861
Percent of loans and commitments to beginning farmers and ranchers	51.2%	32.3%

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

(dollars in thousands)	For the Year Ended December 31, 2013 Number of Loans	For the Year Ended December 31, 2013 Volume
Total new loans and commitments	15,431	$ 7,031,271
New loans and commitments to young farmers and ranchers	2,487	$ 613,041
Percent of new loans and commitments to young farmers and ranchers	16.1%	8.7%
New loans and commitments to beginning farmers and ranchers	6,460	$ 1,951,536
Percent of new loans and commitments to beginning farmers and ranchers	41.9%	27.8%

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

	At December 31, 2013				
	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	14,675	16,429	20,572	16,147	67,823
Number of loans and commitments to small farmers and ranchers	10,998	12,935	15,730	9,156	48,819
Percent of loans and commitments to small farmers and ranchers	74.9%	78.7%	76.5%	56.7%	72.0%
Total loans and commitments volume	$ 2,237,918	$ 977,300	$ 2,754,205	$ 16,008,033	$ 21,977,456
Total loans and commitments to small farmers and ranchers volume	$ 266,106	$ 714,324	$ 2,025,060	$ 5,227,512	$ 8,233,002
Percent of loans and commitments volume to small farmers and ranchers	11.9%	73.1%	73.5%	32.7%	37.5%

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

	For the Year Ended December 31, 2013				
	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	3,563	2,831	4,119	4,918	15,431
Number of new loans and commitments to small farmers and ranchers	2,525	2,089	2,813	2,000	9,427
Percent of new loans and commitments to small farmers and ranchers	70.9%	73.8%	68.3%	40.7%	61.1%
Total new loans and commitments volume	$ 90,579	$ 212,812	$ 684,136	$ 6,043,744	$ 7,031,271
Total new loans and commitments to small farmers and ranchers volume	$ 68,500	$ 156,749	$ 461,083	$ 1,395,318	$ 2,081,650
Percent of loan and commitment volume to small farmers and ranchers	75.6%	73.7%	67.4%	23.1%	29.6%