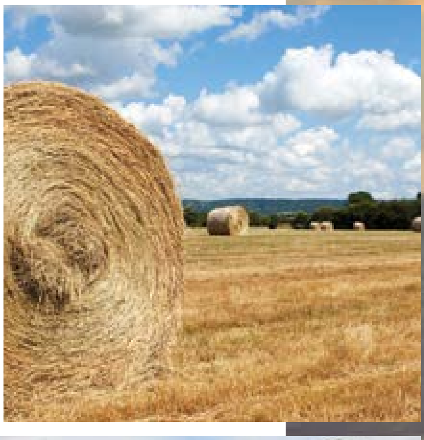
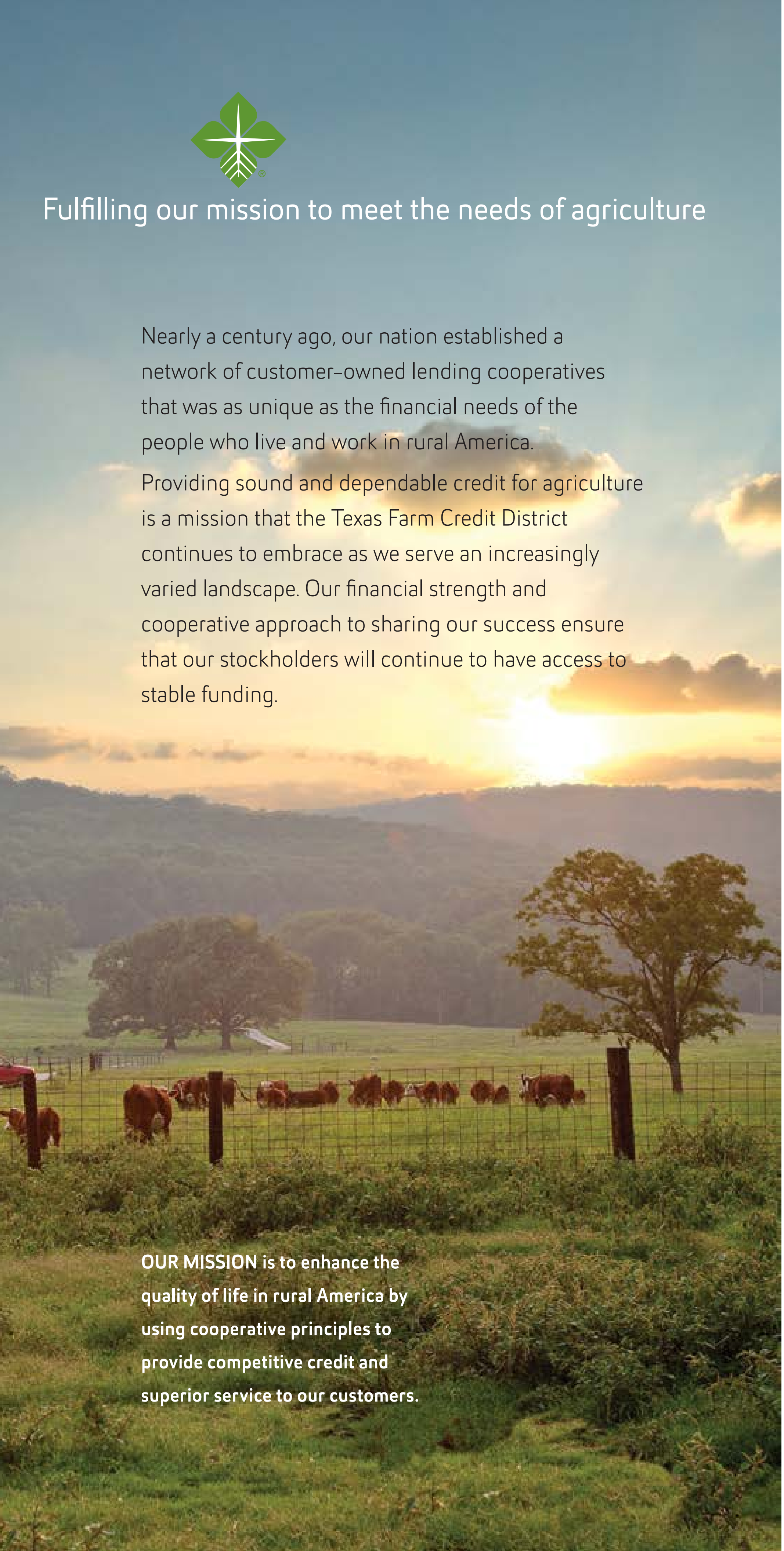
Fulfilling Our Mission

2013
ANNUAL REPORT

TEXAS FARM CREDIT DISTRICT



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



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 Texas Farm Credit District 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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BOARD OF DIRECTORS
Farm Credit Bank of Texas

(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

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.

The Texas Farm Credit District reported strong financial results for 2013, highlighted by record earnings of $419.3 million for the year. This represented an increase of $9.9 million, or 2.4 percent, over 2012 net income. Net interest income for 2013 totaled $630.8 million, compared with $615.2 million for 2012.

District loan volume increased 5.1 percent to a record $17.73 billion at December 31, 2013, from $16.87 billion at December 31, 2012, with credit quality also improving. District assets totaled $22.4 billion at December 31, 2013, compared with $21.1 billion a year earlier.

2013 KEY FINANCIAL HIGHLIGHTS
(Dollars in Thousands)

Total Loans	$17,725,520
Total Assets	$22,372,839
Net Income	$419,280
Return on Average Assets	1.95%
Return on Average Members' Equity	11.64%

MESSAGE TO STOCKHOLDERS

Larry R. Doyle
Chief Executive Officer

The past year was another solid one for the Texas Farm Credit District. Rains returned to most drought-affected regions of our territory, and we also saw improved crop conditions, stronger commodity prices and overall heightened spirits among agricultural producers.

Net income again hit a record mark at $419.3 million — a 2.4 percent increase from last year. Credit quality improved during 2013, and for this we should all be proud: Our associations and their stockholders have worked diligently to meet their commitments, using tools such as crop insurance and USDA loan guarantees to mitigate losses.

In keeping with our cooperative model, Farm Credit Bank of Texas returned a patronage payment based on its 2013 earnings to the district associations and Other Financing Institutions that own the bank, again effectively reducing their cost of funding to the same cost that the bank pays in the capital markets.

While we want to celebrate our present success, we are always looking to the future. Farm Credit Bank of Texas completed a successful preferred stock issuance of $300 million in July of 2013, which strengthened our already solid capital base and will in turn support our district's continuing loan growth.

To keep up with anticipated growth, the district has been preparing for the future by adding staff. While this drove an increase in our district's operating expenses, the workforce representing our Farm Credit district is a resourceful and enthusiastic team that offers a multitude of sharp skills and experiences. The sum of their unique contributions enables the Texas District to truly be a full-service lender to the agricultural industries and rural communities across our five states.

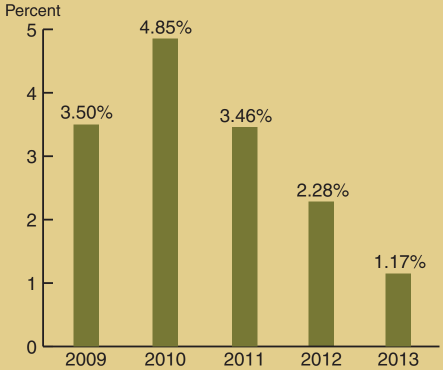
We continue to fulfill Farm Credit's mission to American agriculture, and we strive to exercise our lending authorities to the fullest extent, with a wide range of credit tools for farmers and ranchers. We are proud to serve a vibrant and diverse marketplace — young and beginning farmers, military veterans, rural homeowners, agribusinesses, family operations and organic producers. We hope you enjoy reading about a few of our outstanding stockholders on the next few pages.

We also continue to make critical investments in our technological and operational projects, to meet the ever-evolving needs of our borrowers. A top priority is to develop systems and upgrades that will help manage risk, assist in a more efficient lending process and aid in regulatory compliance. Also, we are enhancing our cash management tools to make it easier for borrowers to manage their accounts and for association staff to devote more time to relationship lending.

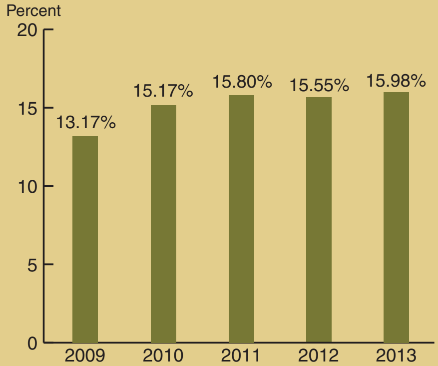
The economy in the Texas District is ahead of the rest of the country, and agriculture in our five states continues to flourish. By staying true to our mission and being the premier source of dependable credit to rural America, we can expect ongoing growth and success ahead.

Larry R. Doyle
Chief Executive Officer

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



Total Members' Equity to Total Assets at Year End

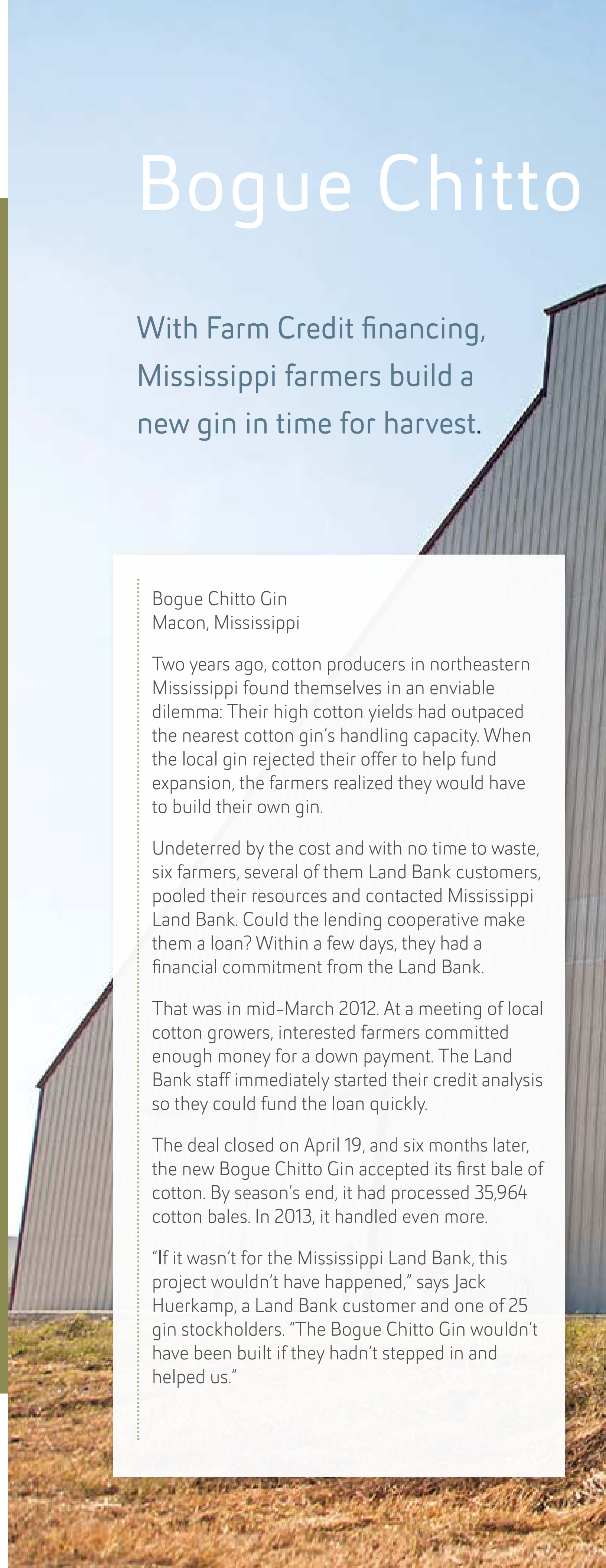


Total Loans Outstanding at Year End

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.

The House That Wren Built

A Timber Grower Builds His Dream Home

Lovic Wren
Mansfield, Louisiana

Lovic Wren purchased 468 acres in northwestern Louisiana in 1999, undecided about whether to raise cattle or grow timber on the land. There was no question, though, that he would eventually make this property his home.

In fact, Wren took 12 years to plan and build his country dream home, which prominently features 11 types of wood. "I always knew I wanted a wood house, because wood is a low-maintenance material," he explains.

But it was worth the wait for this former farm-boy-turned-businessman, who did most of the site preparation himself. "I love nature and the outdoors, and I thank the Lord every day for this place," he says.

He's also grateful for the advice of a banker friend, who referred him to Louisiana Land Bank — first for financing for the land, on which he planted highly marketable pine, cypress and hardwoods, and later for a home construction loan and an agribusiness loan.

The Land Bank has been absolutely excellent to work with," Wren says. "I didn't feel like they were doing me a favor. I felt more like a partner than a loan recipient."

Lovic Wren and his son, Brock, with one of their dogs, Vinnie

A blue pine vaulted ceiling soars over the great room, supported by 25-foot-tall cedar posts. Heart pine in the flooring was salvaged from warehouses after Hurricane Katrina.

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."

Jones Dairy
Veguita, New Mexico

Forage Is Key in Dairy Family's Success

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

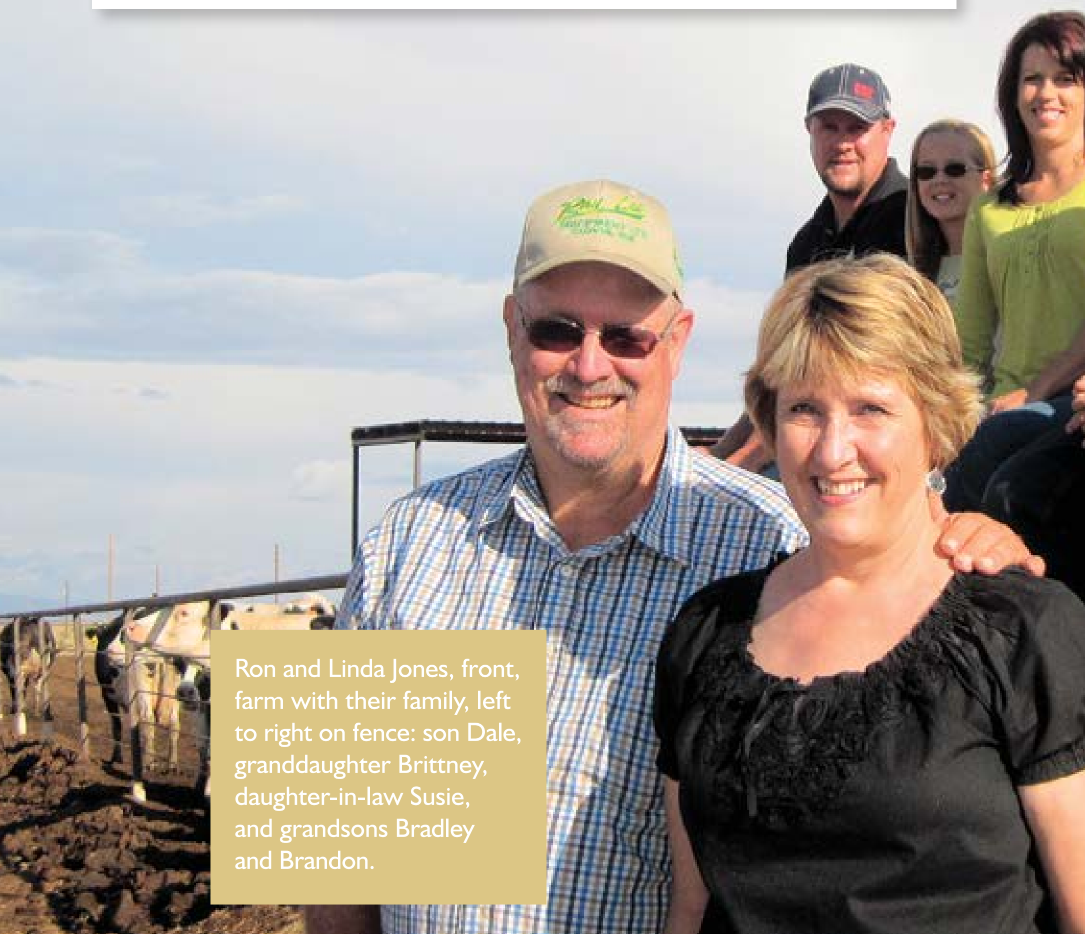
Jones Dairy has been producing milk in central New Mexico for more than 50 years. That's a long record in an industry that's frequently squeezed by high operating costs and low milk prices. By making key changes, the dairy has continued to perform well.

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 Combined Financial Data

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	**2013**	2012	2011	2010	2009
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 631,865**	$ 536,979	$ 453,406	$ 473,760	$ 521,457
Investment securities	**3,693,524**	3,415,554	3,287,928	3,231,562	2,179,312
Loans	**17,725,520**	16,866,732	15,624,013	15,628,890	16,167,170
Less allowance for loan losses	**74,164**	106,842	114,117	163,145	144,731
Net loans	**17,651,356**	16,759,890	15,509,896	15,465,745	16,022,439
Other property owned, net	**47,142**	98,211	87,956	78,124	53,324
Other assets	**348,952**	315,008	303,305	306,393	340,631
Total assets	**$ 22,372,839**	$ 21,125,642	$ 19,642,491	$ 19,555,584	$ 19,117,163
Obligations with maturities of one year or less	**$ 9,267,894**	$ 9,031,899	$ 8,750,813	$ 8,991,040	$ 8,788,651
Obligations with maturities greater than one year	**9,530,710**	8,807,662	7,787,550	7,598,213	7,811,108
Total liabilities	**18,798,604**	17,839,561	16,538,363	16,589,253	16,599,759
Preferred stock	**600,000**	482,000	482,000	482,000	202,754
Capital stock and participation certificates	**59,225**	59,859	60,024	61,843	63,202
Allocated retained earnings	**516,859**	419,721	374,231	327,435	266,991
Unallocated retained earnings	**2,486,368**	2,412,571	2,257,527	2,121,822	2,061,299
Additional paid-in-capital	**22,737**	22,737	22,737	22,622	—
Accumulated other comprehensive loss	**(110,954)**	(110,807)	(92,391)	(49,391)	(76,842)
Total members' equity	**3,574,235**	3,286,081	3,104,128	2,966,331	2,517,404
Total liabilities and members' equity	**$ 22,372,839**	$ 21,125,642	$ 19,642,491	$ 19,555,584	$ 19,117,163
Statement of Income Data					
Net interest income	**$ 630,817**	$ 615,163	$ 608,056	$ 580,170	$ 535,792
Provision for loan losses	**(6,308)**	(33,631)	(45,048)	(141,457)	(172,140)
Noninterest expense, net	**(205,389)**	(171,132)	(193,167)	(163,687)	(167,837)
Benefit from (provision for) income taxes	**160**	(985)	(1,175)	291	2,609
Net income	**$ 419,280**	$ 409,415	$ 368,666	$ 275,317	$ 198,424
Key Financial Ratios (unaudited)					
Net income to:					
Average assets	**1.95%**	2.00%	1.88%	1.41%	1.01%
Average members' equity	**11.64**	12.42	11.75	9.87	8.02
Net interest income to average earning assets	**3.03**	3.12	3.23	3.09	2.82
Net charge-offs to average loans	**0.23**	0.22	0.60	0.75	0.48
Total members' equity to total assets	**15.98**	15.55	15.80	15.17	13.17
Allowance for loan losses to total loans	**0.42**	0.63	0.73	1.04	0.90
Regulatory permanent capital ratio (bank only)	**21.64**	18.64	20.85	22.00	15.98
Total surplus ratio (bank only)	**17.29**	15.92	17.36	17.83	12.47
Core surplus ratio (bank only)	**10.12**	9.92	10.48	10.67	7.11
Net collateral ratio (bank only)	**108.67**	107.94	108.27	107.91	105.83
Net Income Distributions (unaudited)					
Net income distributions declared and accrued					
Preferred stock cash dividends	**$ 49,931**	$ 43,761	$ 43,761	$ 45,601	$ 15,122
Patronage distributions					
Cash	**139,344**	106,624	87,032	82,846	52,303
Allocated earnings	**152,142**	103,986	101,375	59,818	55,648

Combined Average Balances and Net Interest Earnings

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(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	**$ 3,566,320**	**$ 54,132**	**1.52%**	$ 3,366,284	$ 59,397	1.76%	$ 3,314,502	$ 65,812	1.99%
Loans	**17,225,899**	**756,077**	**4.39**	16,347,166	749,901	4.59	15,520,926	762,843	4.91
Total interest-earning assets	**20,792,219**	**810,209**	**3.90**	19,713,450	809,298	4.11	18,835,428	828,655	4.40
Cash	**404,038**			394,613			465,851		
Accrued interest receivable	**149,016**			150,307			158,379		
Allowance for loan losses	**(93,663)**			(109,300)			(151,712)		
Other noninterest-earning assets	**300,495**			291,918			263,066		
Total average assets	**$ 21,552,105**			$ 20,440,988			$ 19,571,012		
Liabilities and Members' 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	**4,706,962**	**27,475**	**0.58**	5,214,915	32,177	0.62	5,442,773	34,124	0.63
Total interest-bearing liabilities	**17,542,791**	**179,392**	**1.02**	16,760,983	194,135	1.16	16,097,263	220,599	1.37
Noninterest-bearing liabilities	**408,224**			384,621			335,056		
Total liabilities	**17,951,015**			17,145,604			16,432,319		
Members' equity and retained earnings	**3,601,090**			3,295,384			3,138,693		
Total average liabilities and members' equity	**$ 21,552,105**			$ 20,440,988			$ 19,571,012		
Net interest rate spread		**$ 630,817**	**2.88%**		$ 615,163	2.95%		$ 608,056	3.03%
Net interest margin			**3.03%**			3.12%			3.23%

The following commentary provides a discussion and analysis of the combined financial position and results of operations of the Farm Credit Bank of Texas (bank), the Federal Land Credit Association (FLCA) and the Agricultural Credit Associations (ACAs) for the years ended December 31, 2013, 2012 and 2011. The FLCA and ACAs collectively are referred to as "associations," and the bank and its affiliated associations are collectively referred to as "the district." The commentary should be read in conjunction with the accompanying combined financial statements, notes to the combined financial statements (notes) and additional sections of this report. The accompanying combined financial statements were prepared under the oversight of the bank's audit committee.

The district, which serves Texas, Alabama, Mississippi, Louisiana and portions of New Mexico, is part of the federally chartered Farm Credit System (System). The bank provides funding to the associations which, in turn, provide credit to their borrower-shareholders. As of December 31, 2013, the district comprised the bank, one FLCA and 16 ACAs. The bank also had funding relationships with certain Other Financing Institutions (OFIs).

Forward-Looking Information

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

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and 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 combined financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," to the accompanying combined financial statements. The following is a summary of certain critical policies.

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

the bank and its related associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to the Aon Hewitt AA Only Above-Median Yield Curve, actuarial analyses and industry norms. The Aon Hewitt yield curves are determined based on actual corporate bond yields for bonds rated AA as of the measurement date.

OVERVIEW

General

The district's loan portfolio totaled $17.7 billion at December 31, 2013, a 5.1 percent increase from the prior year. The district's net income for 2013 was $419.3 million, an increase of $9.9 million, or 2.4 percent, from the $409.4 million in net income for 2012. The district's $9.9 million increase in net income for 2013 was driven by a $27.3 million decrease in provisions for loan losses, a $15.6 million increase in net interest income, and a $1.2 million decrease in provision for income taxes, offset by a $21.9 million decrease in noninterest income and a $12.3 million increase in noninterest expense. The improvement in the district's net interest income was primarily driven by growth in earning assets, partially offset by a decrease in the net interest rate spread. While the bank continued to benefit from debt management, gradual increases 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 district'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 Systemwide debt securities has remained favorable across all products. The bank has continued to have reliable access to funding at competitive rates and terms necessary to support our lending and business operations. Future ratings action affecting the U.S. government and related entities (including the System) may affect our borrowing cost and/or limit our access to the debt capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve.

Conditions in the Texas District

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.

Financial Highlights

- Net income totaled $419.3 million for the year ended December 31, 2013, compared to $409.4 million for 2012 and $368.7 million for 2011, reflecting an increase of 2.4 percent from 2012 and an increase of 13.7 percent over 2011.
- Net interest income for the year ended December 31, 2013, was $630.8 million compared to $615.2 million for 2012 and $608.1 million for 2011, reflecting 2.5 percent and 3.7 percent increases over the years ended December 31, 2012 and 2011, respectively.
- Return on average assets and return on average members' equity for the year ended December 31, 2013, were 1.95 percent and 11.64 percent, respectively, compared to 2.00 percent and 12.42 percent for 2012 and 1.88 percent and 11.75 percent for 2011, respectively.
- Patronage distributions declared totaled $291.5 million in 2013, compared to $210.6 million and $188.4 million in 2012 and 2011, respectively.
- The aggregate principal amount of loans outstanding at December 31, 2013, was $17.73 billion, compared to $16.87 billion at December 31, 2012, reflecting an increase of 5.1 percent.

- ❖ 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 reflects 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.

RESULTS OF OPERATIONS

Net Income

The district's net income of $419.3 million for the year ended December 31, 2013, reflected an increase of 2.4 percent from net income of $409.4 million for the year ended December 31, 2012, and an increase of 13.7 percent from net income of $368.7 million for 2011. The return on average assets decreased to 1.95 percent for the year ended December 31, 2013, from 2.00 percent reported for the year ended December 31, 2012. This decrease was due primarily to a $21.9 million decrease in noninterest income and a $12.3 million increase in noninterest expense, offset by a $27.3 million decrease in provisions for loan losses discussed more fully in the "Loan Portfolio" section of this discussion, a $15.6 million increase in net interest income, and a $1.2 million decrease in provision for income taxes.

Changes in Components of Net Income

	2013 vs. 2012	2012 vs. 2011
Net income, prior period	$ 409,415	$ 368,666
Increase (decrease) due to:		
Increase (decrease) in interest income	911	(19,357)
Decrease in interest expense	14,743	26,464
Net interest income	15,654	7,107
Provision for loan losses	27,323	11,417
Noninterest income	(21,926)	36,861
Noninterest expense	(12,331)	(14,826)
Benefit from income taxes	1,145	190
Total change in net income	9,865	40,749
Net income	$ 419,280	$ 409,415

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 $810.2 million, an increase of $911, or 0.11 percent, compared to 2012. The increase was due to an increase in earning assets, substantially offset by a decrease in the yield on earning assets. Total interest income for the year ended December 31, 2012, was $809.3 million, a decrease of $19.4 million, or 2.3 percent, compared to 2011. The decrease for 2012 was due to a decrease in yield on earning assets net of a slight increase in average interest-earning assets.

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

	Year Ended December 31,	
	2013 vs. 2012	2012 vs. 2011
Increase in average earning assets	$ 1,078,769	$ 878,022
Average yield, prior year	4.11%	4.40%
Interest income variance attributed to change in volume	44,337	38,628
Average earning assets, current year	20,792,219	19,713,450
Decrease in average yield	(0.21)%	(0.29)%
Interest income variance attributed to change in yield	(43,426)	(57,985)
Net change in interest income	$ 911	$ (19,357)

Interest Expense

Total interest expense for the year ended December 31, 2013, was $179.4 million, a decrease of $14.7 million, or 7.6 percent, from the prior year. Total interest expense for the year ended December 31, 2012, was $194.1 million, a decrease of $26.4 million, or 12.0 percent, from 2011. The decrease for 2013 was due primarily to a decrease in the average rate on debt offset by an increase in interest-bearing liabilities. During 2013, the bank was able to reduce its interest expense by calling and replacing $3.0 billion in debt with debt which had lower interest rates, which resulted in a savings of approximately $8.9 million, net of related concession expenses. The decrease for 2012 was due primarily to a decrease in the average rate on debt offset by an increase in interest-bearing liabilities. During 2012, the bank was able to reduce its interest expense by calling and replacing $8.9 billion in debt with debt that had lower interest rates, which resulted in a savings of approximately $21.9 million, net of related concession expenses.

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

	Year Ended December 31,	
	2013 vs. 2012	2012 vs. 2011
Increase (decrease) in average interest-bearing liabilities	$ 781,808	$ 663,720
Average rate, prior year	1.16%	1.37%
Interest expense variance attributed to change in volume	9,069	9,096
Average interest-bearing liabilities, current year	17,542,791	16,760,983
Decrease in average rate	(0.14)%	(0.21)%
Interest expense variance attributed to change in rate	(23,812)	(35,560)
Net change in interest expense	$ (14,743)	$ (26,464)

Analysis of Operating Margin to Average Earning Assets

	For the Years Ended December 31,		
	2013	2012	2011
Net interest margin	**3.03%**	3.12%	3.23%
Operating expense	**1.28**	1.20	1.15
Operating margin	**1.75%**	1.92%	2.08%

Net Interest Income

Net interest income increased by $15.6 million, or 2.5 percent, from 2012 to 2013 and increased by $7.1 million, or 1.2 percent, from 2011 to 2012. Factors responsible for these changes are illustrated in Figure 1.

Net interest income for 2013 increased from 2012 due to an increase in average-earning assets, offset by a 7-basis-point decrease in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt.

The increase in average-earning assets was due primarily to an increase in the bank's investments and participation loan portfolios, and to loan growth at the district's associations. The bank has been able to reduce its cost of debt during 2013, 2012 and 2011 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, compressing the net interest rate spread and interest margin. During 2013, the bank called $3.0 billion in debt, replacing it with debt that had more favorable terms. District associations in the aggregate were able to improve their net interest rate spread.

Net interest income for 2012 increased from 2011 due to an increase in average-earning assets, offset by an 8-basis-point decrease in the interest rate spread.

Provision for Loan Losses

The provision for loan losses for 2013 was $6.3 million, reflecting a decrease of $27.3 million from the $33.6 million provision recorded in 2012. The provision for loan losses at the bank decreased by $20.9 million, while the associations' provisions decreased by $6.4 million. The decrease is due primarily to a reduction in required specific provisions for loan losses on impaired loans. Specific provisions for 2013 decreased from those of 2012 as credit quality of the loan portfolio has improved. The specific provisions for 2013 reflect credit deterioration primarily in those agricultural sectors that continue to be impacted by volatility in commodity prices, such as the dairy, livestock and ethanol industries, as well as those borrowers impacted by the overall downturn in the general economy, primarily dairy, land in transition and ethanol power.

Noninterest Income

Noninterest income of $56.6 million reflected a decrease of $21.9 million, or 27.9 percent, from 2012 to 2013. The decrease was primarily due to a $22.9 million decrease in Farm Credit System Insurance Corporation (FCSIC or Insurance Corporation or Insurance Fund) refund distributions of excess reserves from prior periods recorded during the second quarter of 2012, a $2.6 million decrease in fair value on loans purchased in the secondary market, and a $565 increase in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporary impairments on investment securities which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," offset by a $2.1 million increase in patronage income and a $1.9 million increase in net gains on the sale of loans.

Noninterest income for 2012 of $78.5 million reflected an increase of $36.9 million, or 88.5 percent, from 2011 to 2012. The increase was primarily due to a $22.9 million increase in FCSIC refund distributions of excess reserves from prior periods recorded during the second quarter of 2012, a $5.4 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 losses from a 2011 write-off of capitalized software costs at the bank due to redirection of its data warehouse initiative, a $2.0 million decrease in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporary impairments on investment securities which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," to the accompanying combined financial statements, and a $1.7 million increase in all other noninterest items, collectively, offset by a $95 decrease in patronage income. The increase in loan-related fee income reflects the increase in lending volume at the bank and includes a $5.1 million increase in prepayment fees from 2011.

Figure 1

Analysis of Net Interest Income

	2013 Average Balance	2013 Interest	2012 Average Balance	2012 Interest	2011 Average Balance	2011 Interest
Loans	**$ 17,225,899**	**$ 756,077**	$ 16,347,166	$ 749,901	$ 15,520,926	$ 762,843
Investments	**3,566,320**	**54,132**	3,366,284	59,397	3,314,502	65,812
Total earning assets	**20,792,219**	**810,209**	19,713,450	809,298	18,835,428	828,655
Interest-bearing liabilities	**17,542,791**	**179,392**	16,760,983	194,135	16,097,263	220,599
Impact of capital	**$ 3,249,428**		$ 2,952,467		$ 2,738,165	
NET INTEREST INCOME		**$ 630,817**		$ 615,163		$ 608,056

	2013 Average Yield	2012 Average Yield	2011 Average Yield
Yield on loans	**4.39%**	4.59%	4.91%
Yield on investments	**1.52**	1.76	1.99
Yield on earning assets	**3.90**	4.11	4.40
Cost of interest-bearing liabilities	**1.02**	1.16	1.37
Interest rate spread	**2.88**	2.95	3.03
Impact of capital	**0.15**	0.17	0.20
Net interest income/average earning assets	**3.03**	3.12	3.23

Noninterest Expenses

Noninterest expenses for 2013 totaled $262.0 million, increasing $12.3 million, or 4.9 percent, from 2012. The increase was primarily due to an increase of $13.3 million in salaries and employment benefits, a $7.9 million increase in premiums to the FCSIC, a $6.5 million increase in other operating expenses, and an increase of $3.2 million in occupancy and equipment expense, offset by a decrease of $18.6 million in net losses on other property owned (OPO). The $13.3 million increase in salaries and employee benefits was due primarily to an $8.3 million increase in compensation and related payroll taxes at the district's associations, a $2.1 million increase in compensation and related payroll taxes at the bank, and a $2.9 million increase in all other salaries and benefits expenses, collectively (which included a $2.5 million increase in medical coverage on active employees due mainly to additional assessments from the district's self-funded plan due to claims experience). Premiums to the FCSIC 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 increase in other operating expenses included a $3.6 million increase in professional and contract services at the bank, a $1.4 million increase in association advertising and member relations, an $817 increase in travel expenses at the district's associations, and a $314 increase in assessments from the Funding Corporation. The $3.2 million increase in occupancy and equipment expenses included a $2.6 million increase in computer expense ($1.7 million at the bank and $816 at the district associations), a $753 increase in cost of space at the district's associations, and a $187 increase in furniture and equipment at the district's associations. The $18.6 million decrease in losses on OPO included a decrease of $5.5 million at the bank and a decrease of $13.1 million at district associations. The decrease included a decrease in the provision for losses on OPO of $11.2 million, a $6.4 million increase in gains on disposal of OPO, and a $1.0 million decrease in net expenses on OPO.

Noninterest expenses for 2012 totaled $249.7 million, increasing $14.8 million, or 6.3 percent, from 2011. The increase was primarily due to an increase of $12.6 million in salaries and employment benefits, a $6.7 million increase in other operating expenses, and an increase of $1.6 million in occupancy and equipment expense, offset by a decrease of $4.9 million in net losses on other property owned (OPO) and a $1.2 million decrease in premiums to the FCSIC. The $12.6 million increase in salaries and employee benefits was due primarily to a $7.8 million increase in retirement expenses for the district, a $6.4 million increase in compensation and related payroll taxes at the district's associations, a $795 increase in compensation and related payroll taxes at the bank, and a $746 increase in all other salaries and benefits expenses, collectively, offset by a $3.2 million decrease in the bank's supplemental defined benefit pension plan (which was terminated in 2011). The $1.6 million increase in occupancy and equipment expenses included a $1.1 million increase in computer expense ($734 at the bank and $346 at the district associations), a $319 increase in cost of space at the district's associations, and a $183 increase in furniture and equipment at the district's associations, offset by a $12 decrease in all other occupancy and equipment expenses, collectively. The $4.9 million decrease in losses on OPO was primarily due to an increase of $4.2 million at the bank and a decrease of $9.1 million at district associations. The decrease included a $2.6 million increase in gains on disposal of OPO, a $1.4 million decrease in net expenses on OPO, and a decrease in the provision for losses on OPO of $906.

Premiums to the Insurance Fund decreased due primarily to the effects of a premium rate decrease from the 6-basis-point rate in 2011 to a rate of 5 basis points for 2012, offset slightly by an increase in average covered debt. The increase in other operating expenses included a $2.0 million increase in association advertising and member relations, a $1.6 million increase in professional and contract services at the bank, a $905 increase in travel expenses at the district's associations, a $556 increase in directors' expenses at the associations, a $529 increase in association training expenses, and a $473 increase in assessments from the Funding Corporation.

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	**$ 364,114**	$ 379,359	$ 391,968
Operating expense as a percentage of net interest income	**42.28%**	38.33%	35.54%
Operating expense as a percentage of net interest income and noninterest income	**38.80**	33.99	33.26
Operating expense as a percentage of average loans	**1.55**	1.44	1.39
Operating expense as a percentage of average earning assets	**1.28**	1.20	1.15

The district's operating expense statistics for 2013 reflect the decrease in noninterest income and the increase in operating expenses, partially offset by the increase in net interest income. The statistics for 2012 reflect the district's growth in net interest income, which outpaced increases in operating expenses. Net interest income has increased 2.5 percent and 1.2 percent for the years ended December 31, 2013 and 2012, respectively, while operating expenses increased at the rates of 13.1 percent and 9.1 percent, respectively, for the same periods. Average loans increased 5.4 percent in 2013 and increased 5.3 percent in 2012. Average investments increased 5.9 percent and 1.6 percent in 2013 and 2012, respectively. Average earning assets increased 5.5 percent and 4.7 percent in 2013 and 2012, respectively.

CORPORATE RISK PROFILE

Overview

The district is in the business of making 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 Farm Credit System (System) and agriculture by the federal and state governments.

Structural Risk Management

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

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

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

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

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

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

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

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

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

As required by the MAA, the banks and the Funding Corporation undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. In connection with the most recent review, the banks and the Funding Corporation agreed to enter into the Second Amended and Restated MAA, which became effective on January 1, 2012. The revised MAA retains the same general framework and most of the provisions of the previous MAA. One important change requires the banks to maintain a net collateral ratio of at least 50 basis points greater than the regulatory minimum 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 retail lending activities through an assessment of the credit risk profile of an individual borrower. Each institution sets its own underwriting standards and lending policies, approved by their board of directors, that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

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

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

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

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

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

Loan Portfolio

The loan portfolio consists only of retail loans. Bank loans to its affiliated associations have been eliminated in the combined financial statements. See Note 2, "Summary of Significant Accounting Policies," and Note 4, "Loans and Allowance for Loan Losses," to the accompanying combined financial statements for further discussions. Gross loan volume of $17.73 billion at December 31, 2013, reflected an increase of $858.8 million, or 5.1 percent, from the $16.87 billion loan portfolio balance at December 31, 2012. Loans, net of the allowance for loan losses, represented 78.9 percent, 79.3 percent and 79.0 percent of total assets as of December 31, 2013, 2012 and 2011, respectively.

Agricultural real estate mortgage loans totaled $10.79 billion at December 31, 2013, an increase of $533.2 million, or 5.2 percent, from 2012, and currently comprise approximately 60.9 percent of the district's loan portfolio. Commercial loans for agricultural production, processing and marketing totaled $4.22 billion, an increase of $207.5 million, or 5.2 percent, from 2012, and represented 23.8 percent of the loan portfolio at December 31, 2013. The total of all other loans, which included energy (rural utilities) loans, communications loans, farm-related business loans, rural home loans and loans to OFIs, increased by $118.1 million. The composition of the district's loan portfolio by category may be found in Note 4, "Loans and Allowance for Loan Losses," to the accompanying combined financial statements. The increase of loan volume in 2013 was primarily related to a $293.7 million increase in the bank's participation and loan portfolio and a $565.1 million increase in district associations' loan portfolios. In 2012, association loan volume increased by $489.1 million, and in 2011 association loan volume decreased by $393.1 million primarily due to general economic conditions, which had resulted in a decline of demand for rural real estate, pay-downs afforded by high commodity prices for some district borrowers, and enhanced credit standards.

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

	December 31,		
	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%

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

- Acceptable — Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (Special Mention) — Assets are currently collectible but exhibit some potential weakness.
- Substandard — Assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful — Assets exhibit similar weaknesses to substandard assets, but have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss — Assets are considered uncollectible.

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

	2013	2012	2011
Acceptable	**96.4%**	93.9%	91.2%
Special mention	**1.4**	2.9	4.2
Substandard/doubtful/loss	**2.2**	3.2	4.6
Total	**100.0%**	100.0%	100.0%

Loans classified as "doubtful" or "loss" are included in the "substandard" classification in the above table. During 2013, overall credit quality has improved from prior years. Volatility in the general economy and in agricultural sectors resulted in some migration to more adverse classifications in 2011. Loans classified (under the Farm Credit Administration's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 97.8 percent at December 31, 2013, compared to 96.8 percent at December 31, 2012, and 95.4 percent at December 31, 2011.

High-Risk Assets

Nonperforming loan volume is composed of nonaccrual loans, restructured loans, and loans 90 days or more past due and still accruing interest, and is referred to as impaired loans. High-risk assets consist of impaired loans and other property owned. Total high-risk assets have decreased by $177.3 million, or 40.1 percent, from $442.5 million at December 31, 2012, to $265.2 million at December 31, 2013. The decrease in high-risk assets during 2013 includes a $128.1 million decrease in nonaccrual loans. The decrease in nonaccrual loans was primarily the result of repayments of $160.0 million and the movement of loans to OPO totaling $32.9 million, charge-offs, net of recoveries, totaling $38.8 million and transfers to accrual loans of $21.5 million, offset by $112.0 million in additions to nonaccrual from accrual status and $15.1 million in advances on nonaccrual. The decrease in nonaccrual loans included significant decreases in loans related to land in transition, meat-packing plants, ethanol, and in beef and livestock sectors, partially offset by an increase in the dairy sector.

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

(in millions)	**2013**	2012	2011
Nonaccrual loans	**$ 161.3**	$ 289.4	$ 455.5
Formally restructured loans	**53.2**	53.7	29.6
Loans past due 90 days or more and still accruing interest	**3.6**	1.2	6.3
Other property owned, net	**47.1**	98.2	87.9
Total	**$ 265.2**	$ 442.5	$ 579.3

At December 31, 2013, $86.1 million, or 53.4 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $119.4 million, or 41.3 percent, of nonaccrual loans at December 31, 2012, and $206.4 million, or 45.3 percent, at December 31, 2011.

Figures 2, 3 and 4 provide analyses of the relationships of nonaccrual loans and high-risk assets to total loans and members' equity at December 31, 2013, 2012 and 2011. Due to expected improvements related to these higher risk profiles and in the general economic environment, the district anticipates credit quality of the loan portfolio will improve in 2014.

Allowance and Provision for Loan Losses

At December 31, 2013, the allowance for loan losses was $74.2 million, or 0.4 percent of total loans outstanding, compared to $106.8 million (0.6 percent) and $114.1 million (0.7 percent) at December 31, 2012 and 2011, respectively. Net charge-offs of $38.8 million, $35.9 million and $93.6 million were recorded in 2013, 2012 and 2011, respectively. Charge-offs during 2013 included significant charge-offs on loans related to meat-packing, ethanol, land in transition, and beef and cattle loans. The district's provision for loan losses of $6.3 million for 2013 reflected a decrease of $27.3 million, or 81.3 percent, from the provision recorded for 2012, due primarily to changes in provisions required on specific loans at the respective year end, related to the loans described in the "Provision for Loan Losses" section of this discussion. The allowance for loan losses for the district represents the aggregate of each entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each entity is particular to that institution and is not available to absorb losses realized by other institutions. The allowance for loan losses at each period end was considered by management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. Management's evaluations consider factors including loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions and economic conditions.

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

	2013	2012	2011
Allowance for loan losses as a percentage of:			
Average loans	**0.4%**	0.7%	0.7%
Loans at year end			
Total loans	**0.4**	0.6	0.7
Nonaccrual loans	**46.0**	36.9	25.1
Total impaired loans	**34.0**	31.0	23.2
Net charge-offs to average loans	**0.2**	0.2	0.6
Provision expense to average loans	**<0.1**	0.2	0.3

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.

Figure 2

Nonaccrual Loans
as a Percentage of Total Loans at Year End

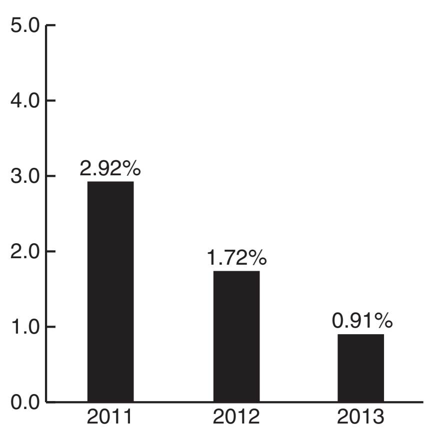


Figure 3

High-Risk Assets
as a Percentage of Total Members' Equity at Year End

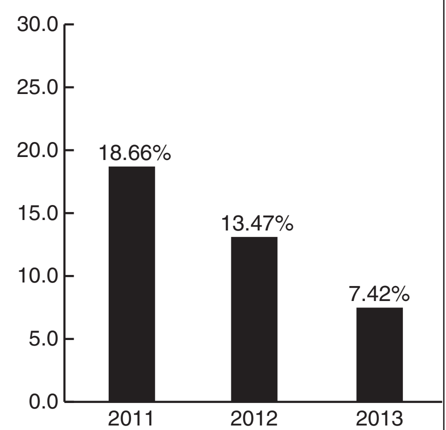


Figure 4

High-Risk Assets
as a Percentage of Total Loans and Other Property Owned at Year End

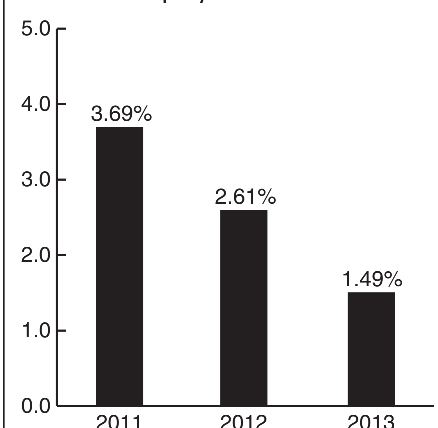


Figure 5

Interest Rate Gap Analysis
as of December 31, 2013

	Interest-Sensitive Period						
	One Month or Less	Over One Through Six Months	Over Six Through Twelve Months	**Total Twelve Months or Less**	Over One Year but Less Than Five Years	Over Five Years and Non-Rate Sensitive	**Total**
Earning Assets							
Total loans	$ 5,737,558	$ 2,352,447	$ 1,910,483	**$ 10,000,488**	$ 6,002,810	$ 1,722,222	**$ 17,725,520**
Total investments	1,735,314	224,465	177,086	**2,136,865**	933,612	644,856	**3,715,333**
Total earning assets	7,472,872	2,576,912	2,087,569	**12,137,353**	6,936,422	2,367,078	**21,440,853**
Interest-Bearing Liabilities							
Total interest-bearing funds	6,538,507	2,051,859	2,197,521	**10,787,887**	6,297,913	1,232,817	**18,318,617**
Excess of earning assets over interest-bearing liabilities	—	—	—	**—**	—	3,122,236	**3,122,236**
Total interest-bearing liabilities	6,538,507	2,051,859	2,197,521	**10,787,887**	6,297,913	4,355,053	**$ 21,440,853**
Interest rate sensitivity gap	$ 934,365	$ 525,053	$ (109,952)	**$ 1,349,466**	$ 638,509	$ (1,987,975)	
Cumulative interest rate sensitivity gap	$ 934,365	$ 1,459,418	$ 1,349,466	**$ 1,349,466**	$ 1,987,975		

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

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

The rate sensitivity gap analysis in Figure 5 sets forth a static measurement of the district's volume of interest-rate-sensitive assets and liabilities outstanding as of December 31, 2013, which are projected to mature or reprice in each of the future time periods shown. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the district has a positive gap position, indicating that the district 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.

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

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

At December 31, 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 16, "Derivative Instruments and Hedging Activity," to the accompanying combined financial statements for further discussion. Unrealized losses on interest rate caps, the difference between the amortized cost and fair value, are recorded as a reduction of accumulated other comprehensive income. To the extent that its derivatives have a negative fair value, the bank has a payable on the instrument and the counterparty is exposed to the credit risk of the bank. To the extent that its derivatives have a positive fair value, the bank has a receivable on the instrument and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the bank has bilateral collateral agreements to reduce potential exposure, diversify counterparties in the swap transactions and monitor the credit ratings of all counterparties with whom it transacts. Figure 6 summarizes the bank's activity in derivative financial instruments for 2013.

Interest rate risk exposure as measured by simulation modeling calculates the district's expected net interest income and market value of equity based upon projections of interest-rate-sensitive assets, liabilities, derivative financial instruments and interest rate scenarios. The bank monitors the district's financial exposure to instantaneous and parallel changes in interest rates of 200 basis points up or down over a rolling 12-month period. Per FCA regulations, when the current three-month Treasury bill interest rate is less than 4 percent, the minus 200-basis-point scenario should be replaced with a downward shock equal to one-half of the three-month Treasury bill rate. As of December 31, 2013, projected district net interest income would increase by $32.7 million, or 5.2 percent, if interest rates were to increase by 200 basis points, and would decrease by $4.2 million, or 0.67 percent, if interest rates were to decrease by 4 basis points. In general, the bank's ability to exercise call options on debt benefits the district in the event of decreasing interest rates. In a rising interest rate scenario, the benefit of rate increases on investments, association loans and the bank's participation loans would outpace the increase in the cost of debt.

Liquidity Risk Management

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

The 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.

Figure 6

Activity in Derivative Financial Instruments

(Notional Amounts)

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

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 comprised primarily of high-quality liquid securities. The securities provide a stable source of income for the bank, and their high quality ensures the portfolio can quickly be converted to cash should the need arise.

FCA regulations require each bank to maintain a minimum of 90 days of liquidity 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 our mission to provide credit and related services to the rural and agricultural sectors, repay maturing Systemwide debt securities, and meet other obligations. As a government-sponsored enterprise, the bank has had access to the nation's and world's capital markets. This access has provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the rural and agricultural sectors. Moody's Investors Service and Standard & Poor's rate the System's long-term debt as Aaa and AAA, 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.

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 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 Investors 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 district *(dollars in millions)*:

	December 31,		
	2013	2012	2011
Bonds and term notes outstanding	**$ 13,427**	$ 12,481	$ 11,031
Average effective interest rate	**1.13%**	1.08%	1.44%
Average life (years)	**3.1**	3.0	3.1
Subordinated debt outstanding	**$ 50**	$ 50	$ 50
Average effective interest rate	**8.41%**	8.41%	8.41%
Average life (years)	**4.8**	5.8	6.8
Discount notes outstanding	**$ 1,175**	$ 1,429	$ 1,614
Average effective interest rate	**0.10%**	0.17%	0.16%
Average life (days)	**112**	93	149
Notes payable to other System banks	**$ 3,650**	$ 3,400	$ 3,400
Average effective interest rate	**0.71%**	0.74%	0.72%
Average life (years)	**1.0 or less**	1.0 or less	1.0 or less

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

	For the years ended December 31,		
	2013	2012	2011
Average interest-bearing liabilities outstanding	**$ 17,543**	$ 16,761	$16,097
Average interest rates on interest-bearing liabilities	**1.02%**	1.16%	1.37%

Investments

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

FCA regulations also define eligible investments by specifying credit-rating criteria, final maturity limit and percentage of investment portfolio limit for each investment type. Generally, the bank's investments must be highly rated by 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 the eligibility rating criteria, the investment becomes ineligible.

The following table discloses the district's available-for-sale liquidity portfolio 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 district's investments in federal agency collateralized mortgage-backed securities have remained increased, demand for those instruments has resulted in smaller margins. The district 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 district's other investments, totaling $153.1 million, consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS). The bank held AMBS with a fair value of $97.4 million in an available-for-sale other investments portfolio, and associations held AMBS with an amortized cost of $55.7 million in a held-to-maturity portfolio. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

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

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

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

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

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

	Eligible				Ineligible						
December 31, 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 & 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.

December 31, 2012	Eligible AAA/Aaa	Eligible AA/Aa	Eligible F1/P1/A1	Eligible Split Rated	Ineligible AA/Aa	Ineligible A/A	Ineligible BBB/Baa	Ineligible B/B	Ineligible CCC/Caa	Ineligible 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 & 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

District members' equity totaled $3.57 billion at December 31, 2013, including $600.0 million in preferred stock, $59.2 million in capital stock and participation certificates, $3.00 billion in retained earnings, and $22.7 million in additional paid-in-capital, offset by accumulated other comprehensive losses of $111.0 million.

Bank Class A Cumulative Perpetual Preferred Stock (Class A preferred stock) – On November 7, 2003, the bank issued 100,000 shares of $1,000 per share par value Class A preferred stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The dividend rate 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.

Bank 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 our Class A preferred stock, and senior to all of our 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-1 preferred stock totaled $15.0 million. In 2012, Class B-1 preferred stock dividends totaling $30.0 million were declared and paid. At December 31, 2012, dividends payable on Class B-1 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-1 preferred stock totaled $15.0 million.

Bank 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 $295.9 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.

Borrower equity purchases required by association capitalization bylaws (see Note 9, "Members' Equity," to the accompanying combined financial statements), combined with a history of growth in retained earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions. The $3.57 billion capital position of the district at December 31, 2013, reflects an increase of 8.8 percent over the December 31, 2012, capital position of $3.29 billion. This increase is attributable to net income of $419.3 million earned in 2013, a $300.0 million issuance of Class B-2 preferred stock net of costs of issuance totaling $4.1 million, offset by the redemption of the remaining $182.0 million Class A cumulative perpetual preferred stock, patronage paid of $139.3 million, a net decrease in capital stock and allocated earnings of $55.6 million, dividends accrued and paid on preferred stock totaling $49.9 million, and an increase in other comprehensive loss of $147.

Accumulated other comprehensive loss totaled $111.0 million at December 31, 2013, an increase of $147 from December 31, 2012, due to a decrease of $64.4 million in unrealized gains on investment securities, offset by a $62.5 million increase in unrealized gains related to pension and other postretirement benefits and a $1.8 million decrease in unrealized losses on cash flow hedge instruments. The decrease in unrealized net gains on investments was primarily attributable to the effects of market interest rates on the bank's fixed-rate investments. The increase in unrealized gains on pension and other postretirement benefits was due primarily to an increase in the discount rate used to determine the projected benefit obligations for those benefits at December 31, 2013.

The return on average members' equity for the year ended December 31, 2013, was 11.64 percent, compared to 12.42 percent and 11.75 percent reported for the years ended December 31, 2012 and 2011, respectively.

FCA regulations require System institutions to compute a total surplus ratio, a core surplus ratio and a net collateral ratio (bank only), and maintain at least the minimum standard for each ratio. In those instances where an entity may not be in compliance, the regulations require the entity to submit a corrective plan to the FCA designed to move the institution into compliance. As of December 31, 2013, the bank and all district associations were in compliance with the regulations. Note 9, "Members' Equity," to the accompanying combined financial statements outlines the ranges of capital ratios for the bank and district associations. The bank's permanent capital ratio of 21.6 percent at December 31, 2013, is considered adequate, in accordance with the capital plan adopted by the bank's board of directors. An analysis of the trend in the district's capital ratios is presented in Figures 7, 8 and 9.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees,

Figure 7

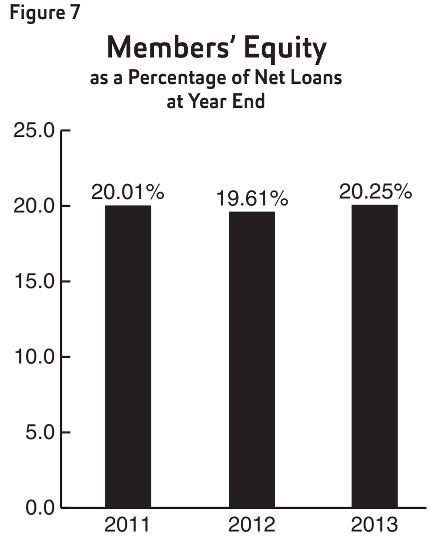


Figure 8

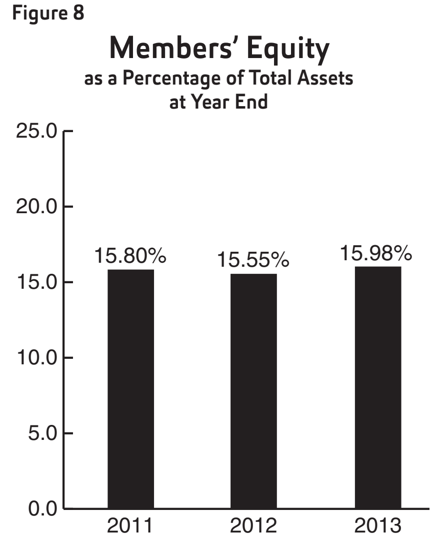
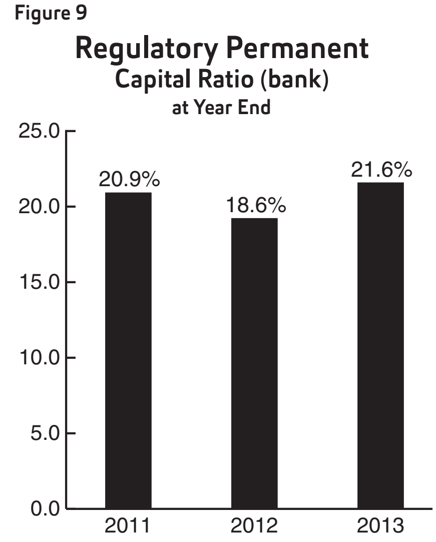


Figure 9



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 Farm Credit Council. The district councils represent the interests of their members on a local and state level, as well as on a federal level.

Recent Accounting Pronouncements

In 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.

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 recordkeeping 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 fee 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 Farm Credit Bank of Texas and the Texas Farm Credit District Associations

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

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

In the opinion of management, the combined financial statements are true and correct and fairly state the financial position of the bank and district associations at December 31, 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 or district associations.

The undersigned certify that we have reviewed the December 31, 2013, annual report of the Farm Credit Bank of Texas and district associations, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

February 28, 2014

Report of Audit Committee

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

The audit committee (committee) is composed of the entire board of directors of the Farm Credit Bank of Texas (bank). The committee oversees the bank's system of internal controls and the adequacy of management's action with respect to recommendations arising from those internal control activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's website at www.farmcreditbank.com. In 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 district'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 district'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 district's combined financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the bank's principal executive and principal financial officer, or persons performing similar functions, and effected by its board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the combined financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the district; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the district; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the district's assets that could have a material effect on its combined financial statements.

The bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 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. This evaluation relies upon the evaluations made by the individual associations and the related certification they provide to the bank.

Based on the assessment performed, the district concluded that as of December 31, 2013, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the district 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	Amie Pala
Chief Executive Officer	Chief Financial Officer

February 28, 2014

Independent Auditor's Report

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

We have audited the accompanying combined financial statements of Farm Credit Bank of Texas and Texas District Associations (the District), which comprise the combined balance sheets as of December 31, 2013, 2012 and 2011, and the related combined statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the combined 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 District'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Farm Credit Bank of Texas and Texas District Associations at December 31, 2013, 2012 and 2011, and the results of their operations and their 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
T: (512) 477-1300, F: (512) 477-8681, www.pwc.com/us

Combined Balance Sheets

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	December 31,		
(dollars in thousands)	**2013**	2012	2011
Assets			
Cash	**$ 610,056**	$ 512,842	$ 432,719
Federal funds sold and overnight investments	**21,809**	24,137	20,687
Investment securities	**3,693,524**	3,415,554	3,287,928
Loans (includes $58,461, $65,074 and $0 at fair value held under fair value option)	**17,725,520**	16,866,732	15,624,013
Less allowance for loan losses	**74,164**	106,842	114,117
Net loans	**17,651,356**	16,759,890	15,509,896
Accrued interest receivable	**136,610**	131,429	141,567
Other property owned, net	**47,142**	98,211	87,956
Premises and equipment, net	**79,454**	71,709	61,820
Other assets	**132,888**	111,870	99,918
Total assets	**$ 22,372,839**	$ 21,125,642	$ 19,642,491
Liabilities and members' equity			
Liabilities			
Bonds and notes, net	**$ 18,252,012**	$ 17,310,860	$ 16,045,541
Subordinated debt	**50,000**	50,000	50,000
Accrued interest payable	**39,853**	34,369	37,912
Patronage distributions payable	**134,376**	101,182	83,440
Preferred stock dividends payable	**20,063**	21,881	21,881
Other liabilities	**302,300**	321,269	299,589
Total liabilities	**18,798,604**	17,839,561	16,538,363
Commitments and contingencies (Note 13)			
Members' equity			
Preferred stock	**600,000**	482,000	482,000
Common stock and participation certificates	**59,225**	59,859	60,024
Allocated retained earnings	**516,859**	419,721	374,231
Unallocated retained earnings	**2,486,368**	2,412,571	2,257,527
Additional paid-in-capital	**22,737**	22,737	22,737
Accumulated other comprehensive loss	**(110,954)**	(110,807)	(92,391)
Total members' equity	**3,574,235**	3,286,081	3,104,128
Total liabilities and members' equity	**$ 22,372,839**	$ 21,125,642	$ 19,642,491

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

Combined Statements of Comprehensive Income

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	Year Ended December 31,		
(dollars in thousands)	**2013**	2012	2011
Investment securities and other	**$ 54,132**	$ 59,397	$ 65,812
Loans	**756,077**	749,901	762,843
Total interest income	**810,209**	809,298	828,655
Bonds, notes and subordinated debt	**153,763**	169,527	195,648
Notes payable and other	**25,629**	24,608	24,951
Total interest expense	**179,392**	194,135	220,599
Net interest income	**630,817**	615,163	608,056
Provision for loan losses	**6,308**	33,631	45,048
Net interest income after provision for loan losses	**624,509**	581,532	563,008
Patronage income	**19,325**	17,231	17,326
Fees for loan-related services	**31,551**	31,528	26,145
Refunds from Farm Credit System Insurance Corporation	**—**	22,862	—
Gain on loans held under fair value option	**259**	2,810	—
Other income, net	**6,102**	4,167	277
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	**56,596**	78,522	41,661
Salaries and employee benefits	**160,281**	146,976	134,402
Occupancy and equipment expense	**21,349**	18,170	16,601
Insurance Fund premiums	**15,608**	7,663	8,830
(Gains) losses on other property owned, net	**(4,718)**	13,850	18,740
Other operating expenses	**69,465**	62,995	56,255
Total noninterest expense	**261,985**	249,654	234,828
Income before income taxes	**419,120**	410,400	369,841
(Benefit from) provision for income taxes	**(160)**	985	1,175
Net income	**$ 419,280**	$ 409,415	$ 368,666
Other comprehensive loss			
Change in postretirement benefit plans	**62,497**	(22,410)	(44,615)
Change in unrealized (loss) gain on investments	**(64,407)**	4,527	4,991
Change in cash flow derivative instruments	**1,763**	(533)	(3,376)
Total other comprehensive loss	**(147)**	(18,416)	(43,000)
Comprehensive Income	**$ 419,133**	$ 390,999	$ 325,666

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

Combined Statements of Changes in Members' Equity

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	Preferred Stock	Common Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Retained Earnings Total	Additional Paid-in-Capital	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
Balance at December 31, 2010	$ 482,000	$ 61,843	$ 327,435	$ 2,121,822	$ 2,449,257	$ 22,622	$ (49,391)	$ 2,966,331
Net income	—	—	—	368,666	368,666	—	—	368,666
Other comprehensive loss	—	—	—	—	—	—	(43,000)	(43,000)
Capital stock/participation certificates and allocated retained earnings issued	—	7,003	—	—	—	—	—	7,003
Capital stock/participation certificates and allocated retained earnings retired	—	(8,822)	(54,579)	(624)	(55,203)	—	—	(64,025)
Equity related to association merger	—	—	—	(169)	(169)	115	—	(54)
Preferred stock dividends accrued	—	—	—	(21,881)	(21,881)	—	—	(21,881)
Preferred stock dividends paid	—	—	—	(21,880)	(21,880)	—	—	(21,880)
Patronage distributions								
Cash	—	—	—	(87,032)	(87,032)	—	—	(87,032)
Members' equity	—	—	101,375	(101,375)	—	—	—	—
Balance at December 31, 2011	482,000	60,024	374,231	2,257,527	2,631,758	22,737	(92,391)	3,104,128
Net income	—	—	—	409,415	409,415	—	—	409,415
Other comprehensive loss	—	—	—	—	—	—	(18,416)	(18,416)
Capital stock/participation certificates and allocated retained earnings issued	—	8,711	—	—	—	—	—	8,711
Capital stock/participation certificates and allocated retained earnings retired	—	(8,876)	(58,496)	—	(58,496)	—	—	(67,372)
Preferred stock dividends accrued and paid	—	—	—	(43,761)	(43,761)	—	—	(43,761)
Patronage distributions								
Cash	—	—	—	(106,624)	(106,624)	—	—	(106,624)
Members' equity	—	—	103,986	(103,986)	—	—	—	—
Balance at December 31, 2012	482,000	59,859	419,721	2,412,571	2,832,292	22,737	(110,807)	3,286,081
Net income	—	—	—	419,280	419,280	—	—	419,280
Other comprehensive loss	—	—	—	—	—	—	(147)	(147)
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)	—	—	(4,066)
Capital stock/participation certificates and allocated retained earnings issued	—	9,125	—	—	—	—	—	9,125
Capital stock/participation certificates and allocated retained earnings retired	—	(9,759)	(55,004)	—	(55,004)	—	—	(64,763)
Preferred stock dividends accrued	—	—	—	(20,063)	(20,063)	—	—	(20,063)
Preferred stock dividends accrued and paid	—	—	—	(29,868)	(29,868)	—	—	(29,868)
Patronage distributions								
Cash	—	—	—	(139,344)	(139,344)	—	—	(139,344)
Members' equity	—	—	152,142	(152,142)	—	—	—	—
Balance at December 31, 2013	**$ 600,000**	**$ 59,225**	**$ 516,859**	**$ 2,486,368**	**$ 3,003,227**	**$ 22,737**	**$ (110,954)**	**$ 3,574,235**

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

Combined Statements of Cash Flows

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	Year Ended December 31,		
(dollars in thousands)	**2013**	2012	2011
Operating Activities			
Net income	**$ 419,280**	$ 409,415	$ 368,666
Reconciliation of net income to net cash provided by operating activities			
Provision for loan losses	**6,308**	33,631	45,048
Provision for losses on other property owned	**3,431**	14,615	15,521
Depreciation and amortization on premises and equipment	**9,707**	7,546	6,694
Accretion of net premium (discount) on loans	**6,964**	2,159	(200)
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)**	(2,021)	—
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)**	(12,445)	(12,467)
Gain on sales of other property owned, net	**(8,688)**	(2,327)	(244)
Gain on sales of premises and equipment, net	**(4,791)**	(5,263)	(3,292)
(Increase) decrease in accrued interest receivable	**(5,181)**	10,138	12,456
Increase in other assets, net	**(6,940)**	(448)	(203)
Increase (decrease) in accrued interest payable	**5,484**	(3,543)	(7,969)
Increase (decrease) in other liabilities, net	**22,292**	11,474	(3,862)
Net cash provided by operating activities	**430,468**	459,838	424,826
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	**1,012,295**	1,087,700	914,393
Proceeds from sales	**19,844**	68,744	—
Increase in loans	**(983,408)**	(1,352,722)	(182,273)
Proceeds from sale of loans	**323,318**	—	—
Proceeds from sales of other property owned, net	**83,780**	35,380	68,165
Proceeds from sales of premises and equipment	**3,731**	4,264	3,551
Expenditures for premises and equipment	**(16,392)**	(16,436)	(8,380)
Net cash used in investing activities	**(929,412)**	(1,456,759)	(179,558)
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)
(Decrease) increase in advanced conditional payments	**(666)**	(682)	10,926
Equity (related to) issued upon merger	—	—	(54)
Bank Class B Series 2 preferred stock issued	**300,000**	—	—
Bank Class A preferred stock retired	**(182,000)**	—	—
Issuance costs on preferred stock	**(4,066)**	—	—
Capital stock and participation certificates issued	**9,125**	8,711	7,003
Capital stock and participation certificates retired and allocated retained earnings distributed	**(64,763)**	(67,372)	(64,025)
Cash dividends on preferred stock	**(49,931)**	(43,761)	(21,880)
Cash dividends and patronage distributions paid	**(106,150)**	(88,882)	(69,603)
Net cash provided by (used in) financing activities	**596,158**	1,077,044	(265,871)
Net increase (decrease) in cash	**97,214**	80,123	(20,603)
Cash at beginning of year	**512,842**	432,719	453,322
Cash at end of year	**$ 610,056**	$ 512,842	$ 432,719
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ 5,480**	$ 10,924	$ 2,001
Loans transferred to other property owned	**32,934**	68,847	91,273
Net (decrease) increase in unrealized gains on investment securities	**(64,407)**	4,527	4,991
Patronage distributions payable	**134,376**	101,182	83,440
Preferred stock dividends payable	**20,063**	21,881	21,881
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
(Decrease) increase in bonds and notes	**$ (91)**	$ 78	$ (1,834)
Supplemental Information			
Cash paid during the year for:			
Interest	**$ 173,908**	$ 197,678	$ 228,568
Income taxes	**315**	88	327

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

Note 1 — Organization and Operations

A. Organization:

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

As of December 31, 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 lending authorities of an FCB within its chartered territories. The bank is chartered to service the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Agricultural Credit Associations (ACAs) and/or Federal Land Credit Associations (FLCAs). The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (district). The district's one FLCA, 16 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs) and preferred stockholders jointly owned the bank at December 31, 2013. The FLCA and ACAs collectively are referred to as associations.

Effective January 1, 2014, the district will consist of 14 ACA parent associations. (See Note 19, "Subsequent Events," regarding association mergers effective after December 31, 2013.)

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

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

B. Operations:

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

A. Cash:

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

B. Investment Securities:

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

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, respectively. These investments are reported at fair value, and unrealized holding gains and losses on investments are netted and reported as a separate component of members' equity in the balance sheet (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 and associations may also hold additional investments in accordance with mission-related investment programs, approved by the Farm Credit Administration. These programs allow the bank and associations to make investments that further the System's mission to serve rural America. Mission-related investments are not included in liquidity calculations and are not covered by the eligible investment limitations specified by the FCA regulations. Mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) are considered other investments and are also excluded from the limitation and liquidity calculations. Mission-related investments for which the associations have the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

At December 31, 2013, the district held other investments, totaling $153.1 million, which consisted of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). The bank held AMBS with a fair value of $97.4 million in an available-for-sale other investments portfolio, and associations held AMBS with an amortized cost of $55.7 million in a held-to-maturity portfolio. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

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

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

C. Loans and Allowance for Loan Losses:

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

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

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

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

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

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

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

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

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

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

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

D. Other Property Owned:

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

E. Premises and Equipment:

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

F. Other Assets and Other Liabilities:

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

The bank and associations are authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. The total outstanding gross balances of advance conditional payments, both netted against loans and classified as other liabilities, at December 31, 2013, 2012 and 2011 were $123.6 million, $103.6 million and $108.2 million, respectively.

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

G. Employee Benefit Plans:

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

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

The structure of the district's defined benefit plan is characterized as multiemployer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. Participating employers are jointly and severally liable for 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) and associated costs of withdrawal. As a result, participating employers of the plans only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. The majority of plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination at the district level only.

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

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

H. Income Taxes:

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

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

As of December 31, 2013, deferred income taxes have not been provided by the ACAs and their PCA subsidiaries on $34.2 million of pre-1993 patronage distributions from the bank because management's intent is to (1) permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) pass any distributions related to pre-1993 earnings to borrowers through qualified patronage allocations. No deferred taxes have been provided on the bank's post-1994 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances which, if distributions were made, would result in income taxes being paid at the association level.

I. Derivative Instruments and Hedging Activity:

In the normal course of business, 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 firm commitments. Derivatives are recorded on the balance sheet as assets and liabilities at fair value.

For fair-value hedge transactions which hedge changes in the fair value of assets, liabilities or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value. For cash flow hedges, which hedge the exposure to variability in expected future cash flows, changes in the fair value of the derivative are reflected in accumulated other comprehensive income. The bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific liabilities on the balance sheet. The bank uses interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of authoritative accounting guidance, and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively when the bank determines that a derivative has not been or is not expected to be effective as a hedge. In the event that hedge accounting were discontinued and the derivative remained outstanding, the bank would carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings. See Note 16, "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. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

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

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

K. Recently Issued or Adopted Accounting Pronouncements:

In 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 third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

M. Merger Accounting:

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

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

Note 3 — Investment Securities

The district's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of agency-guaranteed debt instruments, corporate debt, mortgage-backed investments, asset-backed investments and corporate debt. At December 31, 2013, the district's other investments portfolio consisted of AMBS held by district associations in a held-to-maturity portfolio with an amortized cost of $55.7 million and AMBS held by the bank in an available-for-sale portfolio with a fair value of $97.4 million. The bank's AMBS were purchased from district associations as a part of the bank's Capitalized Participation Pool (CPP) program. In accordance with this program, any positive impact to the net income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool, which is eliminated upon combination.

Investments in the available-for-sale liquidity portfolio and held-to-maturity investments 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 investments	**$ 3,567,095**	**$14,763**	**$(41,426)**	**$ 3,540,432**	**1.28%**
Held-to-maturity investments:					
Agricultural mortgage-backed securities	**$ 55,669**	**$ 79**	**$ (632)**	**$ 55,116**	**4.57%**

	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 investments	$ 3,194,808	$39,209	$ (3,017)	$ 3,231,000	1.52%
Held-to-maturity investments:					
Agricultural mortgage-backed securities	$ 69,075	$ 233	$ (556)	$ 68,752	4.62%

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

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%

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of the 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 fair value	$ 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%

Investments in the district's held-to-maturity investment portfolio at December 31, 2013 follow:

	Due After One Year Through Five Years	**Due After Five Years Through 10 Years**	**Total**
Fair value	$ 38,406	$ 16,710	$ 55,116
Amortized cost	38,486	17,183	55,669
Weighted average yield	4.79%	4.06%	4.57%

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 due to impairment	—	1	2,087
Realized losses on sales	**641**	75	—

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

At December 31, 2013, the district 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. An investment is considered impaired if its fair value is less than its cost.

	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)
FHMA 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 an entity does not expect to recover the security's entire amortized cost basis (even if it does not intend to sell).

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

During 2013, the bank recognized credit losses on the sale of five other-than-temporarily impaired investment 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 other-than-temporarily impaired investment security still held totaling $1 and $75 on the sale of one other-than-temporarily impaired investment 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 Allowance for Loan Losses

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

	2013	2012	2011
Real estate mortgage	**$ 10,794,302**	$ 10,261,127	$ 10,165,704
Production and intermediate term	**1,877,296**	1,831,402	1,668,820
Agribusiness			
Loans to cooperatives	**173,572**	172,652	171,904
Processing and marketing	**2,345,046**	2,183,437	1,651,723
Farm-related business	**226,110**	215,141	235,023
Communication	**304,755**	320,590	279,696
Energy (rural utilities)	**1,343,360**	1,296,812	902,666
Water and waste disposal	**133,975**	105,043	101,698
Rural home	**225,942**	203,171	198,630
Mission-related	**242,583**	192,030	151,685
Agricultural export finance	**19,788**	13,648	229
Loans to other financial institutions	**34,380**	67,106	82,901
Lease receivables	**4,411**	4,573	13,334
Total	**$ 17,725,520**	$ 16,866,732	$ 15,624,013

The FCA approved a program that allows the bank and its associations to purchase investments in debt instruments called "Rural America Bonds." This program is intended to help meet the growing financing needs of agriculture and rural America, improve the income and economic well-being of American farmers and ranchers, and enhance the economic vibrancy of rural areas that support agriculture. Loans related to this initiative are included in "mission-related" loans in the previous table. This program will be discontinued at the end of 2014 after which time approval of these investments may be sought from the FCA on an individual basis.

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

	Other Farm Credit Institutions (Outside of Texas District)		Non–Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 148,980	$ 165,994	$ 42,865	$ 19,935	$ 191,845	$ 185,929
Production and intermediate term	306,945	340,179	32,369	17,623	339,314	357,802
Agribusiness	1,141,457	19,691	75,336	8,768	1,216,793	28,459
Communication	305,117	—	—	—	305,117	—
Energy (rural utilities)	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	—
Lease receivables	4,092	—	100	—	4,192	—
Loans to other financing institutions	—	23,071	—	—	—	23,071
Direct note receivable from district associations	—	3,650,000	—	—	—	3,650,000
Mission-related	8,002	—	4,418	—	12,420	—
Total	**$ 3,414,828**	**$ 4,202,331**	**$ 155,088**	**$ 46,326**	**$ 3,569,916**	**$ 4,248,657**

At December 31, 2013, the bank had a total of $3.650 billion of direct notes from district associations sold to another System bank. The sales included participations of eleven of its direct notes receivable from district associations. These sales provide diversification benefits between Farm Credit entities.

The district 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	$ 65,074
New transaction elected for fair value option	—
Maturities, repayments and calls by issuers	(4,750)
Net gains on financial instruments under fair value option	259
Change in premium amortization	(2,122)
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 (*dollars in millions*):

	2013		2012		2011	
Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 6,049**	**34%**	$ 5,874	35%	$ 5,806	37%
Crops	**2,362**	**14**	2,172	13	1,958	13
Timber	**1,615**	**9**	1,493	9	1,508	10
Cotton	**748**	**4**	739	4	695	4
Poultry	**567**	**3**	545	3	528	3
Dairy	**548**	**3**	506	3	461	3
Rural home	**226**	**1**	203	1	199	1
Other	**5,611**	**32**	5,335	32	4,469	29
Total	**$ 17,726**	**100%**	$ 16,867	100%	$ 15,624	100%

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

In March 2010, the bank purchased loans which had experienced credit deterioration and other property owned from a district association. The 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.

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 by the bank at December 31, 2013, totaled $41,013.

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

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

	December 31, 2013	2012	2011
Nonaccrual loans			
Current as to principal and interest	$ 86,089	$ 119,433	$ 206,413
Past due	75,200	169,987	249,081
Total nonaccrual loans	161,289	289,420	455,494
Accrual loans			
Restructured	53,211	53,713	29,588
90 days or more past due	3,621	1,159	6,293
Total impaired accrual loans	56,832	54,872	35,881
Total impaired loans	$ 218,121	$ 344,292	$ 491,375

There were $21.2 million in commitments to lend additional funds to borrowers whose loans were classified as nonaccrual or restructured at December 31, 2013.

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

	December 31, 2013	2012	2011
Nonaccrual loans			
Real estate mortgage	$ 108,370	$ 176,969	$ 318,798
Production and intermediate term	38,410	20,276	60,511
Agribusiness	11,988	84,431	57,205
Communication	—	6,042	4,479
Rural residential real estate	1,302	1,639	1,828
Lease receivables	48	63	2,881
Energy and water/waste disposal	1,171	—	9,043
Mission-related loans	—	—	749
Total nonaccrual loans	161,289	289,420	455,494
Accruing restructured loans			
Real estate mortgage	33,717	34,072	19,321
Production and intermediate term	14,129	14,414	2,439
Agribusiness	105	5,193	7,796
Rural residential real estate	72	34	32
Mission-related loans	5,189	—	—
Total accruing restructured loans	53,212	53,713	29,588
Accruing loans 90 days or more past due			
Real estate mortgage	754	439	1,432
Production and intermediate term	2,371	86	2,177
Agribusiness	—	—	2,684
Rural residential real estate	—	126	—
Mission-related loans	496	508	—
Total accruing loans 90 days or more past due	3,621	1,159	6,293
Total nonperforming loans	218,122	344,292	491,375
Other property owned, net	47,142	98,211	87,956
Total nonperforming assets	$ 265,264	$ 442,503	$ 579,331

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

- Acceptable — assets 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	96.1%	93.7%	91.5%
OAEM	1.7	3.3	4.0
Substandard/Doubtful	2.2	3.0	4.5
	100.0%	100.0%	100.0%
Production and intermediate term			
Acceptable	93.5%	92.9%	89.6%
OAEM	2.7	3.6	5.2
Substandard/Doubtful	3.8	3.5	5.2
	100.0%	100.0%	100.0%
Agribusiness			
Acceptable	98.3%	92.6%	87.1%
OAEM	0.8	3.1	6.6
Substandard/Doubtful	0.9	4.3	6.3
	100.0%	100.0%	100.0%
Energy and water/waste disposal			
Acceptable	97.3%	97.2%	94.8%
OAEM	—	—	2.2
Substandard/Doubtful	2.7	2.8	3.0
	100.0%	100.0%	100.0%
Communication			
Acceptable	99.5%	98.1%	98.4%
OAEM	—	—	—
Substandard/Doubtful	0.5	1.9	1.6
	100.0%	100.0%	100.0%
Rural home			
Acceptable	96.9%	95.7%	95.8%
OAEM	1.2	1.8	1.9
Substandard/Doubtful	1.9	2.5	2.3
	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%
Lease receivables			
Acceptable	92.2%	98.7%	78.6%
OAEM	6.5	—	—
Substandard/Doubtful	1.3	1.3	21.4
	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	97.4%	96.7%	95.1%
OAEM	—	—	0.4
Substandard/Doubtful	2.6%	3.3	4.5
	100.0%	100.0%	100.0%
Total loans			
Acceptable	96.4%	93.9%	91.2%
OAEM	1.4	2.9	4.2
Substandard/Doubtful	2.2	3.2	4.6
	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	**$ 39,855**	**$ 45,347**	**$ 85,202**	**$ 10,802,797**	**$ 10,887,999**	**$ 754**
Production and intermediate term	**13,255**	**16,762**	**30,017**	**1,865,035**	**1,895,052**	**2,371**
Agribusiness	**1,723**	**2,743**	**4,466**	**2,751,517**	**2,755,983**	**—**
Energy and water/waste disposal	**—**	**—**	**—**	**1,481,665**	**1,481,665**	**—**
Communication	**—**	**—**	**—**	**305,050**	**305,050**	**—**
Rural residential real estate	**1,899**	**329**	**2,228**	**224,751**	**226,979**	**—**
Agricultural export finance	**—**	**—**	**—**	**19,828**	**19,828**	**—**
Lease receivables	**—**	**—**	**—**	**4,507**	**4,507**	**—**
Loans to OFIs	**—**	**—**	**—**	**34,421**	**34,421**	**—**
Mission-related	**8,535**	**496**	**9,031**	**235,847**	**244,878**	**496**
Total	**$ 65,267**	**$ 65,677**	**$ 130,944**	**$ 17,725,418**	**$ 17,856,362**	**$ 3,621**

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

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

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

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

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

As of December 31, 2013, the total recorded investment of troubled debt restructured loans was $79.9 million, including $26.7 million classified as nonaccrual and $53.2 million classified as accrual, with specific allowance for loan losses of $7.1 million. As of December 31, 2013, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $163.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the years ended December 31, 2013, 2012, and 2011. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

December 31, 2013:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	**$ 2,019**	**$ 1,964**
Production and intermediate term	**280**	**255**
Agribusiness	**6,622**	**2,971**
Rural residential real estate	**104**	**112**
Mission-related	**5,172**	**5,165**
Total	**$ 14,197**	**$ 10,467**

December 31, 2012:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$ 24,536	$ 23,469
Production and intermediate term	4,765	4,011
Agribusiness	692	681
Total	$ 29,993	$ 28,161

December 31, 2011:

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

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

A payment default is defined as a payment that is 30 days past due after the date the loan was restructured. The payment defaults on troubled debt restructured loans was related to one borrower at a district association in 2013 and to payment defaults on two borrowers at a district association in 2012. The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

	Recorded Investment at December 31, 2013	Recorded Investment at December 31, 2012	Recorded Investment at December 31, 2011
Troubled debt restructurings that subsequently defaulted:			
Real estate mortgage	**$ 100**	$ 8,070	$ 1,651
Production and intermediate term	**—**	2,054	—
Total	**$ 100**	$ 10,124	$ 1,651

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	**$ 51,548**	$ 57,642	$ 36,645	**$ 17,831**	$ 23,570	$ 17,324
Production and intermediate term	**14,535**	18,430	19,038	**406**	4,016	16,599
Agribusiness	**8,525**	10,160	12,216	**8,419**	4,967	4,420
Rural residential real estate	**109**	34	32	**38**	—	—
Mission-related	**5,189**	—	—	**—**	—	—
Total	**$ 79,906**	$ 86,266	$ 67,931	**$ 26,694**	$ 32,553	$ 38,343

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	$ 41,123	$ 50,123	$ 9,905	$ 48,402	$ 577
Production and intermediate term	27,653	28,654	6,212	21,486	452
Processing and marketing	6,878	10,871	2,401	28,201	136
Farm-related business	1,068	4,992	191	3,340	—
Energy and water/waste disposal	1,171	1,171	1,147	1,359	—
Communication	—	—	—	2,099	123
Rural residential real estate	253	253	14	285	6
Mission-related	2,331	2,331	78	585	39
Total	$ 80,477	$ 98,395	$ 19,948	$ 105,757	$ 1,333
Impaired loans with no related allowance for credit losses					
Real estate mortgage	$ 101,718	$ 111,132	$ —	$ 136,514	$ 7,197
Production and intermediate term	27,256	49,522	—	25,214	3,565
Processing and marketing	3,856	28,391	—	10,922	70
Farm-related business	292	1,000	—	2,385	309
Energy and water/waste disposal	—	22,796	—	—	—
Communication	—	—	—	414	—
Rural residential real estate	1,120	1,210	—	1,338	55
Lease receivables	48	48	—	55	—
Mission-related	3,354	7,088	—	1,166	89
Total	$ 137,644	$ 221,187	$ —	$ 178,008	$ 11,285
Total impaired loans					
Real estate mortgage	$ 142,841	$ 161,255	$ 9,905	$ 184,916	$ 7,774
Production and intermediate term	54,909	78,176	6,212	46,700	4,017
Processing and marketing	10,734	39,262	2,401	39,123	206
Farm-related business	1,360	5,992	191	5,725	309
Energy and water/waste disposal	1,171	23,967	1,147	1,359	—
Communication	—	—	—	2,513	123
Rural residential real estate	1,373	1,463	14	1,623	61
Lease receivables	48	48	—	55	—
Mission-related	5,685	9,419	78	1,751	128
Total	$ 218,121	$ 319,582	$ 19,948	$ 283,765	$ 12,618

*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	$ 53,674	$ 66,770	$ 13,062	$ 77,864	$ 382
Production and intermediate term	10,482	16,657	3,963	16,487	61
Processing and marketing	58,367	59,241	27,055	41,496	644
Farm-related business	8,646	8,755	3,064	12,639	40
Energy and water/waste disposal	—	—	—	2,223	—
Communication	5,369	5,369	2,824	4,259	—
Rural residential real estate	562	567	93	440	2
Lease receivables	—	—	—	686	—
Mission-related	—	—	—	77	—
Total	$ 137,100	$ 157,359	$ 50,061	$ 156,171	$ 1,129
Impaired loans with no related allowance for credit losses					
Real estate mortgage	$ 157,806	$ 161,842	$ —	$ 205,712	$ 5,460
Production and intermediate term	24,294	42,037	—	31,508	1,330
Loans to cooperatives	—	—	—	—	—
Processing and marketing	22,276	51,148	—	23,875	2,583
Farm-related business	335	4,546	—	2,766	578
Energy and water/waste disposal	—	22,796	—	1,423	—
Communication	673	673	—	1,881	24
Rural residential real estate	1,237	1,360	—	1,276	17
Lease receivables	63	63	—	71	—
Mission-related	508	4,296	—	1,834	97
Total	$ 207,192	$ 288,761	$ —	$ 270,346	$ 10,089
Total impaired loans					
Real estate mortgage	$ 211,480	$ 228,612	$ 13,062	$ 283,576	$ 5,842
Production and intermediate term	34,776	58,694	3,963	47,995	1,391
Loans to cooperatives	—	—	—	—	—
Processing and marketing	80,643	110,389	27,055	65,371	3,227
Farm-related business	8,981	13,301	3,064	15,405	618
Energy and water/waste disposal	—	22,796	—	3,646	—
Communication	6,042	6,042	2,824	6,140	24
Rural residential real estate	1,799	1,927	93	1,716	19
Lease receivables	63	63	—	757	—
Mission-related	508	4,296	—	1,911	97
Total	$ 344,292	$ 446,120	$ 50,061	$ 426,517	$ 11,218

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

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

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	**$ 30,749**	$ 33,227	$ 51,022
Less: Interest income recognized	**12,618**	11,218	13,828
Foregone interest income	**$ 18,131**	$ 22,009	$ 37,194

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Loan Losses:											
Balance at December 31, 2012	$ 42,868	$ 20,939	$ 36,753	$ 2,602	$ 3,213	$ 398	$ 3	$ 30	$ —	$ 36	$ 106,842
Charge-offs	(9,300)	(6,641)	(28,018)	—	—	(151)	—	—	—	—	(44,110)
Recoveries	1,418	1,548	2,355	—	—	14	—	—	—	—	5,335
Provision for loan losses	8,523	(1,912)	505	(1,960)	855	168	4	19	—	106	6,308
Other*	(1,080)	(343)	59	(1)	1,154	—	—	—	—	—	(211)
Balance at December 31, 2013	$ 42,429	$ 13,591	$ 11,654	$ 641	$ 5,222	$ 429	$ 7	$ 49	$ —	$ 142	$ 74,164
Individually evaluated for impairment	$ 10,111	$ 6,207	$ 3,534	$ —	$ 1,147	$ 25	$ —	$ —	$ —	$ 78	21,102
Collectively evaluated for impairment	32,318	7,384	8,120	641	4,075	404	7	49	—	64	53,062
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2013	$ 42,429	$ 13,591	$ 11,654	$ 641	$ 5,222	$ 429	$ 7	$ 49	$ —	$ 142	$ 74,164
Recorded Investments in Loans Outstanding:											
Balance at December 31, 2013	$ 10,887,999	$ 1,895,052	$ 2,755,983	$ 305,050	$ 1,481,665	$ 226,979	$ 19,828	$ 4,507	$ 34,421	$ 244,878	$ 17,856,362
Ending Balance: loans individually evaluated for impairment	$ 152,836	$ 54,594	$ 14,836	$ —	$ 1,171	$ 1,997	$ —	$ 48	$ —	$ 5,165	$ 230,647
Ending Balance: loans collectively evaluated for impairment	$ 10,735,163	$ 1,840,458	$ 2,741,147	$ 305,050	$ 1,480,494	$ 224,982	$ 19,828	$ 4,459	$ 34,421	$ 239,713	$ 17,625,715
Ending Balance: loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Loan Losses:											
Balance at December 31, 2011	$ 62,514	$ 21,748	$ 23,241	$ 3,374	$ 2,624	$ 436	$ —	$ 58	$ —	$ 122	$ 114,117
Charge-offs	(22,745)	(8,309)	(2,795)	—	(8,988)	(191)	—	—	—	(92)	(43,120)
Recoveries	3,645	2,698	852	—	—	14	—	—	—	1	7,210
Provision for loan losses	(1,055)	4,827	15,456	(772)	15,056	139	3	(28)	—	5	33,631
Other*	509	(25)	(1)	—	(5,479)	—	—	—	—	—	(4,996)
Balance at December 31, 2012	$ 42,868	$ 20,939	$ 36,753	$ 2,602	$ 3,213	$ 398	$ 3	$ 30	$ —	$ 36	$ 106,842
Individually evaluated for impairment	$ 11,828	$ 3,732	$ 32,129	$ 2,286	$ —	$ 110	$ —	$ —	$ —	$ —	$ 50,085
Collectively evaluated for impairment	30,227	16,963	4,624	316	3,213	288	3	30	—	36	55,700
Loans acquired with deteriorated credit quality	813	244	—	—	—	—	—	—	—	—	1,057
Balance at December 31, 2012	$ 42,868	$ 20,939	$ 36,753	$ 2,602	$ 3,213	$ 398	$ 3	$ 30	$ —	$ 36	$ 106,842
Recorded Investments in Loans Outstanding:											
Balance at December 31, 2012	$ 10,352,492	$ 1,847,555	$ 2,580,705	$ 320,927	$ 1,406,516	$ 204,181	$ 13,676	$ 4,689	$ 67,196	$ 193,759	$ 16,991,696
Ending Balance: loans individually evaluated for impairment	$ 215,540	$ 33,311	$ 82,075	$ 7,425	$ 943	$ 2,274	$ —	$ 63	$ —	$ —	$ 341,631
Ending Balance: loans collectively evaluated for impairment	$ 10,133,958	$ 1,812,761	$ 2,498,630	$ 313,502	$ 1,405,573	$ 201,907	$ 13,676	$ 4,626	$ 67,196	$ 193,759	$ 16,645,588
Ending Balance: loans acquired with deteriorated credit quality	$ 2,994	$ 1,483	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 4,477

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

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

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2013	2012	2011
Land	**$ 14,242**	$ 13,815	$ 12,630
Buildings and improvements	**49,977**	46,746	43,899
Furniture and equipment	**65,516**	55,712	46,715
	129,735	116,273	103,244
Accumulated depreciation	**(50,281)**	(44,564)	(41,424)
Total	**$ 79,454**	$ 71,709	$ 61,820

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 for the bank and district associations on building and computer equipment leases:

	Minimum Lease Payments
2014	$ 3,538
2015	3,770
2016	3,946
2017	3,475
2018	3,093
Thereafter	15,643
Total minimum lease payments	$ 33,465

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 $47,142, $98,211 and $87,956 at December 31, 2013, 2012 and 2011, respectively. The $47,142 balance of OPO at December 31, 2013, consisted of $13,812 held by the bank and $33,330 held by district associations.

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

	December 31,		
	2013	2012	2011
Gain (loss) on sale, net	**$ 8,688**	$ 2,327	$ (244)
Carrying value adjustments	**(3,431)**	(14,615)	(15,521)
Operating expense, net	**(539)**	(1,562)	(2,975)
Net gain (loss) on other property owned	**$ 4,718**	$ (13,850)	$ (18,740)

Note 7 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2013	2012	2011
Investment in another System bank	**$ 75,412**	$ 59,879	$ 47,439
Other accounts receivable	**21,202**	19,847	21,626
Unamortized debt issue costs	**12,696**	11,531	11,123
Fair value of derivatives	**831**	756	1,726
Deferred tax assets, net	**4,513**	4,514	4,915
Other, net	**18,234**	15,343	13,089
Total	**$ 132,888**	$ 111,870	$ 99,918

Other liabilities comprised the following at December 31:

	2013	2012	2011
Pension liability	**$ 80,090**	$ 132,126	$ 115,054
Accounts payable	**87,087**	52,248	61,508
Postretirement benefits	**53,183**	61,867	52,717
Advance conditional payments	**28,892**	29,558	30,420
Bank draft payable	**25,009**	25,792	18,481
FCSIC premium payable	**12,068**	5,993	6,807
Deferred tax liabilities	**899**	872	775
Income taxes payable	**—**	404	302
Fair value of derivatives	**—**	—	486
Other, net	**15,072**	12,409	13,039
Total	**$ 302,300**	$ 321,269	$ 299,589

Note 8 — Bonds and Notes

Systemwide Debt Securities and Notes Payable:

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Certain conditions must be met before the bank can participate in the issuance of Systemwide debt securities. The bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. The System banks and the Funding Corporation have entered into the second amended and restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2013, the bank was, and currently remains, in compliance with the conditions and requirements of the MAA. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 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.

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

The district's participation in Systemwide debt securities and notes payable to other System bank at December 31, 2013 follows (*dollars in millions)*:

	Systemwide				Notes Payable to Other System Bank		Total	
	Bonds		Discount Notes					
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2014	$ 3,896.7	0.40%	$ 1,174.6	0.10%	$ 3,650.0	0.71%	$ 8,721.3	0.49%
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%	$ 3,650.0	0.71%	$18,252.0	0.98%

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:

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 business days' notice. Expenses associated with the exercise of call options on debt issuances are included in interest expense.

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

Other:

At December 31, 2013, the bank had a total of $3.7 billion of direct notes sold to another System bank. The sales included participations of eleven of its direct notes receivable from district associations. These sales provide diversification benefits between Farm Credit entities. At the district level the sold portion is reflected as notes payable to another System bank.

Note 9 — Members' Equity

Descriptions of the bank's and associations' capitalization requirements, regulatory capitalization requirements, and restrictions and equities 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. Capitalization Requirements:

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

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

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

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

B. Regulatory Capitalization Requirements and Restrictions:

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

The bank's permanent capital ratio at December 31, 2013, was 21.64 percent and exceeded FCA standards. All associations currently meet the minimum capital standard established by FCA regulations. Except as noted below, all associations are currently able to retire stock or distribute earnings in accordance with the Farm Credit Act and FCA regulatory restrictions. At December 31, 2013, three associations were operating under written supervisory agreements with FCA which allow them to make patronage distributions only with the prior approval of FCA. The supervisory agreements on two of the associations were removed by the FCA in January 2014.

The following table sets forth the ranges of capital standards for the district at December 31, 2013:

	Permanent Capital Ratio Ranges %	Core Surplus Ratio Ranges %	Total Surplus Ratio Ranges %
Bank	21.64	10.12	17.29
FLCA	19.35	18.95	18.95
ACAs	14.62 – 21.50	12.57 – 21.07	14.20 – 21.07
Regulatory minimum standard	7.00	3.50	7.00

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

At December 31, 2013, the bank's net collateral ratio was 108.67 percent.

C. Description of Associations' Equities:

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

Stock and Participation Certificates	Par Value	Number of Shares at December 31, 2013	2012	2011
Stock				
Common – voting (eligible for dividends, convertible)	$ 5.00	**11,090,467**	11,191,051	11,240,062
Common – nonvoting (eligible for dividends, convertible)	$ 5.00	**33,514**	47,220	46,881
Participation certificates – nonvoting (eligible for dividends, convertible)	$ 5.00	**467,676**	442,170	427,840

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

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

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

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

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

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

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

D. 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 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 $295.9 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. These intercompany balances and transactions are eliminated in combination.

Class A Nonvoting Common Stock – The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of $5 per share) in the bank based on a minimum and maximum of 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of the OFIs' average borrowings from the bank. No Class A nonvoting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's

Capital Plan. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 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 31, 2011, resulting in a stock retirement of $231.

E. Additional Paid-in-Capital

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

F. Accumulated Other Comprehensive Loss:

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

	Total	Unrealized Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2013	**$ (110,807)**	**$ 34,104**	**$ (138,696)**	**$ (6,215)**
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	**(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 losses on securities	**(64,407)**	**(64,407)**		
Change in retirement benefit plans				
Actuarial gains	**46,485**		**46,485**	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	**(1,171)**		**(1,171)**	
Amortization of net losses	**17,183**		**17,183**	
Net change in retirement benefit plans	**62,497**		**62,497**	
Change in cash flow derivative instruments				
Unrealized gains 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 (loss) income	**(147)**	**(64,407)**	**62,497**	**1,763**
Balance, December 31, 2013	**$ (110,954)**	**$ (30,303)**	**$ (76,199)**	**$ (4,452)**

Following is a summary of the components of accumulated other comprehensive (loss) income (AOCL) 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	$ (92,391)	$ 29,577	$ (116,286)	$ (5,682)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	(42)	(42)		
Decrease 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 on securities	4,527	4,527		
Change in retirement benefit plans				
Actuarial losses	(35,322)		(35,322)	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(1,389)		(1,389)	
Amortization of net losses	14,301		14,301	
Net change in retirement benefit plans	(22,410)		(22,410)	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(1,072)			(1,072)
Reclassification of loss recognized in interest expense	539			539
Net change in cash flow derivative instruments	(533)			(533)
Total other comprehensive (loss) income	(18,416)	4,527	(22,410)	(533)
Balance, December 31, 2012	$ (110,807)	$ 34,104	$ (138,696)	$ (6,215)

Following is a summary of the components of accumulated other comprehensive (loss) income (AOCL) 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	$ (49,391)	$ 24,586	$ (71,671)	$ (2,306)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	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 on securities	4,991	4,991		
Change in retirement benefit plans				
Actuarial losses	(52,183)		(52,183)	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(144)		(144)	
Amortization of net losses	7,712		7,712	
Net change in retirement benefit plans	(44,615)		(44,615)	
Change in cash flow derivative instruments				
Losses on interest rate caps	(3,437)			(3,437)
Gains 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 (loss) income	(43,000)	4,991	(44,615)	(3,376)
Balance, December 31, 2011	$ (92,391)	$ 29,577	$ (116,286)	$ (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 2013	2012	Location of Gain (Loss) Recognized in Combined Statements of Comprehensive Income
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	1,171	1,389	Salaries and employee benefits
Amortization of net actuarial losses	(17,183)	(14,301)	Salaries and employee benefits
Cash flow derivative instruments			
Losses on cash flow derivatives	(1,597)	(539)	Interest expense
	$ (18,250)	$ (13,527)	

Note 10 — Income Taxes

Only the district's ACAs have taxable income, as the bank, the FLCA and the FLCA subsidiaries of ACAs are exempt from federal and other income taxes.

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

	2013	2012	2011
Current			
Federal	$ (188)	$ 488	$ 250
State	—	—	—
Total current	(188)	488	250
Deferred			
Federal	(99)	437	980
State	127	60	(55)
Total deferred	28	497	925
Total (benefit from) provision for income taxes	$ (160)	$ 985	$ 1,175

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

	2013	2012	2011
Federal tax at statutory rate	$ 146,692	$ 143,295	$ 129,033
State tax, net	127	60	(55)
Nontaxable bank income	(62,937)	(61,103)	(60,969)
Other nontaxable entities	(79,873)	(74,748)	(62,147)
Valuation allowance	2,917	(3,063)	14,006
Patronage distributions	(4,418)	(5,037)	(6,585)
Other, net	(2,668)	1,581	(12,108)
Total provision for (benefit from) income taxes	$ (160)	$ 985	$ 1,175

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

	2013	2012	2011
Allowance for loan losses	$ 3,741	$ 5,591	$ 9,622
Allowance for acquired property	43	43	677
Postretirement benefits	1,949	2,138	2,049
Net operating loss carryforward	37,902	32,900	31,676
Other	120	169	278
Gross deferred tax assets	43,755	40,841	44,302
Less valuation allowance	(39,242)	(36,325)	(39,388)
Adjusted gross deferred tax assets	4,513	4,516	4,914
FCBT stock redemption	(625)	(599)	(573)
Other	(274)	(275)	(202)
Gross deferred tax liabilities	(899)	(874)	(775)
Net deferred tax assets	$ 3,614	$ 3,642	$ 4,139

There were no uncertain tax positions and related liabilities for unrecognized tax benefits recorded at December 31, 2013. Any penalties and interest related to income taxes would be accounted for as an adjustment to income tax expense.

Note 11 — Employee Benefit Plans

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

The DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan in 1998 and beyond, to facilitate reorganization and/or restructuring. Under authoritative accounting guidance, there were no pension plan termination benefits recognized resulting from employees who qualified for an early retirement option under a retention plan at December 31, 2013, 2012 and 2011.

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

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the nonelective pension feature of the DC plan direct the placement of their employers' contributions made on their behalf into various investment alternatives.

The district also participates in the Farm Credit Benefits Alliance 401(k) plan, which offers a pre-tax and after-tax compensation deferral feature. Employers match 100 percent of employee contributions for the first 3 percent of eligible compensation and then match 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent of eligible compensation. Employer contributions for the DC plan and the 401(k) plan totaled $8.7 million, $7.9 million and $6.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Certain executive or highly compensated employees in the district 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 $285, $859 and $709 were made to this plan for the years ended December 31, 2013, 2012 and 2011. The present value of accumulated benefits and funded balance in the plan totaled $5,127 at December 31, 2013.

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

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

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	**2013**	2012	2011
Accumulated benefit obligation, end of year	**$ 315,553**	$ 331,264	$ 288,707			
Change in projected benefit obligation						
Benefit obligation, beginning of year	**$ 370,574**	$ 322,549	$ 282,007	**$ 61,867**	$ 52,678	$ 49,442
Service cost	**5,858**	5,446	5,147	**1,586**	1,383	1,377
Interest cost	**15,073**	15,643	15,173	**2,682**	2,645	2,774
Plan participants' contributions	**—**	—	—	**492**	527	526
Plan amendments	**—**	—	—	**—**	—	—
Curtailment loss	**—**	—	1,108	**—**	—	—
Actuarial (gain) loss	**(25,595)**	42,894	31,414	**(11,105)**	6,754	730
Benefits paid	**(14,239)**	(15,958)	(12,301)	**(2,339)**	(2,122)	(2,170)
Projected benefit obligation, end of year	**$ 351,671**	$ 370,574	$ 322,548	**$ 53,183**	$ 61,865	$ 52,679
Change in plan assets						
Plan assets at fair value, beginning of year	**$ 240,715**	$ 207,495	$ 200,592	**$ —**	$ —	$ —
Actual return on plan assets	**28,703**	30,552	(3,740)	**—**	—	—
Company contributions	**16,494**	18,625	22,944	**1,847**	1,595	1,644
Plan participants' contributions	**—**	—	—	**492**	527	526
Benefits paid	**(14,239)**	(15,958)	(12,301)	**(2,339)**	(2,122)	(2,170)
Plan assets at fair value, end of year	**$ 271,673**	$ 240,714	$ 207,495	**$ —**	$ —	$ —
Funded status	**$ (79,998)**	$ (129,860)	$ (115,053)	**$ (53,183)**	$ (61,865)	$ (52,679)

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	**2013**	2012	2011
Amounts recognized in the combined balanced sheets consist of:						
Retirement plan liability	**$ (79,998)**	$ (129,860)	$ (115,053)	**$ (53,183)**	$ (61,865)	$ (52,679)
Accumulated other comprehensive loss (income)	**80,090**	132,126	117,400	**(3,956)**	6,686	(1,155)
Amounts recognized in accumulated other comprehensive income						
Net actuarial loss (gain)	**$ 80,050**	$ 132,050	$ 117,288	**$ 1,391**	$ 13,261	$ 6,847
Prior service cost (credit)	**40**	76	112	**(5,347)**	(6,575)	(8,002)
Total	**$ 80,090**	$ 132,126	$ 117,400	**$ (3,956)**	$ 6,686	$ (1,155)

The funding policy establishes contribution requirements for the district's DB plan if plan assets are less than the accumulated benefit obligation at year end. The policy calls for contributions equal to the value of the additional benefits expected to be earned by employees during the year. The plan sponsor is the board of directors of the Farm Credit Bank of Texas. In accordance with this policy, contributions of $16,494, $15,781 and $22,867 were made to the plan in January 2013, January 2012 and January 2011, respectively. The supplemental (nonqualified) pension plan was not funded.

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

	2013	2012	2011
District DB plan projected benefit obligation	**$ 351,671**	$ 370,574	$ 319,705
District DB plan assets at fair value	**271,673**	240,714	207,495
Accumulated benefit obligation (ABO) of district DB plan	**315,553**	331,264	285,863
Funding shortfall (Plan Assets to ABO)	**(43,880)**	(90,550)	(78,368)
Supplemental (nonqualified) projected benefit obligation	**$ —**	$ —	$ 2,844
Supplemental (nonqualified) accumulated benefit obligation	**—**	—	2,844
Supplemental (nonqualified) fair value of plan assets	**—**	—	—

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	**2013**	2012	2011
Net periodic benefit cost						
Service cost	**$ 5,858**	$ 5,446	$ 5,147	**$ 1,586**	$ 1,383	$ 1,377
Interest cost	**15,073**	15,643	15,173	**2,682**	2,645	2,774
Expected return on plan assets	**(18,732)**	(16,226)	(16,300)	**—**	—	—
Amortization of:						
Prior service cost	**36**	36	36	**(1,228)**	(1,426)	(1,682)
Net actuarial loss	**16,435**	13,805	6,996	**765**	340	288
Net periodic benefit cost	**$ 18,670**	$ 18,704	$ 11,052	$ **3,805**	$ 2,942	$ 2,757
Curtailment expense	**—**	**—**	3,049	—	—	—
Settlement expense	**—**	—	**—**	**—**	—	—
Special termination benefits	**—**	—	—	**—**	—	—
Total benefit cost	**$ 18,670**	$ 18,704	$ 14,101	$ **3,805**	$ 2,942	$ 2,727
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income						
Net actuarial (gain) loss in the current period	**$ (35,565)**	$ 28,568	51,453	$ **(11,105)**	$ 6,754	730
Settlement expense	**—**	—	—	**—**	—	—
Prior service costs	**—**	—	—	**—**	—	—
Amortization of prior service costs	**(36)**	(36)	(1,537)	**1,228**	1,426	1,682
Amortization of net actuarial (gain) loss	**(16,435)**	(13,805)	(7,435)	**(765)**	(340)	(288)
Net change	**$ (52,036)**	$ 14,727	42,481	**$ (10,642)**	$ 7,840	$ 2,124
AOCI amounts expected to be amortized in 2014						
Prior service cost (credit)	**$ 36**	36		**$ (1,228)**	(1,228)	
Net actuarial loss (gain)	**8,087**	16,435		**98**	765	
Total	**$ 8,123**	16,471		**$ (1,130)**	(463)	
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	**4.70%**	4.15%	5.00%	**5.20%**	4.40%	5.10%
Expected long-term rate of return	**7.50%**	7.50%	7.50%	**N/A**	N/A	N/A
Rate of compensation increase	**5.50%**	5.50%	5.50%			
Health care cost trend rate assumed for next year (pre/post-65) — medical				**7.50%/6.50%**	7.25%/6.50%	8.50%/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**	2018	2017

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	**2013**	2012	2011
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	**4.15%**	5.00%	5.50%	**4.40%**	5.10%	5.70%
Expected return on plan assets	**7.50%**	7.50%	7.50%	**N/A**	N/A	N/A
Rate of compensation increase	**5.50%**	5.50%	3% in 2011 down to 3.5% in 2012			
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	**$ 713**
One-percentage-point decrease	**(572)**
Effect on year-end postretirement benefit obligation	
One-percentage-point increase	**$ 8,350**
One-percentage-point decrease	**(6,812)**

Plan Assets

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

	Fair Value Measurement at December 31, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category:				
Commingled trust funds:				
Russell Multi-Asset Core Fund	**$ 185,996**	$ —	$ 185,996	$ —
Russell Multi-Manager Bond Fund	**85,677**	—	85,677	—
Total assets	**$ 271,673**	$ —	$ 271,673	$ —

Expected Future Cash Flow Information

	Pension Benefits	Other Postretirement Benefits
Expected Benefit Payments		
Fiscal 2014	**$ 26,383**	**$ 2,088**
Fiscal 2015	**26,699**	**2,279**
Fiscal 2016	**27,419**	**2,492**
Fiscal 2017	**28,620**	**2,705**
Fiscal 2018	**28,959**	**2,932**
Fiscal 2019 – 2023	**132,244**	**17,175**
Expected Contributions		
Fiscal 2014	**$ 12,213**	**$ 2,088**

Plan Assets

	Pension Benefits				Other Postretirement Benefits			
Asset Category	Target	**2013**	2012	2011	Target	**2013**	2012	2011
Equity securities	60%	**60%**	60%	60%	—%	**—%**	—%	—%
Debt securities	40	**40**	40	40	—	**—**	—	—
Cash/other	—	**—**	—	—	100	**100**	100	100
Total	100%	**100%**	100%	100%	100%	**100%**	100%	100%

As disclosed in the preceding table, the expected total contribution for pension benefits for 2014 is $12.2 million.

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

Note 12 — Related Party Transactions

In the ordinary course of business, the associations have entered into loan transactions with directors, officers and other employees of associations and other organizations with which such persons may be associated. Total loans to such persons at December 31, 2013, 2012 and 2011 amounted to $201.9 million, $158.4 million and $136.9 million, respectively. In the opinion of management, such loans outstanding to directors, officers and other employees at December 31, 2013, did not involve more than a normal risk of collectibility, were subject to approval requirements contained in FCA regulations, and were made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Disclosures on individual associations' officers and directors are found in the associations' individual annual reports.

Note 13 — Commitments and Contingencies

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

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of other System banks. The total bank and consolidated Systemwide debt obligations of the System at December 31, 2013, were approximately $207.5 billion.

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

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

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

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

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

At any time, the bank and associations have outstanding a significant number of commitments to extend credit. The bank and associations also provide standby letters of credit to guarantee the performance of customers to third parties. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees (if any) are recognized in the combined balance sheets (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The district's commitments to extend credit totaled $4.566 billion, $4.431 billion and $4.284 billion at December 31, 2013, 2012 and 2011, respectively. At December 31, 2013, the district had $115.2 million in outstanding standby letters of credit, issued primarily in conjunction with participation loans. Outstanding standby letters of credit generally have expiration dates ranging from 2014 to 2018.

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

Note 15 — Fair Value Measurements

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 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	**5,127**	5,127	—	—
Total assets	**$ 3,724,083**	$ 5,127	$ 3,570,898	$ 148,058
Liabilities:				
Standby letters of credit	**$ 1,372**	$ —	$ 1,372	$ —
Total liabilities	**$ 1,372**	$ —	$ 1,372	$ —

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 Securities	Agency-Guaranteed Debt	Mortgage-Backed Securities	Asset-Backed Securities	Agricultural-Mortgage-Backed Securities	Loans Under Fair Value Option	Total
Available-for-sale investment securities:							
Balance at January 1, 2013	$ 59,958	$ 15,117	$ 26,938	$ 3,096	$ 115,479	$ 4,764	$ 225,352
Net (losses) gains included in other comprehensive income	(76)	(1,232)	52	716	(1,552)	—	(2,092)
Net (losses) gains included in earnings	—	—	(442)	(199)	—	—	(641)
Purchases, issuances and settlements	(25,012)	54,891	144,744	(2,456)	(16,504)	(4,764)	150,899
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	$ 1,157	$ 97,423	$ —	$ 148,058

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

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

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

	Fair Value Measurement at December 31, 2013				
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
Assets:					
Loans	**$ 156,334**	$ —	$ —	$ 156,334	$ (44,111)
Other property owned	**52,380**			52,380	4,718
Total assets	**$ 208,714**	$ —	$ —	$ 208,714	$ (39,393)

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	**65,074**	—	60,310	4,764
Derivative assets	**756**	—	756	—
Assets held in nonqualified benefit trusts	**3,577**	3,577	—	—
Total assets	**$ 3,440,023**	$ 3,577	$ 3,211,094	$ 225,352
Liabilities:				
Standby letters of credit	**$ 2,018**	$ —	$ 2,018	$ —
Total liabilities	**$ 2,018**	$ —	$ 2,018	$ —

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

	Corporate Debt Securities	U.S. Agency Securities	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Loans Under Fair Value Option	Total
Available-for-sale investment securities:							
Balance at January 1, 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)	59	(18)
Purchases, issuances and settlements	60,000	15,000	145,656	4,970	11,070	4,705	241,401
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	$ 4,764	$ 225,352
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

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	**$ 241,252**	$ —	$ —	$ 241,252	$ (43,121)
Other property owned	**109,124**			109,124	(13,850)
Total assets	**$ 350,376**	$ —	$ —	$ 350,376	$ (56,971)

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

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

The table below represents a reconciliation of 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

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

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

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

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	**$ 610,056**	$ 610,056	$ –	$ –	$ 610,056	$ 512,842	$ 512,842	$ –	$ –	$ 512,842	$ 432,719	$ 432,719
Mission-related and other held-to-maturity investments	**55,669**	–	–	55,116	55,116	69,075	–	–	68,752	68,752	127,245	127,039
Net loans	**17,436,561**	–	–	17,363,491	17,363,491	16,453,564	–	–	16,686,810	16,686,810	14,975,436	15,343,847
Total assets	**$ 18,102,286**	$ 610,056	$ –	$ 17,418,607	$ 18,028,663	$ 17,035,481	$ 512,842	$ –	$ 16,755,562	$ 17,268,404	$ 15,535,400	$ 15,903,605
Liabilities:												
Systemwide debt securities and other notes	**$ 18,252,012**	$ –	$ –	$ 18,218,619	$ 18,218,619	$ 17,310,860	$ –	$ –	$ 17,528,575	$ 17,528,575	$ 16,045,541	$ 16,268,118
Subordinated debt	**50,000**	–	–	54,407	54,407	50,000	–	–	56,945	56,945	50,000	56,963
	$ 18,302,012	$ –	$ –	$ 18,273,026	$ 18,273,026	$ 17,360,860	$ –	$ –	$ 17,585,520	$ 17,585,520	$ 16,095,541	$ 16,325,081

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. The following represent a brief summary of the valuation techniques used by the bank and associations for assets and liabilities:

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. At December 31, 2013, Level 3 securities included primarily the bank's AMBS portfolio which is valued by the bank using a model that incorporates underlying rates and current yield curves. Level 3 assets at December 31, 2013, also include certain non-agency mortgage-backed and asset-backed securities valued using independent third-party valuation services.

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

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

Assets Held in Nonqualified Benefits Trusts

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

Derivatives

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

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

	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 16 — Derivative Instruments and Hedging Activity

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

The bank enters into derivatives, particularly fair value and cash flow interest rate swaps, primarily to lower interest rate risk. The bank substantially offsets this risk by concurrently entering into offsetting agreements with non-System counterparties. Fair value hedges allow the bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the bank if floating-rate borrowings were made directly. Under fair value hedge arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index. At December 31, 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 interest rate caps to reduce the impact of rising interest rates on their 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 the bank also monitors the credit standing of, and levels of exposure to, individual counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. At December 31, 2013, the bank had credit exposure to counterparties totaling $0.8 million, as compared with $0.8 million at December 31, 2012.

The table below presents the credit ratings of counterparties to whom the bank has credit exposure at December 31, 2013:

	Remaining Years to Maturity							
(dollars in millions)	Less Than One Year	More Than One to Five Years	More Than Five Years	Total	Maturity Distribution Netting	Exposure	Collateral Held	Exposure Net of Collateral
Moody's Credit Rating								
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 oversight of the bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the district's overall interest rate risk-management strategies. The bank enters into interest rate swaps classified as fair value hedges primarily to convert a portion of its non-prepayable fixed-rate long-term debt to floating-rate debt.

Fair Value Hedges:

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

Cash Flow Hedges:

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At December 31, 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 Value of Derivative Instruments:

The following table represents the fair value of derivative instruments as of December 31,:

	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 the Other Comprehensive Income (OCI) for the years ended December 31, 2013 and 2012:

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

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

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

December 31, 2013 *(dollars in millions)*	Maturities of 2013 Derivative Products and Other Financial Instruments 2014	2015	2016	2017	2018	Subsequent Years	Total	Fair Value
Total 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	$ 5,570	$ 700	$ —	$ —	$ —	$ —	$ 6,270	$ 6,272
Weighted average interest rate	0.51%	0.14%	—	—	—	—	0.47%	
Total debt obligations	$ 8,721	$ 2,422	$ 1,715	$ 1,790	$ 1,041	$ 2,563	$ 18,252	$ 18,214
Weighted average interest rate	0.49%	0.61%	0.94%	1.36%	1.50%	2.54%	0.98%	
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 17 — 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	**$ 157,960**	**$ 157,416**	**$ 157,838**	**$ 157,603**	**$ 630,817**
Provision for loan losses	**385**	**7,941**	**4,414**	**(6,432)**	**6,308**
Noninterest expense, net	**41,762**	**45,851**	**47,518**	**70,098**	**205,229**
Net income	**$ 115,813**	**$ 103,624**	**$ 105,906**	**$ 93,937**	**$ 419,280**

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 151,520	$ 153,753	$ 153,480	$ 156,410	$ 615,163
Provision for loan losses	15,139	5,875	11,818	799	33,631
Noninterest expense, net	40,404	21,275	43,498	66,940	172,117
Net income	$ 95,977	$ 126,603	$ 98,164	$ 88,671	$ 409,415

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

Note 18 — Bank-Only Financial Data

Condensed financial information for the bank follows. All significant transactions and balances between the bank and associations are eliminated in combination. The multiemployer structure of the district's defined benefit plan results in the recording of this plan only upon combination.

	Year Ended December 31,		
Balance Sheet Data	**2013**	2012	2011
Cash and federal funds sold	**$ 624,261**	$ 526,379	$ 445,354
Investment securities	**3,637,855**	3,346,479	3,160,683
Loans			
To associations	**7,360,025**	7,250,641	6,972,663
To others	**4,418,716**	4,088,189	3,314,714
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
Other assets	**134,051**	114,865	101,417
Total assets	**$ 16,212,717**	$15,375,669	$ 14,049,234
Bonds and notes	**$ 14,602,012**	$ 13,910,860	$ 12,645,541
Subordinated debt	**50,000**	50,000	50,000
Other liabilities	**167,458**	140,966	143,337
Total liabilities	**14,819,470**	14,101,826	12,838,878
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 members' equity	**1,393,247**	1,273,843	1,210,356
Total liabilities and members' equity	**$ 16,212,717**	$ 15,375,669	$14,049,234

	Year Ended December 31,		
Income Statement	**2013**	2012	2011
Interest income	**$ 369,483**	$ 390,364	$ 422,479
Interest expense	**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	**45,027**	49,397	28,685
Other expense	**74,674**	68,520	64,853
Net income	**$ 179,820**	$ 174,580	$ 174,196

Note 19 — 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 district 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.

Disclosure Information and Index

Disclosures Required by Farm Credit Administration Regulations

Description of Business

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

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

Board of Directors and Senior Officers

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

The following represents certain information regarding the board of directors and senior officers of the bank as of 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 of 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*	Other Official Assignments**	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 of the Bank

Name and Title	Time in Position	Experience – Past Five Years	Other Business Interests – Past Five Years
Larry R. Doyle, *Chief Executive Officer*	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 Texas District Farm Credit Council, a trade organization. He is a member of the board of directors for the following organizations: Texas Agriculture Finance Authority, a service providing arm of the Texas Department of Agriculture; Texas FFA Foundation, a nonprofit organization promoting youth in agriculture; Grow Texas Foundation, a nonprofit organization 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, who approve 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, paying 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 from competition with 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 hearing those reports all year. Additionally, the compensation committee has external resources to support its oversight and uses that independent compensation consultant to review SSP awards with its annual executive compensation update.

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

Chief Executive Officer (CEO) Compensation Table and Policy

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

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

The following table summarizes the compensation paid to the CEO of the bank during 2013, 2012 and 2011.

Summary Compensation Table for the CEO

Name of Chief Executive Officer	Year	Annual Salary (a)	Annual Bonus (b)	Annual Change in Pension Value (c)	Annual Deferred/Perquisites (d)	Annual 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 the 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 and district associations 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. Neither the bank, nor any district associations have 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. The district associations own 13 headquarter locations and lease four. There are 122 owned and 64 leased association branch locations. The bank's and associations' investment in property is further detailed in Note 5, "Premises and Equipment," to the accompanying combined financial statements.

Legal Proceedings

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

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 13, "Commitments and Contingencies," to the accompanying financial statements outlines the bank's position with regard to possible contingencies at December 31, 2013.

Description of Capital Structure

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

Description of Liabilities

The district's debt outstanding is described in Note 8, "Bonds and Notes," to the accompanying financial statements. The district's contingent liabilities are described in Note 13, "Commitments and Contingencies," to the accompanying financial statements. See also Note 11, "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 Combined Financial Data" included in this annual report to stockholders.

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

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

Transactions With Senior Officers and Directors

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

Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was $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 Allowance for Loan Losses," and Note 9, "Members' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was $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.

Information regarding the fees for services rendered by the qualified public accountants for the district associations is disclosed in the individual association annual reports.

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 combined financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2014, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

Borrower Information Regulations

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

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

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

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

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

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

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

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

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

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

	At December 31, 2013	
(dollars in thousands)	Number of Loans	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%
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:

	For the Year Ended December 31, 2013	
(dollars in thousands)	Number of Loans	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%

Texas District Associations

The following associations were affiliated with the Farm Credit Bank of Texas at December 31, 2013:

- Ag New Mexico, Farm Credit Services, ACA
- Agriland, Farm Credit Services
- AgTexas Farm Credit Services
- Alabama Ag Credit, ACA
- Alabama Farm Credit, ACA
- Capital Farm Credit, ACA
- Central Texas Farm Credit, ACA
- Great Plains Ag Credit, ACA
- Heritage Land Bank, ACA
- Legacy Ag Credit, ACA
- Lone Star, ACA
- Louisiana Land Bank, ACA
- Mississippi Land Bank, ACA
- Panhandle-Plains Land Bank, ACA
- Southern AgCredit, ACA
- Texas AgFinance, Farm Credit Services
- Texas Land Bank, ACA