FIRST QUARTER 2013 QUARTERLY INFORMATION STATEMENT OF THE FARM CREDIT SYSTEM

Federal Farm Credit Banks Funding Corporation
10 Exchange Place, Suite 1401 • Jersey City, New Jersey 07302 • 201-200-8000

MAY 10, 2013

This quarterly information statement provides important information for investors in the debt securities jointly issued by the four Farm Credit System Banks — AgFirst Farm Credit Bank, AgriBank, FCB, CoBank, ACB and Farm Credit Bank of Texas (collectively, the Banks). These debt securities, which we refer to as Systemwide Debt Securities, include:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes, and
- any other debt securities that the Farm Credit System Banks may jointly issue from time to time.

This quarterly information statement does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation on behalf of the Banks pursuant to offering circulars for each type of debt offering. The relevant offering circular as of this date is the Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated October 18, 2010, as amended by the supplement dated April 22, 2011.

The offering circular may be amended or supplemented from time to time and a new offering circular may be issued. Before purchasing Systemwide Debt Securities, you should carefully read the relevant offering circular, the most recent annual and quarterly information statements and other current information released by the Funding Corporation regarding the Banks and/or Systemwide Debt Securities. At this time, no Systemwide Debt Securities are being offered under the Federal Farm Credit Banks Global Debt Program Offering Circular dated October 10, 1996, the Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended by supplements dated February 26, 1997 and June 11, 1999 or the Federal Farm Credit Banks Consolidated Systemwide Master Notes Offering Circular dated December 21, 1999, as amended by the supplement dated August 20, 2001. No securities previously offered under the Global Debt Offering Circular or the Master Notes Offering Circular are currently outstanding.

Systemwide Debt Securities are the joint and several obligations of the Banks and are not obligations of or guaranteed by the United States government. Systemwide Debt Securities are not required to be registered and have not been registered under the Securities Act of 1933. In addition, the Banks are not required to file and do not file periodic reports under the Securities Exchange Act of 1934. Systemwide Debt Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of any offering material.

Certification

The undersigned certify that (1) we have reviewed this quarterly information statement, (2) this quarterly information statement has been prepared in accordance with all applicable statutory or regulatory requirements, and (3) the information contained in this quarterly information statement is true, accurate, and complete to the best of the signatories' knowledge and belief.

J. Less Guthrie Chairman of the Board	Theresa E. McCabe President and CEO	Karen R. Brenner Managing Director — Financial Management Division

TABLE OF CONTENTS

WHERE YOU CAN FIND ADDITIONAL INFORMATION

Farm Credit System quarterly and annual information statements and press releases relating to financial results or other developments affecting the System issued by the Federal Farm Credit Banks Funding Corporation for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Systemwide Debt Securities, are available for inspection at, or will be furnished without charge upon request to, the Federal Farm Credit Banks Funding Corporation, 10 Exchange Place, Suite 1401, Jersey City, New Jersey 07302; telephone (201) 200-8000. These documents are also available on the Funding Corporation's website located at www.farmcreditfunding.com. Other information regarding the System can be found on the System's website located at www.farmcredit.com.

In addition, copies of quarterly and annual reports of each Bank and each Farm Credit Bank (AgFirst Farm Credit Bank, AgriBank, FCB and Farm Credit Bank of Texas) combined with its affiliated Associations (collectively referred to as a District) may be obtained from the individual Bank. Bank addresses and telephone numbers where copies of these documents may be obtained are listed on page S-5 of this quarterly information statement. These documents and further information on each Bank and/or District and links to a Bank's affiliated Associations' websites are also available on each Bank's website as follows:

- AgFirst Farm Credit Bank — www.agfirst.com
- AgriBank, FCB — www.agribank.com
- CoBank, ACB — www.cobank.com
- Farm Credit Bank of Texas — www.farmcreditbank.com

Information contained on these websites is not incorporated by reference into this quarterly information statement and you should not consider information contained on these websites to be part of this quarterly information statement.

BUSINESS

Overview of the Farm Credit System

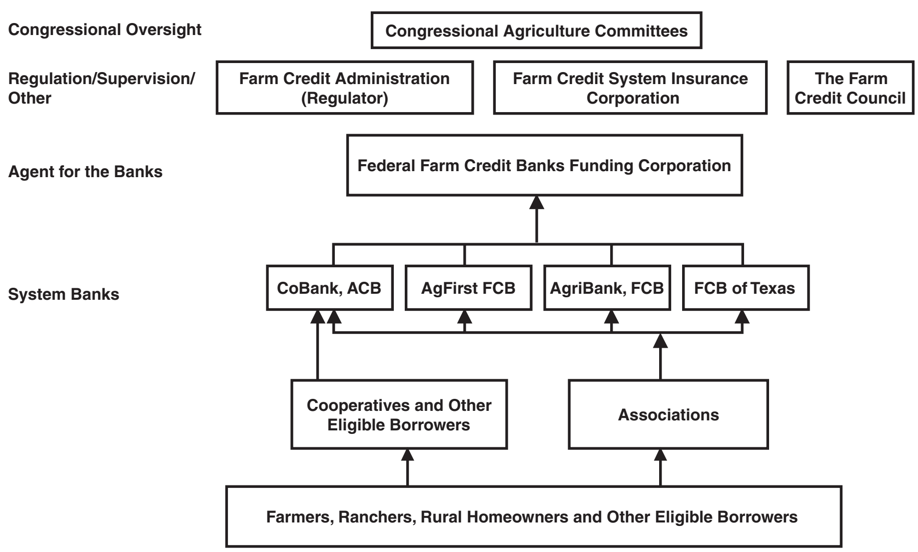
The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. Our mission is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. We do this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses.

Consistent with our mission of serving rural America, we also make rural residential real estate loans, finance rural communication, energy and water infrastructures and make loans to support agricultural exports and to finance other eligible entities.

Congress established the Farm Credit Administration as the System's independent federal regulator to examine and regulate System institutions, including their safety and soundness. System institutions are federal instrumentalities.

Structure/Ownership of the Farm Credit System

The following chart depicts the overall structure and ownership of the System.



The Associations are cooperatives owned by their borrowers, and the Farm Credit Banks (AgFirst, AgriBank and Texas) are cooperatives primarily owned by their affiliated Associations. The Agricultural Credit Bank (CoBank) is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. The Banks and Associations each have their own board of directors and are not commonly owned. Each Bank and Association manages and controls its own business activities, operations and financial performance.

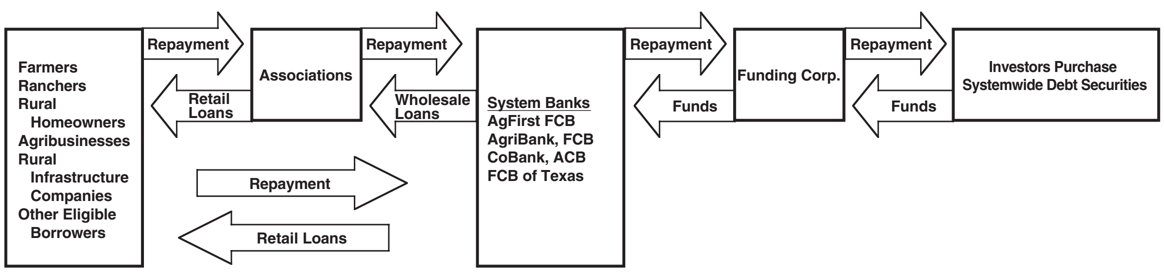
The Banks jointly own the Federal Farm Credit Banks Funding Corporation. The Funding Corporation, as agent for the Banks, issues and markets Systemwide Debt Securities in order to raise funds for the lending activities and operations of the Banks and Associations. The Funding Corporation also provides the Banks with certain consulting, accounting and financial reporting services, including the preparation of the System's quarterly and annual information statements and the System's combined financial statements contained in those information statements. As the System's financial spokesperson, the Funding Corporation is primarily responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System.

Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities.

Our Business Model

A Bank and its affiliated Associations are financially and operationally interdependent as the Bank is statutorily required to serve as an intermediary between the financial markets and the retail lending activities of its affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are not legally authorized to accept deposits and may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not legally authorized to accept deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities. Other less significant sources of funding for the Banks include internally generated earnings, the issuance of common and preferred equities and the issuance of subordinated debt. As a result, the loans made by the Associations are primarily funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of Systemwide Debt Securities is dependent upon the ability of borrowers to repay their loans from the Associations. In addition, CoBank makes retail loans and leases directly to cooperatives, rural infrastructure companies, and other eligible borrowers. The Banks also purchase retail loan participations from Associations, other Banks and non-System lenders. Therefore, the repayment of Systemwide Debt Securities is also dependent upon the ability of these borrowers to repay their loans.

The chart below illustrates the flow of funds from investors in Systemwide Debt Securities to the System's borrowers and the ultimate repayment of the investors resulting from borrower loan repayments.



Overview of Our Business

As required by the Farm Credit Act, we specialize in providing financing and related services to eligible, creditworthy borrowers in the agricultural and rural sectors, to certain related entities, and to domestic or foreign parties in connection with the export of U.S. agricultural commodities and supplies. We make credit available in all 50 states, the Commonwealth of Puerto Rico, and, under conditions set forth in the Farm Credit Act, U.S. territories.

System institutions may also provide a variety of services to their borrowers, including credit and mortgage-life insurance, disability insurance, various types of crop insurance, estate planning, record keeping services, tax planning and preparation, cash management products and services, and consulting. In addition, some System institutions provide leasing and related services to their customers.

Government-Sponsored Enterprise Status

In order to better accomplish our mission, Congress has granted the System certain attributes that result in government-sponsored enterprise status for the System. As a government-sponsored enterprise, we have traditionally been able to raise funds at competitive rates and terms, in varying economic environments. This ability to raise funds has historically allowed us to make competitively priced loans to eligible borrowers and thus accomplish our mission. (See "Risk Factors" in the *2012 Annual Information Statement* for a discussion of the impact of changes on the sovereign credit rating or outlook of the U.S. on the System given its government-sponsored enterprise status and uncertainty about the future of government-sponsored enterprises.)

Agricultural Industry Overview

The agricultural sector has been a key economic force in the U.S. economy and is strongly affected by domestic and global economic conditions. The System was created to provide support for this sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. Profitability in our business is dependent on the health of the U.S. agricultural sector, which is heavily influenced by domestic and world demand for agricultural products, and impacted by government support programs, including crop insurance, to producers of certain agricultural commodities. (See "Risk Factors" in the *2012 Annual Information Statement* for a discussion of potential changes in the agricultural spending policies of the U.S. government in light of the U.S. budget deficit and its potential impact on the System's borrowers.) Off-farm income is also important to the repayment ability of many agricultural producers, therefore our business may be impacted by the health of the general U.S. economy.

System Lending Institutions

The two types of entities through which we conduct our lending business are the Banks and the Associations.

Banks

At March 31, 2013, the System had four Banks (three Farm Credit Banks and one Agricultural Credit Bank). The Banks and their affiliated Associations are referred to as Districts. The Banks' lending operations include wholesale loans to their affiliated Associations and loan participations in eligible loans purchased from Associations, other Banks and non-System lenders. In addition, CoBank, as the Agricultural Credit Bank, has additional nationwide authority to make retail loans directly to cooperatives and other eligible entities.

The Banks obtain a substantial majority of funds for their lending operations through the issuance of Systemwide Debt Securities, but also obtain some of their funds from internally generated earnings, from the issuance of common and preferred equities and from the issuance of subordinated debt.

Associations

At March 31, 2013, the System had 82 Associations throughout the nation. There were 79 Agricultural Credit Associations with Production Credit Association subsidiaries and Federal Land Credit Association subsidiaries, and three Federal Land Credit Associations. Agricultural Credit Associations may, directly or through their subsidiaries, make real estate mortgage loans, production and intermediate-term loans, agribusiness loans (processing and marketing loans, and certain farm-related business loans) and rural residential real estate loans. The Federal Land Credit Associations make real estate mortgage loans, including rural residential real estate loans. These retail loans are made to farmers, ranchers, producers or harvesters of aquatic products, farm-related businesses and rural homeowners. Associations may also purchase loan participations from other System entities and non-System lenders.

Although the Associations obtain some of the funds for their lending operations from internally generated earnings and from the issuance of equities, the substantial majority of their funding is obtained through borrowings from their affiliated Bank.

Farm Credit Insurance Fund

As more fully discussed on page 19 in the *2012 Annual Information Statement*, the Farm Credit System Insurance Corporation's primary purpose is to insure 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 mandatory and discretionary purposes. In the event a 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 Banks on the debt obligation cannot be invoked until the Insurance Fund has been exhausted. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the United States government.

Disclosure Obligations

The Farm Credit Administration has promulgated regulations intended to ensure the appropriate disclosure of financial and other information concerning the System to investors in Systemwide Debt Securities and other interested parties. These disclosures are the responsibility of the System Disclosure Entities, which consist of the Banks and the Funding Corporation. For a description of the responsibilities of the System Disclosure Entities, see page 18 of the *2012 Annual Information Statement*.

Governance — Code of Ethics

Each Bank and the Funding Corporation have adopted codes of ethics that apply to their chief executive officers, certain other executives, and senior professionals in the finance and accounting areas who are involved with the preparation of the System's financial statements and the maintenance of the financial records supporting the financial statements.

The Funding Corporation will disclose material amendments to or any waivers from a required provision of the codes of ethics for any individual covered by the Banks' or the Funding Corporation's codes of ethics by including that information in future information statements. No such amendments or waivers were made during the first quarter of 2013. A copy of the Funding Corporation's code of ethics related to the preparation of the System's quarterly and annual information statements can be accessed on the Funding Corporation's website at www.farmcreditfunding.com. Each Bank's code of ethics includes similar content and can be accessed through the Bank's website listed on page 2.

Risk Factors

Other than described below, there have been no material changes to the risk factors previously disclosed in the System's *2012 Annual Information Statement*.

Uncertainty relating to the LIBOR calculation process may adversely affect the value of our LIBOR-indexed, floating-rate Systemwide Debt Securities, Subordinated Debt and Preferred Stock.

Concerns have been publicized that some of the member banks surveyed by the British Bankers' Association (BBA) in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of such potential changes may adversely affect the market for LIBOR-based securities, including our LIBOR-indexed, floating-rate Systemwide Debt Securities, Subordinated Debt and Preferred Stock. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our LIBOR-indexed, floating-rate Systemwide Debt Securities, Subordinated Debt and Preferred Stock, and any payments linked to LIBOR thereunder.

OTHER BUSINESS MATTERS

Legal Proceedings

At March 31, 2013, various lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial position.

SELECTED COMBINED FINANCIAL DATA

The following selected combined financial data for each of the three years in the period ended December 31, 2012 has been derived from the audited combined financial statements of the Farm Credit System. The selected combined financial data and combined financial statements of the System combine the financial condition and operating results of each of the Banks, their affiliated Associations, the Federal Farm Credit Banks Funding Corporation, and the Farm Credit Insurance Fund, and reflect the investments in, and allocated earnings of, certain service organizations owned by the Banks and/or Associations. All significant intra-System transactions and balances have been eliminated in combination. Because System entities are financially and operationally interdependent, we believe providing the combined financial information is more meaningful to investors in Systemwide Debt Securities than financial information relating to the Banks on a stand-alone basis (i.e., without the Associations). While this quarterly information statement reports on the combined financial position and results of operations of the Banks, Associations, and other System entities specified above, only the Banks are jointly and severally liable for the repayment of Systemwide Debt Securities. See Note 13 to the accompanying condensed combined financial statements for combining Bank-only financial condition and results of operations. Also, copies of quarterly and annual reports of each Bank are available on each of their respective websites; see page 2 for a listing of their websites.

The combined financial data for the three months ended March 31, 2013 and 2012 has been derived from the System's unaudited condensed combined financial statements appearing elsewhere herein, which include all adjustments necessary for a fair statement of the results for these interim periods.

	March 31,		December 31,		
	2013	2012	2012	2011	2010
	(unaudited)		(in millions)		
Combined Statement of Condition Data					
Loans	$191,797	$178,595	$191,904	$174,664	$175,351
Allowance for loan losses	(1,341)	(1,298)	(1,343)	(1,290)	(1,447)
Net loans	190,456	177,297	190,561	173,374	173,904
Cash, Federal funds sold and investments	48,138	44,736	46,928	47,281	46,282
Accrued interest receivable	1,611	1,618	1,668	1,750	1,881
Other property owned	337	446	324	458	454
Total assets	247,505	231,457	246,664	230,411	229,973
Systemwide bonds	181,622	170,897	183,076	170,760	169,152
Systemwide medium-term notes	340	376	342	380	427
Systemwide discount notes	17,043	15,377	14,548	13,640	19,194
Subordinated debt	1,555	1,650	1,555	1,650	1,650
Other bonds	1,662	1,273	2,399	2,109	802
Mandatorily redeemable preferred stock					225
Protected borrower stock	2	5	2	5	7
Total liabilities	207,861	194,841	208,055	194,471	196,722
Capital	39,644	36,616	38,609	35,940	33,251

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2013	2012	2012	2011	2010
	(unaudited)		(in millions)		
Combined Statement of Income Data					
Net interest income	$ 1,677	$ 1,581	$ 6,477	$ 6,259	$ 5,890
Provision for loan losses	(22)	(32)	(313)	(430)	(667)
Net noninterest expense	(454)	(429)	(1,824)	(1,620)	(1,510)
Income before income taxes	1,201	1,120	4,340	4,209	3,713
Provision for income taxes	(59)	(68)	(222)	(269)	(218)
Net income	$ 1,142	$ 1,052	$ 4,118	$ 3,940	$ 3,495

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND QUARTERLY RESULTS OF OPERATIONS

The System's *2012 Annual Information Statement* contains the December 31, 2012 combined financial statements together with commentary that explains the principal aspects of the System's combined financial position and results of operations. The following commentary represents a quarterly supplement to that information statement and includes a discussion of significant financial developments for the three months ended March 31, 2013. This commentary should be read in conjunction with the *2012 Annual Information Statement* and with the condensed combined financial statements of the System beginning on page F-1 of this quarterly information statement.

Basis of Presentation

The accompanying condensed combined financial statements and related financial information contained in this quarterly information statement present the combined assets, liabilities and capital of the Banks, the Associations, the Funding Corporation, and the Insurance Fund, and reflect the investments in and allocated earnings of certain service organizations owned by the Banks and/or Associations. All significant intra-System transactions and balances have been eliminated in combination. (See Note 1 to the accompanying condensed combined financial statements for additional information on organization and significant accounting policies and the Supplemental Combining Information on pages F-46 through F-52). This quarterly information statement has been prepared under the oversight of the System Audit Committee.

Our financial statements are presented on a combined basis due to the financial and operational interdependence of System entities as discussed in the "Business" section contained elsewhere in this quarterly information statement.

While this quarterly information statement reports on the combined financial position and results of operations of the Banks, Associations and other System entities specified above, only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. Each Bank is also primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its operations. (See Note 7 to the accompanying condensed combined financial statements for information about the capital of the Banks, Note 13 for information related to the financial condition and results of operations of the Banks, and the Supplemental Combining Information on pages F-46 through F-48 for information related to the financial condition of the combined Banks.) Because the Associations are not directly liable for the payment of principal or interest on Systemwide Debt Securities, their capital may not be available to support those payments. Under the Farm Credit Act, the timely payment of the principal and interest on Systemwide Debt Securities is insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund. (See Note 5 to the accompanying condensed combined financial statements.)

Forward-Looking Information

Certain sections of this quarterly information statement contain 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, financial markets 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, other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Overview

General

The System's combined net income increased $90 million or 8.6% to $1.142 billion for the first quarter of 2013, as compared with net income of $1.052 billion for the same period of 2012. The increase in net income resulted from an increase in net interest income of $96 million and decreases in the provision for loan losses of $10 million and the provision for income taxes of $9 million, partially offset by an increase in noninterest expense of $25 million. Net interest income in excess of operating expenses increased to $1.102 billion for the first quarter of 2013, as compared with $1.042 billion for the first quarter of 2012.

The System's loan portfolio decreased $107 million to $191.797 billion since year-end 2012. The decrease was primarily the result of a decrease in production and intermediate term loans due to seasonal repayments of these loans, offset, in part, by increased demand for loans to cooperatives resulting from normal seasonal borrowings by agribusiness customers, primarily in the farm supply and grain marketing sectors.

Certain agricultural sectors continue to be favorably impacted by the agricultural economic conditions, historically high commodity prices and crop insurance payments, as further discussed in the "Drought Conditions" and "Agricultural Outlook" sections below. Certain other sectors have experienced stress due to these high commodity prices and other input prices, and the slow recovery of the general U.S. economy.

As previously discussed in the *2012 Annual Information Statement*, with the strengthening of agricultural producers' financial positions due, in part, to the favorable agricultural environment over the past several years, the financing demand from certain agricultural producers has moderated, particularly with respect to operating loans. Decreased demand for financing and increased competition for creditworthy loan assets may reduce future loan growth and place pressure on net interest spreads, negatively impacting net interest income. Also, as more fully discussed in the "Net Interest Income" section below, the System has benefitted from the low interest rate environment during the past few years. As our loan product mix changes, interest rates change and as assets prepay or reprice in a manner consistent with historical experience, the positive impact on the net interest spread that the System has experienced over the last several years from calling Systemwide Debt Securities will decline.

The System's nonperforming assets (which consist of impaired loans and other property owned) increased $116 million to $3.048 billion at March 31, 2013, as compared with $2.932 billion at December 31, 2012, representing 1.59% and 1.53% of total loans and other property owned for the corresponding periods.

Funding

The System continues to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. During the first three months of 2013, investor demand for Systemwide Debt Securities has remained favorable across all maturities and types of securities. Given the low interest rate environment, System institutions continue to refinance callable bonds when advantageous in order to lower their cost of funds.

The System is a government-sponsored enterprise that has benefited from broad access to domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America.

Drought Conditions

As more fully discussed on page 36 of the *2012 Annual Information Statement*, the extensive 2012 growing season drought in the U.S., particularly severe in the Midwest, significantly reduced crop yields and resulted in historically high crop prices and input costs. Multi-peril crop insurance (MPCI) will generally mitigate the economic impact of the drought for most crop producers. These insurance policies range in coverage levels from catastrophic and yield protection (at the lower end) to revenue protection (at the higher end). The USDA has reported that in 2012 84% of corn and soybean acres (collectively) were covered under MPCI, the majority of which provide for revenue protection. In addition, many crop producers have strengthened their financial positions over the past several years and are expected to withstand the financial impact of the drought. However, the increased prices for corn and soybeans and other grains have been and continue to place pressure on livestock, poultry, ethanol and dairy producers who rely on these inputs. As of the end of the first quarter of 2013, over half (51.9%) of the U.S. was experiencing moderate to exceptional drought conditions, with a significant portion of the Western Corn Belt region covered by drought conditions. Exceptionally cold March 2013 temperatures and snow cover threaten the planting progress of several spring planted crops, which has a strong potential to negatively impact 2013 crop production.

Subsequent to March 31, 2013, drought conditions have improved in parts of the U.S., while other areas, particularly in the Midwest, have experienced excessive moisture, which continues to threaten the 2013 crop production.

Agricultural Outlook

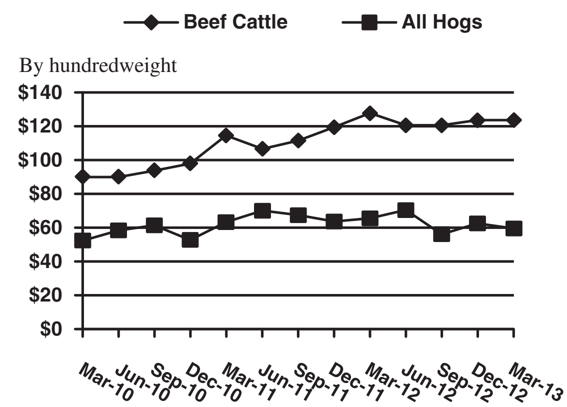
USDA Information

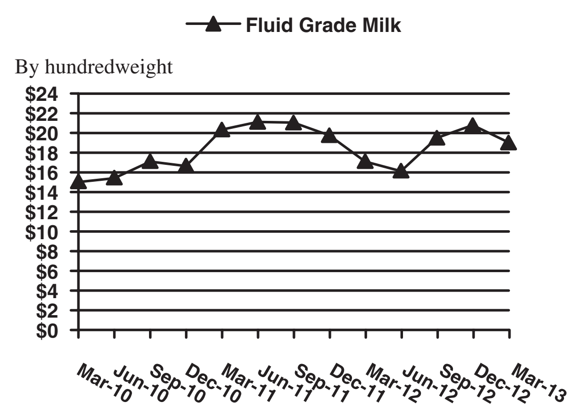
We utilized the United States Department of Agriculture (USDA) analysis to provide a general understanding of the U.S. agricultural economic outlook; however, this outlook does not take into account all aspects of our business or events that occurred subsequent to its issuance. References to USDA information in this section refer to U.S. agricultural market data and not System data.

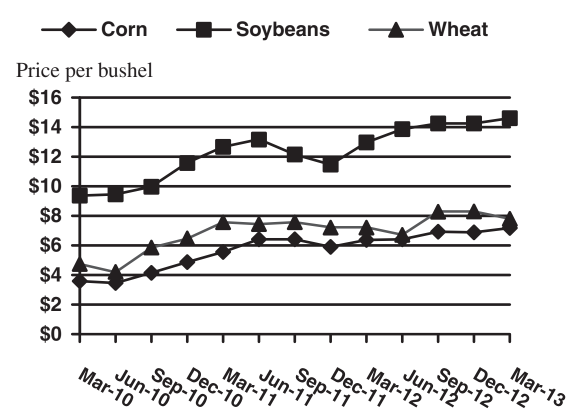
The USDA forecast (February 11, 2013) estimates that farmers' net cash income (a measure of the cash income after payment of business expenses) for 2013 will be $123.5 billion, a $12.1 billion decrease from 2012, but $39.7 billion above the 10-year average. The forecasted decrease in farmers' net cash income for 2013 is primarily due to an expected increase in cash expenses of $18.8 billion.

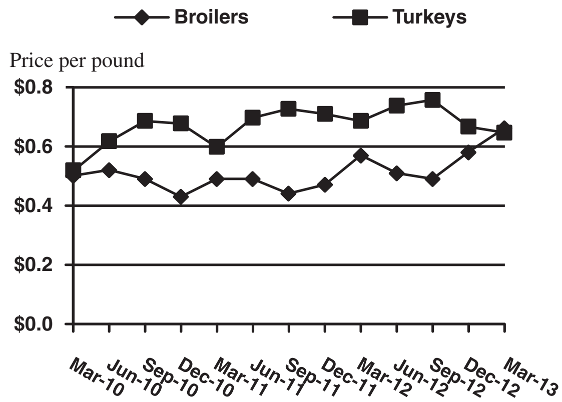
Looking ahead to 2013, the USDA projects crop receipts will decrease, which would be the first decline since 2009. Crop yields, especially for corn, are anticipated to return to more normal levels as U.S. farmers recover from the 2012 drought. As a result, corn inventory is forecasted to grow significantly, putting downward pressure on prices. Livestock receipts are forecast to increase in 2013 primarily due to price increases.

The following charts set forth the commodity prices utilizing the average monthly price for the last month of each quarter by hundredweight for beef cattle, hogs and milk, per bushel for corn, soybeans and wheat and by pound for poultry on certain dates during the period from March 31, 2010 to March 31, 2013:









Other Information

Consistent with the recent increases in crop prices, farmland prices in many areas of the U.S. have increased significantly. While continuing to finance land transactions, System institutions have focused on sound underwriting standards which emphasize loan repayment capacity in addition to conservative assessments of collateral used to secure loans. In this volatile agricultural environment, System institutions have generally taken additional care to adjust underwriting standards to reduce risk on these crop farmland loans. These adjustments, which vary among System institutions, may include but are not limited to the following:

- setting lower loan-to-value limits (generally less than 65% of loan-to-value),
- establishing caps on debt per acre based on soil quality, geographic area or sustainable income producing ability,
- shortening loan terms,
- requiring guarantees, and
- cross-collateralizing a loan with property that has limited debt encumbrance.

To date, the System's financial results have remained positive as a result of the favorable agricultural economic conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices and various other factors. Conditions in the general and agricultural economies remain volatile given the state of the U.S. and global economy. In an environment of less favorable economic conditions in agriculture, including extensive and extended drought conditions, and without sufficient government support programs, including USDA-sponsored crop insurance programs, the System's financial performance and credit quality measures would likely be negatively impacted. Any negative impact from these less favorable conditions should be mitigated by geographic and commodity diversification across the System and the influence of off-farm income sources supporting agricultural-related debt. However, due to the geographic territories served by Banks and Associations, most institutions have higher geographic, borrower and commodity concentrations than does the System as a whole. In addition, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

Results of Operations

Net Interest Income

Net interest income increased $96 million or 6.1% to $1.677 billion for the quarter ended March 31, 2013, as compared with $1.581 billion for the quarter ended March 31, 2012. The effects of changes in volume and interest rates on net interest income in the first quarter of 2013, as compared with the first quarter of 2012, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning-assets with interest-free funds (capital) is reflected solely as a volume increase.

	For the Three Months Ended March 31, 2013 vs. 2012		
	Increase (decrease) due to		
	Volume	Rate	Total
	(in millions)		
Interest income:			
Loans	$153	$(111)	$ 42
Investments	11	(34)	(23)
Total interest income	164	(145)	19
Interest expense:			
Systemwide Debt Securities and other	37	(114)	(77)
Changes in net interest income	$127	$ (31)	$ 96

The changes in rates earned on interest-earning assets (which consist of accrual and nonaccrual loans, Federal funds sold and investments) and rates paid on interest-bearing funds are further illustrated in the following presentation of interest rate spreads:

	For the Three Months Ended					
	March 31, 2013			March 31, 2012		
	Average Balance	Interest	Annualized Rate	Average Balance	Interest	Annualized Rate
	($ in millions)					
Assets						
Real estate mortgage loans	$ 86,762	$1,008	4.65%	$ 79,321	$ 974	4.91%
Production and intermediate-term loans	39,835	390	3.92	37,769	398	4.22
Agribusiness loans	30,043	272	3.62	29,225	263	3.60
Energy and water/waste water loans	14,794	151	4.08	11,954	135	4.52
Rural home loans	6,216	70	4.50	5,776	71	4.92
Agricultural export finance loans	4,743	12	1.01	4,028	12	1.19
Communication loans	4,180	38	3.64	3,951	40	4.05
Lease receivables	2,393	25	4.18	2,097	26	4.96
Loans to other financial institutions	635	2	1.26	550	2	1.45
Nonaccrual loans	2,294	14	2.44	2,709	19	2.81
Total loans	191,895	1,982	4.13	177,380	1,940	4.37
Federal funds sold, investments and other	45,169	173	1.53	42,702	196	1.84
Total earning assets	237,064	2,155	3.64	220,082	2,136	3.88
Allowance for loan losses	(1,352)			(1,281)		
Noninterest-earning assets	11,145			12,077		
Total assets	$246,857			$230,878		
Liabilities and Capital						
Systemwide bonds and medium-term notes	$181,812	447	0.98	$170,901	523	1.22
Systemwide discount notes	16,699	7	0.17	15,129	5	0.13
Subordinated debt	1,555	24	6.17	1,650	26	6.30
Other interest-bearing liabilities	2,932			2,057	1	0.19
Total interest-bearing liabilities	202,998	478	0.94	189,737	555	1.17
Noninterest-bearing liabilities	4,851			4,918		
Capital	39,008			36,223		
Total liabilities and capital	$246,857			$230,878		
Net interest spread(1)			2.70			2.71
Impact of noninterest-bearing sources			0.13			0.16
Net interest income and net interest margin(2)		$1,677	2.83%		$1,581	2.87%

(1) Net interest spread is the difference between the rate earned on total earning assets and the rate paid on total interest-bearing liabilities.
(2) Net interest margin is net interest income divided by average earning assets.

As illustrated in the above tables, net interest income increased in the first quarter of 2013, as compared with the same period of the prior year due to a higher level of average earning assets. Average earning assets increased $16.982 billion or 7.7% to $237.064 billion for the first quarter of 2013, as compared with the first quarter of 2012.

The net interest margin was 2.83% for the quarter ended March 31, 2013, as compared with 2.87% for the quarter ended March 31, 2012. The decline in net interest margin for the period resulted from a three basis point decline in income earned on earning assets funded by noninterest bearing sources (principally capital), as yields on average earning assets declined due to lower interest rates and from a decrease in the net interest spread of one basis point to 2.70%, as compared with the first quarter of 2012. The decline in the net interest spread resulted primarily from competitive pressures. The net interest spread for both the quarters ended March 31, 2013 and 2012 were positively impacted by CoBank's $24 million and $21 million net accretion of asset and liability fair value adjustments related to its January 1, 2012 merger with U.S. AgBank and from the Banks' ability to refinance outstanding debt at favorable interest rates in the current low interest rate environment. The Banks called debt totaling $9.9 billion and $17.9 billion during the first quarters of 2013 and 2012 and were able to lower their cost of funds relative to the interest earned on their assets, which did not repay or reprice as quickly. As our loan product mix changes, interest rates change and assets prepay or reprice in a manner more consistent with historical experience, the positive impact on the net interest spread experienced over the past several years from calling Systemwide Debt Securities will decline.

Provision for Loan Losses

The System recognized a provision for loan losses of $22 million for the first quarter of 2013, as compared with $32 million for the first quarter of 2012. The decrease in the provision for loan losses reflects a lower level of probable and estimable losses in the System's loan portfolio. However, the loan portfolio continues to be impacted by volatility in certain agricultural sectors and by the overall weakness in the general U.S. economy during the past few years. The provision for loan losses recorded during the first quarter of 2013 also reflected specific credit challenges for a limited number of communication customers. The provision for loan losses recorded during the first quarter of 2012 reflected credit deterioration primarily in those sectors affected by the weakness in the U.S. economy during the period, particularly in specific industries such as forestry and horticulture.

Noninterest Income

Noninterest income was $122 million for both the three months ended March 31, 2013 and 2012. Noninterest income consisted of the following:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Loan-related fee income	$ 53	$ 56
Fees for financially related services	31	34
Mineral income	22	18
Operating lease income	10	9
Income earned on Insurance Fund assets	4	12
Total other-than-temporary impairment losses	(1)	(16)
Portion of other-than-temporary impairment recognized in other comprehensive income	(1)	10
Net other-than-temporary impairment losses included in earnings	(2)	(6)
Losses on extinguishment of debt	(26)	(22)
Net gains on derivative and other transactions	2	3
Gains on sales of investments and other assets, net	10	1
Other noninterest income	18	17
Total noninterest income	$122	$122

While total noninterest income was unchanged between the first quarter of 2013 and 2012, the components changed. Gains on sales of investments and other assets, net increased $9 million which was offset, in part, by a decrease in income earned on Insurance Fund assets of $8 million due to low interest rates earned on these assets.

Noninterest Expense

Noninterest expense consisted of the following:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Salaries and employee benefits	$381	$357
Occupancy and equipment	43	41
Purchased services	28	29
Other operating expense	123	112
Total operating expense	575	539
Losses on other property owned, net	1	12
Total noninterest expense	$576	$551

Noninterest expense increased $25 million or 4.5% to $576 million for the three months ended March 31, 2013, as compared with $551 million for the same period of the prior year. Salaries and employee benefits increased $24 million primarily due to an increase in salary expense as a result of annual merit increases and higher staffing levels at certain System institutions, offset, in part by a decrease in pension expense. The first quarter of 2012 pension costs included a $14 million one-time pension charge related to the merger of CoBank and U.S. AgBank effective January 1, 2012. Operating expense (salaries and employee benefits, occupancy, equipment and other operating expense) statistics are as follows:

	For the Three Months Ended March 31,	
	2013	2012
	($ in millions)	
Excess of net interest income over operating expense	$1,102	$1,042
Operating expense as a percentage of net interest income and noninterest income	32.0%	31.7%
Annualized operating expense as a percentage of average earning assets	0.97%	0.98%

Provision for Income Taxes

The provision for income taxes was $59 million for the first quarter of 2013, as compared with $68 million for the first quarter of 2012. The effective tax rate declined from 6.1% for the first quarter of 2012 to 4.9% for the first quarter of 2013 due primarily to decreased earnings at certain taxable System institutions.

Risk Management

Overview

The System is in the business of making agricultural and other loans that require 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. Each System institution's goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in its business activities.

The major types of risk for which we have exposure are structural risk, credit risk, interest rate risk, liquidity risk, operational risk and political risk.

Structural Risk Management

Structural risk results from the fact that the System is comprised of Banks and Associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, they are not commonly owned. Each System institution is responsible for its own risk management and there are no formal processes or procedures in place to mandate Systemwide risk mitigation actions, including but not limited to, reducing concentration, interest rate and counterparty credit risk across the System. 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 payment of principal and interest on Systemwide Debt Securities. Although capital at the Association level reduces a Bank's credit exposure with respect to its wholesale loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities. (See Notes 7 and 13 to the accompanying condensed combined financial statements for additional information.)

In order to monitor and mitigate the joint and several risk, we utilize two intra-System financial performance 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 quarterly to measure the financial condition and performance of each District (a Bank and its affiliated Associations) 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 loans and investments) divided by total liabilities less subordinated debt, subject to certain limits, and the Bank permanent capital ratio is primarily the Bank's common stock, preferred stock and subordinated debt, subject to certain limits, and surplus divided by risk-adjusted assets.

If a Bank fails to meet the MAA performance criteria, it will be placed into one of three categories. Each category gives the other System Banks and the Funding Corporation (collectively, MAA Committee) 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, subject to the discretion of the MAA Committee, be limited to refinancing maturing debt obligations, and a "Category III" Bank may, subject to the discretion of the MAA Committee, not be permitted to participate in issuances of Systemwide Debt Securities. Decisions by the MAA Committee to permit, limit or prohibit a "Category II" or "Category III" Bank to participate in the issuance of Systemwide Debt Securities is subject to oversight and override by the Farm Credit Administration. No economic penalties are associated with being in "Category I." 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 Banks must maintain a net collateral ratio of 50 basis points greater than the minimum set by the Farm Credit Administration or at least 104% in order to avoid being placed in "Category I."

During the first quarter of 2013, all Banks met the agreed-upon standard of financial condition and performance required by the CIPA and none of the Banks was placed in any of the three categories designated for Banks failing to meet MAA's specified financial criteria. (See Note 13 for each Bank's net collateral and permanent capital ratios.) For additional information regarding the CIPA or the MAA, see pages 22, 23, 47 and 48 in the *2012 Annual Information Statement.*

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolio and derivative counterparty credit exposures. (See page 27 for a discussion regarding derivative counterparty exposures.)

System institutions manage credit risk associated with their retail lending activities through an analysis of the credit risk profile of an individual borrower. Each Bank and Association has its own set of underwriting standards and lending policies, approved by its board of directors, that provides direction to its 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 – intended use of the loan funds.

The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position, and collateral. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income.

Although System institutions monitor credit risk individually, the System has established a quarterly process to report System large loan exposures (outstanding loan amounts plus any unfunded loan commitments). A System risk management committee reviews and monitors large loan exposures to existing individual customers that may reach $750 million. Since it is possible that one or more System institutions may simultaneously make credit available to a customer that may, in the aggregate, exceed $750 million, the process provides for quarterly data to be compiled on existing large loan exposures with notice provided to the Banks and Associations of the largest loan exposures, including all loan exposures to a borrower greater than 75% of the $750 million level or $563 million. While this process captures information regarding large loan exposures, any decision to reduce these exposures resides with the individual System institutions. At March 31, 2013, 12 exposures (including unfunded commitments) exceeded $563 million but were below the $750 million level. At December 31, 2012, 13 exposures (including unfunded commitments) exceeded $563 million but were below the $750 million level. One of these exposures was classified as Other Assets Especially Mentioned at both March 31, 2013 and December 31, 2012.

For a detailed discussion of our credit risk management practices, see pages 48, 49 and 50 in the *2012 Annual Information Statement.*

Loan Portfolio

The System's loan portfolio consists only of retail loans. Bank loans to affiliated Associations have been eliminated in the condensed combined financial statements. Loans outstanding consisted of the following:

	March 31, 2013	December 31, 2012
	(in millions)	
Real estate mortgage loans	$ 88,686	$ 88,263
Production and intermediate-term loans	39,634	43,861
Agribusiness:		
Loans to cooperatives	14,699	12,769
Processing and marketing loans	12,509	11,483
Farm-related business loans	2,909	2,838
Energy and water/waste water loans	15,080	14,525
Rural residential real estate loans	6,303	6,210
Agricultural export finance	4,766	4,674
Communication loans	4,143	4,177
Lease receivables	2,426	2,415
Loans to other financing institutions.	642	689
Total loans	$191,797	$191,904

Overall, System loan volume moderated since year end due to normal seasonal repayments, strengthening of agricultural producers' financial positions as a result of the favorable agricultural conditions experienced over the past several years, a competitive lending environment and the slow recovery of the general U.S. economy. Loan volume decreased $107 million to $191.797 billion at March 31, 2013 as a result of a decrease in production and intermediate-term loans. This decrease was offset, in part, by a seasonal increase in loans to agribusiness cooperatives.

Production and intermediate-term loans decreased $4.227 billion or 9.6% primarily due to seasonal paydowns on operating lines of credit as many borrowers sold crops in the first quarter of 2013. This is typical as borrowers increase their operating lines in the fourth quarter as inputs, such as fertilizer, seed and fuel are purchased in advance of the next year as part of tax planning strategies.

Loans to cooperatives increased $1.930 billion or 15.1%, as compared with December 31, 2012, primarily as a result of increased demand for loans resulting from normal seasonal borrowings by agribusiness customers, primarily in the farm supply and grain marketing sectors. Agribusiness loan volume generally reaches a seasonal low in late summer or early fall before harvest financing demands result in loan volume increases beginning in the late fall of each year. Peak loan volume typically occurs in late winter or early spring.

At March 31, 2013, agricultural export finance transactions increased $92 million to $4.766 billion, as compared with December 31, 2012. The agricultural export finance portfolio continued to reflect a significant concentration in federal government-sponsored trade financing programs. Overall, 75% of the agricultural export finance transactions at March 31, 2013 and December 31, 2012 were guaranteed through the USDA's Commodity Credit Corporation.

Additionally, we have reduced, to some extent, the credit risk of some real estate mortgage loans by entering into agreements that provide long-term standby commitments to purchase System loans and other credit guarantees. The amount of loans under credit guarantees was $4.827 billion at March 31, 2013 and $4.589 billion at December 31, 2012, of which $2.079 billion and $1.853 billion was provided by Farmer Mac at March 31, 2013 and at December 31, 2012. For additional information on Farmer Mac, see page 12 in the *2012 Annual Information Statement.*

Nonperforming Assets

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

	March 31, 2013	December 31, 2012
	(in millions)	
Nonaccrual loans:		
Real estate mortgage	$1,222	$1,234
Production and intermediate-term	690	666
Agribusiness	205	206
Energy and water/waste water	34	26
Rural residential real estate	76	76
Communication	159	86
Lease receivables	6	6
Total nonaccrual loans	2,392	2,300
Accruing restructured loans:		
Real estate mortgage	159	157
Production and intermediate-term	94	94
Agribusiness	9	14
Energy and water/waste water	3	3
Rural residential real estate	3	3
Total accruing restructured loans	268	271
Accruing loans 90 days or more past due:		
Real estate mortgage	31	20
Production and intermediate-term	11	14
Agribusiness	5	
Rural residential real estate	4	3
Total accruing loans 90 days or more past due	51	37
Total nonperforming loans	2,711	2,608
Other property owned	337	324
Total nonperforming assets	$3,048	$2,932

	March 31, 2013	December 31, 2012
Nonaccrual loans as a percentage of total loans	1.25%	1.20%
Nonperforming assets as a percentage of total loans and other property owned	1.59	1.53
Nonperforming assets as a percentage of capital	7.69	7.59

The following table presents the nonaccrual loan activity during the quarter:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Balance at beginning of period	$2,300	$2,738
Additions:		
Gross amounts transferred into nonaccrual	398	316
Recoveries	19	19
Advances	82	125
Reductions:		
Charge-offs	(38)	(61)
Transfers to other property owned	(52)	(61)
Returned to accrual status	(41)	(37)
Repayments	(267)	(331)
Other, net	(9)	(1)
Balance at end of period	$2,392	$2,707

Nonaccrual loans increased $92 million or 4.0%, as compared with December 31, 2012, primarily due to a decline in the credit quality of a limited amount of loans to borrowers in the communication and hog sectors. Nonaccrual loans that were current as to principal and interest were 54.3% of total nonaccrual loans at March 31, 2013, as compared with 53.8% at December 31, 2012. Accruing loans 90 days or more past due increased $14 million to $51 million at March 31, 2013. These loans, which are considered well secured and in the process of collection, are traditionally at their highest level at the end of the first quarter due to the seasonal payment pattern of the System's real estate mortgage loans.

Other property owned, which is held for sale and consists of real and personal property acquired through collection actions, increased $13 million to $337 million at March 31, 2013 from $324 million at December 31, 2012. The properties held relate to various sectors, including forestry, livestock and ethanol.

The following table presents other property owned during the period:

	For the Three Months Ended March 31,	
	2013	2012
	(in millions)	
Balance at beginning of period	$324	$458
Additions:		
Gross amounts transferred into other property owned (fair value)	53	62
Reductions:		
Other property owned disposed of through cash sales	(33)	(43)
Other property owned disposed of through financed sales	(7)	(17)
Other property owned written down		(14)
Balance at end of period	$337	$446

Credit quality indicators remained at generally favorable levels during the first quarter of 2013. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans improved to 0.31% at March 31, 2013, as compared with 0.36% at March 31, 2012. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and accrued interest receivable was as follows:

	March 31, 2013	December 31, 2012
Acceptable	94.6%	94.5%
Other assets especially mentioned	2.2	2.3
Substandard	3.2	3.2
Total	100.0%	100.0%

Allowance for Loan Losses

The allowance for loan losses was $1.341 billion at March 31, 2013 and $1.343 billion at December 31, 2012. Net loan charge-offs of $18 million were recorded during the first quarter of 2013, as compared with net loan charge-offs of $42 million for the first quarter of 2012. During the first quarters of 2013 and 2012, approximately half of the net loan charge-offs related to the dairy, livestock, poultry, forestry and horticulture sectors. The first quarter of 2012 net loan charge-offs also related to the ethanol sector. The System's allowance for loan losses reflected the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the System's combined financial statements, the allowance for loan losses of each System entity is particular to that institution and is not available to absorb losses realized by other System entities. Managements' evaluations consider factors that include loan loss experience, portfolio quality, collateral value, loan portfolio composition, current production conditions and economic conditions.

Even though certain System borrowers have been faced with certain challenges due to the volatility in commodity prices and input costs and the slow recovery of the general U.S. economy, their financial positions remained generally strong given the past decade of extremely favorable U.S. farm economic conditions. In this regard, nonaccrual loans current as to principal and interest were 54.3% of total nonaccrual loans at March 31, 2013. Further, System underwriting standards require strong collateral support for loans. By regulation, all non-guaranteed real estate mortgage loans must have a loan-to-value ratio (LTV) of 85% or less at origination. Most of the System's real estate mortgage loans had a LTV ratio generally lower than the statutory maximum of 85%. These factors help to mitigate the System's exposure to loan losses. At March 31, 2013, $1.074 billion of the System's $2.711 billion of nonperforming loans had specific reserves (representing probable losses) of $326 million. The remaining $1.637 billion of nonperforming loans were evaluated and determined not to need a specific allowance.

The following table presents the activity in the allowance for loan losses:

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012
	($ in millions)	
Balance at beginning of period	$1,343	$1,290
Charge-offs:		
Real estate mortgage	(15)	(33)
Production and intermediate-term	(10)	(18)
Agribusiness	(11)	(4)
Energy and water/waste water		(3)
Rural residential real estate	(2)	(3)
Total charge-offs	(38)	(61)
Recoveries:		
Real estate mortgage	5	11
Production and intermediate-term	4	6
Agribusiness	9	1
Agricultural export finance	1	
Communication	1	1
Total recoveries	20	19
Net charge-offs	(18)	(42)
Provision for loan losses	22	32
Adjustment due to Bank and Association mergers*		(6)
Other**	(6)	24
Balance at end of period	$1,341	$1,298
Annualized ratio of net charge-offs during the period to average loans outstanding during the period	0.04%	0.09%

* Represents the elimination of the allowance for loan losses in connection with Bank and Association mergers that were accounted for under the acquisition method of accounting. See Note 6 to the accompanying condensed combined financial statements.

** Represents reclassifications between the allowance for loan losses and the reserve for unfunded commitments as a result of advances on or repayments of seasonal lines of credit or other loans.

Allowance for loan losses by loan type is as follows:

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
	($ in millions)			
Real estate mortgage	$ 313	23.3%	$ 307	22.9%
Production and intermediate-term	409	30.5	424	31.6
Agribusiness	348	26.0	359	26.7
Energy and water/waste water	121	9.0	116	8.6
Rural residential real estate	23	1.7	22	1.6
Agricultural export finance	6	0.5	6	0.5
Communication	86	6.4	73	5.4
Lease receivables	34	2.5	35	2.6
Loans to other financing institutions	1	0.1	1	0.1
Total	$1,341	100.0%	$1,343	100.0%

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

	March 31, 2013	December 31, 2012
Allowance for loan losses as a percentage of:		
Total loans	0.70%	0.70%
Nonperforming loans	49.5	51.5
Nonaccrual loans	56.1	58.4

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. This risk can produce variability in System earnings (net interest spread achieved and net interest income earned) and, ultimately, the long-term capital position of the System. System institutions actively manage the following risks:

- Yield curve risk — results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market's expectation of future interest rates at different points along the yield curve.
- Repricing risk — results from the timing differences (mismatches) between financial assets and related funding that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.
- Option risk — results from "embedded options" that are present in many financial instruments, including the right to prepay loans before the contractual maturity date. Lending practices or loan features that provide the borrower with flexibility frequently introduce this risk exposure for the lender. For example, a fixed-rate loan product may provide a potential borrower with a rate guarantee, an option to lock-in the loan rate for a period of time prior to closing, which protects the borrower from an increase in interest rates between the time loan terms are negotiated and the loan settles. If interest rates increase while the rate guarantee is in effect and if we do not take measures to hedge the rate guarantee, we might realize a lower spread than expected when the loan is funded.

  After the loan settles, the borrower may also have the option to repay the loan's principal ahead of schedule. If interest rates have fallen, System institutions may be forced to reinvest principal returned from higher rate loans at a lower rate, which may reduce the interest rate spread unless the underlying debt can be similarly refinanced. This risk is also present in certain investment securities.

  Interest rate caps are another form of embedded options that may be present in certain investments and floating and adjustable rate loans. Interest rate caps typically prevent the borrower's loan rate from increasing above a defined limit. In a rising interest rate environment, the lender's spread may be reduced if caps limit upward adjustments to floating loan rates while debt costs continue to increase.
- Basis risk — results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating-rate index tied to a loan or investment differs from the index on the Systemwide Debt Security issued to fund the loan or investment.

The goal of the Banks in managing interest rate risk is to maintain long-term value of equity and stable earnings over both short-and long-term time horizons. In most cases, the wholesale funding provided by a Bank to an Association matches the terms and embedded options of the Association's retail loans. This funding approach shifts the majority of interest rate risk connected with retail loans from the Association to its funding Bank. The Banks are responsible for developing asset/liability management policies and strategies to manage interest rate risk and for monitoring them on a regular basis. These policies include guidelines for measuring and evaluating exposures to interest rate risk. In addition, the policies establish limits for interest rate risk management and define the role of the board of directors in delegating day-to-day responsibility for interest rate risk management to Bank management. That authority is delegated to an asset/liability management committee made up of senior Bank managers. The policies define the composition of the committee and its responsibilities. Interest rate risk management is also subject to certain measurements in the intra-System agreements, including the CIPA and the MAA, and regulatory oversight by the Farm Credit Administration.

Historically, one of the primary benefits of our status as a government-sponsored enterprise debt issuer has been that, through the Funding Corporation and its selling group, the System has had daily access to the debt markets and a great deal of flexibility in structuring the maturity and types of debt securities we issued. The ability to quickly access the debt markets helped us minimize the risk that interest rates might change between the time a loan commitment is made and the time it is funded.

Flexibility in structuring debt enabled us to issue Systemwide Debt Securities that has offset some of the primary interest rate risk exposures embedded in our loans. For example, by issuing LIBOR-indexed, floating-rate Systemwide Debt Securities we are able to minimize the basis risk exposure presented by our LIBOR-indexed, floating-rate loans. As mentioned above, some of our fixed-rate loans may provide borrowers with the option to prepay their loans. In most interest rate environments we are able to significantly offset the risk created by an embedded prepayment option by funding prepayable fixed-rate loans with callable debt. Callable debt provides us with the option to retire debt early in order to maintain a better match between the duration of our assets and our liabilities.

Approximately 70% of our fixed-rate loans provide the borrowers with the option to prepay their loan at any time, without prepayment or conversion fees, and the remainder of the System's fixed-rate loans contain provisions requiring prepayment fees to partially or fully compensate the Banks for the cost of retiring the debt, some of which may be non-callable.

The Banks actively participate in the derivatives markets, which provides additional tools to manage risk. Our use of derivatives is detailed later in this section.

Interest Rate Risk Measurements

The Banks measure interest rate risk using interest rate gap analysis, duration gap analysis, net interest income sensitivity analysis and market value of equity sensitivity analysis. These measures are calculated on a monthly basis and the assumptions used in these analyses are monitored routinely and adjusted as necessary.

Interest Rate Risk Management Results

Interest Rate Gap Analysis

The interest rate gap analysis presents a comparison of interest-sensitive assets and liabilities in defined time segments as of March 31, 2013. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of balance sheet, rate and spread changes, and may not necessarily indicate the sensitivity of net interest income in a changing rate environment. Within the gap analysis, gaps are also created when an institution uses its capital to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. The quantity of assets will exceed the quantity of interest-bearing liabilities in any repricing interval where capital is assumed to provide part of the funding. The gap table below includes anticipated cash flows on assets and liabilities given the current level of interest rates.

	Repricing Intervals				
	0-6 Months	6 Months to 1 Year	1-5 Years	Over 5 Years	Total
			($ in millions)		
Floating-rate loans:					
Indexed/adjustable-rate loans	$ 34,266	$ 1,018	$ 1,181	$ 539	$ 37,004
Administered-rate loans	35,863				35,863
Fixed-rate loans:					
Fixed-rate with prepayment or conversion fees	8,864	2,937	11,692	10,071	33,564
Fixed-rate without prepayment or conversion fees	22,136	13,149	33,428	14,261	82,974
Nonaccrual loans			789	1,603	2,392
Total gross loans	101,129	17,104	47,090	26,474	191,797
Federal funds sold, investments and other	21,738	3,454	17,477	4,028	46,697
Total earning assets	122,867	20,558	64,567	30,502	238,494
Interest-bearing liabilities:					
Callable bonds and notes	10,168	4,488	23,127	13,140	50,923
Noncallable bonds and notes	83,645	15,204	36,847	12,386	148,082
Subordinated debt	500			1,055	1,555
Other interest-bearing liabilities	2,863			41	2,904
Total interest-bearing liabilities	97,176	19,692	59,974	26,622	203,464
Effect of interest rate swaps and other derivatives	15,695	(3,248)	(13,178)	731	
Total interest-bearing liabilities adjusted for swaps and other derivatives	112,871	16,444	46,796	27,353	203,464
Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives)	$ 9,996	$ 4,114	$ 17,771	$ 3,149	$ 35,030
Cumulative gap	$ 9,996	$14,110	$ 31,881	$35,030	
Cumulative gap as a percentage of total earning assets	4.19%	5.92%	13.37%	14.69%	

Consistent with the positive gap between the System's earning assets and interest-bearing liabilities as reflected in the table above, the System's interest rate sensitivity position at March 31, 2013 for the six-month repricing interval may generally be characterized as "asset sensitive," i.e., interest rates earned on interest-earning assets may change or be changed more quickly than interest rates on interest-bearing liabilities used to fund these assets.

Typically, the net interest margin of an institution that is "asset sensitive" will be unfavorably impacted in a declining interest-rate environment or an environment characterized by relatively stable interest rates and a steep yield curve, and favorably impacted in a rising interest-rate environment. The System's capital is invested in loans and investment securities that reprice to lower yields when interest rates are falling and to higher yields when interest rates increase. However, the net interest spread, a component of net interest margin, may react in a different manner due to competitive conditions at the time of repricing. Further, a significant portion of the System's floating-rate loans are management administered-rate loans that, unlike indexed loans, require definitive action at the discretion of the lending Bank or Association to change the interest rates charged and may reflect managements' assessments of whether rate changes are warranted or feasible in view of competitive market conditions. The actual interest rates charged on the administered-rate loans may not mirror the movement of some market interest rates, thereby moderating the overall net interest income impact of market fluctuations.

Additionally, the Banks issue callable debt to accelerate the repricing of debt in a declining interest rate environment and thereby moderate the impact of falling interest rates on net interest income of institutions in an asset-sensitive position. During the first quarter of 2013, $9.9 billion of debt was called and at March 31, 2013, $50.9 billion of callable debt obligations were outstanding. The System's cumulative gap position in the 0-6 months repricing interval decreased slightly from 4.92% at December 31, 2012 to 4.19% at March 31, 2013.

Duration Gap Analysis

Another risk measurement is duration, which each Bank calculates, on a District basis, using a simulation model. Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities. All else being equal, an institution with a small duration gap has less exposure to interest rate risk than an institution with a large duration gap.

The System's aggregate duration gap (the sum of the Banks' duration gaps) was a positive 1.0 month at March 31, 2013 and a positive 0.6 months at December 31, 2012. A duration gap within the range of a positive three months to a negative three months generally indicates a small exposure to changes in interest rates.

Duration gap provides a relatively concise and simple measure of the interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. An institution's overall exposure to interest rate risk is a function not only of the duration gap, but also of the financial leverage inherent in the institution's capital structure. For the same duration gap, an institution with more equity or capital will have a lower overall percentage exposure to interest rate risk, stated in terms of the percentage change in the market value of equity, than one with less capital and more leverage.

There are some limitations to duration analysis as balance sheets are dynamic. Durations change over time and as the composition of balance sheet changes.

Sensitivity Analysis

In addition to the static view of interest rate sensitivity shown by the gap analysis and the simple duration gap, each Bank conducts simulations of net interest income and market value of equity, on a Bank and District basis. The market value of equity sensitivity analysis incorporates the effects of leverage and capital positioning. The two primary scenarios used for the analysis reflect the impact of interest rate shocks upward and downward (i.e., immediate, parallel changes upward and downward in the yield curve) on projected net interest income and on market value of equity. The Banks also use other types of measures to model exposures to interest rate changes, such as rate ramps (gradual change in rates) and yield curve slope changes.

The upward and downward shocks are based on movements in interest rates of 100 and 200 basis points, which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed. However, in the current, relatively low interest rate environment, the downward shock is based on one-half of the three-month Treasury bill rate, which was 4 basis points at March 31, 2013 and 3 basis points at December 31, 2012. Under these simulations, the System's sensitivity to interest rate changes (sum of Districts' sensitivity analyses) was:

	March 31, 2013		
	-4	**+100**	**+200**
Change in net interest income	-0.13%	2.41%	3.58%
Change in market value of equity . .	0.03%	-1.92%	-4.80%

	December 31, 2012		
	-3	**+100**	**+200**
Change in net interest income	-0.42%	3.06%	4.85%
Change in market value of equity . .	0.06%	-1.61%	-4.18%

Each Bank measures District interest rate sensitivity under these simulations in accordance with its asset/liability management policies. District measurements are presented in the Supplemental Financial Information on page F-54.

In addition to the interest rate scenarios required for reporting and regulatory purposes, the Banks also periodically perform additional scenario analyses to study the effects of changes in critical modeling assumptions — for example, the impact of increased/decreased prepayments, changes in the relationship of the System's funding cost to other benchmark interest rates, additional non-parallel shifts in the yield curve, and changes in market volatility. (For a more detailed discussion of sensitivity analysis and prepayment modeling assumptions, see pages 65 and 66 in the *2012 Annual Information Statement*.)

Derivative Products

Derivative products are an integral part of our interest rate risk management activities and supplement our issuance of debt securities in the capital markets. We use derivative financial instruments as hedges against interest rate and liquidity risks. We do not hold or enter into derivative transactions for trading purposes. Our ability to modify the debt securities by using derivative instruments provides us with greater flexibility to manage our interest rate risk.

The primary types of derivative products used and hedging strategies employed are summarized in the following table. For additional information, see Note 10 to the accompanying condensed combined financial statements.

Derivative Products/Hedged Item	Purpose of the Hedge Transaction	Strategic Impact
Receive-fixed, pay-floating interest rate swap hedging callable or non-callable fixed rate debt	To protect against the decline in interest rates on floating-rate assets by exchanging the debt's fixed-rate payment for a floating-rate payment that better reflects the amounts received on the assets.	A common use is to create a substitute for conventional floating- rate funding. The fixed-rate received on the swap largely offsets the fixed-rate paid on the associated debt leaving a net floating payment. The strategy frequently provides cost savings or promotes liquidity by permitting access to longer maturity floating-rate funding than may otherwise be available.
Pay-fixed, receive-floating interest rate swap hedging floating rate debt	To protect against an increase in interest rates by exchanging the debt's floating-rate payment for a fixed-rate payment that matches the cash flows of assets.	The combination of the pay-fixed, receive-floating swap with floating-rate funding results in a net fixed-rate payment. This strategy may provide lower cost fixed-rate funding than outright issuance of fixed- rate debt.
Floating-for-floating swap hedging floating-rate assets and liabilities	Used to manage the basis risk that can result when assets and liabilities are based on different floating-rate indexes or reprice at different times or on different frequencies.	The System's floating-rate loans and floating-rate investments are tied to a number of floating-rate indexes including Farm Credit's short-term debt cost, the prime rate, Federal funds and LIBOR. Ideally, floating-rate loans would be funded by issuing floating-rate funding tied to the same floating-rate index with identical reset terms. However, floating-rate funding is not consistently available to exactly meet these requirements. Floating-for-floating or "basis' swaps are used to bridge this gap.
Interest rate caps hedging floating-rate assets and debt	To replace income lost from floating-rate assets that have reached cap levels or to put a ceiling on interest cost on floating-rate debt.	Some floating-rate loans and investments may specify a maximum interest rate to limit the borrower's exposure to rising interest rates. Interest rate caps are purchased to provide offsetting protection against rising interest rates.
Interest rate floors hedging floating-rate loans	To protect against falling interest rates on floating-rate assets.	A purchased floor option will produce a cash flow when the index rate falls below the strike rate. Cash flow from the floor can be used to offset income lost on floating-rate assets when interest rates decline. Floor options may also be used in combination with interest rate caps to create interest rate collars or otherwise limit or modify floating- rate cash flows.

The aggregate notional amount of the System's derivative products, most of which consisted of interest rate swaps, decreased $1.288 billion to $32.146 billion at March 31, 2013, as compared with $33.434 billion at December 31, 2012. The decrease was largely due to a lower level of liquidity management derivatives, as a portion of our liquidity objectives were met through the increased issuance of floating-rate term debt instead of derivatives that convert fixed-rate term debt to floating-rate debt. The aggregate notional amount of these instruments, which is not included in the Condensed Combined Statement of Condition, is indicative of the System's activities in derivative financial instruments, but is not an indicator of the level of credit risk associated with these instruments. The exposure to credit risk is a small fraction of the aggregate notional amount. The majority of the swaps used by the Banks were receive-fixed interest rate swaps, which are used to improve liquidity and/or lower their cost of debt by issuing fixed-rate debt and swapping the debt to floating to create synthetic floating-rate debt.

By using derivative instruments, we are exposed to counterparty credit risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk (exposure) will equal the fair value gain in a derivative. When the fair value of a derivative is positive, the counterparty would owe the Bank on early termination of the derivative, thus creating a credit risk for the Bank. When the fair value of the derivative is negative, the Bank would owe the counterparty on early termination of the derivative, and, therefore, assumes no credit risk.

To minimize the risk of credit losses from derivatives, the Banks typically enter into master agreements that govern all derivative transactions with a counterparty, which include bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other are reached. These thresholds may vary for certain Banks depending on the terms of these bilateral collateral agreements, which consider a counterparty's credit worthiness. The master agreements also contain netting provisions. Each Bank's netting agreement allows it to use the net value of its affected transactions with the same counterparty in the event of a default by the counterparty or early termination of the agreement. Derivatives are reflected on a gross basis in Notes 10 and 11 to the accompanying condensed combined financial statements.

The counterparty credit ratings for the exposure on derivatives that would be owed to us due to a default or early termination by our counterparties at March 31, 2013 and December 31, 2012 were:

	March 31, 2013					December 31, 2012				
Moody's Credit Rating	**Number of Counterparties**	**Notional Principal**	**Credit Exposure**	**Collateral Held**	**Exposure, Net of Collateral**	**Number of Counterparties**	**Notional Principal**	**Credit Exposure**	**Collateral Held**	**Exposure, Net of Collateral**
	($ in millions)									
Aaa						1	$ 117			
Aa1	2	$ 219	$ 1	$ 1		1	95	$ 1	$ 1	
Aa2	1	863	21	21		2	1,459	33	33	
Aa3	4	12,180	316	304	$12	3	11,732	327	310	$17
A1	2	6,937	216	178	38	2	7,011	239	200	39
A2	5	5,513	60	49	11	5	6,176	62	50	12
A3	2	2,251	111	109	2	2	2,660	121	121	
Baa1	1	404	42	33	9	1	404	42	32	10
Baa2	1	639	57	57		1	600	66	65	1
Total	18	$29,006	$824	$752	$72	18	$30,254	$891	$812	$79

Note: The remaining notional amounts of derivative financial instruments of $3.140 billion and $3.180 billion at March 31, 2013 and December 31, 2012 are related to interest rate swaps that one Bank entered into with certain of its customers. The Bank substantially offsets the risk from these transactions by concurrently entering into offsetting derivative transactions with some of the counterparties.

At March 31, 2013, the Banks' counterparties posted $532 million in cash and $220 million in securities with us, as compared with $578 million of cash and $234 million in securities at December 31, 2012. One Bank had posted collateral with respect to its obligations under these agreements of $16 million at March 31, 2013 and $17 million at December 31, 2012.

Liquidity Risk Management

General

Liquidity risk management is necessary to ensure our ability to meet our 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 Banks have established a Contingency Funding Program to provide for contingency financing mechanisms and procedures to address potential disruptions in the System's communications, operations and payments systems, as well as the ability to cover events that threaten continuous market access by the Banks or the Funding Corporation's normal operations. Under this Program, the Funding Corporation has the authority to finance all Systemwide Debt Securities through the issuance of Systemwide discount notes either directly to institutional investors or through the selling group. The Funding Corporation, on behalf of the Banks, may also incur other obligations, such as Federal funds purchased, that would be the joint and several obligations of the Banks and would be insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund. In the event of a liquidity crisis, the System does not have a guaranteed line of credit or liquidity backstop from the U.S. Treasury or the Federal Reserve.

Funding Sources

Our primary source of liquidity is the ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the Banks. We continually raise funds to support our mission to provide credit and related services to the agricultural and rural sectors, repay maturing Systemwide Debt Securities, and meet other obligations. As a government-sponsored enterprise, we have access to the global capital markets. This access has traditionally provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the agricultural and rural sectors. The U.S. government does not guarantee, directly or indirectly, the payment of principal or interest on any Systemwide Debt Securities by the Banks.

Investments

As more fully described on page 70 in the *2012 Annual Information Statement*, a Bank is authorized to hold Federal funds and available-for-sale investments in an amount not to exceed 35% of a Bank's average loans outstanding for the quarter. We utilize investments for the purposes of maintaining a diverse source of liquidity and managing short-term surplus funds and interest rate risk, and in so doing enhance profitability. Farm Credit Administration regulations also permit an Association to hold eligible investments for the purposes of managing short-term surplus funds and interest rate risk with the approval of its affiliated Bank. At March 31, 2013, no Bank exceeded the 35% limit.

Farm Credit Administration regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of investment portfolio limit for each investment type. At the time the investments are purchased, they must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard & Poor's Ratings Services or Fitch Ratings, as more fully described on page 71 of the *2012 Annual Information Statement*.

Eligible investments (carried at fair value) based on credit ratings issued by Moody's Investors Service, Standard & Poor's Ratings Services, or Fitch Ratings were as follows:

	Eligible Investments				
March 31, 2013	AAA/Aaa	A1/P1/F1	Split Rated(1)	A2/P2/F2	Total
			(in millions)		
Federal funds sold and securities purchased under resale agreements		$ 462	$ 380	$100	$ 942
Commercial paper, bankers' acceptances, certificates of deposit and other securities		1,911	1,587		3,498
U.S. Treasury securities			8,005		8,005
U.S. agency securities			4,084		4,084
Mortgage-backed securities:					
Agency collateralized			18,517		18,517
Agency whole-loan pass through			4,765		4,765
Non-agency	$ 2		4		6
Private label-FHA/VA			148		148
Asset-backed securities	578		543		1,121
Total	$580	$2,373	$38,033	$100	$41,086

	Eligible Investments			
December 31, 2012	AAA/Aaa	A1/P1/F1	Split Rated(1)	Total
		(in millions)		
Federal funds sold and securities purchased under resale agreements		$ 563	$ 355	$ 918
Commercial paper, bankers' acceptances, certificates of deposit and other securities		1,904	1,182	3,086
U.S. Treasury securities			5,999	5,999
U.S. agency securities			3,975	3,975
Mortgage-backed securities:				
Agency collateralized			17,696	17,696
Agency whole-loan pass through			5,184	5,184
Non-agency	$ 3		48	51
Private label-FHA/VA			156	156
Asset-backed securities	438	6	570	1,014
Total	$441	$2,473	$35,165	$38,079

(1) Investment that received the highest credit rating from at least one rating organization.

As noted in the tables above, the split rating on investments in U.S. Treasury, U.S. agency and agency mortgage-backed securities is the result of the Standard & Poor's Ratings Services downgrade of the U.S. government's long-term sovereign credit rating from AAA to AA+ in August 2011, with a negative outlook. Both Moody's Investors Service and Fitch Ratings maintained the triple-A ratings for U.S. government and agency securities. However, due to the uncertainties that exist with the future economic outlook of the U.S. government, these two ratings have a negative outlook.

If an investment no longer meets the credit rating criteria referred to above, the investment becomes ineligible for regulatory liquidity calculation purposes. Under Farm Credit Administration regulations, if an investment is eligible when purchased but no longer satisfies the eligibility criteria referred to above, the Bank may continue to hold it subject to the following requirements:

- Bank must notify the Farm Credit Administration within 15 calendar days after such determination,

- Bank must not use the investment to satisfy its liquidity requirement,
- Bank must continue to include the investment in the investment portfolio limit calculation,
- Bank may continue to include the investment as collateral and net collateral at lower of cost or market, and
- Bank must develop a plan to reduce the risk posed by the investment.

The Farm Credit Administration has the authority to require a Bank to divest any investment at any time for failure to comply with its regulation. As of March 31, 2013, the Farm Credit Administration has not required disposition of any of these securities. Bank managements do not believe that events will occur that would require them to dispose of any of these securities.

The following tables set forth ineligible securities (carried at fair value) by credit rating, which represented 4.0% and 4.3% of Federal funds and available-for-sale investments at March 31, 2013 and December 31, 2012.

	Ineligible Investments										
March 31, 2013	**Number of securities**	**AA/Aa**	**A/A**	**BBB/Baa**	**BB/Ba**	**B/B**	**CCC/Caa**	**CC/Ca**	**D/C**	**Total**	**Amortized Cost**
	($ in millions)										
Non-agency mortgage-backed securities	140	$ 76	$60	$54	$ 13	$ 70	$205	$ 83	$ 82	$ 643	$ 646
Private label-FHA/VA mortgage-backed securities	26	245			88	412		29	43	817	828
Asset-backed securities	55	8	2	18	5	19	154	21	17	244	221
Total	221	$329	$62	$72	$106	$501	$359	$133	$142	$1,704	$1,695

	Ineligible Investments										
December 31, 2012	**Number of securities**	**AA/Aa**	**A/A**	**BBB/Baa**	**BB/Ba**	**B/B**	**CCC/Caa**	**CC/Ca**	**D/C**	**Total**	**Amortized Cost**
	($ in millions)										
Non-agency mortgage-backed securities	133	$ 62	$57	$48	$ 14	$ 64	$217	$ 89	$ 81	$ 632	$ 643
Private label-FHA/VA mortgage-backed securities	26	263			91	423		27	46	850	870
Asset-backed securities	52	6	2	17	5	73	97	20	17	237	225
Total	211	$331	$59	$65	$110	$560	$314	$136	$144	$1,719	$1,738

Note: Investments are classified based on the indicated rating as the highest rating from at least one rating organization.

The types of mortgage-backed and asset-backed securities that are included in the System's investment portfolio were:

	March 31, 2013			December 31, 2012		
	Amortized Cost	**Fair Value**	**Unrealized Gains/(Losses)**	**Amortized Cost**	**Fair Value**	**Unrealized Gains/(Losses)**
	(in millions)					
Mortgage-backed securities:						
Agency collateralized	$18,374	$18,517	$143	$17,545	$17,696	$151
Agency whole-loan pass through	4,541	4,765	224	4,942	5,184	242
Non-agency	653	649	(4)	694	683	(11)
Private label-FHA/VA	976	965	(11)	1,027	1,006	(21)
Total mortgage-backed securities	$24,544	$24,896	$352	$24,208	$24,569	$361
Asset-backed securities:						
Home equity loans	$ 248	$ 271	$ 23	$ 262	$ 272	$ 10
Small business loans	512	524	12	531	544	13
Student loans	12	12		13	13	
Auto and equipment loans	558	558		421	422	1
Total asset-backed securities	$ 1,330	$ 1,365	$ 35	$ 1,227	$ 1,251	$ 24

Credit and market conditions over the past several years reduced the liquidity and widened credit spreads of non-agency mortgage-backed and private label-FHA/VA mortgage-backed securities reducing the fair value of this portion of our investment portfolio. A deterioration in the U.S. housing market and increasing levels of defaults and foreclosures on home mortgages would result in future downward adjustments to the fair value of these securities and would likely result in additional losses on other-than-temporarily impaired investments. In view of the recent economic conditions and volatility related to these types of securities, the Banks are actively monitoring the creditworthiness of these securities.

Mission-Related and Other Investments

The Farm Credit Act states that the mission of the System is "to provide for an adequate and flexible flow of money into rural areas." Congress also recognized the "growing need for credit in rural areas" and declared that the System be designed to accomplish the objective of improving the income and well being of America's farmers and ranchers. To further the System's mission to serve rural America, the System has initiated mission-related programs and other mission-related investments approved by the Farm Credit Administration. These investments are not included in the Banks' liquidity calculations and are not covered by the eligible investment limitation discussed above. However, limitations on mission-related investments are determined by the Farm Credit Administration.

Mortgage-backed securities issued by Farmer Mac are also considered other investments and are excluded from the eligible investment limitation and the Banks' liquidity calculations. These Farmer Mac securities are backed by loans originated by Associations and previously held by the Associations under Farmer Mac standby purchase commitments.

Mission-related and other investments outstanding that are classified as held-to-maturity (carried at amortized cost) are as follows:

	March 31, 2013	December 31, 2012
	(in millions)	
Rural home loan securities	$ 582	$ 435
Farmer Mac securities	466	496
Small Business Administration securities and other government guaranteed	1,967	2,038
Rural America bonds and Agricultural Rural Community bonds	203	203
Other	3	3
Total	$3,221	$3,175

Mission-related and other investments outstanding that are classified as available-for-sale (carried at fair value) are as follows:

	March 31, 2013	December 31, 2012
	(in millions)	
Rural America bonds	$ 52	$ 53
Farmer Mac securities	477	503
Asset-backed securities	5	5
Total	$534	$561

Other-Than-Temporarily Impaired Investments

An investment is considered impaired if its fair value is less than its amortized cost. The Banks perform other-than-temporary impairment assessments on impaired securities based on evaluations of both current and future market and credit conditions. Each Bank has its own model that includes relevant assumptions and inputs such as housing prices, unemployment, delinquencies and loss severity trends. Subsequent changes in market or credit conditions could change these evaluations. An impaired security in an unrealized loss position is considered to be other-than-temporarily impaired if a Bank (1) intends to sell the security, (2) is more likely than not to be required to sell the security before recovering its cost, or (3) does not expect to recover the security's entire amortized cost basis even if the entity does not intend to sell. If a Bank intends to sell an impaired security or it is more likely than not to be required to sell the security before recovery of its amortized cost basis, then the impairment is other-than-temporary and the difference between amortized cost and fair value of the impaired security should be recognized currently in earnings. As of March 31, 2013 and December 31, 2012, the Banks did not intend to sell securities in unrealized loss positions and it is not more likely than not that they will be required to sell these securities.

A Bank or Association also assesses whether any credit losses exist. Any shortfall between the amortized cost basis of the security and the present value of cash flows expected to be collected from the security is referred to as a "credit loss." If the Bank or Association determines credit losses do exist, the impairment is other-than-temporary and is separated into (1) the estimated amount relating to credit loss, and (2) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder recognized in other comprehensive income. The System recognized credit impairment losses of $2 million and $6 million in earnings for the first quarters of 2013 and 2012.

Liquidity Standard

The Banks have jointly developed and adopted a Common Minimum Liquidity Standard. This Standard is designed to maintain and assure adequate liquidity to meet the business and financial needs of each Bank and the System. The Standard requires each Bank to maintain a minimum of 90 days of liquidity on a continuous basis, assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing Systemwide Debt Securities and other bonds with the total amount of cash, cash equivalents and investments maintained by that Bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale and include only the eligible investments of the Banks.

At March 31, 2013, each Bank exceeded the minimum 90 days of liquidity. The System's liquidity position was 189 days at March 31, 2013, as compared with 185 days at December 31, 2012. (See Note 13 for each Bank's liquidity position at March 31, 2013 and December 31, 2012.) As a result of the merger with U.S. AgBank, effective January 1, 2012, CoBank maintains a minimum days liquidity of 130 (40 days greater than the 90-day regulatory minimum).

In response to recent financial and market turmoil and to further ensure adequate liquidity in the future, the Banks worked together and agreed to improve the quality of liquidity by establishing a framework under which each Bank should, at all times, be able to cover 15 days of maturing debt with cash, cash equivalents and/or Treasury securities with maturities of less than three years. The Banks agreed that the next 30 days of liquidity would also come from investments in excess of those that qualified under the 15-day bucket, and from investments guaranteed by the full faith and credit of the U.S. government, from top-rated commercial paper and Fed funds that mature in 45 days or less. At March 31, 2013 and December 31, 2012, all Banks were in compliance with this framework. These more highly-liquid securities were 19% and 16% of the eligible investment portfolio as of March 31, 2013 and December 31, 2012.

Cash provided by the System's operating activities (primarily generated from net interest income in excess of operating expenses) of $1.161 billion and $1.225 billion for the first three months of 2013 and 2012 provides an additional source of liquidity for the System that is not reflected in the individual Bank's calculation of days of liquidity under the standard. Further, investments in the Insurance Fund would be used to repay maturing Systemwide Debt Securities, to the extent available, if no other sources existed to repay the debt.

Capital Adequacy and the Ability to Repay Systemwide Debt Securities

Capital serves to support asset growth and provide protection against unexpected credit and operating losses. Capital is also needed for future growth and investment in new products and services. We believe a sound capital position is critical to providing protection to investors in Systemwide Debt Securities and our long-term financial success.

Over the past several years, we have built capital primarily through net income earned and retained. Capital accumulated through earnings has been partially offset by cash distributions to stockholders. Surplus of $32.881 billion at March 31, 2013 is the most significant component of capital. As of March 31, 2013, surplus as a percentage of capital was 82.9%, as compared with 82.7% at December 31, 2012. Capital as a percentage of assets increased to 16.0% at March 31, 2013, as compared with 15.7% at December 31, 2012 due principally to loan volume that remained relatively stable and earnings retained by System institutions.

FCA Capital Requirements

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Farm Credit Administration's capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and maintain a net collateral ratio of at least 103 percent of total liabilities. However, in connection with certain cumulative preferred stock issuances and subordinated debt offerings, all Banks, except AgFirst, are required to maintain a minimum net collateral ratio of 104 percent. At March 31, 2013, all System institutions maintained ratios in excess of these standards as follows:

System Institutions	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio**	Net Collateral Ratio
Banks*	15.7% - 22.2%	14.6% - 22.2%	9.2% - 19.4%	106.2% - 108.3%
Associations	13.1% - 35.2%	12.9% - 34.8%	10.9% - 29.6%	Not Applicable
Regulatory minimum required	7.0%	7.0%	3.5%	103%***

* See Note 13 for each Bank's permanent capital ratio and net collateral ratio at March 31, 2013 and December 31, 2012.

** As a condition of the merger with U.S. AgBank, from January 1, 2012 through December 31, 2014, if CoBank's core surplus ratio excluding common stock falls below 5.59%, it must notify the Farm Credit Administration and submit a written plan to restore and maintain the ratio to at least that level.

*** In connection with certain cumulative preferred stock issuances and subordinated debt offerings, AgriBank, CoBank and the Farm Credit Bank of Texas are required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%. At March 31, 2013, AgFirst had no cumulative preferred stock or subordinated debt outstanding. As a condition of the merger with U.S. AgBank, from January 1, 2012 through December 31, 2014, if CoBank's net collateral ratio falls below 105%, it must notify the Farm Credit Administration and submit to them a written plan to restore and maintain a ratio of at least 105%.

Interdependency of the Banks and the Associations

Understanding the System's structure and the interdependent nature of the Banks and the Associations is critical to understanding our capital adequacy.

As previously discussed, each Bank is primarily liable for the repayment of Systemwide Debt Securities issued on its behalf, as well as being liable for Systemwide Debt Securities issued on behalf of the other Banks. The Farm Credit Banks, through the issuance of Systemwide Debt Securities, generally finance the wholesale loans to their affiliated Associations who lend the proceeds to their customers. CoBank, as an Agricultural Credit Bank, makes loans to cooperatives, rural utilities, and other eligible borrowers, as well as Associations. Each Bank's ability to repay Systemwide Debt Securities is due, in large part, to each of its Association's ability to repay its loan from the Bank. As a result, the Banks continually monitor the risk-bearing capacity of each affiliated Association through various mechanisms, including testing of the reliability of each Association's credit classifications and prior-approval of certain Association loan transactions. Capital, allowance for loan losses and earnings at the Association level also reduces the credit exposure that the Bank has with respect to the loans between the Bank and its affiliated Associations.

Since an Association's ability to obtain funds from sources other than its affiliated Bank is significantly limited, the financial well-being of the Bank and its ability to continue to provide funds is very important to the Association. In addition to the equity the Associations are required to purchase in connection with their direct loans from their affiliated Bank, under each Bank's bylaws, the Bank is authorized, under certain circumstances, to require its affiliated Associations and certain other equity holders to purchase additional Bank equity subject to certain limits or conditions. Further, the Banks generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced operating and financing policies and agreements for its District. (See Notes 7 and 13 to the accompanying condensed combined financial statements for further discussion of Bank and Association capital.)

Notwithstanding the foregoing, only the Banks, and not the Associations, are jointly and severally liable for repayment of Systemwide Debt Securities. Other than as described above, and subject to various regulatory and contractual conditions and limitations, the Banks do not have direct access to the capital of their affiliated Associations. In addition, any indirect access that the Banks may have to the capital of the Associations may be limited during stressed conditions in a deteriorating agricultural economic environment. Moreover, capital in one Association is not typically available to address capital needs of another Association or of a non-affiliated Bank.

Insurance Fund

An additional layer of protection for holders of Systemwide Debt Securities is the Insurance Fund that insures the timely payment of principal and interest on these securities.

The primary sources of funds for the Insurance Fund are:

- premiums paid by the Banks, the cost of which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

The Insurance Corporation's primary purpose is to insure the timely payment of principal and interest on Systemwide Debt Securities. In the event a Bank is unable to timely pay Systemwide Debt Securities for which the 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 obligations. However, because of other authorized uses of the Insurance Fund, all of which benefit the Banks and Associations, or the magnitude of the default, there is no assurance that amounts in the Insurance Fund will be available and sufficient to fund the timely payment of principal and interest on Systemwide Debt Securities in the event of a default by a Bank.

Due to the restricted use of funds in the Insurance Fund, the assets of the Insurance Fund have been included as a restricted asset and the capital of the Insurance Fund as restricted capital in the System's combined financial statements. As of March 31, 2013, the assets in the Insurance Fund totaled \$3.344 billion. (See Note 5 to the accompanying condensed combined financial statements and the Supplemental Combining Information on pages F-46 and F-48 for combining statements of condition and income that illustrate the impact of including the Insurance Fund in the System's condensed combined financial statements.)

Insurance premiums are established by the Insurance Corporation with the objective of maintaining the "secure base amount," which is defined in the Farm Credit Act as 2% of the adjusted insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by the U.S. or state governments) or such other percentage of the adjusted insured obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

At March 31, 2013, as determined by the Insurance Corporation, the Insurance Fund for which no specific use has been identified or designated was 1.96% of adjusted insured obligations as compared with 1.93% at December 31, 2012.

Joint and Several Liability

The provisions of joint and several liability of the Banks with respect to Systemwide Debt Securities would be invoked if the available amounts in the Insurance Fund were exhausted. Once joint and several liability is triggered, the Farm Credit Administration is required to make "calls" to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank's available collateral (collateral in excess of the aggregate of the Bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank, and the receiver must expeditiously liquidate the Bank.

System Capitalization

The changes in capital for the quarter ended March 31, 2013 were:

	Capital				
	Combined Banks	Combined Associations	Insurance Fund	Combination Entries	System Combined
			(in millions)		
Balance at December 31, 2012	$14,166	$26,478	$3,298	$(5,333)	$38,609
Net income	527	726	46	(157)	1,142
Change in accumulated other comprehensive loss	21	(1)		25	45
Preferred stock issued		88			88
Preferred stock retired		(92)			(92)
Capital stock and participation certificates issued	18	20		(17)	21
Capital stock, participation certificates and surplus retired	(90)	(18)		60	(48)
Patronage and dividends	(106)	(72)		75	(103)
Preferred stock dividends	(17)	(1)			(18)
Balance at March 31, 2013	$14,519	$27,128	$3,344	$(5,347)	$39,644

Note: System combined capital reflected eliminations of approximately $4.0 billion of Bank equities held by Associations as of March 31, 2013 and December 31, 2012. System combined capital also reflected net eliminations of transactions between System entities, primarily related to accruals, and surplus allocations by certain Banks to their Associations. (See Notes 7 and 13 to the accompanying condensed combined financial statements.)

Combined Bank-only information is considered meaningful because only the Banks are jointly and severally liable for payment of principal and interest on Systemwide Debt Securities. Amounts in the Insurance Fund are included in the System's combined financial statements because, under the Farm Credit Act, before joint and several liability can be invoked, available amounts in the Insurance Fund would be used to make principal and interest payments on Systemwide Debt Securities. Combined Bank capital and the Insurance Fund increased $399 million since December 31, 2012 to $17.863 billion at March 31, 2013.

Combined Bank-only net income was $527 million and $495 million for the quarters ended March 31, 2013 and 2012. The combined Bank-only net income reflects the earnings from investments, Bank wholesale loans to Associations, and retail loans, principally consisting of CoBank's domestic loans to cooperatives and other eligible borrowers and loans to finance agricultural export transactions. The Banks' wholesale loans to Associations represent just over 50% of the assets on the combined Bank-only balance sheet. These loans carry less risk than retail loans because the Associations operate under General Financing Agreements with their affiliated Banks and a regulatory framework that includes maintaining certain minimum capital standards, adequate reserves, and prudent underwriting standards. Based on the lower risk of loans to the Associations, the Banks typically operate with more leverage and lower earnings than would be expected from a retail bank.

Combined Association capital increased $650 million since December 31, 2012 to $27.128 billion at March 31, 2013. The growth in Association capital resulted primarily from income earned and retained. Combined Association capital as a percentage of combined Association loans was 19.9% at March 31, 2013 and 19.1% at December 31, 2012. The capital at the Association level reduces the Banks' credit exposure with respect to wholesale loans between the Banks and each of their affiliated Associations.

Accumulated other comprehensive loss, net of tax, at March 31, 2013 and December 31, 2012 was comprised of the following components:

	March 31, 2013	December 31, 2012
	(in millions)	
Unrealized gains on investments available-for-sale, net	$ 405	$ 445
Unrealized gains on other-than-temporary impairment investments available-for-sale	55	17
Unrealized losses on cash flow hedges, net	(95)	(115)
Pension and other benefit plans	(1,344)	(1,371)
	$ (979)	$(1,024)

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. Each Bank's and Association's 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.

Political Risk Management

System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agriculture 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 or financial reform 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, a 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.

Regulatory Matters

As of both March 31, 2013 and December 31, 2012, the Farm Credit Administration had entered into written agreements with seven Associations whose assets totaled $3.859 billion and $3.983 billion in the aggregate. The written agreements require the Associations to take corrective actions with respect to certain areas of their operations, including asset quality, capital and portfolio management.

On April 18, 2013, the Farm Credit Administration published a final rule designed to strengthen liquidity risk management at System Banks, improve the quality of assets in their liquidity reserves, and bolster the ability of System Banks to fund their obligations and continue operations during times of economic, financial, or market adversity.

After the final rule becomes effective, System Banks will be specifically required by Farm Credit Administration regulations to:

- Improve their capacity 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;

- Enhance the liquidity of assets that they hold in their liquidity reserves;
- Maintain a three-tiered liquidity reserve. The first tier of the liquidity reserve must consist of a sufficient amount of cash and cash-like instruments to cover each Bank's financial obligations for 15 days. The second and third tiers of the liquidity reserve must contain cash and highly liquid instruments that are sufficient to cover the Bank's obligations for the next 15 and subsequent 60 days, respectively;
- Establish an incremental liquidity reserve, in addition to the three tiers set forth immediately above, comprised of cash and eligible investments; and
- Strengthen their Contingency Funding Plan.

This regulatory requirement is substantially the same as the System's Common Minimum Liquidity Standard previously discussed on page 32.

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 System's financial condition or its results of operations, but resulted in additional disclosures.

In December 2011, the FASB issued guidance to defer the new requirement to present components of reclassifications of other comprehensive income on the face of the financial statements. 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 non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the System's financial condition or its results of operations, but resulted in additional disclosures.

INDEX TO CONDENSED COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTAL COMBINING AND FINANCIAL INFORMATION
March 31, 2013

FARM CREDIT SYSTEM

CONDENSED COMBINED STATEMENT OF CONDITION
(in millions)

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash	$ 1,593	$ 3,394
Federal funds sold and securities purchased under resale agreements	942	918
Investments (Note 2)		
Available-for-sale (amortized cost of $41,339 and $38,367, respectively)	41,848	38,880
Mission-related and other held-to-maturity (fair value of $3,269 and $3,231, respectively)	3,221	3,175
Mission-related and other available-for-sale (amortized cost of $528 and $552, respectively)	534	561
Loans (Note 3)	191,797	191,904
Less: allowance for loan losses (Note 3)	(1,341)	(1,343)
Net loans	190,456	190,561
Accrued interest receivable	1,611	1,668
Premises and equipment	810	799
Other property owned	337	324
Other assets (Note 4)	2,809	3,086
Restricted assets (Note 5)	3,344	3,298
Total assets	$247,505	$246,664
LIABILITIES AND CAPITAL		
Systemwide Debt Securities		
Due within one year:		
Systemwide discount notes	$ 17,043	$ 14,548
Systemwide bonds and medium-term notes	48,345	50,186
	65,388	64,734
Due after one year:		
Systemwide bonds and medium-term notes	133,617	133,232
Total Systemwide Debt Securities	199,005	197,966
Subordinated debt	1,555	1,555
Other bonds	1,662	2,399
Notes payable and other interest-bearing liabilities	1,242	952
Accrued interest payable	595	564
Other liabilities (Note 4)	3,802	4,619
Total liabilities	207,861	208,055
Commitments and contingencies (Note 12)		
Capital (Note 7)		
Preferred stock	2,053	2,057
Capital stock and participation certificates	1,607	1,621
Additional paid-in-capital	738	738
Restricted capital (Note 5)	3,344	3,298
Accumulated other comprehensive loss, net of tax	(979)	(1,024)
Surplus	32,881	31,919
Total capital	39,644	38,609
Total liabilities and capital	$247,505	$246,664

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

FARM CREDIT SYSTEM

CONDENSED COMBINED STATEMENT OF INCOME
(in millions)

	For the Three Months Ended March 31, 2013	2012
	(unaudited)	
Interest income		
Investments, Federal funds sold and securities purchased under resale agreements	$ 173	$ 196
Loans	1,982	1,940
Total interest income	2,155	2,136
Interest expense		
Systemwide bonds and medium-term notes	447	523
Systemwide discount notes	7	5
Subordinated debt	24	26
Other interest-bearing liabilities		1
Total interest expense	478	555
Net interest income	1,677	1,581
Provision for loan losses	22	32
Net interest income after provision for loan losses	1,655	1,549
Noninterest income		
Loan-related fee income	53	56
Fees for financially related services	31	34
Mineral income	22	18
Operating lease income	10	9
Income earned on Insurance Fund assets	4	12
Total other-than-temporary impairment losses	(1)	(16)
Portion of other-than-temporary impairment recognized in other comprehensive income	(1)	10
Net other-than-temporary impairment losses included in earnings	(2)	(6)
Losses on extinguishment of debt	(26)	(22)
Net gains on derivative and other transactions	2	3
Gains on sales of investments and other assets, net	10	1
Other noninterest income	18	17
Total noninterest income	122	122
Noninterest expense		
Salaries and employee benefits	381	357
Occupancy and equipment expense	43	41
Purchased services	28	29
Other operating expense	123	112
Losses on other property owned, net	1	12
Total noninterest expense	576	551
Income before income taxes	1,201	1,120
Provision for income taxes	59	68
Net income	$1,142	$1,052

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

FARM CREDIT SYSTEM

CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	For the Three Months Ended March 31,	
	2013	2012
	(unaudited)	
Net income	$1,142	$1,052
Other comprehensive income, net of tax:		
Change in unrealized (losses) gains on investments available-for-sale not other-than-temporarily impaired, including reclassification adjustments	(40)	4
Change in unrealized losses on other-than-temporarily impaired investments, including reclassification adjustments	38	24
Change in unrealized gains on cash flow hedges, including reclassification adjustments	20	24
Amortization of costs included in net periodic pension benefit cost, including reclassification adjustments	27	64
Total other comprehensive income	45	116
Comprehensive income	$1,187	$1,168

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

FARM CREDIT SYSTEM

CONDENSED COMBINED STATEMENT OF CHANGES IN CAPITAL
(in millions)

For the Three Months Ended March 31

	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Restricted Capital Farm Credit Insurance Fund	Accumulated Other Comprehensive Income (Loss), Net of Tax	Surplus	Total Capital
				(unaudited)			
Balance at December 31, 2011	$2,125	$1,618	$402	$3,392	$(1,330)	$29,733	$35,940
Comprehensive income					116	1,052	1,168
Transfer of Insurance Fund premiums and other income from surplus to restricted capital				33		(33)	
Preferred stock repurchased by a Bank	(111)		32				(79)
Preferred stock retired, net by Associations	(23)						(23)
Preferred stock dividends						(22)	(22)
Capital stock and participation certificates issued		23					23
Capital stock and participation certificates retired		(51)					(51)
Preferred stock issued or recharacterized upon Bank merger	225						225
Preferred stock retired or recharacterized upon Bank merger	(225)						(225)
Equity issued or recharacterized upon Association merger		2	283				285
Equity retired or recharacterized upon Association merger		(2)				(286)	(288)
Net reduction in surplus due to net fair value adjustments related to the Bank merger						(469)	(469)
Recharacterization of other comprehensive loss due to fair value adjustments related to the Bank merger					259		259
Patronage:							
Cash						(127)	(127)
Capital stock, participation certificates and surplus allocations		1				(1)	
Balance at March 31, 2012	$1,991	$1,591	$717	$3,425	$ (955)	$29,847	$36,616
Balance at December 31, 2012	$2,057	$1,621	$738	$3,298	$(1,024)	$31,919	$38,609
Comprehensive income					45	1,142	1,187
Transfer of Insurance Fund premiums and other income from surplus to restricted capital				46		(46)	
Preferred stock retired, net by Associations	(4)						(4)
Preferred stock dividends						(18)	(18)
Capital stock and participation certificates issued		21					21
Capital stock and participation certificates retired		(48)					(48)
Patronage:							
Cash						(103)	(103)
Capital stock, participation certificates and surplus allocations		13				(13)	
Balance at March 31, 2013	$2,053	$1,607	$738	$3,344	$ (979)	$32,881	$39,644

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

FARM CREDIT SYSTEM

CONDENSED COMBINED STATEMENT OF CASH FLOWS
(in millions)

	For the Three Months Ended March 31	
	2013	2012
	(unaudited)	
Cash flows from operating activities		
Net income	$ 1,142	$ 1,052
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	22	32
Depreciation and amortization on premises and equipment	22	21
Accretion of fair value adjustments related to the Bank merger	(24)	(21)
Gains on sales of investments, net and other assets	(10)	(1)
Losses on impairment of investments available-for-sale	2	6
Income on Insurance Fund assets, net of operating expenses	(3)	(11)
Decrease in accrued interest receivable	57	132
Decrease in other assets	20	29
Net writedowns of other property owned		14
Change in amortized discount on Systemwide discount notes	2	(1)
Increase in accrued interest payable	31	48
Decrease in other liabilities	(100)	(74)
Accretion on investments held-to-maturity		(1)
Net cash provided by operating activities	1,161	1,225
Cash flows from investing activities		
(Decrease) increase in loans, net	13	(3,504)
Increase in Federal funds sold and securities purchased under resale agreements, net	(24)	(380)
Investments available-for-sale:		
Purchases	(7,280)	(2,778)
Proceeds from maturities and prepayments	4,281	2,787
Proceeds from sales	129	
Mission-related and other investments held-to-maturity:		
Purchases	(125)	(130)
Proceeds from maturities and payments	79	117
Mission-related and other investments available-for-sale:		
Purchases		(36)
Proceeds from maturities and payments	27	36
Decrease in tobacco contract receivables	155	154
Premiums paid to the Insurance Fund	(84)	(99)
Purchases of premises and equipment, net of disposals	(33)	(30)
Proceeds from sales of other property owned	33	43
Net cash used in investing activities	(2,829)	(3,820)
Cash flows from financing activities		
Systemwide bonds issued	22,126	30,150
Systemwide bonds and medium-term notes retired	(23,426)	(30,604)
Systemwide discount notes issued	85,346	63,611
Systemwide discount notes retired	(82,853)	(61,873)
Other bonds retired, net	(737)	(836)
Increase in notes payable and other interest-bearing liabilities, net	290	203
Decrease in collateral held from derivative counterparties	(46)	(113)
Preferred stock repurchased by a Bank		(111)
Preferred stock retired by Associations, net	(4)	(23)
Capital stock and participation certificates issued	21	23
Capital stock, participation certificates and surplus retired	(55)	(58)
Preferred stock dividends paid	(18)	(18)
Cash patronage paid	(777)	(740)
Net cash used in financing activities	(133)	(389)
Net decrease in cash	(1,801)	(2,984)
Cash at beginning of period	3,394	5,480
Cash at end of period	$ 1,593	$ 2,496

FARM CREDIT SYSTEM

CONDENSED COMBINED STATEMENT OF CASH FLOWS — (continued)
(in millions)

	For the Three Months Ended March 31 2013	2012
	(unaudited)	
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	$ 53	$ 62
Disposals of other property owned through financed sales	(7)	(17)
Investments available-for-sale purchased but not yet settled	(86)	(48)
Patronage and dividends distributions payable	127	140
Transfer of mission-related and other held-to-maturity investments to mission-related and other available-for-sale investments		87
Transfer of allowance for loan losses (into) from reserve for unfunded commitments	(6)	24
Adjustment of allowance for loan losses related to Bank and Association mergers		(6)
Transfer of surplus to additional paid-in-capital related to an Association merger		283
Transfer of gain to additional paid-in-capital related to the repurchase of preferred stock		32
Bank merger related fair value adjustments:		
Fair value adjustment to loans related to the Bank merger		(553)
Fair value adjustment to available-for sale investments related to the Bank merger		37
Fair value adjustment to mission-related and other investments held-to-maturity related to the Bank merger		(4)
Net reduction in accumulated other comprehensive loss due to the fair value adjustment of investments related to the Bank merger		243
Fair value adjustment to Systemwide bonds related to the Bank merger		700
Fair value adjustment to other assets and other liabilities related to the Bank merger		47
Supplemental non-cash fair value changes related to hedging activities:		
Decrease in Systemwide bonds and medium-term notes	(113)	(62)
Decrease in other assets	130	75
Decrease in other liabilities	(27)	(21)
Supplemental disclosure of cash flow information:		
Cash paid (refund) during the quarter for:		
Interest	446	507
Taxes	19	(4)

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

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)
(dollars in millions, except as noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying Farm Credit System (System) condensed combined financial statements include financial information of the combined Farm Credit Banks (FCBs)/Agricultural Credit Associations (ACAs)/Federal Land Credit Associations (FLCAs), the combined Agricultural Credit Bank (ACB)/ACAs/FLCAs, the Federal Farm Credit Banks Funding Corporation, and the Farm Credit Insurance Fund (Insurance Fund) and reflect investments in, and allocated earnings of, certain of the service organizations owned by System Banks and/or Associations. The FCBs and the ACB are collectively referred to as Banks. The ACAs and FLCAs are collectively referred to as Associations. All significant intra-System transactions and balances have been eliminated in combination. The accompanying condensed combined financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations of the System.

A more complete description of System institutions, the significant accounting policies followed by System entities, and the System's combined financial condition and combined results of operations as of and for the year ended December 31, 2012 are contained in the *2012 Annual Information Statement*. These unaudited first quarter 2013 condensed combined financial statements should be read in conjunction with that Information Statement. Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year presentation.

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 System's financial condition or its 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 non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the System's financial condition or results of operations, but resulted in additional disclosures.

(dollars in millions, except as noted)

NOTE 2 — INVESTMENTS

Available-for-Sale

The following is a summary of investments held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk and classified as available-for-sale:

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 3,498	$ 1	$ (1)	$ 3,498	0.35%
U.S. Treasury securities	7,997	8		8,005	0.71
U.S. agency securities	3,970	115	(1)	4,084	1.69
Mortgage-backed securities	24,544	429	(77)	24,896	1.67
Asset-backed securities	1,330	57	(22)	1,365	1.31
Total	$41,339	$610	$(101)	$41,848	1.37

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 3,085	$ 1		$ 3,086	0.39%
U.S. Treasury securities	5,993	6		5,999	0.87
U.S. agency securities	3,854	122	$ (1)	3,975	1.73
Mortgage-backed securities	24,208	454	(93)	24,569	1.72
Asset-backed securities	1,227	53	(29)	1,251	1.35
Total	$38,367	$636	$(123)	$38,880	1.47

A summary of the fair value and amortized cost of investments available-for-sale at March 31, 2013 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$3,271		$ 227						$ 3,498	0.35%
U.S. Treasury securities	1,469		6,536						8,005	0.71
U.S. agency securities	69		2,418		$ 786		$ 811		4,084	1.69
Mortgage-backed securities	1		64		450		24,381		24,896	1.67
Asset-backed securities			559		71		735		1,365	1.31
Total fair value	$4,810	0.56%	$9,804	0.73%	$1,307	2.80%	$25,927	1.69%	$41,848	1.37
Total amortized cost	$4,807		$9,772		$1,218		$25,542		$41,339	

(dollars in millions, except as noted)

Substantially all mortgage-backed securities and most asset-backed securities have contractual maturities in excess of ten years. However, expected and actual maturities for mortgage-backed securities will typically be shorter than contractual maturities because borrowers generally have the right to prepay the underlying mortgage obligations with or without prepayment penalties.

Held-to-Maturity Mission-related and Other Investments

The System may hold mission-related and other investments. Mission-related programs and other mission-related investments are approved by the Farm Credit Administration. The following is a summary of held-to-maturity mission-related and other investments:

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 204	$20	$ (1)	$ 223	5.85%
Mortgage-backed securities	2,724	58	(33)	2,749	3.12
Asset-backed securities	293	6	(2)	297	2.32
Total	$3,221	$84	$(36)	$3,269	3.22

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 206	$21		$ 227	5.94%
Mortgage-backed securities	2,655	64	$(33)	2,686	3.11
Asset-backed securities	314	6	(2)	318	1.96
Total	$3,175	$91	$(35)	$3,231	3.18

A summary of the fair value and amortized cost of held-to-maturity mission-related and other investments at March 31, 2013 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$2		$ 32		$ 23		$ 147		$ 204	5.85%
Mortgage-backed securities	3		100		359		2,262		2,724	3.12
Asset-backed securities	1		84		166		42		293	2.32
Total amortized cost	$6	2.51%	$216	3.60%	$548	2.74%	$2,451	3.30%	$3,221	3.22
Total fair value	$6		$221		$559		$2,483		$3,269	

(dollars in millions, except as noted)

Available-for-Sale Mission-Related and Other Investments

The following is a summary of available-for-sale mission-related and other investments:

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 48	$ 5	$(1)	$ 52	5.90%
Mortgage-backed securities	475	6	(4)	477	2.39
Asset-backed securities	5			5	2.07
Total	$528	$11	$(5)	$534	2.73

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 47	$ 6		$ 53	5.96%
Mortgage-backed securities	500	6	$(3)	503	2.55
Asset-backed securities	5			5	3.78
Total	$552	$12	$(3)	$561	2.88

A summary of the fair value and amortized cost of available-for-sale mission-related and other investments at March 31, 2013 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$2		$ 1		$ 49		$ 52	5.90%
Mortgage-backed securities			112		365		477	2.39
Asset-backed securities					5		5	2.07
Total fair value	$2	4.00%	$113	4.36%	$419	2.28%	$534	2.73
Total amortized cost	$2		$115		$411		$528	

Other-Than-Temporarily Impaired Investments Evaluation

The following tables show the gross unrealized losses and fair value of the System's available-for-sale, and mission-related and other investment securities that have been in a continuous unrealized loss position. An investment is considered impaired if its fair value is less than its cost. The continuous loss position is based on the date the impairment was first identified.

(dollars in millions, except as noted)

March 31, 2013	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$2,348	$ (3)		
U.S. agency securities	324	(1)		
Mortgage-backed securities	4,663	(27)	$2,434	$ (87)
Asset-backed securities	627	(1)	173	(23)
Total	$7,962	$(32)	$2,607	$(110)

December 31, 2012	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	$ 218	$ (1)		
Mortgage-backed securities	2,462	(27)	$2,591	$(102)
Asset-backed securities	294	(2)	202	(29)
Total	$2,974	$(30)	$2,793	$(131)

As more fully discussed in Note 2 of the *2012 Annual Information Statement*, other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (1) whether or not an entity intends to sell the security, (2) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (3) whether an entity does expect to recover the security's entire amortized cost basis (even if it does not intend to sell).

System institutions perform an evaluation quarterly on a security-by-security basis considering all available information. If a 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 full difference between amortized cost and fair value of the security. When a Bank or 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, it considers factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements.

(dollars in millions, except as noted)

For impaired investments, each Bank estimates the portion of the loss that is attributable to credit losses using a discounted cash flow model on a security-by-security basis. The various models require key assumptions related to the underlying collateral, including default rates, degree and timing of prepayments, and loss severity. Assumptions can vary widely from loan to loan and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults and prepayment rate assumptions are based on historical and projected prepayment rates. The Banks obtain the loss severity assumptions from independent third parties or through research using available data on the underlying collateral type from sources including broker/dealers and rating agencies. The following are the assumptions used at:

	March 31, 2013	
Assumptions Used	**Mortgage-backed Securities**	**Asset-backed Securities**
Default rate by range	0.0% - 35.3%	1.4% - 61.9%
Prepayment rate by range	0.0% - 31.6%	0.0% - 19.8%
Loss severity by range	4.1% - 78.5%	44.9% - 100.0%

	December 31, 2012	
Assumptions Used	**Mortgage-backed Securities**	**Asset-backed Securities**
Default rate by range	0.0% - 32.6%	2.0% - 57.9%
Prepayment rate by range	0.8% - 22.0%	2.0% - 17.6%
Loss severity by range	3.9% - 74.3%	41.7% - 100.0%

The following represents the activity during the first quarters of 2013 and 2012 related to the credit loss component for investments that have been written down for other-than-temporary impairment and the credit component of the loss is recognized in earnings:

	For the Three Months Ended March 31,	
	2013	**2012**
Credit loss component, beginning of period	$320	$281
Additions:		
Initial credit impairment	2	1
Subsequent credit impairments		5
Reductions:		
For securities sold	(4)	
For increases in expected cash flows	(3)	
Credit loss component, end of period	$315	$287

(dollars in millions, except as noted)

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans outstanding consisted of the following:

	March 31, 2013	December 31, 2012
Real estate mortgage loans	$ 88,686	$ 88,263
Production and intermediate-term loans	39,634	43,861
Agribusiness:		
Loans to cooperatives	14,699	12,769
Processing and marketing loans	12,509	11,483
Farm-related business loans	2,909	2,838
Energy and water/waste water loans	15,080	14,525
Rural residential real estate loans	6,303	6,210
Agricultural export finance	4,766	4,674
Communication loans	4,143	4,177
Lease receivables	2,426	2,415
Loans to other financing institutions.	642	689
Total loans	$191,797	$191,904

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2013	December 31, 2012
Real estate mortgage		
Acceptable	94.7%	94.5%
OAEM	2.2	2.2
Substandard/doubtful	3.1	3.3
	100.0	100.0
Production and intermediate-term		
Acceptable	92.7	93.2
OAEM	2.8	2.7
Substandard/doubtful	4.5	4.1
	100.0	100.0
Agribusiness		
Acceptable	93.5	93.0
OAEM	3.1	3.5
Substandard/doubtful	3.4	3.5
	100.0	100.0
Energy and water/waste water		
Acceptable	98.5	98.4
OAEM	0.3	0.5
Substandard/doubtful	1.2	1.1
	100.0	100.0
Rural residential real estate		
Acceptable	96.9	96.7
OAEM	0.7	0.8
Substandard/doubtful	2.4	2.5
	100.0	100.0
Agricultural export finance		
Acceptable	100.0	100.0
OAEM	0.0	0.0
Substandard/doubtful	0.0	0.0
	100.0	100.0
Communication		
Acceptable	91.9	94.5
OAEM	3.1	2.4
Substandard/doubtful	5.0	3.1
	100.0	100.0
Lease receivables		
Acceptable	97.3	97.2
OAEM	1.3	1.3
Substandard/doubtful	1.4	1.5
	100.0	100.0
Loans to other financing institutions		
Acceptable	100.0	100.0
OAEM	0.0	0.0
Substandard/doubtful	0.0	0.0
	100.0	100.0
Total Loans		
Acceptable	94.6	94.5
OAEM	2.2	2.3
Substandard/doubtful	3.2	3.2
	100.0	100.0

(dollars in millions, except as noted)

Impaired loans (which consist of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due) are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. The following tables present information concerning impaired loans and include both the principal outstanding and the related accrued interest receivable on these loans.

	March 31, 2013	December 31, 2012
Nonaccrual loans:		
Current as to principal and interest	$1,300	$1,238
Past due	1,092	1,062
Total nonaccrual loans	2,392	2,300
Impaired accrual loans:		
Restructured accrual loans	268	271
Accrual loans 90 days or more past due	51	37
Total impaired accrual loans	319	308
Total impaired loans	$2,711	$2,608

(dollars in millions, except as noted)

The following table reflects nonperforming assets (which consist of impaired loans and other property owned) in a more detailed manner than the previous table. In addition, certain related credit quality statistics are included below:

	March 31, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	$1,222	$1,234
Production and intermediate-term	690	666
Agribusiness	205	206
Energy and water/waste water	34	26
Rural residential real estate	76	76
Communication	159	86
Lease receivables	6	6
Total nonaccrual loans	2,392	2,300
Accruing restructured loans:		
Real estate mortgage	159	157
Production and intermediate-term	94	94
Agribusiness	9	14
Energy and water/waste water	3	3
Rural residential real estate	3	3
Total accruing restructured loans	268	271
Accruing loans 90 days or more past due:		
Real estate mortgage	31	20
Production and intermediate-term	11	14
Agribusiness	5	
Rural residential real estate	4	3
Total accruing loans 90 days or more past due	51	37
Total nonperforming loans	2,711	2,608
Other property owned	337	324
Total nonperforming assets	$3,048	$2,932

	March 31, 2013	December 31, 2012
Nonaccrual loans as a percentage of total loans	1.25%	1.20%
Nonperforming assets as a percentage of total loans and other property owned	1.59	1.53
Nonperforming assets as a percentage of capital	7.69	7.59

Commitment to lend additional funds to debtors whose loans were classified as impaired were $106 million at March 31, 2013 and $99 million at December 31, 2012.

(dollars in millions, except as noted)

Additional impaired loan information by class is as follows:

	March 31, 2013			December 31, 2012		
	Recorded Investment*	Unpaid Principal Balance**	Related Allowance	Recorded Investment*	Unpaid Principal Balance**	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	$ 357	$ 439	$ 80	$ 336	$ 409	$ 85
Production and intermediate-term	371	584	133	353	512	138
Loans to cooperatives	3	5	2	4	6	2
Processing and marketing	90	107	38	98	99	46
Farm-related business	44	48	10	18	23	6
Energy and water/waste water	34	35	18	26	27	14
Rural residential real estate	23	29	6	22	28	6
Communication	151	155	38	77	81	24
Lease receivables	1	1	1	2	2	2
Total	1,074	1,403	326	936	1,187	323
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	1,055	1,246		1,075	1,246	
Production and intermediate-term	424	654		421	685	
Loans to cooperatives	2	7		2	7	
Processing and marketing	65	109		87	148	
Farm-related business	15	26		11	24	
Energy and water/waste water	3	33		3	33	
Rural residential real estate	60	74		60	73	
Communication	8	10		9	11	
Lease receivables	5	5		4	4	
Total	1,637	2,164		1,672	2,231	
Total impaired loans:						
Real estate mortgage	1,412	1,685	80	1,411	1,655	85
Production and intermediate-term	795	1,238	133	774	1,197	138
Loans to cooperatives	5	12	2	6	13	2
Processing and marketing	155	216	38	185	247	46
Farm-related business	59	74	10	29	47	6
Energy and water/waste water	37	68	18	29	60	14
Rural residential real estate	83	103	6	82	101	6
Communication	159	165	38	86	92	24
Lease receivables	6	6	1	6	6	2
Total	$2,711	$3,567	$326	$2,608	$3,418	$323

* 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.

** Unpaid principal balance represents the contractual principal balance of the loan.

(dollars in millions, except as noted)

	For the Three Months Ended			
	March 31, 2013		March 31, 2012	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	$ 351	$ 1	$ 401	$ 1
Production and intermediate-term	367	1	470	1
Loans to cooperatives	4		38	
Processing and marketing	90		90	
Farm-related business	28		29	
Energy and water/waste water	33		9	
Rural residential real estate	23		25	
Communication	89		37	
Lease receivables	1		7	
Total	986	2	1,106	2
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	1,045	9	1,156	9
Production and intermediate-term	409	6	472	7
Loans to cooperatives	2		3	
Processing and marketing	77	1	90	3
Farm-related business	12		32	
Energy and water/waste water	3		3	
Rural residential real estate	60	1	72	1
Communication	9		21	
Lease receivables	5		9	
Total	1,622	17	1,858	20
Total impaired loans:				
Real estate mortgage	1,396	10	1,557	10
Production and intermediate-term	776	7	942	8
Loans to cooperatives	6		41	
Processing and marketing	167	1	180	3
Farm-related business	40		61	
Energy and water/waste water	36		12	
Rural residential real estate	83	1	97	1
Communication	98		58	
Lease receivables	6		16	
Total	$2,608	$19	$2,964	$22

(dollars in millions, except as noted)

The following tables provide an age analysis of past due loans (including accrued interest) by portfolio segment:

	March 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 and Accrued Interest	Recorded Investment >90 Days and Accruing
Real estate mortgage	$347	$567	$ 914	$ 88,567	$ 89,481	$31
Production and intermediate-term	239	286	525	39,471	39,996	11
Agribusiness	19	100	119	30,115	30,234	5
Energy and water/waste water				15,153	15,153	
Rural residential real estate	85	28	113	6,218	6,331	4
Agricultural export finance				4,778	4,778	
Communication		5	5	4,146	4,151	
Lease receivables	5	2	7	2,419	2,426	
Loans to other financing institutions				644	644	
Total	$695	$988	$1,683	$191,511	$193,194	$51

	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 and Accrued Interest	Recorded Investment >90 Days and Accruing
Real estate mortgage	$367	$516	$ 883	$ 88,221	$ 89,104	$20
Production and intermediate-term	162	270	432	43,852	44,284	14
Agribusiness	54	95	149	27,042	27,191	
Energy and water/waste water				14,582	14,582	
Rural residential real estate	88	30	118	6,120	6,238	3
Agricultural export finance				4,686	4,686	
Communication		5	5	4,179	4,184	
Lease receivables	10	3	13	2,403	2,416	
Loans to other financing institutions				691	691	
Total	$681	$919	$1,600	$191,776	$193,376	$37

(dollars in millions, except as noted)

A summary of changes in the allowance for loan losses and the recorded investment for loans outstanding by portfolio segment follows:

	Real estate mortgage	Production and intermediate-term	Agribusiness	Energy and water/waste water	Rural residential real estate	Agricultural export finance	Communication	Lease receivables	Loans to OFIs	Total
Allowance for Credit Losses:										
Balance at December 31, 2012	$ 307	$ 424	$ 359	$ 116	$ 22	$ 6	$ 73	$ 35	$ 1	$ 1,343
Charge-offs	(15)	(10)	(11)		(2)					(38)
Recoveries	5	4	9			1	1			20
Provision for loan losses (loan loss reversal)	13	(8)	(1)	3	3		13	(1)		22
Other*	3	(1)	(8)	2		(1)	(1)			(6)
Balance at March 31, 2013	$ 313	$ 409	$ 348	$ 121	$ 23	$ 6	$ 86	$ 34	$ 1	$ 1,341
Balance at December 31, 2011	$ 332	$ 429	$ 333	$ 85	$ 21	$ 12	$ 52	$ 25	$ 1	$ 1,290
Charge-offs	(33)	(18)	(4)	(3)	(3)					(61)
Recoveries	11	6	1				1			19
Provision for loan losses	9		13	8	1		1			32
Adjustment due to merger	(2)	(3)	(1)							(6)
Other*		5	18			1				24
Balance at March 31, 2012	$ 317	$ 419	$ 360	$ 90	$ 19	$ 13	$ 54	$ 25	$ 1	$ 1,298
Ending Balance at March 31, 2013:										
Individually evaluated for impairment	$ 79	$ 133	$ 51	$ 18	$ 6		$ 37	$ 2		$ 326
Collectively evaluated for impairment	233	275	297	103	17	$ 6	49	32	$ 1	1,013
Loans acquired with deteriorated credit quality	1	1								2
Balance at March 31, 2013	$ 313	$ 409	$ 348	$ 121	$ 23	$ 6	$ 86	$ 34	$ 1	$ 1,341
Ending Balance at December 31, 2012:										
Individually evaluated for impairment	$ 83	$ 138	$ 56	$ 14	$ 6		$ 24	$ 2		$ 323
Collectively evaluated for impairment	223	285	303	102	16	$ 6	49	33	$ 1	1,018
Loans acquired with deteriorated credit quality	1	1								2
Balance at December 31, 2012	$ 307	$ 424	$ 359	$ 116	$ 22	$ 6	$ 73	$ 35	$ 1	$ 1,343
Recorded Investments in Loans Outstanding:										
Ending balance at March 31, 2013:										
Loans individually evaluated for impairment	$ 1,671	$ 810	$ 268	$ 36	$2,281	$ 1	$ 160	$ 9	$ 47	$ 5,283
Loans collectively evaluated for impairment	87,791	39,179	29,966	15,117	4,049	4,777	3,991	2,417	597	187,884
Loans acquired with deteriorated credit quality	19	7			1					27
Balance at March 31, 2013	$89,481	$39,996	$30,234	$15,153	$6,331	$4,778	$4,151	$2,426	$644	$193,194
Ending balance at December 31, 2012:										
Loans individually evaluated for impairment	$ 1,676	$ 790	$ 259	$ 29	$2,250	$ 1	$ 89	$ 9		$ 5,103
Loans collectively evaluated for impairment	87,408	43,486	26,932	14,553	3,987	4,685	4,095	2,407	$691	188,244
Loans acquired with deteriorated credit quality	20	8			1					29
Balance at December 31, 2012	$89,104	$44,284	$27,191	$14,582	$6,238	$4,686	$4,184	$2,416	$691	$193,376

* Represents net additions (reductions) to the allowance for loan losses as a result of advances on or repayments of seasonal lines of credit or other loans.

A restructuring of a loan constitutes a troubled debt restructuring, also known as formally restructured, 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. 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. When a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans under nonaccrual or accruing restructured loans. All risk loans are analyzed within our allowance for loan losses.

(dollars in millions, except as noted)

The following table presents additional information regarding troubled debt restructurings that occurred during the first quarters of 2013 and 2012:

	For the Three Months Ended March 31, 2013		For the Three Months Ended March 31, 2012	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Real estate mortgage	$19	$19	$49	$46
Production and intermediate-term	46	45	19	20
Rural residential real estate	1	1	1	1
Total	$66	$65	$69	$67

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

The following table 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 March 31, 2013	Recorded Investment at December 31, 2012
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage	$ 4	$19
Production and intermediate-term	5	8
Agribusiness	10	1
Rural residential real estate	1	1
Total	$20	$29

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 Troubled Debt Restructurings		Troubled Debt Restructurings in Nonaccrual Status*	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Real estate mortgage	$380	$359	$221	$202
Production and intermediate-term	288	284	194	190
Agribusiness	57	60	48	46
Energy and water/waste water	3	3		
Rural residential real estate	8	8	5	5
Total	$736	$714	$468	$443

* Represents the portion of loans modified as troubled debt restructurings that are in nonaccrual status

(dollars in millions, except as noted)

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings were $20.9 million at March 31, 2013 and $40.4 million at December 31, 2012.

NOTE 4 — OTHER ASSETS AND OTHER LIABILITIES

Other assets consisted of the following:

	March 31, 2013	December 31, 2012
Equipment held for lease	$1,020	$1,006
Interest rate swaps and other derivatives	1,004	1,117
Tobacco contracts receivables	152	307
Accounts receivable	143	167
Unamortized debt issue costs	132	136
Assets held in non-qualified benefits trusts	118	112
Equity investments in other System institutions	95	85
Prepaid expenses	50	60
Net deferred tax assets	14	15
Pension assets	1	1
Other	80	80
Total	$2,809	$3,086

Other liabilities consisted of the following:

	March 31, 2013	December 31, 2012
Pension and other postretirement benefit plan liabilities	$1,403	$1,409
Collateral held from derivative counterparties	532	578
Accounts payable	371	379
Net deferred tax liabilities	368	383
Reserve for unfunded commitments	200	194
Patronage and dividends payable	192	860
Bank drafts payable	153	112
Interest rate swaps and other derivatives	148	175
Accrued salaries and employee benefits	98	189
Liabilities held in non-qualified benefit trusts	71	69
Protected borrower stock	2	2
Other	264	269
Total	$3,802	$4,619

NOTE 5 — FARM CREDIT INSURANCE FUND

The assets in the Insurance Fund are designated as restricted assets and the related capital is designated as restricted capital. The classification of the Insurance Fund as restricted assets (and as restricted capital) in the System's condensed combined financial statements is based on the statutory requirement that the amounts in the Insurance Fund are to be used solely for purposes specified in the Farm Credit Act of 1971, as amended (Farm Credit Act), all of which benefit the Banks and Associations. The Insurance Fund is under the direct control of the Farm Credit System Insurance Corporation (Insurance Corporation), an independent U.S. government-controlled corporation, and not under the control of any System institution. A board of directors consisting of the members of the Farm Credit Administration Board directs the Insurance Corporation.

At March 31, 2013, total assets in the Insurance Fund totaled $3.344 billion and consisted of cash, investments and related accrued interest receivable of $3.301 billion and of premiums receivable from System institutions of $43 million accrued on the basis of adjusted outstanding insured debt during the first three months of 2013. Investments held by the Insurance Fund must be obligations of the United States or obligations guaranteed as to principal and interest by the United States. During the first three months of 2013, income earned on assets in the Insurance Fund and premiums accrued by the Insurance Corporation totaled $46 million, net of administrative expenses.

NOTE 6 — MERGER OF SYSTEM INSTITUTIONS

As discussed in the *2012 Annual Information Statement*, the primary reason for System entity mergers is based on a determination that the combined organization would be financially and operationally stronger with an enhanced ability to fulfill its mission. The mergers were accounted for under the acquisition method of accounting.

System Banks and Associations are cooperatives that are owned and controlled by their members who use the cooperatives' products or services. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the capital stock is not tradable, and the capital stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of capital stock in one institution that were converted to shares of another institution had identical rights and attributes. For this reason, the outstanding capital stock and other equities of the acquired institutions were converted into a like amount of capital stock and equities of the acquiring institutions. Management believes that because the stock is fixed in value, the stock issued pursuant to the mergers provides no basis for estimating the fair value of the consideration transferred pursuant to the mergers. In the absence of a purchase price determination, the acquiring institution identified and estimated the acquisition date fair value of the equity interests of the acquired institution instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the net assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the mergers. The difference between the fair value of identifiable net assets acquired and the fair value of member interests transferred was recorded as additional paid-in capital or a reduction in surplus. The mergers did not have a material impact on the System's financial position and results of operations because the incomes of the acquired institutions were previously reflected in the System's combined financial statements.

Bank Merger

Effective January 1, 2012, CoBank acquired the assets and assumed the liabilities of U.S. AgBank at their acquisition-date fair values. The fair value of the net identifiable assets acquired ($1.042 billion) was substantially equal to the fair value of the equity interests converted in the merger. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired.

Fair value adjustments to U.S. AgBank's assets and liabilities included a $553 million increase to loans, a $33 million decrease in investment securities and a $700 million increase to bonds and notes to reflect changes in interest rates and other market conditions since the time these instruments were issued. In addition, the amortized cost of investments decreased $243 million as a result of the merger. Such amount had previously been recognized in other comprehensive loss and was reclassified as a reduction in surplus. These adjustments, except for $37 million that was deemed to be non-accretable, are being accreted/amortized into net income over the remaining life of the respective loans, investments and debt instruments. The net accretion related to the fair value adjustments for the first quarter of 2013 and 2012 increased income by $24 million and $21 million.

Association Mergers

Effective January 1, 2011, three Associations in the AgFirst District merged into one entity. As part of the merger, these Associations entered into an agreement with AgFirst FCB under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high-risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high-risk assets of the merged Association existing at the merger date, which had a net book value at January 1, 2011 of $250 million. At March 31, 2013, those assets had a net book value $102.2 million. This agreement does not include losses that are sustained outside of the high-risk asset pool. Protection to the Bank, such as limitation on the Association's ability to make patronage distributions and certain other restrictions is provided in the agreement if certain merged Association capital ratios fail to meet minimum established levels.

Under the financial assistance agreement, if specified minimum levels of capital allocated to the high-risk asset pool are not maintained by the Association, the Bank would provide assistance as stipulated in the agreement. The assistance consists of three components. First, AgFirst would allow the Association to include AgFirst allocated stock owned by the merged Association in its capital ratio computations. Second, AgFirst would redeem purchased stock held by the Association and the redeemed amount would be included in capital ratio computations by the merged Association. The third and final level of assistance, if elected by the Association, would be a purchase by AgFirst of the high-risk asset pool at net book value.

(dollars in millions, except as noted)

At December 31, 2012, capital allocated to the high-risk asset pool failed to meet specified minimum levels due to losses in the pool from resolution efforts, provisions and write-downs subsequent to the merger date. This resulted in the Bank providing assistance under the agreement by allowing the merged Association to include in its capital ratio computations allocated stock owned by the merged Association. The high-risk asset pool is expected to continue experiencing additional losses. The Bank will likely purchase the high risk asset pool from the Association during the third quarter of 2013. Assistance provided by the Bank did not have a material impact on the Bank's financial condition and results of operations at March 31, 2013 or December 31, 2012 and additional assistance in the future is also not expected to have a material adverse impact on either the financial condition or future operating results of the Bank.

NOTE 7 — CAPITAL STRUCTURE

Capital consisted of the following at March 31, 2013:

	Combined Banks	Combined Associations	Combination Entries	System Combined
Preferred stock	$ 1,719	$ 334		$ 2,053
Capital stock and participation certificates	5,031	562	$(3,986)	1,607
Protected borrower stock		2	(2)	
Additional paid-in-capital	37	701		738
Restricted capital — Insurance Fund			3,344	3,344
Accumulated other comprehensive income (loss), net of tax	285	(113)	(1,151)	(979)
Surplus	7,447	25,642	(208)	32,881
Total capital	$14,519	$27,128	$(2,003)	$39,644

Preferred stock issued and outstanding reflects the issuance by three Banks and three Associations. Combined System surplus reflected net eliminations of $208 million representing transactions between the Banks, the Associations and/or the Insurance Fund. Capital stock and participation certificates of the Banks amounting to $4.0 billion were owned by the Associations. These amounts have been eliminated in the accompanying condensed combined financial statements. Restricted capital is only available for statutorily authorized purposes and is not available for payment of dividends or patronage refunds.

(dollars in millions, except as noted)

Accumulated other comprehensive loss, net of tax was comprised of the following components:

	March 31, 2013			December 31, 2012		
	Before Tax	Deferred Tax	Net of Tax	Before Tax	Deferred Tax	Net of Tax
Unrealized gains on investments available-for-sale, net	$ 457	$(52)	$ 405	$ 503	$(58)	$ 445
Unrealized gain on other-than-temporary impairment investments available-for-sale	62	(7)	55	23	(6)	17
Unrealized losses on cash flow hedges, net	(97)	2	(95)	(117)	2	(115)
Pension and other benefit plans	(1,376)	32	(1,344)	(1,403)	32	(1,371)
	$ (954)	$(25)	$ (979)	$ (994)	$(30)	$(1,024)

The following tables presents the activity in the accumulated other comprehensive loss, net of tax by component:

	Unrealized gains on investments available-for-sale, net	Unrealized gain on other-than-temporary impairment investments available-for-sale	Unrealized losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2012	$445	$17	$(115)	$(1,371)	$(1,024)
Other comprehensive income before reclassifications	(33)	36	20	4	27
Amounts reclassified from accumulated other comprehensive loss	(7)	2		23	18
Net current period other comprehensive income	(40)	38	20	27	45
Balance at March 31, 2013	$405	$55	$ (95)	$(1,344)	$ (979)

	Unrealized gains on investments available-for-sale, net	Unrealized loss on other-than-temporary impairment investments available-for-sale	Unrealized losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2011	$282	$(234)	$(137)	$(1,241)	$(1,330)
Adjustment due to Bank merger	92	150	14	3	259
Balance at January 1, 2012	374	(84)	(123)	(1,238)	(1,071)
Other comprehensive income before reclassifications	3	19	25	45	92
Amounts reclassified from accumulated other comprehensive loss	1	5	(1)	19	24
Net current period other comprehensive income	4	24	24	64	116
Balance at March 31, 2012	$378	$ (60)	$ (99)	$(1,174)	$ (955)

(dollars in millions, except as noted)

Only the Banks are statutorily liable for the payment of principal and interest on Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Farm Credit Banks Consolidated Systemwide Discount Notes, Federal Farm Credit Banks Consolidated Systemwide Master Notes, Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes and other debt securities issued under Section 4.2(d) of the Farm Credit Act (collectively, Systemwide Debt Securities). Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loan from the Bank, and calls for additional equity investments may be subject to other limits or conditions. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies and agreements.

Capital regulations issued by the System's regulator, the Farm Credit Administration, require that the Banks and Associations maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and maintain a net collateral ratio of at least 103 percent of total liabilities. However, in connection with certain cumulative preferred stock issuances and subordinated debt offerings, all Banks, except AgFirst, are required to maintain a minimum net collateral ratio of 104 percent. At March 31, 2013, AgFirst had no cumulative preferred stock or subordinated debt outstanding.

As a condition of the merger with U.S. AgBank, from January 1, 2012 through December 31, 2014, if CoBank's net collateral ratio falls below 105%, it must notify the Farm Credit Administration and submit to them a written plan to restore and maintain a ratio of at least 105%. At March 31, 2013, all System institutions complied with these standards.

NOTE 8 — EMPLOYEE BENEFIT PLANS

The Banks and substantially all Associations participate in defined benefit retirement plans. These retirement plans are noncontributory and benefits are based on salary and years of service. The Banks and Associations froze participation in their defined benefit pension plans and offered defined contribution retirement plans to all employees hired subsequent to the freeze. In addition, System institutions provide certain healthcare and other postretirement benefits to eligible retired employees. Employees of System institutions may become eligible for healthcare and other postretirement benefits if they reach normal retirement age while working for the System.

The following table summarizes the components of net periodic benefit costs for the three months ended March 31:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Service cost	$ 20	$ 19	$1	$ 1
Interest cost	34	36	3	3
Expected return on plan assets	(40)	(40)		
Net amortization and deferral	29	23		(1)
Curtailments		14		
Net periodic benefit cost	$ 43	$ 52	$4	$ 3

In connection with the Bank merger (Note 6), Bank participants in the former U.S. AgBank District pension plans were transferred to the CoBank pension plan effective January 1, 2012. The transfer resulted in an additional one-time $14 million pension charge recognized during the first quarter of 2012.

The System previously disclosed for the year ended December 31, 2012 that the Banks and Associations expected to contribute $165 million to their pension plans and $12 million to their other postretirement benefit plans in 2013. As of March 31, 2013, $21 million and $3 million of contributions have been made to pension and other postretirement benefit plans. System institutions presently anticipate contributing an additional $143 million to fund their pension plans and $9 million to fund their other postretirement benefit plans during the remainder of 2013.

(dollars in millions, except as noted)

NOTE 9 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in 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 in the *2012 Annual Information Statement* for additional information.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2013 and December 31, 2012 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total
March 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Assets:				
Federal funds and securities purchased under resale agreements		$ 942		$ 942
Commercial paper, bankers' acceptances, certificates of deposit and other securities		3,438	$ 112	3,550
U.S. Treasury securities		8,005		8,005
U.S. agency securities		4,064	20	4,084
Mortgage-backed securities		23,829	1,544	25,373
Asset-backed securities		1,090	280	1,370
Derivative assets		1,004		1,004
Assets held in non-qualified benefits trusts	$118			118
Total assets	$118	$42,372	$1,956	$44,446
Liabilities:				
Derivative liabilities		$ 148		$ 148
Collateral liabilities	$ 22	510		532
Standby letters of credit		2	$ 14	16
Total liabilities	$ 22	$ 660	$ 14	$ 696

(dollars in millions, except as noted)

December 31, 2012	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Federal funds and securities purchased under resale agreements		$ 918		$ 918
Commercial paper, bankers' acceptances, certificates of deposit and other securities		3,026	$ 113	3,139
U.S. Treasury securities		5,999		5,999
U.S. agency securities		3,960	15	3,975
Mortgage-backed securities		23,513	1,559	25,072
Asset-backed securities		973	283	1,256
Derivative assets		1,117		1,117
Assets held in non-qualified benefits trusts	$112			112
Total assets	$112	$39,506	$1,970	$41,588
Liabilities:				
Derivative liabilities		$ 175		$ 175
Collateral liabilities	$ 22	556		578
Standby letters of credit		2	$ 17	19
Total liabilities	$ 22	$ 733	$ 17	$ 772

The tables below represent reconciliations of all Level 3 assets and liabilities measured at fair value on a recurring basis for the first quarters of 2013 and 2012:

	Commercial paper, bankers' acceptances, certificates of deposit and other securities	U.S. agency securities	Mortgage-backed securities	Asset-backed securities	Standby letters of credit
Balance at December 31, 2012	$113	$ 15	$1,559	$283	$17
Total gains or (losses) realized/unrealized:					
Included in earnings			(2)		(1)
Included in other comprehensive loss	(1)		24	12	
Purchases		20	40		
Sales			(5)		
Issuances					1
Settlements			(72)	(15)	(3)
Transfers from Level 3 into Level 2		(15)			
Balance at March 31, 2013	$112	$ 20	$1,544	$280	$14
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 March 31, 2013	$ 0	$ 0	$ 2	$ 0	$ 0

(dollars in millions, except as noted)

	Commercial paper, bankers' acceptances, certificates of deposit and other securities	Mortgage-backed securities	Asset-backed securities	Standby letters of credit
Balance at December 31, 2011	$ 82	$1,258	$297	$13
Total gains or (losses) realized/unrealized:				
Included in earnings		(5)	(2)	
Included in other comprehensive loss		21	13	
Purchases		68		
Issuances				2
Settlements		(68)	(21)	(2)
Transfers from Level 3 into Level 2	(67)	(157)	(10)	
Transfers into Level 3 from Level 2		645	6	
Balance at March 31, 2012	$ 15	$1,762	$283	$13
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 March 31, 2012	$ 0	$ 5	$ 1	$ 0

Substantially all transfers between Level 3 and Level 2 during the first quarter of 2012 were due to a change in valuation methodology in connection with the Bank merger.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

March 31, 2013	Fair Value Measurement Using Level 2	Fair Value Measurement Using Level 3	Total Fair Value	Total (Losses) Gains For the Three Months Ended March 31, 2013
Loans	$68	$1,899	$1,967	$(32)
Other property owned		362	362	3

December 31, 2012	Fair Value Measurement Using Level 2	Fair Value Measurement Using Level 3	Total Fair Value	Total Losses For the Three Months Ended March 31, 2012
Loans	$51	$1,919	$1,970	$(62)
Other property owned		350	350	(11)

(dollars in millions, except as noted)

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

	March 31, 2013				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	$ 1,593	$1,593			$ 1,593
Mission-related and other investments held-to-maturity	3,221		$1,406	$ 1,863	3,269
Net loans	190,456		61	197,707	197,768
Tobacco contract receivables	152			157	157
Total assets	$195,422	$1,593	$1,467	$199,727	$202,787
Liabilities:					
Systemwide Debt Securities	$199,005			$201,088	$201,088
Subordinated debt	1,555			1,807	1,807
Other bonds	1,662			1,662	1,662
Other interest bearing liabilities	1,242		$ 16	1,226	1,242
Total liabilities	$203,464	$ 0	$ 16	$205,783	$205,799
Other financial instruments:					
Commitments to extend credit				$ 146	$ 146

	December 31, 2012				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	$ 3,394	$3,394			$ 3,394
Mission-related and other investments held-to-maturity	3,175		$1,524	$ 1,707	3,231
Net loans	190,561		60	197,907	197,967
Tobacco contract receivables	307			314	314
Total assets	$197,437	$3,394	$1,584	$199,928	$204,906
Liabilities:					
Systemwide Debt Securities	$197,966			$200,346	$200,346
Subordinated debt	1,555			1,818	1,818
Other bonds	2,399			2,399	2,399
Other interest bearing liabilities	952		$ 9	943	952
Total liabilities	$202,872	$ 0	$ 9	$205,506	$205,515
Other financial instruments:					
Commitments to extend credit				$ 152	$ 152

(dollars in millions, except as noted)

Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value		Valuation Technique(s)	Unobservable Input	Range of Inputs	
	March 31, 2013	December 31, 2012			March 31, 2013	December 31, 2012
Mortgage-backed securities	$1,045	$1,087	Discounted cash flow	Prepayment rate	5.3%-77.9%	5.0%-79.0%
				Probability of default	0.9%-21.4%	0.8%-21.0%
				Loss severity	10.5%-53.3%	11.0%-56.1%
	499	472	Vendor priced			
	$1,544	$1,559				
Asset-backed securities	$ 280	$ 283	Vendor priced			
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 52	$ 53	Discounted cash flow	Risk-adjusted spread	0.0%-11.4%	2.0%-8.3%
	60	60	Vendor priced			
	$ 112	$ 113				
U.S. agency securities	$ 20	$ 15	Vendor priced			
Standby letters of credit	$ 14	$ 17	Discounted cash flow	Rate of funding	50.0%	50.0%
				Risk-adjusted spread	0.2%-1.7%	0.2%-2.0%

With regard to nonrecurring measurements for 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, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield
Investment securities available for sale	Discounted cash flow	Constant prepayment rate Probability of default Loss severity
	Quoted prices	Price for similar security
Interest rate swaps and caps	Discounted cash flow	Annualized volatility Counterparty credit risk Company's own credit risk

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Mission-related and other investments held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Tobacco contracts receivables	Discounted cash flow	Prepayment rate Derived yield curve
Systemwide Debt Securities, subordinated debt and other bonds	Discounted cash flow	Benchmark yield curve Derived yield spread Company's own credit risk
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Valuation Techniques

As more fully discussed in Note 2 — Summary of Significant Accounting Policies, in the *2012 Annual Information Statement*, FASB 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 System 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. This would include U.S. Treasury and certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-based securities and certain mortgage-backed securities including private label-FHA/VA securities and those issued by Farmer Mac.

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 Banks obtain prices from third party pricing services. For the valuation of securities not actively traded, including certain non-agency securities, the Banks utilize either a third party cash flow model or an internal model. The significant inputs for the valuation models include yields, probability of default, loss severity and prepayment rates.

Derivatives

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 options.

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.

Assets Held in Non-Qualified 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.

Standby Letters of Credit

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

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans are collateral-dependent. 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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 fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of independent 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.

Collateral Liabilities

Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. The market value of collateral liabilities is its face value plus accrued interest that approximates fair value.

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

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the Banks' and/or the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Banks' and/or the Associations' current loan origination rates as well as managements' estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

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

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Bonds and Notes

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

Subordinated Debt

The fair value of subordinated debt is estimated based upon quoted market prices.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 10 — DERIVATIVE PRODUCTS AND HEDGING ACTIVITIES

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

In addition, the Banks enter into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. The Banks may also enter into derivatives with their customers as a service to enable them to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Banks substantially offset this risk by concurrently entering into offsetting agreements with non-System institutional counterparties. Interest rate swaps allow the Banks to raise long-term borrowings at fixed rates and swap them into floating rates that may be lower than those available to the Bank if floating rate borrowings were made directly. Under interest rate swap arrangements, the Banks agree with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

A substantial amount of the System's assets are interest-earning assets (principally loans and investments) that 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, interest rate swaps in which a Bank pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on a Bank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, a 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 Banks may purchase interest rate options, such as caps, in order to reduce the impact of rising interest rates on their floating-rate debt, and floors, in order to reduce the impact of falling interest rates on their floating-rate assets. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the quarters ended March 31, 2013 and 2012 are summarized in the following tables:

(dollars in millions, except as noted)

	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Floating and Amortizing Floating-for-Floating	Interest Rate Caps	Other Derivatives	Total
Balance at December 31, 2012	$20,197	$4,255	$1,750	$3,660	$ 3,572	$33,434
Additions	313	136			1,048	1,497
Maturities/amortization	(1,092)	(279)	(300)		(1,081)	(2,752)
Terminations		(17)			(16)	(33)
Balance at March 31, 2013	$19,418	$4,095	$1,450	$3,660	$ 3,523	$32,146

	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Floating and Amortizing Floating-for-Floating	Interest Rate Caps	Other Derivatives	Total
Balance at December 31, 2011	$24,389	$3,593	$2,250	$ 4,035	$ 3,176	$37,443
Additions	1,097	109			876	2,082
Maturities/amortization	(322)	(99)	(200)	(1,000)	(1,023)	(2,644)
Terminations		(18)		(105)	(18)	(141)
Balance at March 31, 2012	$25,164	$3,585	$2,050	$ 2,930	$ 3,011	$36,740

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

To minimize the risk of credit losses, the Banks almost exclusively deal with non-customer counterparties that have an investment grade long-term credit rating from a major rating agency, and also monitor the credit standing and levels of exposure to individual counterparties. The Banks do not anticipate nonperformance by any of these counterparties. The Banks typically enter into master agreements that contain netting provisions. These provisions allow the Banks 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. A majority of derivative contracts are supported by collateral arrangements with counterparties. The System's exposure to counterparties, net of collateral of $752 million at March 31, 2013 and $812 million at December 31, 2012, was $72 million and $79 million.

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

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 System 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. The amount of the losses on interest rate swaps recognized in interest expense for first quarter of 2013 was $108 million, as compared with gains on the Systemwide Debt Securities of $111 million.

(dollars in millions, except as noted)

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.

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 "net gains on derivative and other transactions" in the statement of income.

Fair Values of Derivative Instruments

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

	Balance Sheet Classification Assets	Fair Value at March 31, 2013	Fair Value at December 31, 2012	Balance Sheet Classification Liabilities	Fair Value at March 31, 2013	Fair Value at December 31, 2012
Derivatives designated as hedging instruments:						
Receive-fixed swaps	Other assets	$ 873	$ 982			
Pay-fixed and amortizing pay-fixed swaps	Other assets	2	1	Other liabilities	$ 72	$ 87
Interest rate caps	Other assets	22	20			
Floating-for-floating and amortizing floating-for-floating swaps				Other liabilities	10	11
Foreign exchange contracts	Other assets	3		Other liabilities		2
Total derivatives designated as hedging instruments		$ 900	$1,003		$ 82	$100
Derivatives not designated as hedging instruments:						
Derivatives entered into on behalf of customers	Other assets	$ 171	$ 192	Other liabilities	$134	$153
Foreign exchange contracts	Other assets	3	2	Other liabilities	2	2
Total derivatives not designated as hedging instruments		$ 174	$ 194		$136	$155
Total derivatives		$1,074	$1,197		$218	$255

The following table sets forth the effect of derivative instruments on the Condensed Combined Statement of Income for the quarters ended:

Derivatives – Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Statement of Income	Amount of Gain (Loss) Recognized in the Statement of Income March 31, 2013	Amount of Gain (Loss) Recognized in the Statement of Income March 31, 2012
Receive-fixed swaps	Interest expense	$2	$(1)

(dollars in millions, except as noted)

Derivatives – Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in Other Comprehensive Loss on Derivatives (Effective Portion)	
	March 31, 2013	March 31, 2012
Pay-fixed and amortizing pay-fixed swaps	$16	$25
Floating-for-floating and amortizing floating-for-floating swaps	2	
Interest rate caps	2	(1)
Other derivative products		1
Total	$20	$25

The System had no gains or losses reclassified from accumulated other comprehensive loss into income (effective portion) or recognized in income on cash flow hedges (ineffective portion and amount excluded from effectiveness testing) for the three months ended March 31, 2013 and 2012.

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Statement of Income	Amount of Gain Recognized in the Statement of Income	
		March 31, 2013	March 31, 2012
Derivatives entered into on behalf of customers	Noninterest income		$1
Receive fix swaps	Noninterest income		2
Total		$0	$3

NOTE 11 — ASSET/LIABILITY OFFSETTING

The following tables represent the offsetting of financial assets and liabilities:

March 31, 2013	Gross Amounts Recognized	Gross Amounts Offset in the Statement of Condition	Net Amounts Presented in the Statement of Condition	Gross Amounts Not Offset in the Statement of Condition		Net Amount
				Securities Received/Pledged	Cash Collateral Received/Pledged	
Assets:						
Interest rate swaps and other derivatives	$1,074	$(70)	$1,004	$(220)	$(532)	$252
Federal Funds sold and securities purchased under resale agreements	942		942	(76)		866
Liabilities:						
Interest rate swaps and other derivatives	218	(70)	148		(16)	132

(dollars in millions, except as noted)

December 31, 2012	Gross Amounts Recognized	Gross Amounts Offset in the Statement of Condition	Net Amounts Presented in the Statement of Condition	Gross Amounts Not Offset in the Statement of Condition: Securities Received/Pledged	Gross Amounts Not Offset in the Statement of Condition: Cash Collateral Received/Pledged	Net Amount
Assets:						
Interest rate swaps and other derivatives	$1,197	$(80)	$1,117	$(234)	$(578)	$305
Federal Funds sold and securities purchased under resale agreements	918		918	(150)		768
Liabilities:						
Interest rate swaps and other derivatives	255	(80)	175		(17)	158

NOTE 12 — COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Banks and Associations have various commitments and contingent liabilities, such as certain letters of credit and commitments to extend credit, which are not reflected in the accompanying condensed combined financial statements. No material losses are anticipated as a result of these transactions.

A summary of the contractual amount of credit-related instruments are as follows:

	March 31, 2013	December 31, 2012
Commitments to extend credit	$75,832	$73,095
Standby letters of credit	2,212	2,244
Commercial and other letters of credit	274	311

On at least a quarterly basis, System institutions assess their liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For matters where it is probable the institution will incur a loss and the amount can be reasonably estimated, the institution would establish an accrual for the loss. Once established, the accrual would be adjusted as appropriate to reflect any relevant developments. For matters where a loss is not probable or the amount of loss cannot be estimated, no accrual would be established.

At March 31, 2013, various lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on the System's combined results of operations or financial position.

(dollars in millions, except as noted)

NOTE 13 — COMBINING BANK-ONLY INFORMATION

The following condensed combining statements include the statement of condition, statement of comprehensive income and statement of changes in capital for the combined Banks without the affiliated Associations or other System institutions.

Combining Bank-Only Statement of Condition

March 31, 2013

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	$ 406	$ 385	$ 316	$ 321		$ 1,428
Federal funds sold and securities purchased under resale agreements	76	846	20			942
Investments (Note 2)(2)	7,415	11,555	3,375	20,566		42,911
Loans						
To Associations(1)	13,177	59,853	7,183	35,486		115,699
To others(2)	6,371	7,816	4,338	37,511	$(472)	55,564
Less: allowance for loan losses	(45)	(13)	(15)	(451)		(524)
Net loans	19,503	67,656	11,506	72,546	(472)	170,739
Accrued interest receivable	72	344	45	368		829
Other assets	271	171	146	1,207	372	2,167
Total assets	$27,743	$80,957	$15,408	$95,008	$(100)	$219,016
Liabilities and Capital						
Systemwide Debt Securities:						
Due within one year	$ 9,853	$22,690	$ 4,763	$28,089	$ (7)	$ 65,388
Due after one year	15,368	52,060	9,184	57,015	(10)	133,617
Total Systemwide Debt Securities	25,221	74,750	13,947	85,104	(17)	199,005
Subordinated debt		500	50	905		1,455
Accrued interest payable	41	205	36	310		592
Other liabilities	66	1,144	54	2,170	11	3,445
Total liabilities	25,328	76,599	14,087	88,489	(6)	204,497
Capital						
Preferred stock	275		482	962		1,719
Capital stock and participation certificates	327	1,994	228	2,593	(111)	5,031
Additional paid-in-capital	37					37
Accumulated other comprehensive income (loss)	173	(38)	22	144	(16)	285
Surplus	1,603	2,402	589	2,820	33	7,447
Total capital	2,415	4,358	1,321	6,519	(94)	14,519
Total liabilities and capital	$27,743	$80,957	$15,408	$95,008	$(100)	$219,016

(dollars in millions, except as noted)

Combining Bank-Only Statement of Condition

December 31, 2012

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	$ 723	$ 340	$ 502	$ 1,254		$ 2,819
Federal funds sold and securities purchased under resale agreements	149	745	24			918
Investments (Note 2)(2)	7,485	10,987	3,346	17,999		39,817
Loans						
To Associations(1)	13,834	61,649	7,184	36,712		119,379
To others(2)	6,376	8,049	4,155	35,268	$(468)	53,380
Less: allowance for loan losses	(45)	(13)	(17)	(437)		(512)
Net loans	20,165	69,685	11,322	71,543	(468)	172,247
Accrued interest receivable	73	358	36	361		828
Other assets	296	184	151	1,321	348	2,300
Total assets	$28,891	$82,299	$15,381	$92,478	$(120)	$218,929
Liabilities and Capital						
Systemwide Debt Securities:						
Due within one year	$10,627	$23,633	$ 4,864	$25,613	$ (3)	$ 64,734
Due after one year	15,660	52,717	9,047	55,810	(2)	133,232
Total Systemwide Debt Securities	26,287	76,350	13,911	81,423	(5)	197,966
Subordinated debt		500	50	905		1,455
Accrued interest payable	41	195	32	296		564
Other liabilities	265	998	114	3,413	(12)	4,778
Total liabilities	26,593	78,043	14,107	86,037	(17)	204,763
Capital						
Preferred stock	275		482	962		1,719
Capital stock and participation certificates	333	1,990	228	2,606	(108)	5,049
Additional paid-in-capital	37					37
Accumulated other comprehensive income (loss)	171	(64)	28	144	(15)	264
Surplus	1,482	2,330	536	2,729	20	7,097
Total capital	2,298	4,256	1,274	6,441	(103)	14,166
Total liabilities and capital	$28,891	$82,299	$15,381	$92,478	$(120)	$218,929

(1) These loans represent direct loans to Associations, not retail loans to borrowers. Since the Associations operate under regulations that require maintenance of certain minimum capital levels, adequate reserves, and prudent underwriting standards, these loans are considered to carry less risk. Accordingly, these loans typically have little or no associated allowance for loan losses. The majority of the credit risk resides with the Banks' and Associations' retail loans to borrowers. Association retail loans are not reflected in the combining Bank-only financial statements.

Based upon the lower inherent risk of these loans to the Associations, the Banks, especially AgFirst, AgriBank and Texas, typically operate with more leverage and lower earnings than would be expected from a traditional retail bank. In the case of CoBank, approximately half of its loans are retail loans to cooperatives and other eligible borrowers.

(2) Loans to others represent retail loans held by the Banks. The Banks may purchase participations in loans to eligible borrowers made by Associations, other Banks and non-System lenders. Three Banks (AgFirst, AgriBank and Texas) have one or more participation pool programs designed to allow Associations to sell loan participation interests to the Bank in order to more efficiently manage the capital of each Bank and its related Associations within their respective District. Within these programs, a separate patronage pool is created for each participating Association. The net income from each pool is tracked separately so that, at the Bank board's discretion, patronage can be distributed from the pool. The declared patronage generally approximates the net earnings of the respective pool. At March 31, 2013 and December 31, 2012, such participation pools outstanding were $0.8 billion and $0.8 billion for AgFirst, $4.2 billion and $4.4 billion for AgriBank and $11.0 million and $14.7 million for Texas.

Also, the participation pool program for Texas includes investments that were sold to the Bank by its Associations of $114.0 million and $115.5 million at March 31, 2013 and December 31, 2012.

(dollars in millions, except as noted)

Combining Bank-Only
Statement of Comprehensive Income

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
For the three months ended March 31, 2013						
Interest income	$187	$ 333	$ 93	$ 496	$ 42	$1,151
Interest expense	(47)	(205)	(38)	(194)	7	(477)
Net interest income	140	128	55	302	49	674
Provision for loan losses		(1)	(1)	(15)		(17)
Noninterest income						
Loan-related fee income	3	7	3	23		36
Losses on extinguishment of debt	(2)	(4)		(34)	14	(26)
Total other-than-temporary impairment losses	(1)					(1)
Portion of other-than-temporary impairment recognized in other comprehensive income	(1)					(1)
Net other-than-temporary impairment losses included in earnings	(2)					(2)
Other noninterest income	10	34	12	37	(54)	39
Total noninterest income	9	37	15	26	(40)	47
Noninterest expense	(28)	(24)	(15)	(66)	(6)	(139)
Provision for income taxes				(38)		(38)
Net income	121	140	54	209	3	527
Other comprehensive income (loss)	2	26	(6)		(1)	21
Comprehensive income	$123	$ 166	$ 48	$ 209	$ 2	$ 548
For the three months ended March 31, 2012						
Interest income	$212	$ 359	$100	$ 519	$ 9	$1,199
Interest expense	(56)	(250)	(46)	(206)	5	(553)
Net interest income	156	109	54	313	14	646
(Provision for loan losses) loan loss reversal	3	(3)	(15)	(5)		(20)
Noninterest income						
Loan-related fee income	2	16	3	26		47
Losses on extinguishment of debt	(13)			(9)		(22)
Total other-than-temporary impairment losses	(1)	(15)				(16)
Portion of other-than-temporary impairment recognized in other comprehensive income		10				10
Net other-than-temporary impairment losses included in earnings	(1)	(5)				(6)
Other noninterest income	4	19	6	15	(15)	29
Total noninterest income	(8)	30	9	32	(15)	48
Noninterest expense	(28)	(21)	(14)	(59)	(6)	(128)
Provision for income taxes				(51)		(51)
Net income	123	115	34	230	(7)	495
Other comprehensive income	14	34	1	8		57
Comprehensive income	$137	$ 149	$ 35	$ 238	$ (7)	$ 552

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)
(dollars in millions, except as noted)

Combining Bank-Only
Statement of Changes in Capital

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB*	CoBank, ACB	Combination Entries	Combined Banks
Balance at December 31, 2011	$2,149	$3,806	$1,210	$ 1,259	$4,896	$ (69)	$13,251
Adjustment due to Bank merger				(1,259)		1,259	
Balance at January 1, 2012	2,149	3,806	1,210		4,896	1,190	13,251
Comprehensive income	137	149	35		238	(7)	552
Preferred stock repurchased	(111)						(111)
Equity issued or recharacterized upon Bank merger					225		225
Equity retired or recharacterized upon Bank merger						(225)	(225)
Preferred stock dividends	(1)				(20)		(21)
Capital stock and participation certificates issued	1	9	1				11
Capital stock, participation certificates, and surplus retired	(4)	(48)	(1)		(34)		(87)
Transfer of capital stock and participation certificates due to merger					878	(878)	
Additional paid-in-capital	32						32
Recharacterization of other comprehensive loss due to Bank merger						259	259
Net reduction in surplus related to net fair value adjustment related to merger					(62)	(407)	(469)
Patronage and dividends		(25)	(1)		(75)	(8)	(109)
Balance at March 31, 2012	$2,203	$3,891	$1,244	$ 0	$6,046	$ (76)	$13,308
Balance at December 31, 2012	$2,298	$4,256	$1,274		$6,441	$ (103)	$14,166
Comprehensive income	123	166	48		209	2	548
Preferred stock dividends	(1)				(16)		(17)
Capital stock and participation certificates issued		18					18
Capital stock, participation certificates, and surplus retired	(5)	(53)			(32)		(90)
Patronage and dividends		(29)	(1)		(83)	7	(106)
Balance at March 31, 2013	$2,415	$4,358	$1,321		$6,519	$ (94)	$14,519

* Effective January 1, 2012, U.S. AgBank, FCB merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB.

(dollars in millions, except as noted)

Certain Bank-only capital ratios and other information is as follows:

	AgFirst FCB	AgriBank, FCB	FCB of Texas	CoBank, ACB
For the three months ended:				
March 31, 2013				
Return on average assets	1.71%	0.69%	1.40%	0.89%
Return on average capital	20.52%	12.96%	16.58%	12.84%
March 31, 2012				
Return on average assets	1.72%	0.63%	0.96%	1.03%
Return on average capital	22.47%	11.91%	11.11%	15.39%
For the period ended:				
March 31, 2013				
Nonperforming assets as a percentage of loans and other property owned	0.53%	0.10%	0.71%	0.34%
Allowance for loan losses as a percentage of loans	0.23%	0.02%	0.13%	0.62%
Capital as a percentage of total assets	8.70%	5.38%	8.57%	6.86%
Net collateral ratio	107.9%	106.2%	108.3%	107.6%
Permanent capital ratio	22.2%	21.2%	17.2%	15.7%
Liquidity in days	240	165	238	189
Average liquidity in days during 2013	249	147	230	193
December 31, 2012				
Nonperforming assets as a percentage of loans and other property owned	0.53%	0.10%	0.94%	0.24%
Allowance for loan losses as a percentage of loans	0.22%	0.02%	0.15%	0.61%
Capital as a percentage of total assets	7.95%	5.17%	8.28%	6.96%
Net collateral ratio	107.0%	106.0%	107.9%	107.1%
Permanent capital ratio	23.6%	21.1%	18.6%	16.1%
Liquidity in days	218	139	231	204
Average liquidity in days during 2012	220	146	234	190

Bank-only information is considered meaningful because only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. That means that each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its lending activities and is also jointly and severally liable with respect to Systemwide Debt Securities issued to fund the other Banks.

The Associations are the primary owners of the Farm Credit Banks. The Agricultural Credit Bank (CoBank) is principally owned by cooperatives, other eligible borrowers and its affiliated Associations. Due to the financial and operational interdependence of the Banks and Associations, capital at the Association level reduces the Banks' credit exposure with respect to the direct loans between the Banks and each of their affiliated Associations. However, capital of the Associations may not be available if the provisions of joint and several liability were to be invoked. There are various limitations and conditions with respect to each Bank's access to the capital of its affiliated Associations, as more fully discussed in Note 7.

In the event a Bank is unable to timely pay principal or interest on an insured debt obligation for which the 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 insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been 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.

Once joint and several liability is triggered, the Farm Credit Administration is required to make "calls" to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank's available collateral (collateral in excess of the aggregate of the Bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank. The receiver would be required to expeditiously liquidate the Bank.

NOTE 14 — SUBSEQUENT EVENTS

On April 19, 2013, CoBank issued $200 million of non-cumulative perpetual preferred stock. CoBank used the proceeds from the preferred stock issuance to increase its regulatory capital pursuant to current FCA regulations and for general corporate purposes. For regulatory capital purposes, the preferred stock is included in permanent capital, total surplus and core surplus. Dividends on preferred stock, if declared by CoBank's Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate for life of 6.125%. The preferred stock will be redeemable at par value, in whole or in part, at CoBank's option, quarterly beginning on July 1, 2018.

The Banks and Associations have evaluated subsequent events through May 10, 2013, which is the date the financial statements were issued.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION
(unaudited)

The following condensed Combining Statements of Condition and Comprehensive Income present Bank-only and Insurance Fund information, as well as information related to the other entities included in the System's combined financial statements. As part of the combining process, all significant transactions between the Banks and the Associations, including loans made by the Banks to the Associations and the interest income/interest expense related thereto, and investments of the Associations in the Banks and the earnings related thereto, have been eliminated.

COMBINING STATEMENT OF CONDITION — (Condensed)
March 31, 2013
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	$ 45,281	$ 2,857		$ 48,138			$ 48,138
Loans	171,263	136,062	$(115,528)	191,797			191,797
Less: allowance for loan losses	(524)	(817)		(1,341)			(1,341)
Net loans	170,739	135,245	(115,528)	190,456			190,456
Other assets	2,996	7,294	(4,723)	5,567			5,567
Restricted assets					$3,344		3,344
Total assets	$219,016	$145,396	$(120,251)	$244,161	$3,344	$ 0	$247,505
Systemwide Debt Securities and subordinated debt	$200,460	$ 100		$200,560			$200,560
Other liabilities	4,037	118,168	$(114,906)	7,299		$ 2 (a)	7,301
Total liabilities	204,497	118,268	(114,906)	207,859		2	207,861
Capital							
Protected borrower stock		2		2		(2)(a)	
Preferred stock	1,719	334		2,053			2,053
Capital stock and participation certificates	5,031	562	(3,986)	1,607			1,607
Additional paid-in-capital	37	701		738			738
Restricted capital					$3,344		3,344
Accumulated other comprehensive income (loss)	285	(113)	(1,151)	(979)			(979)
Surplus	7,447	25,642	(208)	32,881			32,881
Total capital	14,519	27,128	(5,345)	36,302	3,344	(2)	39,644
Total liabilities and capital	$219,016	$145,396	$(120,251)	$244,161	$3,344	$ 0	$247,505

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION
(unaudited)

COMBINING STATEMENT OF CONDITION — (Condensed)
December 31, 2012
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	$ 43,554	$ 3,374		$ 46,928			$ 46,928
Loans	172,759	138,319	$(119,174)	191,904			191,904
Less: allowance for loan losses	(512)	(831)		(1,343)			(1,343)
Net loans	172,247	137,488	(119,174)	190,561			190,561
Other assets	3,128	7,913	(5,164)	5,877			5,877
Restricted assets					$3,298		3,298
Total assets	$218,929	$148,775	$(124,338)	$243,366	$3,298	$ 0	$246,664
Systemwide Debt Securities and subordinated debt	$199,421	$ 100		$199,521			$199,521
Other liabilities	5,342	122,197	$(119,007)	8,532		$ 2 (a)	8,534
Total liabilities	204,763	122,297	(119,007)	208,053		2	208,055
Capital							
Protected borrower stock		2		2		(2)(a)	
Preferred stock	1,719	338		2,057			2,057
Capital stock and participation certificates	5,049	560	(3,988)	1,621			1,621
Additional paid-in-capital	37	701		738			738
Restricted capital					$3,298	0 (b)	3,298
Accumulated other comprehensive income (loss)	264	(112)	(1,176)	(1,024)			(1,024)
Surplus	7,097	24,989	(167)	31,919		0 (b)	31,919
Total capital	14,166	26,478	(5,331)	35,313	3,298	(2)	38,609
Total liabilities and capital	$218,929	$148,775	$(124,338)	$243,366	$3,298	$ 0	$246,664

In the event a Bank is unable to timely pay principal or interest on an insured debt obligation for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent necessary to insure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to timely pay the principal or interest on the insured debt obligation.

Combination entry (a) reclassifies protected borrower stock to other liabilities in recognition of its reduced at-risk characteristics at the System level. Combination entry (b) eliminates a transfer from restricted capital to surplus of $222 million for excess funds that were returned during the second quarter of 2012.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION
(unaudited)

COMBINING STATEMENT OF COMPREHENSIVE INCOME — (Condensed)
For the Three Months Ended March 31, 2013
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Net interest income	$ 674	$ 992	$ 11	$1,677			$1,677
Provision for loan losses.	(17)	(5)		(22)			(22)
Noninterest income	47	270	(199)	118	$47	$(43)(c)	122
Noninterest expense	(139)	(510)	31	(618)	(1)	43 (c)	(576)
Provision for income taxes	(38)	(21)		(59)			(59)
Net income	527	726	(157)	1,096	46	0	1,142
Other comprehensive income (loss)	21	(1)	25	45			45
Comprehensive income.	$ 548	$ 725	$(132)	$1,141	$46	$ 0	$1,187

For the Three Months Ended March 31, 2012
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Net interest income	$ 646	$ 927	$ 8	$1,581			$1,581
Provision for loan losses.	(20)	(12)		(32)			(32)
Noninterest income	48	277	(215)	110	$34	$(22)(c)	122
Noninterest expense	(128)	(470)	26	(572)	(1)	22 (c)	(551)
Provision for income taxes	(51)	(17)		(68)			(68)
Net income	495	705	(181)	1,019	33	0	1,052
Other comprehensive income (loss)	57	(1)	60	116			116
Comprehensive income.	$ 552	$ 704	$(121)	$1,135	$33	$ 0	$1,168

Combination entry (c) eliminates the Insurance Fund premiums expensed by the Banks in the first quarters of 2013 and 2012 of $43 million and $22 million and the related income recognized by the Insurance Corporation.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION
(unaudited)

STATEMENT OF CONDITION — (Condensed)
March 31, 2013
(in millions)

The Banks and their affiliated Associations are referred to as Districts. Each District operates in such an interdependent manner that we believe the financial results of the Banks combined with their affiliated Associations are more meaningful to investors in Systemwide Debt Securities than providing financial information of the Banks and Associations on a stand-alone basis. For the purpose of additional analysis, the following presentation reflects each District, the Insurance Fund and combination entries.

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	$ 8,084	$15,051	$ 3,779	$ 21,218	$ 6	$ 48,138
Loans	22,582	75,572	17,090	80,621	(4,068)	191,797
Less: allowance for loan losses	(213)	(263)	(99)	(766)		(1,341)
Net loans	22,369	75,309	16,991	79,855	(4,068)	190,456
Other assets	703	1,953	420	2,159	332	5,567
Restricted assets					3,344	3,344
Total assets	$31,156	$92,313	$21,190	$103,232	$ (386)	$247,505
Systemwide Debt Securities and subordinated debt	$25,221	$75,350	$13,997	$ 86,009	$ (17)	$200,560
Other liabilities	875	2,190	3,802	4,022	(3,588)	7,301
Total liabilities	26,096	77,540	17,799	90,031	(3,605)	207,861
Capital						
Protected borrower stock	1	1			(2)	
Preferred stock	275		482	1,296		2,053
Capital stock and participation certificates	160	285	75	1,227	(140)	1,607
Additional paid-in-capital	61		23	654		738
Restricted capital					3,344	3,344
Accumulated other comprehensive loss	(206)	(547)	(113)	(98)	(15)	(979)
Surplus	4,769	15,034	2,924	10,122	32	32,881
Total capital	5,060	14,773	3,391	13,201	3,219	39,644
Total liabilities and capital	$31,156	$92,313	$21,190	$103,232	$ (386)	$247,505

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION
(unaudited)

STATEMENT OF CONDITION — (Condensed)
December 31, 2012
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	$ 8,574	$14,568	$ 3,953	$ 19,827	$ 6	$ 46,928
Loans	22,929	77,089	16,867	79,077	(4,058)	191,904
Less: allowance for loan losses	(213)	(263)	(107)	(760)		(1,343)
Net loans	22,716	76,826	16,760	78,317	(4,058)	190,561
Other assets	809	2,115	413	2,231	309	5,877
Restricted assets					3,298	3,298
Total assets	$32,099	$93,509	$21,126	$100,375	$ (445)	$246,664
Systemwide Debt Securities and subordinated debt	$26,287	$76,950	$13,961	$ 82,328	$ (5)	$199,521
Other liabilities	924	2,231	3,879	5,104	(3,604)	8,534
Total liabilities	27,211	79,181	17,840	87,432	(3,609)	208,055
Capital						
Protected borrower stock	1	1			(2)	
Preferred stock	275		482	1,300		2,057
Capital stock and participation certificates	157	284	75	1,241	(136)	1,621
Additional paid-in-capital	61		23	654		738
Restricted capital					3,298	3,298
Accumulated other comprehensive loss	(214)	(583)	(111)	(101)	(15)	(1,024)
Surplus	4,608	14,626	2,817	9,849	19	31,919
Total capital	4,888	14,328	3,286	12,943	3,164	38,609
Total liabilities and capital	$32,099	$93,509	$21,126	$100,375	$ (445)	$246,664

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION
(unaudited)

STATEMENT OF COMPREHENSIVE INCOME — (Condensed)
For the Three Months Ended March 31,
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund & Combination Entries	System Combined
2013						
Net interest income	$ 267	$ 607	$157	$ 587	$ 59	$1,677
Provision for loan losses	(5)	(2)	(1)	(14)		(22)
Noninterest income	21	79	20	52	(50)	122
Noninterest expense	(112)	(239)	(59)	(203)	37	(576)
Provision for income taxes		(17)	(1)	(41)		(59)
Net income	171	428	116	381	46	1,142
Other comprehensive income (loss)	8	36	(2)	3		45
Comprehensive income	$ 179	$ 464	$114	$ 384	$ 46	$1,187
2012						
Net interest income	$ 284	$ 547	$151	$ 584	$ 15	$1,581
(Provision for loan losses) loan loss reversal	(15)	17	(15)	(19)		(32)
Noninterest income	3	52	14	66	(13)	122
Noninterest expense	(111)	(204)	(54)	(196)	14	(551)
Provision for income taxes		(14)		(54)		(68)
Net income	161	398	96	381	16	1,052
Other comprehensive income	18	41	4	53		116
Comprehensive income	$ 179	$ 439	$100	$ 434	$ 16	$1,168

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION
(unaudited)

STATEMENT OF CHANGES IN CAPITAL — (Condensed)
For the Three Months Ended March 31
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined*	CoBank District Combined	Insurance Fund & Combination Entries	System Combined
Balance at December 31, 2011	$4,521	$12,834	$3,104	$ 5,403	$ 6,790	$3,288	$35,940
Adjustment due to Bank merger				(5,403)	5,029	374	
Balance at January 1, 2012	4,521	12,834	3,104		11,819	3,662	35,940
Comprehensive income	179	439	100		434	16	1,168
Preferred stock retired, net	(111)				(23)		(134)
Equity issued or recharacterized upon Bank merger					225		225
Equity retired or recharacterized upon Bank merger						(225)	(225)
Capital stock and participation certificates issued	9	10	2		2		23
Capital stock, participation certificates, and surplus retired	(9)	(6)	(3)		(66)	33	(51)
Additional paid-in-capital	32						32
Equity issued or recharacterized upon Association merger					285		285
Equity retired or recharacterized upon Association merger					(288)		(288)
Recharacterization of other comprehensive loss due to fair value adjustments related to the Bank merger						259	259
Net reduction in surplus due to net fair value adjustments related to the Bank merger					(62)	(407)	(469)
Patronage and dividends	(10)	(35)	(4)		(100)		(149)
Balance at March 31, 2012	$4,611	$13,242	$3,199	$ 0	$12,226	$3,338	$36,616
Balance at December 31, 2012	$4,888	$14,328	$3,286		$12,943	$3,164	$38,609
Comprehensive income	179	464	114		384	46	1,187
Preferred stock retired, net					(4)		(4)
Capital stock and participation certificates issued	11	7	2		2	(1)	21
Capital stock, participation certificates, and surplus retired	(8)	(6)	(2)		(32)		(48)
Patronage and dividends	(10)	(20)	(9)		(92)	10	(121)
Balance at March 31, 2013	$5,060	$14,773	$3,391		$13,201	$3,219	$39,644

* Effective January 1, 2012, U.S. AgBank, FCB merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB.

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION

COMBINED BANK AND ASSOCIATION (DISTRICT)
SELECTED KEY FINANCIAL INFORMATION
(unaudited)

The following combined key financial ratios related to each combined Bank and its affiliated Associations is intended for the purpose of additional analysis.

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined
For the three months ended:				
March 31, 2013				
Return on average assets	2.15%	1.85%	2.19%	1.50%
Return on average capital	14.24%	11.76%	13.88%	11.63%
Net interest margin	3.50%	2.68%	3.08%	2.36%
Net loan charge-offs (recoveries) as a % of average loans	0.09%	0.03%	0.23%	(0.02)%
Operating expense as a % of net interest income and noninterest income	38.18%	35.11%	33.46%	31.62%
March 31, 2012				
Return on average assets	2.03%	1.92%	1.94%	1.57%
Return on average capital	13.98%	12.23%	12.15%	12.56%
Net interest margin	3.73%	2.71%	3.15%	2.49%
Net loan charge-offs as a % of average loans	0.24%	0.05%	0.42%	0.02%
Operating expense as a % of net interest income and noninterest income	35.60%	33.62%	32.19%	30.10%
At the period ended:				
March 31, 2013				
Nonperforming assets as a % of loans and other property owned	3.49%	1.19%	2.37%	1.18%
Allowance for loan losses as a % of loans	0.94%	0.35%	0.58%	0.95%
Capital as a % of total assets	16.24%	16.00%	16.00%	12.79%
Capital and allowance for loan losses as a % of loans	23.35%	19.90%	20.42%	17.32%
Debt to capital	5.16:1	5.25:1	5.25:1	6.82:1
December 31, 2012				
Nonperforming assets as a % of loans and other property owned	3.46%	1.08%	2.61%	1.08%
Allowance for loan losses as a % of loans	0.93%	0.34%	0.63%	0.96%
Capital as a % of total assets	15.23%	15.32%	15.55%	12.89%
Capital and allowance for loan losses as a % of loans	22.25%	18.93%	20.12%	17.33%
Debt to capital	5.57:1	5.53:1	5.43:1	6.76:1

The table below reflects the combined results of each Bank and its affiliated Associations (District) measurement under market value of equity and net interest income sensitivity analysis in accordance with their respective asset/liability management policies and District limits.

	Change in Market Value of Equity			Change in Net Interest Income		
	March 31, 2013			March 31, 2013		
District	**-4**	**+100**	**+200**	**-4**	**+100**	**+200**
AgFirst	-0.08%	0.29%	-2.58%	-0.25%	5.86%	8.82%
AgriBank	0.09	-2.53	-5.65	0.00	1.55	2.08
Texas	0.00	-1.97	-5.21	-0.82	4.28	6.64
CoBank	0.00	-2.05	-4.57	-0.03	1.34	2.09

	Change in Market Value of Equity			Change in Net Interest Income		
	December 31, 2012			December 31, 2012		
District	**-3**	**+100**	**+200**	**-3**	**+100**	**+200**
AgFirst	-0.06%	1.49%	-0.39%	-0.08%	6.68%	10.07%
AgriBank	0.05	-2.19	-5.08	-0.02	1.76	2.75
Texas	0.00	-0.92	-3.22	-3.70	5.30	9.18
CoBank	0.12	-2.28	-4.83	-0.11	2.28	3.66

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION

The Banks serve as financial intermediaries between the capital markets and the retail lending activities of their related Associations. Accordingly, in addition to the supplemental combining Bank and Association (District) information provided on pages F-49 to F-52, selected financial information regarding Associations with asset size greater than $1 billion is provided below for the purpose of additional analysis.

	At March 31, 2013					For the Three Months Ended March 31, 2013		
	Total Assets	Gross Loans	Allowance for Loan Losses as a % of Gross Loans	Nonperforming Assets as a % of Gross Loans and Other Property Owned	Permanent Capital Ratio	Return on Average Assets	Return on Average Capital	Net Interest Margin
	($ in millions)							
AgFirst District								
MidAtlantic Farm Credit, ACA	$ 2,181	$ 2,130	0.93%	2.81%	19.49%	1.87%	8.88%	3.13%
AgSouth Farm Credit, ACA	1,520	1,446	0.74	2.73	18.60	2.34	13.11	3.83
Farm Credit of the Virginias, ACA	1,515	1,458	0.66	2.76	17.94	2.14	11.37	2.97
AgChoice Farm Credit, ACA	1,441	1,409	0.80	2.80	16.97	2.12	11.36	3.03
First South Farm Credit, ACA	1,396	1,298	0.56	1.54	17.62	1.73	8.76	3.06
AgCredit, ACA	1,334	1,294	1.36	2.59	20.09	2.30	15.02	2.75
Carolina Farm Credit, ACA	1,253	1,161	0.76	4.83	20.42	1.90	9.13	3.40
AgriBank District								
Farm Credit Services of America, ACA	19,272	18,333	0.33	0.64	14.32	1.95	10.71	2.93
Farm Credit Mid-America, ACA	18,721	16,366	0.37	1.64	15.73	1.51	8.93	2.13
AgStar Financial Services, ACA	6,512	5,786	0.48	3.26	14.12	1.77	11.19	2.65
GreenStone FCS, ACA	5,897	5,610	0.74	1.82	14.85	2.42	12.59	2.98
1st Farm Credit, ACA	4,389	3,930	0.24	0.71	14.78	1.95	10.71	2.55
AgCountry, ACA	4,044	3,739	0.34	0.91	16.41	1.97	8.76	2.79
Farm Credit Services of Illinois, ACA	3,071	2,935	0.14	0.04	15.26	2.02	10.16	2.60
Badgerland Financial, ACA	3,077	2,926	0.14	0.75	15.80	2.56	12.25	3.03
FCS Financial, ACA	2,855	2,741	0.65	1.02	16.92	1.90	9.45	2.81
United Farm Credit Services, ACA	1,281	1,207	0.25	0.96	13.36	2.21	11.60	3.01
Texas District								
Capital Farm Credit, ACA	5,400	5,274	0.54	2.44	16.06	2.58	14.76	3.47
CoBank District								
Northwest Farm Credit Services, ACA	9,061	8,693	1.43	3.48	14.04	2.09	12.12	2.89
Farm Credit West, ACA	6,420	5,908	0.55	2.55	16.74	2.57	13.52	2.90
American AgCredit, ACA	6,187	5,822	0.24	1.98	20.35	1.89	7.54	2.87
Farm Credit East, ACA	4,845	4,695	1.60	1.65	15.31	2.52	14.29	3.09
Yosemite Farm Credit, ACA	1,831	1,703	0.28	0.84	14.86	1.96	11.38	2.71
Frontier Farm Credit, ACA	1,579	1,485	0.34	0.61	14.49	1.59	8.52	2.66
Farm Credit of New Mexico, ACA	1,384	1,327	0.98	1.43	19.51	2.01	9.41	2.73
Southwest, ACA	1,009	943	0.43	2.88	17.18	1.72	10.01	2.83

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION

	At December 31, 2012					For the Three Months Ended March 31, 2012		
	Total Assets	Gross Loans	Allowance for Loan Losses as a % of Gross Loans	Nonperforming Assets as a % of Gross Loans and Other Property Owned	Permanent Capital Ratio	Return on Average Assets	Return on Average Capital	Net Interest Margin
	($ in millions)							
AgFirst District								
MidAtlantic Farm Credit, ACA	$ 2,213	$ 2,144	0.83%	2.97%	18.12%	1.94%	10.10%	3.13%
AgSouth Farm Credit, ACA	1,583	1,491	0.73	2.63	17.05	2.72	16.19	3.80
Farm Credit of the Virginias, ACA	1,539	1,466	0.68	2.95	16.95	2.00	11.70	2.90
AgChoice Farm Credit, ACA	1,453	1,409	0.76	2.89	16.51	2.69	14.43	3.25
First South Farm Credit, ACA	1,443	1,323	0.57	1.35	16.12	1.81	9.33	3.13
AgCredit, ACA	1,426	1,379	1.27	2.33	19.36	2.42	15.57	2.91
Carolina Farm Credit, ACA	1,309	1,188	0.74	4.43	18.64	1.86	9.40	3.39
AgriBank District								
Farm Credit Services of America, ACA	19,611	18,490	0.32	0.48	14.85	2.61	14.93	3.10
Farm Credit Mid-America, ACA	19,057	16,527	0.37	1.62	15.54	1.68	10.61	2.04
AgStar Financial Services, ACA	6,664	5,913	0.45	2.74	13.91	1.64	11.86	2.73
GreenStone FCS, ACA	6,028	5,727	0.73	1.79	14.63	2.51	14.05	3.06
1st Farm Credit, ACA	4,572	4,095	0.23	0.69	14.94	2.15	12.12	2.72
AgCountry, ACA	4,119	3,813	0.32	0.87	16.58	1.58	6.94	3.05
Farm Credit Services of Illinois, ACA	3,304	3,160	0.12	0.04	14.67	2.00	10.22	2.70
Badgerland Financial, ACA	3,005	2,856	0.16	0.85	15.86	2.84	14.09	3.25
FCS Financial, ACA	2,858	2,741	0.65	0.75	17.09	2.20	10.63	2.92
United Farm Credit Services, ACA	1,365	1,289	0.22	0.86	13.21	2.17	13.22	3.05
Texas District								
Capital Farm Credit, ACA	5,335	5,205	0.61	2.51	16.01	2.82	15.98	2.89
CoBank District								
Northwest Farm Credit Services, ACA	9,471	8,999	1.42	3.36	13.43	1.88	11.33	3.05
Farm Credit West, ACA	6,669	6,078	0.55	2.63	16.99	2.31	12.45	2.84
American AgCredit, ACA	6,212	5,817	0.27	1.66	21.12	1.72	6.85	2.98
Farm Credit East, ACA	4,869	4,693	1.60	1.66	15.62	2.67	14.74	3.20
Yosemite Farm Credit, ACA	1,879	1,737	0.28	0.57	14.46	2.15	12.32	2.75
Frontier Farm Credit, ACA	1,572	1,460	0.35	0.63	15.12	1.70	8.94	2.73
Farm Credit of New Mexico, ACA	1,419	1,349	0.95	1.45	19.63	2.53	12.26	2.88
Southwest, ACA	1,067	1,004	0.39	2.72	16.89	2.22	13.47	2.96

INDEX TO SUPPLEMENTAL INFORMATION

CONTROLS AND PROCEDURES

As of March 31, 2013, the Funding Corporation carried out an evaluation under the supervision and with the participation of the Funding Corporation's management, including the President and CEO and the Managing Director — Financial Management Division, of the effectiveness of the design and operation of the Funding Corporation's disclosure controls and procedures[1] with respect to the System's quarterly information statement. This evaluation relies upon the evaluations made by the individual Banks and the related certifications they provide to the Funding Corporation. Based upon and as of the date of the Funding Corporation's evaluation, the President and CEO and the Managing Director — Financial Management Division concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the System that is required to be disclosed by the System in the reports it files or submits to the Farm Credit Administration.

There have been no significant changes in the System's internal control over financial reporting[2] that occurred during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the System's internal control over financial reporting.

---

(1) For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the System that are designed to ensure that the information required to be disclosed by the System in this quarterly information statement is recorded, processed, summarized and reported, within the time periods specified under the rules and regulations of the Farm Credit Administration.

(2) For purposes of this discussion, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the System's principal executive officers and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the System's combined financial statements for external purposes in accordance with generally accepted accounting principles 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 System; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the System's combined financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the System are being made only in accordance with authorizations of managements and directors of the System; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the System's assets that could have a material effect on the System's combined financial statements.

CERTIFICATION

I, Theresa E. McCabe, certify that:

1. I have reviewed the *First Quarter 2013 Quarterly Information Statement of the Farm Credit System.*

2. Based on my knowledge, this quarterly information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this quarterly information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures(1) and internal control over financial reporting(2) for the System and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this quarterly information statement is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this quarterly information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly information statement based on such evaluation; and

(d) disclosed in this quarterly information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.

Theresa E. McCabe

Theresa E. McCabe
President and CEO

Date: May 10, 2013

(1) See footnote 1 on page S-2.

(2) See footnote 2 on page S-2.

CERTIFICATION

I, Karen R. Brenner, certify that:

1. I have reviewed the *First Quarter 2013 Quarterly Information Statement of the Farm Credit System.*

2. Based on my knowledge, this quarterly information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this quarterly information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures[1] and internal control over financial reporting[2] for the System and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this quarterly information statement is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this quarterly information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly information statement based on such evaluation; and

(d) disclosed in this quarterly information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.

Karen R. Brenner

Karen R. Brenner
Managing Director — Financial
Management Division

Date: May 10, 2013

(1) See footnote 1 on page S-2.

(2) See footnote 2 on page S-2.

FARM CREDIT SYSTEM ENTITIES (As of March 31, 2013)

BANKS

AgFirst Farm Credit Bank
P.O. Box 1499
Columbia, SC 29202-1499
(803) 799-5000

AgriBank, FCB
30 East 7th Street
Suite 1600
St. Paul, MN 55101-4914
(651) 282-8800

CoBank, ACB
P.O. Box 5110
Denver, CO 80217-5110
(303) 740-4000

Farm Credit Bank of Texas
P.O. Box 202590
Austin, TX 78720-2590
(512) 465-0400

CERTAIN OTHER ENTITIES

Farm Credit Leasing Services Corporation
600 Highway 169 South, Suite 300
Minneapolis, MN 55426-1219
(952) 417-7800

Federal Farm Credit Banks
Funding Corporation
10 Exchange Place, Suite 1401
Jersey City, NJ 07302-3913
(201) 200-8000

FCS Building Association
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

The Farm Credit Council
50 F Street, N.W., Suite 900
Washington, DC 20001-1530
(202) 626-8710

ASSOCIATIONS

AgFirst District

AgCarolina Farm Credit, ACA
4000 Poole Road
Raleigh, NC 27610

AgChoice Farm Credit, ACA
900 Bent Creek Blvd.
Mechanicsburg, PA 17050-1860

Ag Credit, ACA
610 W. Lytle Street
Fostoria, OH 44830-3422

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28301

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625

Central Kentucky, ACA
640 S. Broadway, Room 108
Lexington, KY 40588

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111

Farm Credit of Central Florida, ACA
115 S. Missouri Avenue, Suite 400
Lakeland, FL 33815

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32446

Farm Credit of Florida, ACA
11903 Southern Blvd.
Suite 200
Royal Palm Beach, FL 33411

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401

First South Farm Credit, ACA
713 S. Pear Orchard Road, Suite 300
Ridgeland, MS 39157

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21157

Puerto Rico Farm Credit, ACA
213 Manuel V. Domenech Avenue
Hato Rey, PR 00918

River Valley AgCredit, ACA
328 East Broadway
MayField, KY 42066

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817

AgriBank District

1st Farm Credit Services, ACA
2000 Jacobssen Drive
Normal, IL 61761

AgCountry Farm Credit Services, ACA
1900 44th Street South
Fargo, ND 58108

AgHeritage Farm Credit Services, ACA
119 East Third Street, Suite 200
Little Rock, AR 72201

AgStar Financial Services, ACA
1921 Premier Drive
Mankato, MN 56001

Badgerland Financial, ACA
1430 North Ridge Drive
Prairie du Sac, WI 53578

Delta ACA
118 E. Speedway
Dermott, AR 71638

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404

Farm Credit Services of America, ACA
5015 South 118th Street
Omaha, NE 68137

Farm Credit Services of Illinois, ACA
1100 Farm Credit Drive
Mahomet IL 61853

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554-5001

Farm Credit Mid-America, ACA
1601 UPS Drive
Louisville, KY 40223

Farm Credit Services of North Dakota, ACA
3100 10th Street, SW
Minot, ND 58702-0070

Farm Credit Services of Western Arkansas, ACA
3115 West 2nd Court
Russellville, AR 72801

FCS Financial, ACA
1934 East Miller Street
Jefferson City, MO 65101-3881

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823

Progressive Farm Credit Services, ACA
1116 N. Main Street
Sikeston, MO 63801

United Farm Credit Services, ACA
4401 Highway 71 South
P.O. Box 1330
Willmar, MN 56201-1560

CoBank District

AgPreference, ACA
3120 North Main
Altus, OK 73521

American AgCredit, ACA
200 Concourse Boulevard
Santa Rosa, CA 95403

Chisholm Trail Farm Credit, ACA
805 Chisholm Trail
Enid, OK 73701

Farm Credit East, ACA
240 South Road
Enfield, CT 06082

Farm Credit of Central Oklahoma, ACA
509 W. Georgia Avenue
Anadarko, OK 73005

Farm Credit of Enid, ACA
1605 W. Owen K. Garriott Road
Enid, OK 73703

Farm Credit of Maine, ACA
615 Minot Avenue
Auburn, ME 04210

Farm Credit of Ness City, FLCA
19332 State Highway 96
Ness City, KS 67560

Farm Credit of New Mexico, ACA
5651 Balloon Fiesta Parkway NE
Albuquerque, NM 87113

Farm Credit of Southern Colorado, ACA
5110 Edison Avenue
Colorado Springs, CO 80915

Farm Credit of Southwest Kansas, ACA
1606 E. Kansas Avenue
Garden City, KS 67846

Farm Credit of Western Kansas, ACA
1190 South Range Avenue
Colby, KS 67701

Farm Credit of Western Oklahoma, ACA
3302 Williams Avenue
Woodward, OK 73801

Farm Credit Services of Colusa-Glenn, ACA
605 Jay Street
Colusa, CA 95932

Farm Credit Services of East Central
Oklahoma, ACA
601 E. Kenosha Street
Broken Arrow, OK 74012

Farm Credit Services of Hawaii, ACA
2850 Pa'a Street, Suite 100
Honolulu, HI 96819

Farm Credit Services Southwest, ACA
3003 S. Fair Lane
Tempe, AZ 85282

Farm Credit West, ACA
1478 Stone Point Drive, Suite 450
Roseville, CA 95661

Federal Land Bank Association of Kingsburg, FLCA
1580 Ellis Street
Kingsburg, CA 93631

Fresno-Madera Farm Credit, ACA
4635 West Spruce Ave.
Fresno, CA 93722

Frontier Farm Credit, ACA
2627 KFB Plaza, Suite 201 E
Manhattan, KS 66503

High Plains Farm Credit, ACA
605 Main Street
Larned, KS 67550

Idaho Agricultural Credit Association
188 West Judicial
Blackfoot, ID 83221

Northern California Farm Credit, ACA
3435 Silverbell Road
Chico, CA 95973

Northwest Farm Credit Services, ACA
1700 South Assembly Street
Spokane, WA 99224

Premier Farm Credit, ACA
202 Poplar Street
Sterling, CO 80751

Western AgCredit, ACA
10980 South Jordan Gateway
South Jordan, UT 84095

Yankee Farm Credit, ACA
289 Hurricane Lane, Suite 102
Williston, VT 05495

Yosemite Farm Credit, ACA
800 West Monte Vista Avenue
Turlock, CA 95382

Texas District

Ag New Mexico, Farm Credit Services, ACA
233 Fairway Terrace North
Clovis, NM 88101

AgriLand, Farm Credit Services
3210 W. Northwest Loop 323
Tyler, TX 75702

AgTexas Farm Credit Services
6901 Quaker Avenue, Suite 300
Lubbock, TX 79413

Alabama AgCredit, ACA
7602 Halcyon Summit Drive
Montgomery, AL 36117

Alabama Farm Credit, ACA
1740 Eva Road NE
Cullman, AL 35055

Capital Farm Credit, ACA
507 E. 26th Street
Bryan, TX 77803

Central Texas Farm Credit, ACA
215 W. Elm Street
Coleman, TX 76834

Great Plains Ag Credit, ACA
5701 I-40 West
Amarillo, TX 79106

Heritage Land Bank, ACA
4608 Kinsey Drive, Suite 100
Tyler, TX 75703

Legacy AgCredit, ACA
303 Connally Street
Sulphur Springs, TX 75482

Lone Star, ACA
1612 Summit Avenue, Suite 300
Fort Worth, TX 76102

Louisiana Land Bank, ACA
2413 Tower Drive
Monroe, LA 71201

Mississippi Land Bank, ACA
5509 Highway 51 North
Senatobia, MS 38668

Panhandle-Plains Land Bank, FLCA
5700 Southwest 45th
Amarillo, TX 79109-5204

Southern AgCredit, ACA
402 West Parkway Place
Ridgeland, MS 39157

Texas AgFinance, Farm Credit Services
545 South Highway 77
Robstown, TX 78380

Texas Land Bank, ACA
13525 Sandalwood Drive
Waco, TX 76712