FARM CREDIT
PROUD PARTNER
SERVING AGRICULTURE

2015 SECOND QUARTER REPORT
JUNE 30, 2015

FARM CREDIT BANK OF TEXAS

SECOND QUARTER 2015

Table of Contents

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

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the three and six months ended June 30, 2015. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2014 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The United States is currently served by three Farm Credit Banks (FCBs), each of which has specific authority to fund affiliated associations and other financing institutions (OFIs) which loan to agricultural producers, farm-related businesses and rural homeowners within a regional chartered territory (or district), and by one Agricultural Credit Bank (ACB), which has the lending authority of an FCB within its chartered territory and nationwide authority to finance agricultural cooperatives and rural utilities. The FCBs and the ACB are collectively referred to as "System banks." As FCBs, the primary purpose of the System banks is to serve as a source of funding for System associations within their districts. The System associations make loans to or for the benefit of borrowers for qualified purposes.

The bank and its affiliated associations collectively are referred to as the "district." At June 30, 2015, the bank provided financing to 14 district associations and certain OFIs.

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended June 30, 2015, was $47,165, an increase of $677, or 1.5 percent, over the same period of 2014. The increase in net income consisted of a $2,126 increase in net interest income and a $1,846 decrease in provision for credit losses, offset by a $1,964 increase in noninterest expense and a $1,331 decrease in noninterest income.

Net income for the six months ended June 30, 2015, was $99,266, an increase of $7,972, or 8.7 percent, over the same period of 2014. The increase in net income for the six months ended June 30, 2015, consisted of a $6,886 increase in net interest income, a $2,448 increase in noninterest income and a $972 increase in negative provision for credit losses, offset by a $2,334 increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended June 30, 2015, was $58,268, an increase of $2,126, or 3.8 percent, from the three months ended June 30, 2014. The increase in net interest income for the quarter ended June 30, 2015, was attributable to a volume increase of $1.89 billion in the bank's average earning assets, offset by an 11-basis-point decrease in the bank's interest rate spread to 122 basis points. Effective interest rates on earning assets decreased 3 basis points from the second quarter of 2014 to the second quarter of 2015, while the effective rates on interest-bearing liabilities increased 8 basis points. The increase in the bank's average earning assets included growth in its direct notes from associations, capital market loans and investment portfolio. Interest expense for the second quarter of 2015 reflected a $918 increase in concession expenses recognized on callable debt as a result of a

$374.9 million increase in debt called in the quarter ended June 30, 2015, compared to the same period in 2014. The bank called $1.08 billion in debt in the three months ended June 30, 2015, as compared to $700.1 million in the three months ended June 30, 2014.

Net interest income for the six months ended June 30, 2015, was $114,969, an increase of $6,886, or 6.4 percent, over the same period of 2014. The increase in net interest income was attributable to a volume increase of $1.86 billion in the bank's average earning assets, offset by a 7-basis-point decrease in the bank's interest rate spread to 123 basis points. The interest rate spread decrease included a 3-basis-point decrease in the effective rate on average earning assets and a 4-basis-point increase in the effective rate on average interest-bearing liabilities for the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decline in effective rates on earning assets is reflective of the low interest rate environment. The increase in the bank's average earning assets included growth in its direct notes from associations, investment portfolio and capital market loans. Interest expense for the first six months of 2015 reflected a $1,644 increase in concession expenses recognized on callable debt as a result of a $410.8 million increase in debt called in the first six months of 2015, compared to the same period in 2014. The bank called $2.00 billion in debt in the six months ended June 30, 2015, as compared to $1.59 billion in the same period of 2014.

Provision for Credit Losses

The bank's negative provision for credit losses for the quarter ended June 30, 2015, totaled $2,538, an increase of $1,846 over the $692 negative provision for credit losses from the second quarter of 2014.

The bank's negative provision for credit losses for the six months ended June 30, 2015, totaled $1,667, an increase of $972 from the $695 negative provision for credit losses recorded in the first six months of 2014. The $1,667 negative provision for the six months ended June 30, 2015, included a $3.4 million reversal of a specific allowance related to an energy loan, offset by increases in general provisions for credit losses and an $882 specific provision related to an unfunded letter of credit to an agricultural cooperative whose credit rating had been downgraded.

Noninterest Income

Noninterest income for the quarter ended June 30, 2015, was $7,755, a decrease of $1,331, or 14.6 percent, over the same period of 2014. The decrease for the second quarter of 2015 over the same period of 2014 was due mainly to a decrease from a $1,678 dividend on preferred stock of an ethanol facility in other property owned (OPO) received in 2014 and a $189 decrease in fair value on loans purchased in the secondary market due primarily to changes in the interest rate market, offset by a $265 increase in services billed to associations, a $204 increase in loan-related fee income and a $67 increase in all other noninterest income elements, collectively. The bank has elected a fair value option for financial presentation purposes on certain loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial instruments. Also, as discussed in the "Investments" section of this Management's Discussion and Analysis, the bank performs other-than-temporary impairment (OTTI) assessments on investment securities based on evaluations of both current and future market and credit conditions at each quarter end. The bank recorded no credit losses for OTTI investment securities during the second quarters of 2014 or 2015.

Noninterest income for the six months ended June 30, 2015, was $22,149, an increase of $2,448, or 12.4 percent, over the same period of 2014. The increase included a $4,101 increase in dividends received on the preferred stock of an ethanol facility in OPO, a $2,030 increase in loan-related fee income and a $358 increase in services billed to associations, offset by a $3,133 loss due to the write-off of loan accounting software no longer deemed a useable asset, an $843 decrease in fair value on loans purchased in the secondary market and a $65 decrease in all other noninterest income items, collectively. The increase in loan-related fees included a $2,426 nonrecurring prepayment fee. The bank recorded no credit losses for OTTI investment securities in the six months ended June 30, 2015 and 2014. In the six months ended June 30, 2015 and 2014, the bank held no securities that were designated as OTTI.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2015, was $21,396, an increase of $1,964, or 10.1 percent, over the same period of 2014. The increase was attributable to a $1,240 increase in salaries and employee benefits, a $454 increase in occupancy and equipment expenses and a $377 increase in premiums assessed by the Farm Credit System Insurance Corporation (FCSIC), offset by a $107 decrease in other operating expenses. Premiums assessed by the FCSIC increased due to a rate increase on outstanding debt from 12 basis points in 2014 to 13 basis points in 2015, and to an increase in debt required to fund earning assets.

Noninterest expense for the six months ended June 30, 2015, was $39,519, an increase of $2,334, or 6.3 percent, over the same period of 2014. The increase was attributable to a $2,589 increase in salaries and employee benefits, a $1,185 increase in occupancy and equipment expenses, a $722 increase in premiums assessed by the FCSIC and a $515 increase in other operating expenses, offset by a $2,677 increase in gains on OPO. The $1,185 increase in occupancy and equipment included a $1,081 increase in computer expenses. Premiums assessed by the FCSIC increased due to a rate increase on outstanding debt from 12 basis points in 2014 to 13 basis points in 2015, and to an increase in debt required to fund earning assets. The increase in gains on OPO included a $2,637 increase in net gains on disposition of the preferred stock of an ethanol facility, a $63 decrease in carrying value adjustments on the underlying collateral and a $22 decrease in net expenses on OPO.

Key results of operations comparisons:

	Annualized for the Six Months Ended June 30, 2015	Annualized for the Six Months Ended June 30, 2014
Return on average assets	**1.05%**	1.12%
Return on average shareholders' equity	**12.40%**	12.75%
Net interest income as a percentage of average earning assets	**1.31%**	1.37%
Charge-offs, net of recoveries, to average loans	**0.03%**	0.04%
Operating expenses as a percentage of net interest income and noninterest income	**31.07%**	29.42%
Operating expenses as a percentage of average earning assets	**0.48%**	0.48%

Other Comprehensive Income

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

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

	2015	2014
Change in unrealized losses on available-for-sale securities		
Net decrease in unrealized losses on investment securities	**$ 8,545**	$ 15,895
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	**-**	21
Net change in unrealized losses on securities	**8,545**	15,916
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(93)**	(96)
Amortization of net losses	**35**	-
Net change in postretirement benefit plans	**(58)**	(96)
Change in cash flow derivative instruments		
Unrealized losses on interest rate caps	**(370)**	(591)
Reclassification of loss recognized in interest expense	**774**	1,209
Net change in cash flow derivative instruments	**404**	618
Other comprehensive income	**$ 8,891**	$ 16,438

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2015, was $13.93 billion, an increase of $671,577, or 5.1 percent, compared to $13.26 billion at December 31, 2014. The increase in the loan portfolio is attributable to growth in the bank's direct loans to associations and an increase in the bank's capital markets loan portfolio.

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

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. CPP loans held at June 30, 2015, totaled $29,976 and were included in "Loans" on the Balance Sheets. The balance of the AMBS CPP was $71,631 at June 30, 2015, and is included in "Investment securities" on the Balance Sheets.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 98.7 percent of total loans and accrued interest at June 30, 2015, compared to 98.8 percent at December 31, 2014.

The table below summarizes the balances of the bank's high-risk assets at June 30, 2015, compared to the balances at December 31, 2014:

		Increase (Decrease)		
	June 30, 2015	$	%	December 31, 2014
Nonaccrual loans	**$ 3,441**	$ (7,127)	(67.44) %	$ 10,568
Formally restructured loans	**16,392**	(89)	(0.54)	16,481
Loans 90 days past due and still accruing interest	**-**	-	-	-
Total impaired loans	**19,833**	(7,216)	(26.68)	27,049
Other property owned	**438**	(9,872)	(95.75)	10,310
Total high-risk assets	**$ 20,271**	$ (17,088)	(45.74) %	$ 37,359

The decrease in nonaccrual loans was due mainly to repayments of $5.1 million and charge-offs of $2.1 million. At June 30, 2014 and 2015, the bank did not have any nonaccrual loans on which cash payments are recognized as interest income. The decrease in OPO included a $9,872 disposition of preferred stock of an ethanol facility. The disposition resulted in a gain of $3,090.

Impaired loans, consisting of nonaccrual loans and formally restructured loans, and loans 90 days past due and still accruing interest, constituted 0.1 percent of gross loans at June 30, 2015, and 0.2 percent of gross loans at December 31, 2014.

At June 30, 2015, the bank had reserves for credit losses totaling $7,881, including an allowance for loan losses of $5,745 and a reserve for losses on unfunded commitments of $2,136 related to the bank's capital markets loan portfolio. The allowance for loan losses of $5,745 equated to 0.04 percent of total loans outstanding and 0.1 percent of capital market loans outstanding. The $2,136 reserve for losses included a general reserve for losses on unused loan commitments, a general reserve for losses on letters of credit and a specific reserve related to two letters of credit, representing management's estimate of probable credit losses related to unfunded commitments.

The allowance for loan losses as a percentage of impaired loans was 29.0 percent as of June 30, 2015, as compared to 37.4 percent as of December 31, 2014. The nature of the collateral supporting many of the impaired loans (primarily first lien real estate) is considered in the determination of necessary allowances for loan losses.

Liquidity and Funding Sources

Cash and investment securities totaled $4.66 billion, or 24.8 percent, of total assets at June 30, 2015, compared to $4.54 billion, or 25.2 percent, at December 31, 2014, an increase of $118,364, or 2.6 percent. At June 30, 2015, the bank's cash balance was $508,936, an $80,575 increase from December 31, 2014. Cash held at the Federal Reserve Bank at June 30, 2015, totaled $497,302, compared to $402,409 at December 31, 2014. Levels of cash and other highly liquid assets are maintained to meet loan demand, debt servicing and other liquidity needs. At June 30, 2015, the bank had 223 days of liquidity to cover maturing debt obligations. Interest-bearing liabilities, consisting of bonds, notes and subordinated debt, increased by $712,292, or 4.3 percent, from December 31, 2014, to June 30, 2015.

Investments

The bank's investments are all considered available for sale, and include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio had a fair value of $4.05 billion at June 30, 2015, and consisted primarily of mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments, totaling $71.6 million, consisted of AMBS purchased from district associations. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitment to purchase agreements.

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

The following table summarizes the bank's liquidity portfolio holdings:

	June 30, 2015		December 31, 2014	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 172,811**	**$ 170,533**	$ 159,334	$ 155,190
Corporate debt	**251,509**	**251,399**	241,516	241,530
Federal agency-guaranteed collateralized mortgage-backed securities:				
GNMA	**1,676,233**	**1,673,741**	1,708,215	1,701,417
FNMA and FHLMC	**1,837,155**	**1,836,319**	1,829,075	1,825,894
Other collateralized MBS	**-**	**-**	7	7
Asset-backed securities	**121,230**	**121,061**	81,806	81,770
Total available-for-sale investments	**$ 4,058,938**	**$ 4,053,053**	$ 4,019,953	$ 4,005,808

The bank's other investments portfolio consisted of Farmer Mac AMBS securities as follows:

	June 30, 2015		December 31, 2014	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 73,303**	**$ 71,631**	$ 82,539	$ 80,583

During the six months ended June 30, 2015, there was a decrease in unrealized losses on investments totaling $8,545, due primarily to the effect of changing interest rates and to continued demand for high-quality agency mortgage-backed securities.

FCA regulations define eligible investments by specifying credit rating criteria, final maturity limit, percentage of investment portfolio limit and certain other requirements for each investment type. At the time the investments are purchased, they must be highly rated by at least one Nationally Recognized Statistical Rating Organization (NRSRO), such as Moody's Investors Service, Standard & Poor's or Fitch Ratings. U.S. Treasury securities, U.S. agency securities and other obligations fully insured or guaranteed by the U.S. government, its agencies, instrumentalities and corporations are considered eligible investments under the FCA's regulations, even if downgraded. If an investment no longer meets the credit rating criteria, the investment becomes ineligible; however, FCA regulations do not require disposition of any of these securities. While these investments do not meet the FCA's standards for liquidity, they are included in the net collateral calculation at the lower of market or book value.

At June 30, 2015, the bank did not hold any investments that were ineligible for liquidity purposes by FCA regulations due to credit ratings that were below AAA rating by all NRSROs.

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

	Eligible			Ineligible	
June 30, 2015	AAA/Aaa	AA/Aa	Split Rated*	AA/Aa	Total
Agency-guaranteed debt**	$ -	$ -	$ 170,533	$ -	$ 170,533
Corporate debt	-	107,314	144,085	-	251,399
Federal agency collateralized mortgage-backed securities**					
GNMA	-	-	1,673,741	-	1,673,741
FNMA and FHLMC	-	-	1,836,319	-	1,836,319
Other collateralized mortgage-backed securities	-	-	-	-	-
Asset-backed securities	121,061	-	-	-	121,061
Total	$ 121,061	$107,314	$ 3,824,678	$ -	$ 4,053,053

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

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

**At June 30, 2015, and December 31, 2014, due to credit ratings which remain "AA+" and related lowered long-term credit ratings of government-sponsored enterprises due to the potential reduction in the capacity of the U.S. government to support these securities, these investments were reported as eligible split-rated investments.

Capital Resources

At June 30, 2015, the bank's capital totaled $1,560,263, and consisted of $600,000 of Class B non-cumulative subordinated perpetual preferred stock, $233,468 of capital stock, $737,726 in retained earnings and $10,931 in accumulated other comprehensive loss. The balance in equity reflected an increase of $81,042 from equity at December 31, 2014, due primarily to net income of $99,266 and an $8,891 decrease in other comprehensive loss, offset by preferred stock dividends of $25,125 and $1,990 in patronage declared and paid. The decrease in accumulated other comprehensive loss of $8,891 included a decrease in unrealized losses on investments of $8,545 and a $404 decrease in unrealized losses on cash flow derivative instruments, net of a $58 amortization of other postretirement benefits. The decrease in unrealized losses on investment securities was due primarily to the effect of changing interest rates and to continued demand for high-quality agency mortgage-backed securities.

As of June 30, 2015, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under FCA regulations. At June 30, 2015, the bank's permanent capital ratio was 17.25 percent, core surplus ratio was 9.41 percent, total surplus ratio was 14.77 percent and the net collateral ratio was 108.22 percent. The expected decrease in the permanent capital ratio, based on 90-day average balances, is related primarily to annual patronage distributions made at year-end 2014 and to asset growth at the bank during the six months ended June 30, 2015.

Key financial condition comparisons:

	June 30, 2015	December 31, 2014
Permanent capital ratio	**17.25%**	18.33%
Net collateral ratio	**108.22%**	108.00%
Allowance and reserve for credit losses to total loans	**0.06%**	0.09%

OTHER

CONDITIONS IN THE TEXAS FARM CREDIT DISTRICT

During the second quarter of 2015, states across the district are generally benefiting from adequate to surplus moisture levels, which, in general, have resulted in good pasture and range conditions as well as sufficient moisture for field crops. More specifically, late spring and early summer rains have improved conditions in Texas and Eastern New Mexico, with the majority of these regions now carrying higher levels of topsoil moisture as well as surface water. As compared to most recent years, these healthier field conditions have improved the outlook for this year's row and forage crops. Across the eastern states, rainfall has been sufficient and, aside from parts of Northern Alabama, the states are not experiencing significant drought. With the 2015 farm season now in progress, most crops across district states are in the ground. In general, farmers across the district have had the benefit of late spring and early summer rains, and most major crops are reported as being in fair to excellent condition. Nevertheless, heavy rains in the Texas Panhandle and the Rio Grande Valley have curtailed some farmers from getting crops planted. Excess rain during the planting season caused a 12-15 percent reduction in the total planted acreage for Texas cotton. Growing conditions this summer and fall will determine how this reduction affects overall yield. In addition, excessive rainfall in some areas has prevented farmers from harvesting their winter wheat crop and also increased possibility of disease. Looking forward to the late summer and early fall, the focus will be on precipitation and temperatures and the impact on harvested acres, yields and, ultimately, price. Farmers in the district continue to use risk management tools, such as programs under the U.S. Farm Bill, multi-peril crop insurance and forward, futures and options contracts.

Across the district, moderate feed prices are positively impacting the livestock, poultry and dairy industries. The cattle industry continues to experience contracted herd levels, due to the previous prolonged drought conditions in the U.S. Plains States, which drove the liquidation of the breeding herd. With improved pasture and range conditions and historically strong prices for cattle, cattle ranchers are in herd expansion mode and are doing so through increased cow and heifer retention. While cattle feedlots continue to manage through the effects of a smaller cattle herd, elevated beef prices and a strong corn crop have aided profitability. However, feeder cattle prices are also strong, limiting the profitability for cattle feeders. When compared to last year, dairy prices have softened; however, producers had most recently benefited from very strong milk prices, allowing many dairy producers to strengthen their balance sheet before moving into the next cycle of expansion. In addition, lower corn and hay costs remain supportive of dairymen profits. Broiler prices and profitability remain strong by historical standards; however, exports have declined due to a few countries establishing export bans on all U.S. poultry products. These bans have followed the occurrence of the highly pathogenic avian influenza virus (HPAI) within the table egg layer and turkey flocks, while, to date, the HPAI virus has not had a material impact on the chicken broiler flock. As livestock producers manage profitability, risk management of operations will continue to provide protection from commodity price volatility and the threat of rising production costs.

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

ASSOCIATION MERGERS

During the first quarter of 2015, there was one merger affecting two district associations. The merger of AgTexas Farm Credit Services and Great Plains Ag Credit, ACA, forming AgTexas Farm Credit Services, became effective January 1, 2015. The merger was accounted for under the acquisition method of accounting under generally accepted accounting principles. As of January 1, 2015, the number of affiliated associations in the district decreased from 15 to 14, consisting of 13 ACAs and one Federal Land Credit Association (FLCA).

In 2014, there were two mergers affecting four district associations. The mergers of Lone Star, ACA and Texas Land Bank, ACA, forming Lone Star, ACA, and of Texas AgFinance and AgriLand, Farm Credit Services, forming Texas Farm Credit Services, became effective January 1, 2014. The mergers were accounted for under the acquisition method of accounting under generally accepted accounting principles. As of January 1, 2014, the number of affiliated associations in the district decreased from 17 to 15, consisting of 14 Agricultural Credit Associations (ACAs) and one FLCA.

ASSOCIATION NAME CHANGE

Effective July 1, 2015, Panhandle Plains Land Bank changed their name to Plains Land Bank, FLCA.

RATING AGENCY ACTIONS

Fitch Ratings Actions

On April 21, 2015, Fitch Ratings affirmed the bank's long-term and short-term issuer default ratings (IDRs) at "AA-" and "F1+," respectively, with a stable outlook. Fitch also affirmed the bank's subordinated debt rating at "A+," its noncumulative perpetual preferred stock rating at "BBB" and its support floor at "AA-." Fitch also affirmed the Farm Credit System's long-term and short-term issuer default ratings (IDRs) at "AAA" and "F1+," respectively, with a stable outlook, and its support floor at "AAA." As a government-sponsored entity, the System benefits from implicit government support, and thus, the ratings and rating outlook are directly linked to the U.S. sovereign rating. The affirmation of the System banks' IDRs reflect their prudent, conservative credit culture, their unique funding advantage and their structural second-loss position on the majority of their loan portfolio.

Moody's Investors Service Rating Actions

On April 30, 2015, Moody's Investors Service affirmed the bank's issuer rating at "Aa3," its subordinated debt rating at "A2" and its noncumulative preferred stock rating at "Baa1 (hyb)," with a stable outlook. The Aa3 issuer rating reflects the bank's "a1" baseline credit assessment (BCA), very high cooperative support from the other Federal Farm Credit Banks and moderate support from the U.S. Government, which has an "Aaa," stable outlook. The bank's subordinated debt and preferred stock ratings incorporate the bank's BCA, very high cooperative support from the other Federal Farm Credit Banks and notching reflecting the debt's relative positions in the bank's capital structure. The bank's BCA incorporates its solid capital levels, adequate risk-adjusted profitability and liquidity as well as the benefits associated with its lending to related associations and their strong capital levels. The "a1" BCA is one of Moody's highest assessments of any financial institution, both domestically and globally.

REGULATORY MATTERS

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

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

The initial public comment period ended on February 16, 2015, however, the FCA agreed to reopen the comment period from June 26, 2015, to July 10, 2015.

As of June 30, 2015, FCA had enforcement actions in place against one association in the district, which has not had, and is not expected to have, a significant impact on the bank.

The undersigned certify that we have reviewed the June 30, 2015, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

James F. Dodson
Chairman of the Board

Amie Pala
Chief Financial Officer

August 7, 2015

Controls and Procedures

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

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

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

August 7, 2015

Balance Sheets

(dollars in thousands)	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash	**$ 508,936**	$ 428,361
Federal funds sold and overnight investments	**21,582**	22,086
Investment securities	**4,124,684**	4,086,391
Loans (includes $39,555 and $40,532 at fair value held under fair value option)	**13,931,414**	13,259,837
Less allowance for loan losses	**5,745**	10,112
Net loans	**13,925,669**	13,249,725
Accrued interest receivable	**46,497**	44,429
Other property owned	**438**	10,310
Premises and equipment, net	**22,869**	25,197
Other assets	**130,749**	147,051
Total assets	**$ 18,781,424**	$ 18,013,550
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 17,053,573**	$ 16,341,281
Subordinated debt	**50,000**	50,000
Accrued interest payable	**41,565**	38,122
Reserve for credit losses	**2,136**	1,342
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**53,824**	83,521
Total liabilities	**17,221,161**	16,534,329
Commitments and contingent liabilities (Note 4)		
Shareholders' equity		
Preferred stock	**600,000**	600,000
Capital stock	**233,468**	233,468
Allocated retained earnings	**22,508**	22,508
Unallocated retained earnings	**715,218**	643,067
Accumulated other comprehensive loss	**(10,931)**	(19,822)
Total shareholders' equity	**1,560,263**	1,479,221
Total liabilities and shareholders' equity	**$ 18,781,424**	$ 18,013,550

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

Statements of Comprehensive Income

(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2015**	2014	**2015**	2014
Interest Income				
Investment securities	**$ 14,966**	$ 12,890	**$ 29,774**	$ 25,007
Loans	**90,460**	82,718	**177,894**	163,471
Total interest income	**105,426**	95,608	**207,668**	188,478
Interest Expense				
Bonds, notes and subordinated debt	**47,158**	39,466	**92,699**	80,395
Total interest expense	**47,158**	39,466	**92,699**	80,395
Net interest income	**58,268**	56,142	**114,969**	108,083
Negative provision for credit losses	**(2,538)**	(692)	**(1,667)**	(695)
Net interest income after negative provision for loan losses	**60,806**	56,834	**116,636**	108,778
Noninterest Income				
Patronage income	**4,146**	4,164	**9,555**	9,528
Fees for services to associations	**1,090**	825	**2,557**	2,199
Loan-related fees	**2,540**	2,336	**7,434**	5,404
(Loss) gain on loans held under fair value option	**(109)**	80	**(199)**	644
Miscellaneous income, net	**88**	1,681	**2,802**	1,926
Total noninterest income	**7,755**	9,086	**22,149**	19,701
Noninterest Expense				
Salaries and employee benefits	**8,625**	7,385	**17,571**	14,982
Occupancy and equipment	**3,493**	3,039	**7,588**	6,403
Insurance Fund premiums	**2,291**	1,914	**4,395**	3,673
Losses (gains) on other property owned, net	**-**	88	**(3,090)**	(413)
Other operating expenses	**6,987**	7,006	**13,055**	12,540
Total noninterest expense	**21,396**	19,432	**39,519**	37,185
Net Income	**47,165**	46,488	**99,266**	91,294
Other comprehensive (loss) income				
Change in unrealized gain on investments	**(14,991)**	8,928	**8,545**	15,916
Change in postretirement benefit plans	**(29)**	(48)	**(58)**	(96)
Change in cash flow derivative instruments	**94**	336	**404**	618
Total other comprehensive (loss) income	**(14,926)**	9,216	**8,891**	16,438
Comprehensive Income	**$ 32,239**	$ 55,704	**$ 108,157**	$ 107,732

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2013	$ 600,000	$ 220,543	$ 20,314	$ 585,503	$ (33,113)	$ 1,393,247
Net income	-	-	-	91,294	-	91,294
Other comprehensive income	-	-	-	-	16,438	16,438
Capital stock issued	-	483	-	-	-	483
Capital stock retired	-	(265)	-	-	-	(265)
Preferred stock dividends accrued	-	-	-	(25,125)	-	(25,125)
Patronage distributions						
Cash	-	-	-	(1,891)	-	(1,891)
Shareholders' equity	-	-	(4)	4	-	-
Balance at June 30, 2014	$ 600,000	$ 220,761	$ 20,310	$ 649,785	$ (16,675)	$ 1,474,181
Balance at December 31, 2014	$ 600,000	$ 233,468	$ 22,508	$ 643,067	$ (19,822)	$ 1,479,221
Net income	-	-	-	99,266	-	99,266
Other comprehensive income	-	-	-	-	8,891	8,891
Preferred stock dividends accrued	-	-	-	(25,125)	-	(25,125)
Patronage distributions						
Cash	-	-	-	(1,990)	-	(1,990)
Balance at June 30, 2015	**$ 600,000**	**$ 233,468**	**$ 22,508**	**$ 715,218**	**$ (10,931)**	**$ 1,560,263**

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

Statements of Cash Flows

(unaudited)

	Six Months Ended June 30,	
(dollars in thousands)	**2015**	2014
Operating activities		
Net income	**$ 99,266**	$91,294
Reconciliation of net income to net cash provided by operating activities		
Provision for credit losses	**(1,667)**	(695)
Carrying value adjustments on other property owned	**-**	63
Depreciation and amortization on premises and equipment	**2,696**	2,262
Accretion of net premium on loans	**4,041**	2,967
Amortization and accretion on debt instruments	**(1,688)**	(1,824)
Amortization of net premium (discount) on investment securities	**910**	(436)
Decrease in fair value on loans under fair value option	**199**	(644)
Losses (gains) from sales of other property owned, net	**(3,090)**	(453)
Losses (gains) from sales of premises and equipment	**3,124**	(16)
Allocated equity patronage from System bank	**(13,498)**	(13,083)
(Increase) decrease in accrued interest receivable	**(2,068)**	(2,261)
Decrease (increase) in other assets	**30,204**	9,696
Increase (decrease) in accrued interest payable	**3,443**	(3,041)
Increase (decrease) in other liabilities	**(4,239)**	(8,557)
Net cash provided by operating activities	**117,633**	75,272
Investing activities		
Net (increase) decrease in federal funds	**504**	51
Investment securities		
Purchases	**(519,316)**	(601,103)
Proceeds from maturities, calls and prepayments	**488,658**	429,523
(Increase) decrease in loans, net	**(683,541)**	(554,702)
Proceeds from sales of other property owned	**12,962**	3,266
Proceeds from sales of premises and equipment	**59**	33
Expenditures for premises and equipment	**(3,551)**	(2,305)
Net cash used in investing activities	**(704,225)**	(725,237)
Financing activities		
Bonds and notes issued	**6,096,239**	5,293,008
Bonds and notes retired	**(5,382,259)**	(4,659,790)
Capital stock issued	**-**	483
Capital stock retired		
and allocated retained earnings distributed	**-**	(265)
Cash dividends on preferred stock	**(25,125)**	(25,125)
Cash patronage distributions paid	**(21,688)**	(18,753)
Net cash provided by financing activities	**667,167**	589,558
Net increase (decrease) increase in cash	**80,575**	(60,407)
Cash at beginning of year	**428,361**	602,452
Cash at end of quarter	**$ 508,936**	$ 542,045
Supplemental schedule of noncash investing and financing activities		
Net increase (decrease) in unrealized losses on investment securities	**$ 8,545**	$ 15,916
Supplemental information		
Interest paid	**$ 89,256**	$ 83,436

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

Notes to Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the Farm Credit Bank of Texas (bank). The significant accounting policies followed and the financial condition and results of operations of the bank as of and for the year ended December 31, 2014, are contained in the 2014 Annual Report to shareholders (Annual Report). These unaudited second quarter 2015 financial statements should be read in conjunction with the Annual Report.

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

The bank and its affiliated associations (district) are part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. At June 30, 2015, the bank provided financing to 14 district associations and certain other financing institutions.

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance entitled "Interest – Imputation of Interest." The guidance requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). This guidance becomes effective for interim and annual reporting periods ending after December 15, 2015, and early application is permitted. The adoption of this guidance is not expected to impact the bank's financial condition or its results of operations.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In July 2015, this guidance was deferred by one year and results in the new revenue standard becoming effective for interim and annual reporting periods ending after December 15, 2017. The bank and associations are in the process of reviewing contracts to determine what effect, if any, this guidance will have on their financial condition or results of operations.

NOTE 2 — INVESTMENTS

Available for Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations. A summary of the amortized cost and fair value of investment securities available for sale, at June 30, 2015, and December 31, 2014, is included in the following tables.

Investments in the available-for-sale liquidity portfolio June 30, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 172,811	$ 377	$ (2,655)	$ 170,533	1.37 %
Corporate debt	251,509	270	(380)	251,399	0.84
Federal agency collateralized mortgage-backed securities					
GNMA	1,676,233	7,131	(9,623)	1,673,741	1.43
FNMA and FHLMC	1,837,155	6,980	(7,816)	1,836,319	1.36
Asset-backed securities	121,230	20	(189)	121,061	0.66
Total available-for-sale investments	**$ 4,058,938**	**$ 14,778**	**$ (20,663)**	**$ 4,053,053**	**1.33** %

Investments in the available-for-sale other investments portfolio at June 30, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 73,303	$ -	$ (1,672)	$ 71,631	4.13 %

Investments in the available-for-sale liquidity portfolio at December 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 159,334	$ -	$ (4,144)	$ 155,190	1.45 %
Corporate debt	241,516	313	(299)	241,530	0.76
Federal agency collateralized mortgage-backed securities					
GNMA	1,708,215	6,212	(13,010)	1,701,417	1.54
FNMA and FHLMC	1,829,075	6,174	(9,355)	1,825,894	1.36
Other collateralized MBS	7	-	-	7	2.42
Asset-backed securities	81,806	10	(46)	81,770	0.59
Total available-for-sale investments	**$ 4,019,953**	**$ 12,709**	**$ (26,854)**	**$ 4,005,808**	**1.40** %

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

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

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at June 30, 2015:

Investments in the available-for-sale liquidity portfolio:

	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Total
Agency-guaranteed debt	$ -	$ -	$ 138,036	$ 32,497	$ 170,533
Corporate debt	100,071	151,328	-	-	251,399
Federal agency collateralized mortgage-backed securities					
GNMA	-	983	14,733	1,658,025	1,673,741
FNMA and FHLMC	-	31,215	197,916	1,607,188	1,836,319
Other collateralized MBS	-	-	-	-	-
Asset-backed securities	-	115,987	-	5,074	121,061
Total fair value	**$ 100,071**	**$ 299,513**	**$ 350,685**	**$ 3,302,784**	**$ 4,053,053**
Total amortized cost	**$ 99,999**	**$ 299,383**	**$ 351,904**	**$ 3,307,652**	**$ 4,058,938**
Weighted average yield	**0.64%**	**0.95%**	**1.51%**	**1.37%**	**1.33%**

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

	Due after one year through five years
Fair value of agricultural mortgage-backed securities	$ 71,631
Total amortized cost	**$ 73,303**
Weighted average yield	**4.13%**

Other-Than-Temporarily Impaired Investments Evaluation

The following table shows available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time, for securities that have been in a continuous unrealized loss position at June 30, 2015. The continuous loss position is based on the date the impairment was first identified:

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Agency-guaranteed debt	$ 51,023	$ (469)	$ 93,960	$ (2,186)	$ 144,983	$ (2,655)
Corporate debt	82,161	(376)	14,996	(4)	97,157	(380)
Federal agency collateralized mortgage-backed securities						
GNMA	388,850	(1,694)	390,427	(7,929)	779,277	(9,623)
FNMA and FHLMC	465,551	(2,310)	381,233	(5,506)	846,784	(7,816)
Other collateralized MBS	-	-	-	-	-	-
Asset-backed securities	107,373	(189)	-	-	107,373	(189)
Total	**$1,094,958**	**$ (5,038)**	**$ 880,616**	**$ (15,625)**	**$1,975,574**	**$ (20,663)**

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

In the event of an investment being designated OTTI, to measure the amount related to credit loss in the determination of OTTI, the bank utilizes a third-party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan-level data. Loan-level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan-level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses. In the six months ended June 30, 2015, the bank did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at June 30, 2015. The following is a rollforward of the amount related to credit losses recognized for the three and six months ended June 30:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	**2015**	2014
Credit loss component, beginning of period	**$ -**	$ 454	**$ -**	$ 454
Additions:				
Initial credit impairment	**-**	-	**-**	-
Subsequent credit impairment	**-**	-	**-**	-
Reductions:				
For securities sold	**-**	-	**-**	-
For increases in expected cash flows	**-**	-	**-**	-
Credit loss component end of period	**$ -**	$ 454	**$ -**	$ 454

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

Loans, including direct notes to district associations and other financing institutions (OFIs), participations purchased and other bank-owned loans, comprised the following categories at:

	June 30, 2015	December 31, 2014
Direct notes receivable from district associations and OFIs	**$ 9,025,347**	$ 8,504,806
Participations purchased	**4,905,644**	4,753,363
Other bank-owned loans	**423**	1,668
Total	**$ 13,931,414**	$ 13,259,837

A summary of the bank's loans by type follows:

	June 30, 2015	December 31, 2014
Direct notes receivable from district associations	**$ 8,986,889**	$ 8,465,887
Real estate mortgage	**339,127**	337,777
Production and intermediate term	**592,247**	567,721
Loans to cooperatives	**176,540**	141,478
Processing and marketing	**2,057,315**	1,951,908
Farm-related business	**210,115**	227,125
Communication	**292,490**	252,117
Energy (rural utilities)	**1,086,665**	1,109,552
Water and waste disposal	**132,946**	134,644
Rural residential real estate	**17**	16
Loans to other financing institutions	**38,458**	38,919
Mission-related	**18,605**	32,693
Total	**$ 13,931,414**	$ 13,259,837

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

The bank purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold, excluding syndications, at June 30, 2015.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 325,795	$ 245,435	$ -	$ -	$ 325,795	$ 245,435
Production and intermediate term	1,678,361	1,145,460	9,247	28,589	1,687,608	1,174,049
Agribusiness	1,421,660	529,179	41,171	-	1,462,831	529,179
Communication	404,693	111,765	-	-	404,693	111,765
Energy (rural utilities)	1,247,736	188,923	-	-	1,247,736	188,923
Water and waste disposal	131,961	17,752	-	-	131,961	17,752
Mission-related	4,793	-	-	-	4,793	-
Loans to other financing institutions	-	15,943	-	-	-	15,943
Direct note receivable from district associations	-	3,650,000	-	-	-	3,650,000
Total	**$ 5,214,999**	**$ 5,904,457**	**$ 50,418**	**$ 28,589**	**$ 5,265,417**	**$ 5,933,046**

The bank has purchased loan participations and Farmer Mac guaranteed AMBS from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. CPP loans held at June 30, 2015, totaled $29,976. The balance of the AMBS CPP was $71,631 at June 30, 2015.

The bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the bank on such balances. There were no significant balances of ACPs at June 30, 2015, or December 31, 2014.

During 2012, the bank elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $39,555 at June 30, 2015. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in Noninterest Income on the Statements of Comprehensive Income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis.

The following is a summary of the transactions on loans for which the fair value option has been elected for the six months ended June 30, 2015:

Balance at January 1, 2015	**$**	**40,532**
Net losses on financial instruments under fair value option		**(199)**
Change in premium		**(778)**
Balance at June 30, 2015	**$**	**39,555**

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

		June 30, 2015		December 31, 2014
Nonaccrual loans:				
Real estate mortgage	**$**	**3,346**	$	3,545
Energy and water/waste disposal		**95**		7,023
Total nonaccrual loans		**3,441**		10,568
Accruing restructured loans:				
Real estate mortgage		**871**		870
Production and intermediate term		**12,776**		12,805
Mission-related		**2,745**		2,806
Total accruing restructured loans		**16,392**		16,481
Total nonperforming loans		**19,833**		27,049
Other property owned		**438**		10,310
Total nonperforming assets	**$**	**20,271**	$	37,359

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

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

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

	June 30, 2015		December 31, 2014	
Real estate mortgage:				
Acceptable	**89.8**	**%**	89.5	%
OAEM	**9.0**		9.2	
Substandard/Doubtful	**1.2**		1.3	
	100.0	**%**	100.0	%
Production and intermediate term:				
Acceptable	**99.3**	**%**	99.2	%
OAEM	**0.7**		0.8	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Agribusiness:				
Acceptable	**98.6**	**%**	99.2	%
OAEM	**0.4**		0.8	
Substandard/Doubtful	**1.0**		-	
	100.0	**%**	100.0	%
Energy and water/waste disposal:				
Acceptable	**99.0**	**%**	98.5	%
OAEM	**1.0**		0.9	
Substandard/Doubtful	**-**		0.6	
	100.0	**%**	100.0	%
Communication:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Rural residential real estate:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Direct notes to associations:				
Acceptable	**98.4**	**%**	98.2	%
OAEM	**-**		-	
Substandard/Doubtful	**1.6**		1.8	
	100.0	**%**	100.0	%
Loans to other financing institutions:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Mission-related:				
Acceptable	**88.8**	**%**	93.4	%
OAEM	**-**		-	
Substandard/Doubtful	**11.2**		6.6	
	100.0	**%**	100.0	%
Total loans:				
Acceptable	**98.3**	**%**	98.3	%
OAEM	**0.4**		0.5	
Substandard/Doubtful	**1.3**		1.2	
	100.0	**%**	100.0	%

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

June 30, 2015

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 2,618	$ 733	$ 3,351	$ 339,098	$ 342,449	$ -
Production and intermediate term	-	-	-	594,189	594,189	-
Agribusiness	-	-	-	2,456,391	2,456,391	-
Communication	-	-	-	292,677	292,677	-
Energy and water/waste disposal	3	-	3	1,224,819	1,224,822	-
Rural residential real estate	-	-	-	17	17	-
Direct notes to associations	-	-	-	9,004,363	9,004,363	-
Loans to other financing institutions	-	-	-	38,502	38,502	-
Mission-related	-	-	-	18,852	18,852	-
Total	**$ 2,621**	**$ 733**	**$ 3,354**	**$13,968,908**	**$13,972,262**	**$ -**

December 31, 2014

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

Additional impaired loan information is as follows:

	At June 30, 2015			At December 31, 2014		
Impaired loans with a related allowance for credit losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Energy and water/waste disposal	**$ -**	**$ -**	**$ -**	$ 7,023	$ 7,023	$ 5,500
Mission-related	**222**	**222**	**73**	228	228	72
Total	**$ 222**	**$ 222**	**$ 73**	$ 7,251	$ 7,251	$ 5,572
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 4,217**	**$ 10,822**	**$ -**	$ 4,415	$ 11,056	$ -
Production and intermediate term	**12,776**	**15,597**	**-**	12,805	15,597	-
Processing and marketing	**-**	**1,371**	**-**	-	1,381	-
Energy and water/waste disposal	**95**	**19,738**	**-**	-	17,578	-
Mission-related	**2,523**	**5,708**	**-**	2,578	5,763	-
Total	**$ 19,611**	**$ 53,236**	**$ -**	$ 19,798	$ 51,375	$ -
Total impaired loans:						
Real estate mortgage	**$ 4,217**	**$ 10,822**	**$ -**	$ 4,415	$ 11,056	$ -
Production and intermediate term	**12,776**	**15,597**	**-**	12,805	15,597	-
Processing and marketing	**-**	**1,371**	**-**	-	1,381	-
Energy and water/waste disposal	**95**	**19,738**	**-**	7,023	24,601	5,500
Mission-related	**2,745**	**5,930**	**73**	2,806	5,991	72
Total	**$ 19,833**	**$ 53,458**	**$ 73**	$ 27,049	$ 58,626	$ 5,572

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2015		June 30, 2014		**June 30, 2015**		June 30, 2014	
Impaired loans with a related allowance for credit losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Real estate mortgage	**$ -**	**$ -**	$ -	$ -	**$ -**	**$ -**	$ 1,458	$ -
Production and intermediate term	**-**	**-**	12,498	-	**-**	**-**	13,498	-
Energy and water/waste disposal	**-**	**-**	2,161	-	**3,457**	**-**	2,090	-
Mission-related	**224**	**4**	222	4	**225**	**8**	213	8
Total	**$ 224**	**$ 4**	$ 14,881	$ 4	**$ 3,682**	**$ 8**	$ 17,259	$ 8
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 4,147**	**$ 13**	$ 5,282	$ 14	**$ 4,217**	**$ 51**	$ 4,719	$ 93
Production and intermediate term	**12,562**	**299**	11,138	142	**12,562**	**830**	11,209	523
Energy and water/waste disposal	**6,766**	**-**	-	1	**3,402**	**-**	-	1
Mission-related	**2,515**	**39**	2,569	39	**2,532**	**77**	2,584	79
Total	**$ 25,990**	**$ 351**	$ 18,989	$ 196	**$ 22,713**	**$ 958**	$ 18,512	$ 696
Total impaired loans:								
Real estate mortgage	**$ 4,147**	**$ 13**	$ 5,282	$ 14	**$ 4,217**	**$ 51**	$ 6,177	$ 93
Production and intermediate term	**12,562**	**299**	23,636	142	**12,562**	**830**	24,707	523
Energy and water/waste disposal	**6,766**	**-**	2,161	1	**6,859**	**-**	2,090	1
Mission-related	**2,739**	**43**	2,791	43	**2,757**	**85**	2,797	87
Total	**$ 26,214**	**$ 355**	$ 33,870	$ 200	**$ 26,395**	**$ 966**	$ 35,771	$ 704

The average recorded investment in impaired loans for the three months ended June 30, 2015, was $26.2 million. The bank recognized interest income of $355 on impaired loans during the three months ended June 30, 2015.

The average recorded investment in impaired loans for the six months ended June 30, 2015, was $26.4 million. The bank recognized interest income of $966 on impaired loans during the six months ended June 30, 2015.

At June 30, 2015, impaired loans of $222 had a related specific allowance of $73, while the remaining $19.6 million of impaired loans had no related specific allowance as a result of adequate collateralization.

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses											
Balance at March 31, 2015	$ 797	$ 393	$ 1,198	$ 191	$ 7,536	$ -	$ 27	$ -	$ -	$ 105	$ 10,247
Charge-offs	-	-	-	-	(2,065)	-	-	-	-	-	(2,065)
Recoveries	6	-	11	142	-	-	-	-	-	-	159
Provision for credit losses (loan loss reversal)	(15)	(72)	1,068	(143)	(3,371)	-	(4)	-	-	(1)	(2,538)
Other *	1	43	(95)	(2)	(4)	-	-	-	-	(1)	(58)
Balance at June 30, 2015	$ 789	$ 364	$ 2,182	$ 188	$ 2,096	$ -	$ 23	$ -	$ -	$ 103	$ 5,745
Balance at December 31, 2014	$ 794	$ 304	$ 1,120	$ 200	$ 7,590	$ -	$ -	$ -	$ -	$ 104	$ 10,112
Charge-offs	-	-	-	-	(2,065)	-	-	-	-	-	(2,065)
Recoveries	6	-	11	142	-	-	-	-	-	-	159
Provision for credit losses (loan loss reversal)	(41)	(4)	1,982	(152)	(3,475)	-	23	-	-	-	(1,667)
Other *	30	64	(931)	(2)	46	-	-	-	-	(1)	(794)
Balance at June 30, 2015	$ 789	$ 364	$ 2,182	$ 188	$ 2,096	$ -	$ 23	$ -	$ -	$ 103	$ 5,745
Individually evaluated for impairment	-	-	-	-	-	-	-	-	-	73	73
Collectively evaluated for impairment	789	364	2,182	188	2,096	-	23	-	-	30	5,672
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2015	$ 789	$ 364	$ 2,182	$ 188	$ 2,096	$ -	$ 23	$ -	$ -	$ 103	$ 5,745
Balance at March 31, 2014	$ 3,426	$ 5,264	$ 1,739	$ 215	$ 3,637	$ -	$ 7	$ -	$ -	$ 103	14,391
Charge-offs	(2,072)	-	-	-	-	-	-	-	-	-	(2,072)
Recoveries	7	-	-	-	-	-	-	-	-	-	7
Provision for credit losses (loan loss reversal)	(692)	-	-	-	-	-	-	-	-	-	(692)
Other *	57	(129)	(473)	(15)	535	-	-	-	-	-	(25)
Balance at June 30, 2014	$ 726	$ 5,135	$ 1,266	$ 200	$ 4,172	$ -	$ 7	$ -	$ -	$ 103	$ 11,609
Balance at December 31, 2013	$ 1,954	$ 5,075	$ 2,781	$ 215	$ 3,596	$ -	$ 7	$ -	$ -	$ 32	$ 13,660
Charge-offs	(2,072)	-	(290)	-	-	-	-	-	-	-	(2,362)
Recoveries	7	-	5	-	41	-	-	-	-	-	53
Provision for credit losses (loan loss reversal)	(224)	189	(757)	-	-	-	-	-	-	97	(695)
Other *	1,061	(129)	(473)	(15)	535	-	-	-	-	(26)	953
Balance at June 30, 2014	$ 726	$ 5,135	$ 1,266	$ 200	$ 4,172	$ -	$ 7	$ -	$ -	$ 103	$ 11,609
Individually evaluated for impairment	-	4,811	-	-	2,134	-	-	-	-	70	7,015
Collectively evaluated for impairment	726	324	1,266	200	2,038	-	7	-	-	33	4,594
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2014	$ 726	$ 5,135	$ 1,266	$ 200	$ 4,172	$ -	$ 7	$ -	$ -	$ 103	$ 11,609
Recorded Investments in Loans Outstanding:											
Ending balance at June 30, 2015	$ 342,449	$ 594,189	$ 2,456,391	$ 292,677	$ 1,224,822	$ 17	$ -	$ 9,004,363	$ 38,502	$ 18,852	$ 13,972,262
Individually evaluated for impairment	$ 4,217	$ 12,776	$ -	$ -	$ 95	$ -	$ -	$ -	$ -	$ 2,745	$ 19,833
Collectively evaluated for impairment	$ 338,232	$ 581,413	$ 2,456,391	$ 292,677	$ 1,224,727	$ 17	$ -	$ 9,004,363	$ 38,502	$ 16,107	$ 13,952,429
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance at June 30, 2014	$ 372,732	$ 449,758	$ 2,097,490	$ 261,555	$ 1,247,475	$ 22	$ 19,843	$ 7,810,585	$ 36,964	$ 33,291	$ 12,329,715
Individually evaluated for impairment	$ 3,257	$ 23,297	$ -	$ -	$ 2,159	$ -	$ -	$ -	$ -	$ 2,809	$ 31,522
Collectively evaluated for impairment	$ 369,475	$ 426,461	$ 2,097,490	$ 261,555	$ 1,245,316	$ 22	$ 19,843	$ 7,810,585	$ 36,964	$ 30,482	$ 12,298,193
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

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

As of June 30, 2015, the total recorded investment of TDR loans was $17,125 including $733 classified as nonaccrual and $16,392 classified as accrual, with specific allowance for loan losses of $73. Additional commitments to lend to borrowers whose loan terms have been modified in TDRs were $19 at June 30, 2015; there were none at December 31, 2014.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	June 30, 2015	December 31, 2014	**June 30, 2015**	December 31, 2014
Real estate mortgage	**$ 1,604**	$ 1,675	**$ 733**	$ 805
Production and intermediate term	**12,776**	12,805	**-**	-
Agribusiness	**-**	-	**-**	-
Mission-related	**2,745**	2,806	**-**	-
Total	**$ 17,125**	$ 17,286	**$ 733**	$ 805

During the six months ended June 30, 2015, there were no restructured loans designated as TDR. During the period there were no payment defaults on loans that were restructured during the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

NOTE 4 — COMMITMENTS AND CONTINGENT LIABILITIES

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated bank and Systemwide obligations of the System at June 30, 2015, were approximately $225.3 billion.

In the normal course of business, the bank has various outstanding commitments and contingent liabilities, including the possibility of actions against the bank in which claims for monetary damages may be asserted. Management and legal counsel are not aware of any other pending lawsuits or actions. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting from lawsuits or other pending actions will not be material in relation to the financial position, results of operations or cash flows of the bank.

NOTE 5 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2, “Summary of Significant Accounting Policies,” of the 2014 Annual Report for a more complete description.

Assets and liabilities recorded at fair value on a recurring basis at June 30, 2015, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at June 30, 2015			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Federal funds	**$ 21,582**	$ -	$ 21,582	$ -
Investments available for sale:				
Corporate debt	**251,399**	-	251,399	-
Agency-guaranteed debt	**170,533**	-	170,533	-
Mortgage-backed securities	**3,510,060**	-	3,510,060	-
Asset-backed securities	**121,061**	-	121,061	-
Mission-related and other available-for-sale investments	**71,631**	-	-	71,631
Loans valued under the fair value option	**39,555**	-	39,555	
Derivative assets	**719**	-	719	-
Assets held in nonqualified benefit trusts	**349**	349	-	-
Total assets	**$ 4,186,889**	$ 349	$ 4,114,909	$ 71,631
Liabilities:				
Standby letters of credit	**$ 1,443**	$ -	$ -	$ 1,443
Total liabilities	**$ 1,443**	$ -	$ -	$ 1,443

Loans With Fair Value Option

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in Noninterest Income on the Statements of Comprehensive Income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis. The fair value of loans held under the fair value option totaled $39,555 at June 30, 2015.

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from March 31, 2015, to June 30, 2015:

	Assets					Liabilities	
	Corporate Debt	Agency-Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:							
Balance at March 31, 2015	$ -	$ -	$ 4	$ 77,619	$ -	$ 1,443	$ 76,180
Net (losses) gains included in other comprehensive loss	-	-	-	(82)	-	-	(82)
Purchases, issuances and settlements	-	-	(4)	(5,906)	-	-	(5,910)
Balance at June 30, 2015	$ -	$ -	$ -	$ 71,631	$ -	$ 1,443	$ 70,188
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2015	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2015, to June 30, 2015:

	Assets					Liabilities	
	Corporate Debt	Agency-Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:							
Balance at January 1, 2015	$ -	$ -	$ 7	$ 80,583	$ -	$ 797	$ 79,793
Net gains included in other comprehensive loss	-	-	-	285	-	-	285
Purchases, issuances and settlements	-	-	(7)	(9,237)	-	646	(9,890)
Balance at June 30, 2015	$ -	$ -	$ -	$ 71,631	$ -	$ 1,443	$ 70,188
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2015	$ -	$ -	$ -	$ -	$ -	$ -	$ -

There were no transfers of assets or liabilities into or out of Level 1, Level 2 or Level 3 from other levels during the six months ended June 30, 2015. AMBS are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for standby letters of credit is included in Level 3 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at June 30, 2015, for each of the fair value hierarchy levels are summarized below:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 3,368**	$ -	$ -	$ 3,368	**$ (2,065)**
Other property owned	**487**	-	-	487	**3,090**
Total assets	**$ 3,855**	$ -	$ -	$ 3,855	**$ 1,025**

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

	Fair Value Measurements at December 31, 2014			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	$ 22,086	$ -	$ 22,086	$ -
Investments available for sale:				
Corporate debt	241,530	-	241,530	-
Agency-guaranteed debt	155,190	-	155,190	-
Mortgage-backed securities	3,527,318	-	3,527,311	7
Asset-backed securities	81,770	-	81,770	-
Mission-related and other available-for-sale investments	80,583	-	-	80,583
Loans valued under the fair value option	40,532	-	40,532	
Derivative assets	748	-	748	-
Assets held in nonqualified benefit trusts	298	298	-	-
Total assets	$ 4,150,055	$ 298	$ 4,069,167	$ 80,590
Liabilities:				
Standby letters of credit	$ 797	$ -	$ -	$ 797
Total liabilities	$ 797	$ -	$ -	$ 797

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from March 31, 2014, to June 30, 2014:

	Assets					Liabilities	
	Corporate Debt	Agency-Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:							
Balance at March 31, 2014	$ -	$ 9,201	$ 106,250	$ 93,287	$ 996	$ 832	$ 208,902
Net gains included in other comprehensive loss	-	-	27	704	13	-	744
Purchases, issuances and settlements	-	-	29,561	2,456	(91)	-	31,926
Transfers into Level 3	-	-	-	-	-	74	(74)
Transfers out of Level 3	-	(9,201)	(98,875)	-	-	-	(108,076)
Balance at June 30, 2014	$ -	$ -	$ 36,963	$ 96,447	$ 918	$ 906	$ 133,422
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2014	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2014, to June 30, 2014:

	Corporate Debt	Agency-Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit	Net
Balance at January 1, 2014	$ 15,000	$ 26,949	$ 7,529	$ 97,423	$ 1,157	$ -	$ 148,058
Net gains (losses) included in other comprehensive loss	-	29	(148)	1,227	31	-	1,139
Purchases, issuances and settlements	-	(195)	128,457	(2,203)	(270)	-	125,789
Transfers into Level 3	-	-	-	-	-	906	(906)
Transfers out of Level 3	(15,000)	(26,783)	(98,875)	-	-	-	(140,658)
Balance at June 30, 2014	$ -	$ -	$ 36,963	$ 96,447	$ 918	$ 906	$ 133,422
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2014	$ -	$ -	$ -	$ -	$ -	$ -	$ -

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the six months ended June 30, 2014. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At June 30, 2014, Level 3 investments included two agency MBS due to the fact that their valuations were based on Level 3 criteria (broker quotes) and certain non-agency MBS and non-agency ABS backed by home equity. In the first six months of 2014, two agency MBS, three agency-guaranteed debt instruments and one corporate debt instrument which had previously been included in Level 3 were valued using independent third-party valuation services using Level 2 criteria and were, accordingly, transferred from Level 3 to Level 2. The liability for standby letters of credit was transferred into Level 3 during the first six months of 2014 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market. For the six months ended June 30, 2014, all transfers into and out of Level 3 were related to sources of pricing information. Valuations subsequent to purchase which are obtained from independent third party services utilizing Level 2 criteria were the basis for transfers out of Level 3.

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

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	$ 4,996	$ -	$ -	$ 4,996	$ (2,362)
Other property owned	11,456	-	-	11,456	314
Total assets	$ 16,452	$ -	$ -	$ 16,452	$ (2,048)

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

	June 30, 2015					December 31, 2014				
		Fair Value Measurements Using					Fair Value Measurements Using			
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:										
Cash	**$ 508,936**	$ 508,936	$ -	$ -	$ 508,936	$ 428,361	$ 428,361	$ -	$ -	$ 428,361
Net loans	**13,882,746**	-	-	13,858,622	13,858,622	13,204,197	-	-	13,182,903	13,182,903
Total assets	**$ 14,391,682**	$ 508,936	$ -	$ 13,858,622	$ 14,367,558	$ 13,632,558	$ 428,361	$ -	$ 13,182,903	$ 13,611,264
Liabilities:										
Systemwide debt securities	**$ 17,053,573**	$ -	$ -	$ 17,127,532	$ 17,127,532	$ 16,341,281	$ -	$ -	$ 16,406,719	$ 16,406,719
Subordinated debt	**50,000**	-	-	53,797	53,797	50,000	-	-	53,989	53,989
	$ 17,103,573	$ -	$ -	$ 17,181,329	$ 17,181,329	$ 16,391,281	$ -	$ -	$ 16,460,708	$ 16,460,708

Valuation Techniques

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

Investments Available for Sale

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. To estimate the fair value of investments, the bank obtains prices from third-party pricing services. This would include certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Investments classified as Level 3 primarily consist of Farmer Mac AMBS. During 2014, investments classified as Level 3 also included certain non-agency mortgage-backed securities and asset-backed securities valued using independent third-party valuation services.

Derivative Assets and Liabilities

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

Assets Held in Nonqualified Benefit Trusts

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

Standby Letters of Credit

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

Loans

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

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

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

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

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

Other Property Owned

Other property owned (OPO) 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.

Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

Quantitative Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobservable Input
Mortgage-backed securities	Discounted cash flow	Prepayment rate
		Probability of default
		Loss severity
Asset-backed securities	Discounted cash flow	Prepayment rate
		Probability of default
		Loss severity
Mission-related investments	Discounted cash flow	Prepayment rates

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements

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

Information About Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Actual balances
Loans	Discounted cash flow	Prepayment forecasts
		Appropriate interest rate yield curve
		Probability of default
		Loss severity
Systemwide debt securities and subordinated debt	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk

NOTE 6 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The bank maintains an overall interest rate risk management strategy that incorporates the use of derivative products to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. The bank considers the strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

Although the bank held no interest rate swaps at June 30, 2015, it may enter into these derivative transactions to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities or better manage liquidity. Interest rate swaps allow the bank to raise long-term borrowings at fixed rates and swap them into floating rates to better match the repricing characteristics of earning assets. Under interest rate swap arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index.

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

	Interest Rate Caps
Balance at January 1, 2015	$ 615,000
Additions	20,000
Maturities/Amortizations	(225,000)
Balance at June 30, 2015	**$ 410,000**

To minimize the risk of credit losses, the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. In addition, substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to another are reached, which thresholds may vary, depending on the counterparty's credit rating. The bank does not anticipate nonperformance by any of these counterparties. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. At June 30, 2015, and December 31, 2014, the bank's exposure to counterparties was $719 and $748, respectively. At June 30, 2015, and December 31, 2014, the bank had posted no securities as collateral, nor had any counterparty been required to post collateral.

Cash Flow Hedges

The bank's interest rate caps at June 30, 2015, and December 31, 2014, which are designated and qualify as a cash flow hedge, all meet the standards for accounting treatment that presume full effectiveness. Thus, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive loss.

Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value 6/30/2015	Fair Value 12/31/2014
Interest rate caps	Other assets	$ 719	$ 748

Derivatives designated as hedging instruments	Amount of (Loss) Gain Recognized in OCL on Derivatives (Effective Portion)		Location of Gain Reclassification from AOCL into Income	Amount of Gain Reclassified from AOCL into Income (Effective Portion)	
	June 30,			June 30,	
	2015	2014		2015	2014
Interest rate caps	$ (370)	$ (591)	Interest expense	$ 774	$ 1,209

NOTE 7 — EMPLOYEE BENEFIT PLANS

In addition to pension benefits, the bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses at their expense but will be responsible for 100 percent of the related premiums. The following table summarizes the components of net periodic benefit costs for the bank's other postretirement benefit costs for the six months ended June 30:

	Other Postretirement Benefits	
	2015	2014
Service cost	**$ 140**	$ 106
Interest cost	**248**	211
Amortization of prior service costs	**(93)**	(96)
Amortization of net loss	**35**	-
Net periodic benefit cost	**$ 330**	$ 221

The structure of the district's defined benefit pension plan is characterized as multiemployer, since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations).

NOTE 8 — ACCUMULATED OTHER COMPREHENSIVE LOSS

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

The following table summarizes the changes in the balance of the components of AOCL for the six months ended June 30, 2015:

	Total	Unrealized (Loss) Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2015	$ (19,822)	$ (16,100)	$ (1,027)	$ (2,695)
Change in unrealized losses on available-for-sale securities				
Net decrease in unrealized losses on investment securities	8,545	8,545		
Net decrease in unrealized losses on securities	8,545	8,545		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(93)		(93)	
Amortization of net losses	35		35	
Net change in postretirement benefit plans	(58)		(58)	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(370)			(370)
Reclassification of amount recognized in interest expense	774			774
Net change in cash flow derivative instruments	404			404
Total other comprehensive income (loss)	**8,891**	**8,545**	**(58)**	**404**
Balance, June 30, 2015	**$ (10,931)**	**$ (7,555)**	**$ (1,085)**	**$ (2,291)**

The following table summarizes the changes in the balance of the components of AOCL for the six months ended June 30, 2014:

	Total	Unrealized (Loss) Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2014	$ (33,113)	$ (30,303)	$ 1,642	$ (4,452)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	15,895	15,895		
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	21	21		
Net increase in unrealized losses on securities	15,916	15,916		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(96)		(96)	
Net change in postretirement benefit plans	(96)		(96)	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(591)			(591)
Reclassification of loss recognized in interest expense	1,209			1,209
Net change in cash flow derivative instruments	618			618
Total other comprehensive income (loss)	16,438	15,916	(96)	618
Balance, June 30, 2014	$ (16,675)	$ (14,387)	$ 1,546	$ (3,834)

The following table summarizes reclassifications from AOCI to the Statements of Comprehensive Income for the six months ended June 30:

Component of AOCI	Amount Reclassified from AOCI		Affected Line in the Statement of Comprehensive Income
	2015	2014	
Amortization of net credits on post-retirement benefit plan	**(58)**	(96)	Salaries and employee benefits
Amortization on cash flow hedges	**774**	1,209	Interest expense
Total reclassifications	**$ 716**	$ 1,113	

NOTE 9 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through August 7, 2015, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of August 7, 2015.

NOTE 10 — COMBINED ASSOCIATION FINANCIAL DATA

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

Balance sheet data	June 30, 2015	December 31, 2014
Cash	$ 7,672	8,840
Investment securities	33,477	39,086
Loans	15,043,060	14,547,612
Less allowance for loan losses	52,836	54,245
Net loans	14,990,224	14,493,367
Accrued interest receivable	132,601	122,702
Other property owned	20,226	22,400
Other assets	387,927	372,360
Total assets	$ 15,572,127	$ 15,058,755
Notes payable	$ 12,633,324	$ 12,110,352
Other liabilities	183,921	327,132
Total liabilities	12,817,245	12,437,484
Capital stock and participation certificates	284,776	208,306
Retained earnings	2,479,752	2,422,878
Accumulated other comprehensive loss	(9,646)	(9,913)
Total members' equity	2,754,882	2,621,271
Total liabilities and members' equity	$ 15,572,127	$ 15,058,755

	Six Months Ended June 30,	
Statement of income data	**2015**	2014
Interest income	$ 343,098	$ 316,926
Interest expense	115,126	103,193
Net interest income	227,972	213,733
Provision (negative provision) for loan losses	3,805	(6,099)
Net interest income after provision for loan losses	224,167	219,832
Noninterest income	36,403	30,474
Other expense	115,006	95,782
Provision for income taxes	201	234
Net income	145,363	154,290
Other comprehensive income (loss):		
Change in postretirement benefit plans	267	(232)
Total other comprehensive income (loss)	267	(232)
Comprehensive Income	$ 145,630	$ 154,058