FARM CREDIT PROUD PARTNER SERVING AGRICULTURE

2015 SECOND QUARTER REPORT

JUNE 30, 2015

TEXAS FARM CREDIT DISTRICT

SECOND QUARTER 2015

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of the Farm Credit Bank of Texas (bank), its affiliated Federal Land Credit Association (FLCA) and affiliated Agricultural Credit Associations (ACAs) for the three and six months ended June 30, 2015. The FLCA and ACAs are collectively referred to as associations, and the bank and its affiliated associations are collectively referred to as the district. These comments should be read in conjunction with the accompanying combined financial statements and footnotes, along with the 2014 Annual Report to stockholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended June 30, 2015, was $104,490, a decrease of $12,673 over the same period of 2014. The decrease in net income consisted primarily of a $14,504 increase in noninterest expense, a $3,920 decrease in noninterest income and a $3,653 increase in provision for loan losses, offset by a $9,406 increase in net interest income.

Net income for the six months ended June 30, 2015, was $210,783, a decrease of $12,626, or 5.7 percent, over the same period of 2014. The decrease in net income consisted primarily of a $27,074 increase in noninterest expense and an $8,932 increase in provision for loan losses, offset by a $21,328 increase in net interest income and a $2,019 increase in noninterest income.

Net Interest Income

Net interest income for the three months ended June 30, 2015, was $171,714, an increase of $9,406, or 5.8 percent, over the same period of 2014. The increase was primarily the result of a $2.00 billion increase in combined district average earning assets, offset by a 10 basis-point decrease in the net interest rate spread to 2.70 percent for the three months ended June 30, 2015. The increase in earning assets was due to increases in association average loan volume, the bank's participation loan portfolio and the bank's investment portfolio. The decrease in the net interest rate spread included a 3-basis-point decline in the effective rate on average earning assets, and a 7-basis-point increase in the effective cost of average interest-bearing liabilities. The decline in the net interest rate spread is reflective of the market competition for high quality assets. The district associations had an increase in average loan volume of $1.28 billion compared to the same period of 2014, due mainly to improved general economic conditions. 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 $340,995, an increase of $21,328, or 6.7 percent, over the same period of 2014. The increase was primarily the result of a $2.00 billion increase in combined district average earning assets, offset by a 7-basis-point decrease in the net interest rate spread to 2.72 percent for the six months ended June 30, 2015. The increase in earning assets was due to increases in association average loan volume, the bank's investment portfolio and the bank's participation loan portfolio. The decrease in the net interest rate spread included a 3-basis-point decline in the effective rate on average earning assets, and a 4-basis-point increase in the effective cost of average interest-bearing liabilities. The decline in the net interest rate spread is reflective of the market competition for high quality assets. The district's associations had an increase in average loan volume of $1.24 billion, due mainly to improved general economic conditions. 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 Loan Losses

The district's negative provision for losses on loans, standby letters of credit and unfunded commitments for the three months ended June 30, 2015, totaled $1,322, a decrease of $3,653 from the $4,975 negative provision for the same period of 2014.

The provision for losses on loans, standby letters of credit and unfunded commitments for the six months ended June 30, 2015, was $2,138, an increase of $8,932, or 131.5 percent, from the $6,794 negative provision for the first six months of 2014. The increase included a $9,904 increase at district associations and a $972 decrease in the bank's provision for credit losses. The provision for loan losses for the six months ended June 30, 2015, was primarily due to increases in provisions at district associations.

Noninterest Income

Noninterest income for the three months ended June 30, 2015, was $9,909, a decrease of $3,920, or 28.3 percent, from the same period of 2014. The decrease included a $1,678 decrease in dividends on preferred stock of an ethanol facility in other property owned (OPO), a $763 decrease in fees for loan-related services, a $109 decrease in fair value on loans purchased in the secondary market and a $1,370 decrease in all other noninterest income, collectively. The bank has elected a fair value option for financial presentation purposes on certain loans purchased in 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. 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 on OTTI securities during the second quarter of 2014 or 2015.

Noninterest income for the six months ended June 30, 2015, was $28,195, an increase of $2,019, or 7.7 percent, from 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 $1,769 increase in fees for loan-related services and a $790 increase in patronage income, 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 (due primarily to changes in the interest rate environment) and a $665 decrease in all other noninterest income items, collectively. The bank recorded no credit losses on OTTI securities during the six months ended June 30, 2015 or June 30, 2014.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2015, was $78,390, an increase of $14,504, or 22.7 percent, over the same period of 2014. The increase is primarily attributable to a $10,492 increase in salaries and benefits, a $2,405 increase in other operating expenses, a $975 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC) and a $612 increase in occupancy and equipment expenses, offset by a $20 increase in net losses on OPO. The increase in salaries and benefits included a $6,644 increase in compensation and related payroll taxes (primarily at the district associations) and a $2,751 increase in pension and retirement expenses resulting mainly from the amortization of actuarial losses incurred in 2014 in the district's defined benefit pension plan. The increase in losses on OPO included a $149 increase in net expenses on OPO and a $145 decrease in gains on sale of OPO, offset by a $274 decrease in carrying value adjustments on OPO ($143 at the bank and $131 at the district associations).

Noninterest expense for the six months ended June 30, 2015, was $156,068, an increase of $27,074, or 21.0 percent, over the same period of 2014. The increase is primarily attributable to a $22,284 increase in salaries and benefits, a $4,388 increase in other operating expenses, a $1,884 increase in premiums to the FCSIC and a $1,444 increase in occupancy and equipment expenses, offset by a $2,926 increase in net gains on OPO. The increase in salaries and benefits included a $14,735 increase in compensation and related payroll taxes (primarily at the district associations), and a $5,818 increase in pension and retirement expenses resulting mainly from actuarial losses in the district's defined benefit pension plan. The increase in other operating expenses included a $1,022 increase in professional and contract services and a $989 increase in advertising and member relations expenses. Premiums to the FCSIC, assessed on average System debt outstanding, increased due to a rate increase 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 gains on sales of OPO at the bank (including a $2,675 gain on the bank's disposition of the preferred stock of an ethanol facility), a $133 decrease in carrying value adjustments on OPO ($63 at the bank and $70 at the district associations) and a $156 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	**1.73%**	1.99%
Return on average members' equity	**11.04%**	12.26%
Net interest income as a percentage of average earning assets	**2.88%**	2.95%
Charge-offs, net of recoveries, to average loans	**0.02%**	0.03%
Operating expenses as a percentage of net interest income and noninterest income	**43.26%**	37.51%
Operating expenses as a percentage of average earning assets	**1.35%**	1.20%

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) income in the shareholders' equity section. For the district, these elements include unrealized gains or losses on the bank's available-for-sale investment portfolio, amortization of certain pension and postretirement benefit elements and changes in the value of cash flow derivative instruments.

The table below summarizes 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 decrease in unrealized losses on securities	**8,545**	15,916
Change in pension and postretirement benefit plans		
Change due to effect of merger	**216**	326
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(441)**	(694)
Amortization of net losses	**9,541**	4,103
Net change in pension and postretirement benefit plans	**9,316**	3,735
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	**$ 18,265**	$ 20,269

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2015, was $19.99 billion, an increase of $644.1 million, or 3.3 percent, from $19.35 billion at December 31, 2014. The increase in the loan portfolio during the first six months of 2015 was due primarily to growth in the bank's capital markets portfolio of $149.1 million and in the associations' loan portfolios of $495.4 million.

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.

Loans classified under the Farm Credit Administration's (FCA) Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 98.6 percent at June 30, 2015, and December 31, 2014, and 98.2 percent at June 30, 2014. Nonaccrual loans for the district were 0.68 percent of total loans at June 30, 2015, compared to 0.73 percent at December 31, 2014, and 0.79 percent at June 30, 2014.

Total district high-risk asset volume decreased by $18.9 million, or 8.2 percent, to $212.0 million at June 30, 2015, from $230.9 million at December 31, 2014.

Comparative balances of high-risk assets follow (in millions):

	June 30, 2015	Increase (Decrease) $	Increase (Decrease) %	December 31, 2014
Nonaccrual loans	**$ 136.6**	$ (5.6)	(3.9) %	$ 142.2
Formally restructured loans	**49.4**	(4.7)	(8.7)	54.1
Loans 90 days past due and still accruing interest	**5.3**	3.4	178.9	1.9
Total impaired loans	**191.3**	(6.9)	(3.5)	198.2
Other property owned	**20.7**	(12.0)	(36.7)	32.7
Total high-risk assets	**$ 212.0**	$ (18.9)	(8.2) %	$ 230.9

The $5.6 million decrease in nonaccrual loans from December 31, 2014, to June 30, 2015, is primarily the result of $35.7 million in repayments, $4.2 million in charge-offs, $2.7 million in transfers to OPO and $2.1 million in transfers to accrual status, offset by $35.6 million in transfers to nonaccrual status, $2.2 million in advances on nonaccrual loan committed lines of credit and $1.2 million in net recoveries. At June 30, 2015, $56.3 million, or 42.7 percent, of the district's nonaccrual loans were considered current as to principal and interest. Continued satisfactory payment performance on these loans may indicate potential for a return to accrual status. At June 30, 2015, the district had $4.6 million in nonaccrual loans on which interest income is recognized upon cash receipts, compared to $3.3 million at December 31, 2014. The decrease in OPO was due primarily to dispositions of $13.0 million at the bank and $4.5 million at district associations, offset by $2.7 million in additions to OPO at district associations. Impaired loans, consisting of nonaccrual loans, formally restructured loans and loans past due 90 days or more and still accruing interest, constituted 1.00 percent of total loans at June 30, 2015, and 1.02 percent of total loans at December 31, 2014.

The allowance for loan losses at June 30, 2015, totaled $58,580 and constituted 0.29 percent of total loans and was a decrease of $5,776, or 9.0 percent, from the allowance for loan losses at December 31, 2014. The decrease included a $2.4 million adjustment due to a merger. The $2,138 provision for loan losses was primarily related to provisions for losses on a letter of credit at the bank and several associations, the reserve for which is included in "Other liabilities" on the Combined Balance Sheets. Additional information about the allowance for loan losses is included in Note 3, "Loans and Reserves for Credit Losses." The allowance for loan losses as a percentage of impaired loans was 30.6 percent as of June 30, 2015, as compared to 32.5 percent as of December 31, 2014. The nature of the security supporting many of the impaired loans (primarily first lien real estate) is considered in the determination of necessary allowances for loan losses. The district also had reserves for losses on letters of credit and unfunded commitments totaling $6.6 million at June 30, 2015, which included specific reserves for two letters of credit and a general reserve for credit losses on letters of credit and unused commitments, representing management's estimate of probable credit losses related to unfunded commitments.

Liquidity and Funding Sources

Cash and available-for-sale investment securities totaled $4.70 billion, or 18.7 percent, of total assets at June 30, 2015, compared to $4.58 billion, or 18.8 percent, at December 31, 2014, an increase of $111.6 million, or 2.4 percent. At June 30, 2015, the district's cash balance was $516.6 million, an increase of $79.4 million from the balance at December 31, 2014. Cash held at the Federal Reserve Bank at June 30, 2015, totaled $497.3 million, compared to $402.4 million at December 31, 2014. The bank maintains levels of cash and other highly liquid assets to meet loan demand, maturing debt and other liquidity needs. At June 30, 2015, the bank had 223 days of liquidity to cover maturing debt obligations, as compared to 232 days at December 31, 2014. Interest-bearing liabilities, consisting of bonds, notes and subordinated debt, increased by $712.3 million, or 3.6 percent, from December 31, 2014, to June 30, 2015.

Investments

The district's investments at June 30, 2015, included the bank's available-for-sale portfolio with a fair value of $4.05 billion and the district associations' held-to-maturity portfolio recorded at an amortized cost of $33.5 million at June 30, 2015. The available-for-sale investments included a liquidity portfolio and a portfolio of other investments. The bank's available-for-sale liquidity portfolio 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 available-for-sale portfolio of other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) held by the bank that had a fair value of $71.6 million. The district's held-to-maturity portfolio consisted of Farmer Mac AMBS held by district associations which had an amortized cost of $33.5 million and a fair value of $33.4 million.

The Farmer Mac AMBS are backed by loans originated by the associations and previously held by the associations under Farmer Mac's 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 available-for-sale 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 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 mortgage-backed securities	**-**	**-**	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 available-for-sale 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 the available-for-sale investment portfolio totaling $8,545, due primarily to the effect of a decline in interest rates on the bank's fixed rate mortgage-backed securities as rates for longer maturities have declined, 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., 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.

The following table sets forth investments available-for-sale within the bank's liquidity portfolio 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

The district's combined capital at June 30, 2015, totaled $3,934,925, consisting of $600,000 of Class B non-cumulative subordinated perpetual preferred stock, $61,266 of capital stock and participation certificates, $3,197,560 in retained earnings and $224,625 in additional paid-in capital, offset by $148,526 of accumulated other comprehensive loss. The balance in equity reflected an increase of $192,360, or 5.1 percent, from equity at December 31, 2014, due primarily to net income of $210,783, other comprehensive income of $18,265 and net stock issuance of $1,019, offset by $9,666 in patronage distributions, preferred stock dividends of $25,125 and $2,916 in fair value adjustments due to merger. As of June 30, 2015, the bank and all district associations exceeded all regulatory capital requirements.

Key financial condition comparisons:

	June 30, 2015	December 31, 2014
Members' equity to assets	**15.69%**	15.38%
Total liabilities to members' equity	**5.37:1**	5.5:1
Allowance for loan losses to total loans	**0.29%**	0.33%

OTHER

CONDITIONS IN THE TEXAS 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 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 (System) 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 or district.

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

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 chief financial officer 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. This evaluation relies upon the evaluations made by the individual associations and the related certifications they provide to the bank.

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

Combined Balance Sheets

(dollars in thousands)	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash	**$ 516,608**	$ 437,201
Federal funds sold	**21,582**	22,086
Investment securities	**4,158,161**	4,125,477
Loans (includes $39,555 and $40,532 at fair value held under fair value option)	**19,993,728**	19,349,652
Less allowance for loan losses	**58,580**	64,357
Net loans	**19,935,148**	19,285,295
Accrued interest receivable	**161,625**	150,084
Other property owned	**20,664**	32,710
Premises and equipment, net	**95,975**	93,316
Other assets	**172,119**	189,319
Total assets	**$ 25,081,882**	$ 24,335,488
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	**$ 20,703,573**	$ 19,991,281
Subordinated debt	**50,000**	50,000
Accrued interest payable	**43,767**	40,213
Patronage distributions payable	**1,268**	147,436
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**328,286**	343,930
Total liabilities	**21,146,957**	20,592,923
Commitments and contingent liabilities (Note 4)		
Members' equity		
Preferred stock	**600,000**	600,000
Capital stock and participation certificates	**61,266**	60,242
Allocated retained earnings	**542,890**	542,896
Unallocated retained earnings	**2,654,670**	2,557,039
Additional paid-in-capital	**224,625**	149,179
Accumulated other comprehensive loss	**(148,526)**	(166,791)
Total members' equity	**3,934,925**	3,742,565
Total liabilities and members' equity	**$ 25,081,882**	$ 24,335,488

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

Combined 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	**$ 15,376**	$ 13,375	**$ 30,613**	$ 26,106
Loans	**210,269**	194,887	**416,505**	386,892
Total interest income	**225,645**	208,262	**447,118**	412,998
Interest Expense				
Bonds, notes and subordinated debt	**47,158**	39,466	**92,699**	80,395
Notes payable and other	**6,773**	6,488	**13,424**	12,936
Total interest expense	**53,931**	45,954	**106,123**	93,331
Net interest income	**171,714**	162,308	**340,995**	319,667
(Negative provision) provision for loan losses	**(1,322)**	(4,975)	**2,138**	(6,794)
Net interest income after provision (negative provision) for loan losses	**173,036**	167,283	**338,857**	326,461
Noninterest Income				
Patronage income	**4,149**	4,164	**9,978**	9,188
Loan-related fees	**5,022**	5,785	**13,293**	11,524
(Loss) gain on loans held under fair value option	**(109)**	80	**(199)**	644
Miscellaneous income, net	**847**	3,800	**5,123**	4,820
Total noninterest income	**9,909**	13,829	**28,195**	26,176
Noninterest Expense				
Salaries and employee benefits	**44,522**	34,030	**93,856**	71,572
Occupancy and equipment	**6,584**	5,972	**14,199**	12,755
Insurance Fund premiums	**5,912**	4,937	**11,556**	9,672
Losses (gains) on other property owned, net	**84**	64	**(3,651)**	(725)
Other operating expenses	**21,288**	18,883	**40,108**	35,720
Total noninterest expense	**78,390**	63,886	**156,068**	128,994
Income before provision for income taxes	**104,555**	117,226	**210,984**	223,643
Provision for income taxes	**65**	63	**201**	234
Net Income	**104,490**	117,163	**210,783**	223,409
Other comprehensive (loss) income				
Change in unrealized loss on investments	**(14,991)**	8,928	**8,545**	15,916
Change in postretirement benefit plans	**4,879**	1,832	**9,316**	3,735
Change in cash flow derivative instruments	**94**	336	**404**	618
Total other comprehensive (loss) income	**(10,018)**	11,096	**18,265**	20,269
Comprehensive Income	**$ 94,472**	$ 128,259	**$ 229,048**	$ 243,678

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

Combined Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2013	$ 600,000	$ 59,225	$ 516,859	$ 2,486,368	$ 22,737	$ (110,954)	$ 3,574,235
Net income	-	-	-	223,409	-	-	223,409
Other comprehensive gain	-	-	-	-	-	20,269	20,269
Capital stock/participation certificates issued	-	3,574	-	-	-	-	3,574
Capital stock/participation certificates and allocated retained earnings retired	-	(2,853)	(4)	-	-	-	(2,857)
Impact of association merger:							
Equity issued upon association merger	-	4,306	-	-	129,161	-	133,467
Equity retired upon association merger	-	(4,306)	(23)	(128,063)	-	-	(132,392)
Net reduction in surplus due to net fair value adjustments related to merger	-	-	-	(1,075)	-	-	(1,075)
Preferred stock dividends accrued	-	-	-	(25,125)	-	-	(25,125)
Patronage distributions							
Cash	-	-	-	(10,105)	-	-	(10,105)
Members' equity	-	-	1,247	(1,247)	-	-	-
Balance at June 30, 2014	$ 600,000	$ 59,946	$ 518,079	$ 2,544,162	$ 151,898	$ (90,685)	$ 3,783,400
Balance at December 31, 2014	$ 600,000	$ 60,242	$ 542,896	$ 2,557,039	$ 149,179	$ (166,791)	$ 3,742,565
Net income	-	-	-	210,783	-	-	210,783
Other comprehensive gain	-	-	-	-	-	18,265	18,265
Capital stock/participation certificates issued	-	4,914	-	-	-	-	4,914
Capital stock/participation certificates and allocated retained earnings retired	-	(3,890)	(3)	-	-	-	(3,893)
Impact of association merger:							
Equity issued upon association merger	-	1,041	-	-	75,446	-	76,487
Equity retired upon association merger	-	(1,041)	-	(75,446)	-	-	(76,487)
Net reduction in surplus due to net fair value adjustments related to merger	-	-	-	(2,916)	-	-	(2,916)
Preferred stock dividends accrued	-	-	-	(25,125)	-	-	(25,125)
Patronage distributions							
Cash	-	-	-	(9,668)	-	-	(9,668)
Members' equity	-	-	(3)	3	-	-	-
Balance at June 30, 2015	**$ 600,000**	**$ 61,266**	**$ 542,890**	**$ 2,654,670**	**$ 224,625**	**$ (148,526)**	**$ 3,934,925**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	Six Months Ended June 30, 2015	2014
Operating activities		
Net income	**$ 210,783**	$ 223,409
Reconciliation of net income to net cash provided by operating activities		
Provision (negative provision) for loan losses	**2,138**	(6,794)
Carrying value adjustments on other property owned	**151**	283
Depreciation and amortization on premises and equipment	**6,535**	5,554
Accretion of net premium on loans	**6,488**	5,826
Amortization and accretion on debt instruments	**(1,688)**	(1,824)
Amortization of net premium (discount) on investment securities	**910**	(436)
Decrease (increase) in fair value on loans under fair value option	**199**	(644)
Gains from sales of other property owned, net	**(3,693)**	(1,042)
Losses (gains) from sales of premises and equipment	**1,300**	(4,016)
Allocated equity patronage from System bank	**(13,498)**	(13,083)
Increase in accrued interest receivable	**(11,541)**	(9,359)
Decrease in other assets	**29,021**	1,476
Increase (decrease) in accrued interest payable	**3,554**	(3,070)
Decrease in other liabilities	**(21,138)**	(39,254)
Net cash provided by operating activities	**209,521**	157,026
Investing activities		
Net decrease in federal funds sold	**504**	51
Investment securities		
Purchases	**(519,290)**	(601,152)
Proceeds from maturities, calls and prepayments	**494,267**	443,241
Increase in loans, net	**(656,116)**	(545,736)
Proceeds from sales of other property owned	**17,414**	6,938
Proceeds from sales of premises and equipment	**1,339**	2,857
Expenditures for premises and equipment	**(11,833)**	(10,151)
Net cash used in investing activities	**(673,715)**	(703,952)
Financing activities		
Bonds and notes issued	**6,096,239**	5,293,008
Bonds and notes retired	**(5,382,259)**	(4,659,790)
Increase in advanced conditional payments	**9,561**	10,172
Capital stock and participation certificates issued	**4,914**	3,574
Capital stock and participation certificates retired	**(3,893)**	(3,024)
Cash dividends on preferred stock	**(25,125)**	(25,125)
Cash patronage distributions paid	**(155,836)**	(136,767)
Net cash provided by financing activities	**543,601**	482,048
Net increase (decrease) in cash	**79,407**	(64,878)
Cash at beginning of year	**437,201**	610,056
Cash at end of quarter	**$ 516,608**	$ 545,178
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 829**	$ 1,800
Loan assets transferred to other property owned	**2,655**	3,137
Net increase (decrease) in unrealized losses on investment securities	**8,545**	15,916
Equity issued as a result of association merger	**76,487**	133,467
Equity retired as a result of association merger	**(76,487)**	132,392
Adjustment of allowance for loan losses related to association merger	**(2,363)**	(2,246)
Cash dividends or patronage distributions payable	**1,268**	6,472
Supplemental information		
Cash paid for:		
Interest	**$ 102,569**	$ 96,401
Income taxes	**2**	-

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

Notes to Combined Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements (financial statements) include the accounts of the Farm Credit Bank of Texas (bank) and the accounts of its affiliated Agricultural Credit Associations (ACAs) and Federal Land Credit Association (FLCA) in the Farm Credit System (System). The ACAs and FLCA are collectively referred to as associations, and the bank and its affiliated associations are collectively referred to as the district. The financial statements also reflect the investments in and allocated earnings of the service organizations in which the bank has a partial ownership interest. All significant transactions and balances between the bank and the associations have been eliminated in combination.

The significant accounting policies followed and the financial condition and results of operations of the combined bank and associations as of and for the year ended December 31, 2014, are contained in the 2014 Annual Report to stockholders (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 district, 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.

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 the effect, if any, on their financial condition or results of operations.

NOTE 2 — INVESTMENTS

Investments Available for Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The majority of the liquidity portfolio's mortgage-backed securities were federal agency-guaranteed collateralized mortgage-backed securities, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased during the second quarter of 2010, the first quarter of 2012 and the second quarter of 2014. A summary of the amortized cost and fair value of investment securities available for sale, at June 30, 2015, and December 31, 2014, is as follows:

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

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 159,334	$ -	$ (4,144)	$ 155,190	1.45 %
Corporate debt	241,516	313	(299)	241,530	0.76
Federal agency collateralized mortgage-backed securities					
GNMA	1,708,215	6,212	(13,010)	1,701,417	1.54
FNMA and FHLMC	1,829,075	6,174	(9,355)	1,825,894	1.36
Other collateralized mortgage-backed securities	7	-	-	7	2.42
Asset-backed securities	81,806	10	(46)	81,770	0.59
Total available-for-sale investments	**$ 4,019,953**	**$ 12,709**	**$ (26,854)**	**$ 4,005,808**	**1.40** %

Investments in the bank's 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 bank's 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 mortgage-backed securities	-	-	-	-	-
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 bank's 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 the bank's available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time, for the 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 mortgage-backed securities	-	-	-	-	-	-
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 district 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 six months ended June 30, 2015, the district 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

Held-to-Maturity Investments

The district's held-to-maturity investments consist of Farmer Mac guaranteed agricultural mortgage-backed securities and are held by district associations. A summary of the amortized cost and fair value of held-to-maturity investment securities at June 30, 2015, is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 33,477	$ 159	$ (220)	$ 33,416	4.56 %

The following table summarizes the contractual maturity, fair value, amortized cost and weighted average yield of the district's held-to-maturity investments at June 30, 2015:

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 19,972	$ 13,444	$ 33,416
Total amortized cost	**$ 19,857**	**$ 13,620**	**$ 33,477**
Weighted average yield	**4.96%**	**3.97%**	**4.56%**

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

A summary of the district's loans follows:

	June 30, 2015	December 31, 2014
Real estate mortgage	**$ 11,788,223**	$ 11,399,205
Production and intermediate term	**2,512,704**	2,426,838
Loans to cooperatives	**214,142**	173,115
Processing and marketing	**2,701,433**	2,573,461
Farm-related business	**364,534**	382,888
Communication	**404,057**	341,026
Energy (rural utilities)	**1,262,287**	1,285,432
Water and waste disposal	**151,257**	154,499
Rural residential real estate	**277,296**	262,243
Agricultural export finance	**5**	120
Lease receivables	**3,647**	3,985
Loans to other financing institutions	**38,458**	38,919
Mission-related	**275,685**	307,921
	$ 19,993,728	$ 19,349,652

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 and associations purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration (FCA) regulations.

The following table presents information regarding the district's balances of participations purchased and sold, excluding syndications, at June 30, 2015:

	Other Farm Credit Institutions (Outside of the Texas District)		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 135,552	$ 149,694	$ 54,778	$ 21,100	$ 190,330	$ 170,794
Production and intermediate term	486,271	912,339	9,603	31,422	495,874	943,761
Agribusiness	1,458,761	28,366	48,842	3,396	1,507,603	31,762
Communication	404,693	-	-	-	404,693	-
Energy (rural utilities)	1,247,736	3,143	-	-	1,247,736	3,143
Water and waste disposal	131,961	-	-	-	131,961	-
Lease receivables	3,402	-	68	-	3,470	-
Mission-related	4,936	-	4,347	-	9,283	-
Loans to other financing institutions	-	15,943	-	-	-	15,943
Direct note receivable from district associations	-	3,650,000	-	-	-	3,650,000
Total	**$ 3,873,312**	**$ 4,759,485**	**$ 117,638**	**$ 55,918**	**$ 3,990,950**	**$ 4,815,403**

The bank and associations are authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. At June 30, 2015, ACPs netted against borrowers' related loan balances totaled $133,572 and ACPs included in other liabilities totaled $30,321, compared to $163,399 and $20,670, respectively, at December 31, 2014.

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $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	**$ 118,273**	$ 116,338
Production and intermediate term	**13,311**	11,995
Agribusiness	**3,706**	5,832
Rural residential real estate	**1,191**	961
Energy and water/waste disposal	**95**	7,023
Lease receivables	**24**	31
Total nonaccrual loans	**136,600**	142,180
Accruing restructured loans:		
Real estate mortgage	**21,134**	25,499
Production and intermediate term	**21,943**	22,252
Rural residential real estate	**349**	275
Mission-related	**5,940**	6,074
Total accruing restructured loans	**49,366**	54,100
Accruing loans 90 days or more past due:		
Real estate mortgage	**1,897**	704
Production and intermediate term	**1,008**	-
Agribusiness	**-**	1
Rural residential real estate	**244**	156
Mission-related	**2,149**	1,057
Total accruing loans 90 days or more past due	**5,298**	1,918
Total nonperforming loans	**191,264**	198,198
Other property owned	**20,664**	32,710
Total nonperforming assets	**$ 211,928**	$ 230,908

One credit quality indicator utilized by the bank and associations is the FCA 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	**96.7 %**	96.5 %
OAEM	**1.5**	1.7
Substandard/Doubtful	**1.8**	1.8
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**96.9 %**	96.6 %
OAEM	**1.6**	1.8
Substandard/Doubtful	**1.5**	1.6
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**98.2 %**	98.7 %
OAEM	**0.8**	1.0
Substandard/Doubtful	**1.0**	0.3
	100.0 %	100.0 %
Energy and water/waste disposal:		
Acceptable	**99.2 %**	98.7 %
OAEM	**0.8**	0.8
Substandard/Doubtful	**-**	0.5
	100.0 %	100.0 %
Communication:		
Acceptable	**99.7 %**	99.6 %
OAEM	**-**	-
Substandard/Doubtful	**0.3**	0.4
	100.0 %	100.0 %
Rural residential real estate:		
Acceptable	**97.7 %**	97.6 %
OAEM	**0.9**	1.0
Substandard/Doubtful	**1.4**	1.4
	100.0 %	100.0 %
Agricultural export finance:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Lease receivables:		
Acceptable	**93.6 %**	93.2 %
OAEM	**5.6**	5.9
Substandard/Doubtful	**0.8**	0.9
	100.0 %	100.0 %
Loans to other financing institutions:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Mission-related:		
Acceptable	**98.1 %**	98.3 %
OAEM	**-**	-
Substandard/Doubtful	**1.9**	1.7
	100.0 %	100.0 %
Total loans:		
Acceptable	**97.3 %**	97.1 %
OAEM	**1.3**	1.5
Substandard/Doubtful	**1.4**	1.4
	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	$ 51,163	$ 51,397	$ 102,560	$ 11,791,063	$ 11,893,623	$ 1,897
Production and intermediate term	14,004	8,740	22,744	2,515,105	2,537,849	1,008
Agribusiness	1,421	1,293	2,714	3,292,318	3,295,032	-
Communication	-	-	-	404,319	404,319	-
Energy and water/waste disposal	3	-	3	1,419,230	1,419,233	-
Rural residential real estate	2,626	317	2,943	275,446	278,389	244
Agricultural export finance	-	-	-	5	5	-
Lease receivables	-	-	-	3,735	3,735	-
Loans to other financing institutions	-	-	-	38,502	38,502	-
Mission-related	2,070	2,149	4,219	274,290	278,509	2,149
Total	**$ 71,287**	**$ 63,896**	**$ 135,183**	**$20,014,013**	**$20,149,196**	**$ 5,298**

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	$ 41,202	$ 60,345	$ 101,547	$ 11,396,150	$ 11,497,697	$ 704
Production and intermediate term	11,345	2,537	13,882	2,434,265	2,448,147	-
Agribusiness	8,775	2,498	11,273	3,131,936	3,143,209	1
Communication	-	-	-	341,312	341,312	-
Energy and water/waste disposal	4,916	2,086	7,002	1,438,602	1,445,604	-
Rural residential real estate	3,013	267	3,280	259,932	263,212	156
Agricultural export finance	-	-	-	120	120	-
Lease receivables	-	-	-	4,071	4,071	-
Loans to other financing institutions	-	-	-	38,966	38,966	-
Mission-related	1,108	1,057	2,165	308,795	310,960	1,057
Total	$ 70,359	$ 68,790	$ 139,149	$ 19,354,149	$ 19,493,298	$ 1,918

Additional impaired loan information is as follows:

	At June 30, 2015			At December 31, 2014		
Impaired loans with a related allowance for loan losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Real estate mortgage	**$ 18,259**	**$ 20,692**	**$ 4,013**	$ 21,079	$ 23,508	$ 4,564
Production and intermediate term	**3,990**	**4,279**	**1,156**	4,029	4,838	1,542
Processing and marketing	**-**	**-**	**-**	1,071	1,577	237
Farm-related business	**898**	**4,822**	**102**	920	4,844	138
Energy and water/waste disposal	**-**	**-**	**-**	7,023	7,023	5,500
Rural residential real estate	**50**	**110**	**30**	114	173	17
Mission-related	**2,555**	**2,555**	**180**	2,612	2,612	176
Total	**$ 25,752**	**$ 32,458**	**$ 5,481**	$ 36,848	$ 44,575	$ 12,174
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	**$ 123,045**	**$ 140,378**	**$ -**	$ 121,462	$ 138,174	$ -
Production and intermediate term	**32,272**	**46,970**	**-**	30,218	47,394	-
Processing and marketing	**2,652**	**28,676**	**-**	3,668	29,614	-
Farm-related business	**156**	**697**	**-**	174	760	-
Energy and water/waste disposal	**95**	**24,891**	**-**	-	22,730	-
Rural residential real estate	**1,734**	**1,819**	**-**	1,278	1,370	-
Lease receivables	**24**	**24**	**-**	31	31	-
Mission-related	**5,534**	**8,720**	**-**	4,519	8,217	-
Total	**$ 165,512**	**$ 252,175**	**$ -**	$ 161,350	$ 248,290	$ -
Total impaired loans:						
Real estate mortgage	**$ 141,304**	**$ 161,070**	**$ 4,013**	$ 142,541	$ 161,682	$ 4,564
Production and intermediate term	**36,262**	**51,249**	**1,156**	34,247	52,232	1,542
Processing and marketing	**2,652**	**28,676**	**-**	4,739	31,191	237
Farm-related business	**1,054**	**5,519**	**102**	1,094	5,604	138
Energy and water/waste disposal	**95**	**24,891**	**-**	7,023	29,753	5,500
Rural residential real estate	**1,784**	**1,929**	**30**	1,392	1,543	17
Lease receivables	**24**	**24**	**-**	31	31	-
Mission-related	**8,089**	**11,275**	**180**	7,131	10,829	176
Total	**$ 191,264**	**$ 284,633**	**$ 5,481**	$ 198,198	$ 292,865	$ 12,174

	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 loan 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	**$ 16,877**	**$ 158**	$ 21,293	$ 90	**$ 18,560**	**$ 214**	$ 29,988	$ 137
Production and intermediate term	**3,715**	**15**	21,635	5	**3,709**	**24**	21,526	8
Processing and marketing	**-**	**-**	2,136	-	**528**	**-**	2,087	-
Farm-related business	**898**	**-**	1,032	-	**907**	**-**	1,044	-
Energy and water/waste disposal	**-**	**-**	2,161	-	**3,457**	**-**	2,090	-
Rural residential real estate	**31**	**1**	57	-	**63**	**1**	87	1
Mission-related	**2,570**	**83**	2,541	66	**2,590**	**147**	2,537	115
Total	**$ 24,091**	**$ 257**	$ 50,855	$ 161	**$ 29,814**	**$ 386**	$ 59,359	$ 261
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	**$ 120,335**	**$ 1,378**	$ 111,258	$ 1,010	**$ 119,796**	**$ 2,679**	$ 105,930	$ 2,255
Production and intermediate term	**29,680**	**1,080**	24,241	547	**31,228**	**2,417**	25,065	1,225
Loans to cooperatives	**-**	**-**	1,685	22	**-**	**-**	847	22
Processing and marketing	**2,861**	**-**	3,676	-	**3,233**	**-**	3,939	-
Farm-related business	**175**	**4**	175	39	**173**	**7**	178	66
Energy and water/waste disposal	**6,766**	**-**	-	1	**3,402**	**-**	-	1
Rural residential real estate	**1,668**	**16**	1,490	13	**1,305**	**24**	1,447	20
Lease receivables	**26**	**-**	41	-	**28**	**-**	43	-
Mission-related	**5,379**	**115**	4,734	79	**5,119**	**203**	4,136	137
Total	**$ 166,890**	**$ 2,593**	$ 147,300	$ 1,711	**$ 164,284**	**$ 5,330**	$ 141,585	$ 3,726
Total impaired loans:								
Real estate mortgage	**$ 137,212**	**$ 1,536**	$ 132,551	$ 1,100	**$ 138,356**	**$ 2,893**	$ 135,918	$ 2,392
Production and intermediate term	**33,395**	**1,095**	45,876	552	**34,937**	**2,441**	46,591	1,233
Loans to cooperatives	**-**	**-**	1,685	22	**-**	**-**	847	22
Processing and marketing	**2,861**	**-**	5,812	-	**3,761**	**-**	6,026	-
Farm-related business	**1,073**	**4**	1,207	39	**1,080**	**7**	1,222	66
Energy and water/waste disposal	**6,766**	**-**	2,161	1	**6,859**	**-**	2,090	1
Rural residential real estate	**1,699**	**17**	1,547	13	**1,368**	**25**	1,534	21
Lease receivables	**26**	**-**	41	-	**28**	**-**	43	-
Mission-related	**7,949**	**198**	7,275	145	**7,709**	**350**	6,673	252
Total	**$ 190,981**	**$ 2,850**	$ 198,155	$ 1,872	**$ 194,098**	**$ 5,716**	$ 200,944	$ 3,987

At June 30, 2015, impaired loans of $25.8 million had a related specific allowance of $5.5 million, while the remaining $165.5 million of impaired loans had no related specific allowance as a result of adequate collateralization.

The average recorded investment in impaired loans for the three months ended June 30, 2015, was $190.9 million. The district recognized interest income of $2.9 million 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 $194.1 million. The district recognized interest income of $5.7 million on impaired loans during the six months ended June 30, 2015.

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	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Loan Losses:											
Balance at March 31, 2015	$ 34,500	$ 10,986	$ 6,503	$ 783	$ 8,147	$ 498	$ 27	$ 42	$ -	$ 538	62,024
Charge-offs	(1,274)	(369)	(15)	-	(2,065)	-	-	-	-	-	(3,723)
Recoveries	165	897	270	190	-	4	-	-	-	-	1,526
Provision for credit losses (loan loss reversal)	1,431	(276)	987	(162)	(3,349)	50	(4)	3	-	(2)	(1,322)
Other *	(43)	201	(52)	(3)	(15)	(12)	-	-	-	(1)	75
Balance at June 30, 2015	$ 34,779	$ 11,439	$ 7,693	$ 808	$ 2,718	$ 540	$ 23	$ 45	$ -	$ 535	$ 58,580
Balance at December 31, 2014	$ 38,137	$ 10,404	$ 6,215	$ 716	$ 8,155	$ 472	$ -	$ 44	$ -	$ 214	$ 64,357
Charge-offs	(1,593)	(479)	(15)	-	(2,065)	(8)	-	-	-	-	(4,160)
Recoveries	306	1,058	453	190	-	4	-	-	-	-	2,011
Provision for credit losses (loan loss reversal)	(1,214)	2,092	4,314	(95)	(3,390)	85	23	1	-	322	2,138
Adjustment due to merger	(1,013)	(1,224)	(125)	-	-	(1)	-	-	-	-	(2,363)
Other *	156	(412)	(3,149)	(3)	18	(12)	-	-	-	(1)	(3,403)
Balance at June 30, 2015	$ 34,779	$ 11,439	$ 7,693	$ 808	$ 2,718	$ 540	$ 23	$ 45	$ -	$ 535	$ 58,580
Individually evaluated for impairment	4,849	559	821	-	-	39	-	-	-	179	6,447
Collectively evaluated for impairment	29,917	10,859	6,872	808	2,718	501	23	45	-	356	52,099
Loans acquired with deteriorated credit quality	13	21	-	-	-	-	-	-	-	-	34
Balance at June 30, 2015	$ 34,779	$ 11,439	$ 7,693	$ 808	$ 2,718	$ 540	$ 23	$ 45	$ -	$ 535	$ 58,580
Balance at March 31, 2014	$ 42,622	$ 14,301	$ 7,983	$ 695	$ 4,897	$ 430	$ 7	$ 50	$ -	$ 227	71,212
Charge-offs	(2,707)	(275)	(59)	-	-	(78)	-	-	-	-	(3,119)
Recoveries	100	57	91	-	-	-	-	-	-	-	248
Provision for credit losses (loan loss reversal)	(5,643)	975	(237)	25	(153)	70	-	(1)	-	(11)	(4,975)
Adjustment due to merger	-	2	-	-	-	-	-	-	-	-	2
Other *	58	(97)	(473)	(15)	535	-	-	-	-	-	8
Balance at June 30, 2014	$ 34,430	$ 14,963	$ 7,305	$ 705	$ 5,279	$ 422	$ 7	$ 49	$ -	$ 216	$ 63,376
Balance at December 31, 2013	$ 42,429	$ 13,591	$ 11,654	$ 641	$ 5,222	$ 429	$ 7	$ 49	$ -	$ 142	$ 74,164
Charge-offs	(2,964)	(340)	(428)	-	-	(79)	-	-	-	-	(3,811)
Recoveries	139	966	146	-	57	-	-	-	-	-	1,308
Provision for credit losses (loan loss reversal)	(4,540)	1,199	(3,452)	86	(283)	96	-	-	-	100	(6,794)
Adjustment due to merger	(1,696)	(192)	(88)	(2)	(241)	(24)	-	-	-	-	(2,243)
Other *	1,062	(261)	(527)	(20)	524	-	-	-	-	(26)	752
Balance at June 30, 2014	$ 34,430	$ 14,963	$ 7,305	$ 705	$ 5,279	$ 422	$ 7	$ 49	$ -	$ 216	$ 63,376
Individually evaluated for impairment	6,173	7,248	1,640	-	2,134	28	-	-	-	171	17,394
Collectively evaluated for impairment	28,257	7,715	5,665	705	3,145	394	7	49	-	45	45,982
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2014	$ 34,430	$ 14,963	$ 7,305	$ 705	$ 5,279	$ 422	$ 7	$ 49	$ -	$ 216	$ 63,376
Recorded Investments in Loans Outstanding:											
Ending balance at June 30, 2015	$ 11,893,623	$ 2,537,849	$ 3,295,032	$ 404,319	$ 1,419,233	$ 278,389	$ 5	$ 3,735	$ 38,502	$ 278,509	$ 20,149,196
Individually evaluated for impairment	$ 140,007	$ 36,117	$ 5,725	$ -	$ 95	$ 1,902	$ -	$ 24	$ -	$ 8,057	$ 191,927
Collectively evaluated for impairment	$ 11,750,386	$ 2,501,644	$ 3,289,142	$ 404,319	$ 1,419,138	$ 276,487	$ 5	$ 3,711	$ 38,502	$ 270,452	$ 19,953,786
Loans acquired with deteriorated credit quality	$ 3,230	$ 88	$ 165	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,483
Ending balance at June 30, 2014	$ 11,112,741	$ 1,981,252	$ 2,882,247	$ 350,648	$ 1,441,031	$ 245,418	$ 19,971	$ 4,334	$ 36,964	$ 297,771	$ 18,372,377
Individually evaluated for impairment	$ 134,034	$ 47,017	$ 10,658	$ -	$ 2,159	$ 1,890	$ -	$ 39	$ -	$ 7,284	$ 203,081
Collectively evaluated for impairment	$ 10,976,689	$ 1,934,104	$ 2,871,433	$ 350,648	$ 1,438,872	$ 243,528	$ 19,971	$ 4,295	$ 36,964	$ 290,487	$ 18,166,991
Loans acquired with deteriorated credit quality	$ 2,018	$ 131	$ 156	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,305

* Reserve for losses on standby letters of credit and unfunded commitments 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. TDRs 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 $67,300, including $17,934 classified as nonaccrual and $49,366 classified as accrual, with specific allowance for loan losses of $2,263. Additional commitments to lend to borrowers whose loan terms have been modified in TDRs were $284 at June 30, 2015, and $285 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	**$ 35,931**	$ 40,634	**$ 14,797**	$ 15,135
Production and intermediate term	**22,773**	25,571	**830**	3,319
Agribusiness	**2,305**	3,332	**2,305**	3,332
Rural residential real estate	**351**	279	**2**	4
Mission-related	**5,940**	6,074	**-**	-
Total	**$ 67,300**	$ 75,890	**$ 17,934**	$ 21,790

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three and six months ended June 30, 2015, and 2014. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end after the restructuring.

For the three months ended June 30, 2015:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Real estate mortgage	$ 624	$ 632
Rural residential real estate	160	159
Total	$ 784	$ 791

For the three months ended June 30, 2014:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 3,366	$ 3,365
Production and intermediate term	2,826	3,095
Total	$ 6,192	$ 6,460

For the six months ended June 30, 2015:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,171	$ 1,176
Production and intermediate term	929	497
Rural residential real estate	160	159
Total	$ 2,260	$ 1,832

For the six months ended June 30, 2014:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 3,556	$ 3,548
Production and intermediate term	2,836	3,105
Rural residential real estate	190	222
Mission-related	941	955
Total	$ 7,523	$ 7,830

The predominant form of concession granted for troubled debt restructuring includes extension of the term and delayed payments. Other types of modifications include interest rate and principal reduction.

A payment default is defined as a payment that is 30 days past due after the date the loan was restructured. The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

	Recorded Investment at June 30, 2015	Recorded Investment at June 30, 2014
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage	$ 158	$ 233
Rural residential real estate	-	5
Total	$ 158	$ 238

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 district has various outstanding commitments and contingent liabilities, including the possibility of actions against the district 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 district.

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	**6,535**	6,535	-	-
Total assets	**$ 4,193,075**	$ 6,535	$ 4,114,909	$ 71,631
Liabilities:				
Standby letters of credit	**$ 1,820**	$ -	$ -	$ 1,820
Total liabilities	**$ 1,820**	$ -	$ -	$ 1,820

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	$ -	$ 1,652	$ 75,971
Net losses included in other comprehensive loss	-	-	-	(82)	-	-	(82)
Purchases, issuances and settlements	-	-	(4)	(5,906)	-	168	(6,078)
Balance at June 30, 2015	$ -	$ -	$ -	$ 71,631	$ -	$ 1,820	$ 69,811
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	$ -	$ 993	$ 79,597
Net gains included in other comprehensive loss	-	-	-	285	-	-	285
Purchases, issuances and settlements	-	-	(7)	(9,237)	-	827	(10,071)
Balance at June 30, 2015	$ -	$ -	$ -	$ 71,631	$ -	$ 1,820	$ 69,811
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. Agricultural mortgage-backed securities 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	**$ 139,563**	$ -	$ -	$ 139,563	**$ (4,160)**
Other property owned	**22,961**	-	-	22,961	**3,652**
Total assets	**$ 162,524**	$ -	$ -	$ 162,524	**$ (508)**

Assets and liabilities recorded at fair value on a recurring 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)
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		5,941		5,941	-		-
Total assets	$	4,155,698	$	5,941	$ 4,069,167	$	80,590
Liabilities:							
Standby letters of credit	$	993	$	-	$ -	$	993
Total liabilities	$	993	$	-	$ -	$	993

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	$ 1,003	$ 208,731
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	-	-	-	-	-	93	(93)
Transfers out of Level 3	-	(9,201)	(98,875)	-	-	-	(108,076)
Balance at June 30, 2014	$ -	$ -	$ 36,963	$ 96,447	$ 918	$ 1,096	$ 133,232
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:

	Assets					Liabilities	
	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	-	-	-	-	-	1,096	(1,096)
Transfers out of Level 3	(15,000)	(26,783)	(98,875)	-	-	-	(140,658)
Balance at June 30, 2014	$ -	$ -	$ 36,963	$ 96,447	$ 918	$ 1,096	$ 133,232
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	$ 135,831	$ -	$ -	$ 135,831	$ (6,423)
Other property owned	36,344	-	-	36,344	13,806
Total assets	$ 172,175	$ -	$ -	$ 172,175	$ 7,383

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	**$ 516,608**	$ 516,608	$ -	$ -	$ 516,608	$ 437,201	$ 437,201	$ -	$ -	$ 437,201
Mission-related and other held-to-maturity investments	**33,477**	-	-	33,416	33,416	39,086	-	-	38,985	38,985
Net loans	**19,756,030**	-	-	19,842,837	19,842,837	19,108,932	-	-	19,166,500	19,166,500
Total assets	**$ 20,306,115**	$ 516,608	$ -	$ 19,876,253	$ 20,392,861	$ 19,585,219	$ 437,201	$ -	$ 19,205,485	$ 19,642,686
Liabilities:										
Systemwide debt securities and other notes	**$ 20,703,573**	$ -	$ -	$ 20,783,335	$ 20,783,335	$ 19,991,281	$ -	$ -	$ 20,062,271	$ 20,062,271
Subordinated debt	**50,000**	-	-	53,797	53,797	50,000	-	-	53,989	53,989
	$ 20,753,573	$ -	$ -	$ 20,837,132	$ 20,837,132	$ 20,041,281	$ -	$ -	$ 20,116,260	$ 20,116,260

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 and its affiliated associations' 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. This would include certain mortgage-backed and asset-backed securities. To estimate the fair value of investments, the bank obtains prices from third-party pricing services. 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. Also included in the district's Level 3 assets are its investments in Farmer Mac AMBS.

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 include basic interest rate swaps and cash flow derivatives. 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 district'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 district'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. To estimate the fair value of these instruments, the bank obtains prices from third-party pricing services. Generally, these loans would be classified as Level 2.

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.

Subordinated Debt

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

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.

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 Discounted cash flow	Price for similar asset Constant prepayment rate Appropriate interest rate yield curve
Loans held under the fair value option	Quoted prices Discounted cash flow	Price for similar instruments 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 June 30, 2015**	**Fair Value December 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

Employees of the bank and district associations participate in either the defined benefit retirement plan or a defined contribution plan (DC Plan) and are eligible to participate in the district's 401(k) plan. Employer contributions to the DC Plan and 401(k) plan are expensed as incurred. The multiemployer structure of the district's defined benefit pension plan results in the recording of this plan only upon combination.

The following table summarizes the components of net periodic benefit costs for the district's defined benefit pension plan and for other postretirement benefit costs for the six months ended June 30:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2015	2014	**2015**	2014
Service cost	**$ 2,663**	$ 2,470	**$ 774**	$ 621
Interest cost	**7,939**	7,958	**1,559**	1,359
Expected return on plan assets	**(10,280)**	(10,157)	**-**	-
Amortization of prior service costs	**2**	18	**(490)**	(614)
Amortization of net loss	**9,105**	4,043	**436**	49
Net periodic benefit cost	**$ 9,429**	$ 4,332	**$ 2,279**	$ 1,415

As of June 30, 2015, contributions of $10.7 million have been made to the defined benefit pension plan. The district presently anticipates no additional contributions to fund its pension plan in 2015.

NOTE 8 — INCOME TAXES

The bank and its affiliated associations did not have any uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

NOTE 9 — 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 district, these elements include unrealized gains or losses on the bank's available-for-sale investment portfolio, elements of certain pension and retirement benefit changes 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	Pension and Other Post-Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2015	$ (166,791)	$ (16,100)	$ (147,996)	$ (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 pension and postretirement benefit plans				
Change due to effect of merger	216		216	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(441)		(441)	
Amortization of net losses	9,541		9,541	
Net change in pension and postretirement benefit plans	9,316		9,316	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(370)			(370)
Reclassification of loss recognized in interest expense	774			774
Net change in cash flow derivative instruments	404			404
Total other comprehensive income	**18,265**	**8,545**	**9,316**	**404**
Balance, June 30, 2015	**$ (148,526)**	**$ (7,555)**	**$ (138,680)**	**$ (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	Pension and Other Post-Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2014	$ (110,954)	$ (30,303)	$ (76,199)	$ (4,452)
Change in unrealized gains on available-for-sale securities				
Net decrease in unrealized losses on investment securities	15,895	15,895		
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	21	21		
Net decrease in unrealized gains on securities	15,916	15,916		
Change in pension and postretirement benefit plans				
Change due to effect of merger	326		326	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(694)		(694)	
Amortization of net losses	4,103		4,103	
Net change in pension and postretirement benefit plans	3,735		3,735	
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	20,269	15,916	3,735	618
Balance, June 30, 2014	$ (90,685)	$ (14,387)	$ (72,464)	$ (3,834)

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

Component of AOCL	**Amount Reclassified from AOCL**		**Affected Line in the Statement of Comprehensive Income**
	2015	2014	
Amortization of net charges on pension and postretirement benefit plans	**9,100**	3,409	Salaries and employee benefits
Amortization on cash flow hedges	**774**	1,209	Interest expense
Total reclassifications	**$ 9,874**	$ 4,618	

NOTE 10 — ASSOCIATION MERGER

Effective January 1, 2015, Great Plains Ag Credit, ACA headquartered in Amarillo, Texas, merged into AgTexas Farm Credit Services, ACA headquartered in Lubbock, Texas. The merged association is using the AgTexas Farm Credit Services, ACA name and is headquartered in Lubbock, Texas. The primary reason for the merger was based on a determination that the combined organizations should be financially and operationally stronger than the respective associations on a stand-alone basis. The acquisition method of accounting, required for mergers of cooperatives occurring after January 1, 2009, was used in the mergers.

AgTexas Farm Credit Services, ACA accounted for the transaction by using its historical information and accounting policies and recording the identifiable assets and liabilities of Great Plains Ag Credit, ACA as of the acquisition date of January 1, 2015, at their respective fair values. The associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of any other equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of the acquired entity that were converted into shares of the surviving entity had identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio. Management believed that because the stock in each association is fixed in value, the stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the surviving entity identified and estimated the acquisition date fair value of the equity interest of the acquired entity instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from the acquired entity, were measured based on various estimates using assumptions that the surviving entity’s management believes are reasonable utilizing information available at the merger date. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, the surviving entity’s management determined goodwill was immaterial and therefore recorded no goodwill. The excess value received by the surviving entity from the acquired entity over par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

The fair value of the identifiable assets purchased was $547.1 million and the fair value of liabilities assumed was $458.7 million, resulting in $88.4 million fair value of net assets purchased. The assets acquired included gross loans at fair value of $518.8 million with a contractual amount of $525.3 million. As of January 1, 2015, the gross contractual amount of loans not expected to be collected was $2.4 million.

NOTE 11 — SUBSEQUENT EVENTS

The district 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 12 — BANK-ONLY FINANCIAL DATA

Condensed financial information for the bank follows. All significant transactions and balances between the bank and associations are eliminated in combination.

Balance sheet data	**June 30, 2015**	December 31, 2014
Cash	**$ 508,936**	$ 428,361
Federal funds sold and overnight investments	**21,582**	22,086
Investment securities	**4,124,684**	4,086,391
Loans	**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
Bonds and notes	**$ 17,053,573**	$ 16,341,281
Subordinated debt	**50,000**	50,000
Accrued interest payable	**41,565**	38,122
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**55,960**	84,863
Total liabilities	**17,221,161**	16,534,329
Preferred stock	**600,000**	600,000
Capital stock	**233,468**	233,468
Retained earnings	**737,726**	665,575
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

	Six Months Ended June 30,	
Statement of income data	**2015**	2014
Interest income	**$ 207,668**	$ 188,478
Interest expense	**92,699**	80,395
Net interest income	**114,969**	108,083
Negative provision for loan losses	**(1,667)**	(695)
Net interest income after negative provision for loan losses	**116,636**	108,778
Noninterest income	**22,149**	19,701
Noninterest expense	**39,519**	37,185
Net income	**99,266**	91,294
Other comprehensive income (loss):		
Change in postretirement benefit plans	**(58)**	(96)
Change in fair value of investments	**8,545**	15,916
Change in cash flow derivative instruments	**404**	618
Total other comprehensive income	**8,891**	16,438
Comprehensive Income	**$ 108,157**	$ 107,732