

THIRD QUARTER 2016

Table of Contents

Management's Discussion and Analysis of Combined Financial Condition and Results of Operations.....	2
Controls and Procedures	12
Combined Financial Statements:	
Combined Balance Sheets	13
Combined Statements of Comprehensive Income.....	14
Combined Statements of Changes in Members' Equity.....	15
Combined Statements of Cash Flows	16
Notes to Combined Financial Statements	17

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 nine months ended September 30, 2016. 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 2015 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 September 30, 2016, was \$104,119, a decrease of \$1,527, or 1.4 percent, over the same period of 2015. The decrease in net income consisted primarily of a \$7,680 increase in noninterest expense and a \$4,518 decrease in noninterest income, offset by a \$9,221 increase in net interest income and a \$1,447 decrease in provision for credit losses.

Net income for the nine months ended September 30, 2016, was \$314,179, a decrease of \$2,250, or 0.7 percent, over the same period of 2015. The decrease in net income consisted primarily of a \$19,901 increase in noninterest expense, a \$3,563 decrease in noninterest income and a \$3,245 increase in provision for credit losses, offset by a \$24,458 increase in net interest income.

Net Interest Income

Net interest income for the three months ended September 30, 2016, was \$182,113, an increase of \$9,221, or 5.3 percent, over the same period of 2015. The increase was primarily the result of a \$2.51 billion increase in combined district average earning assets, offset by a 13-basis-point decrease in the net interest rate spread to 2.50 percent for the three months ended September 30, 2016. The increase in earning assets was due to increases in association average loan volume, the bank's capital markets loan portfolio and the bank's investment portfolio. The district associations had an increase in average loan volume of \$1.50 billion compared to the same period of 2015, due mainly to improved general economic conditions. The decrease in the net interest rate spread was primarily due to an 18-basis-point increase in the effective cost of average interest-bearing liabilities. Interest expense for the third quarter of 2016 reflected a \$3.8 million increase in concession expenses recognized on callable debt compared to the third quarter of 2015 as a result of a \$2.46 billion increase in debt called in the quarter ended September 30, 2016, compared to the same period in 2015. The bank recognized \$5.2 million in concession expenses on \$3.52 billion of debt called in the three months ended September 30, 2016, as compared to \$1.4 million in concession expenses on \$1.06 billion of debt called in the three months ended September 30, 2015. The bank's ability to call debt and replace it with debt that has lower interest rates provides a long-term benefit to the district.

Net interest income for the nine months ended September 30, 2016, was \$538,755, an increase of \$24,458, or 4.8 percent, over the same period of 2015. The increase was primarily the result of a \$2.47 billion increase in combined district average earning assets, offset by a 16-basis-point decrease in the net interest rate spread to 2.54 percent for the nine months ended September 30, 2016. The increase in earning assets was due to increases in association average loan volume, the bank's capital markets loan portfolio and the bank's investment portfolio. The district associations had an increase in average loan

volume of \$1.57 billion compared to the same period of 2015, due mainly to improved general economic conditions. The decrease in the net interest rate spread was primarily due to a 19-basis-point increase in the effective cost of average interest-bearing liabilities. Interest expense for the third quarter of 2016 reflected a \$7.2 million increase in concession expenses recognized on callable debt as a result of a \$4.45 billion increase in debt called in the nine months ended September 30, 2016, compared to the same period in 2015. The bank recognized \$11.6 million in concession expenses on \$7.51 billion of debt called in the nine months ended September 30, 2016, as compared to \$4.4 million in concession expenses on \$3.06 billion of debt called in the nine months ended September 30, 2015. The bank's ability to call debt and replace it with debt that has lower interest rates provides a long-term benefit to the district.

Provision for Credit Losses

The district's provision for credit losses on loans, standby letters of credit and unfunded commitments for the three months ended September 30, 2016, totaled \$3,334, a decrease of \$1,447 from the \$4,781 provision for the same period of 2015. The decrease was due primarily to recoveries at the bank.

The provision for credit losses on loans, standby letters of credit and unfunded commitments for the nine months ended September 30, 2016, was \$10,164, an increase of \$3,245 from the \$6,919 provision for the same period of 2015. The general provisions at the district associations included the effects of loan growth and increased pressure on livestock and feedlot commodities.

Noninterest Income

Noninterest income for the three months ended September 30, 2016, was \$11,143, a decrease of \$4,518, or 28.9 percent, from the same period of 2015. The decrease was due mainly to a \$4,732 decrease in fees for loan-related services and a \$616 decrease in other income, net, offset by a \$436 increase in patronage income.

Noninterest income for the nine months ended September 30, 2016, was \$39,883, a decrease of \$3,563, or 8.2 percent, from the same period of 2015. The decrease included a \$7,243 decrease in loan-related fee income and a \$5,779 decrease from preferred stock dividends received in 2015 from an ethanol facility in OPO, offset by a decrease from the \$3,133 write-off in 2015 of loan accounting software no longer deemed a useable asset, a \$3,096 gain on the sale of a loan at the bank in June 2016 and a \$2,952 increase in patronage income.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2016, was \$85,775, an increase of \$7,680, or 9.8 percent, over the same period of 2015. The increase is primarily attributable to a \$3,217 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC), a \$2,874 increase in salaries and benefits and a \$1,433 increase in net losses on OPO. The increase in premiums to the FCSIC, that are assessed on the average System debt outstanding, increased due to a rate increase from 13 basis points in 2015 to 16 basis points in the first half of 2016 and to an increase in debt required to fund earning assets. The approved FCSIC premium rate has increased to 18 basis points for the last six months of 2016. The increase in salaries and benefits included a \$2,156 increase in compensation, related payroll taxes and other benefits and a \$791 increase in pension and retirement expenses.

Noninterest expense for the nine months ended September 30, 2016, was \$254,064, an increase of \$19,901, or 8.5 percent, over the same period of 2015. The increase is primarily attributable to a \$7,216 increase in premiums to the FCSIC, a \$5,886 increase in salaries and benefits, a \$5,304 increase in net losses on OPO and a \$1,334 increase in occupancy and equipment expenses. The increase in premiums to

the FCSIC, that are assessed on the average System debt outstanding, increased due to a rate increase to 16 basis points for the first six months and to an increase in debt required to fund earning assets. The approved FCSIC premium rate has increased to 18 basis points for the last six months of 2016. The increase in salaries and benefits included a \$3,781 increase in compensation, related payroll taxes and other benefits and a \$2,731 increase in pension and retirement expenses. The increase in losses on OPO included a \$3,090 decrease in net gains on disposition of the preferred stock of an ethanol facility in 2015. The increase in occupancy and equipment expenses was mainly due to increases in computer expense and cost of space.

Key results of operations comparisons:

	Annualized for the Nine Months Ended September 30, 2016	Annualized for the Nine Months Ended September 30, 2015
Return on average assets	1.53%	1.70%
Return on average members' equity	10.22%	10.86%
Net interest income as a percentage of average earning assets	2.71%	2.85%
(Recoveries), net of charge-offs, to average loans	< (0.01)%	0.01%
Operating expenses as a percentage of net interest income and noninterest income	43.67%	42.69%
Operating expenses as a percentage of average earning assets	1.27%	1.32%

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 nine months ended September 30:

	2016	2015
Change in unrealized gains on available-for-sale securities		
Net increase in unrealized gains on investment securities	\$ 32,487	\$ 19,338
Change in pension and postretirement benefit plans		
Change due to effect of merger	-	216
Amounts amortized into net periodic expense:		
Amortization of prior service credits	(695)	(684)
Amortization of net losses	13,231	14,311
Net change in pension and postretirement benefit plans	12,536	13,843
Change in cash flow derivative instruments		
Unrealized losses on cash flow derivative instruments	(3,827)	(419)
Reclassification of loss recognized in interest expense	1,379	1,120
Net change in cash flow derivative instruments	(2,448)	701
Other comprehensive income	\$ 42,575	\$ 33,882

The increase in unrealized gains on investments is due primarily to the effect of developments in the interest rate market on the bank's fixed rate investment securities.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2016, was \$22.12 billion, an increase of \$938.6 million, or 4.4 percent, from \$21.18 billion at December 31, 2015. The increase in the loan portfolio during the first nine months of 2016 was due primarily to growth in the associations' loan portfolios of \$913.1 million.

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 September 30, 2016, and 98.9 percent at December 31, 2015. Nonaccrual loans for the district were 0.6 percent of total loans at September 30, 2016, compared to 0.5 percent at December 31, 2015.

Total district high-risk asset volume increased \$36.2 million, or 19.6 percent, to \$220.5 million at September 30, 2016, from \$184.3 million at December 31, 2015.

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

	<u>September 30, 2016</u>	<u>Increase (Decrease)</u>		<u>December 31, 2015</u>
		\$	%	
Nonaccrual loans	\$ 136.9	\$ 23.5	20.7 %	\$ 113.4
Accruing formally restructured loans	52.2	2.1	4.2	50.1
Loans 90 days past due and still accruing interest	<u>9.0</u>	<u>6.9</u>	328.6	<u>2.1</u>
Total impaired loans	198.1	32.5	19.6	165.6
Other property owned	<u>22.4</u>	<u>3.7</u>	19.8	<u>18.7</u>
Total high-risk assets	<u>\$ 220.5</u>	<u>\$ 36.2</u>	19.6 %	<u>\$ 184.3</u>

The \$23.5 million increase in nonaccrual loans from December 31, 2015, to September 30, 2016, is primarily the result of \$80.6 million in transfers to nonaccrual status, offset by \$50.3 million in repayments. The increase in transfer to nonaccrual status was primarily due to production and intermediate term loans and real estate mortgage loans.

At September 30, 2016, \$82.3 million, or 61.3 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 September 30, 2016, the district had \$2.5 million in nonaccrual loans on which interest income is recognized upon cash receipts, compared to \$3.3 million at December 31, 2015. The increase in OPO was due primarily to \$10.6 million in additions to OPO at district associations, offset by dispositions of \$5.9 million at district associations. Impaired loans, consisting of nonaccrual loans, accruing formally restructured loans and loans past due 90 days or more and still accruing interest, constituted 0.9 percent of total loans at September 30, 2016, and 0.8 percent of total loans at December 31, 2015.

The allowance for loan losses at September 30, 2016, totaled \$80,531 and constituted 0.4 percent of total loans and was an increase of \$10,181, or 14.5 percent, from the allowance for loan losses at December 31, 2015. 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 40.6 percent as of September 30, 2016, as compared to 42.5 percent as of December 31, 2015. 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 credit losses on letters of credit and unfunded commitments totaling \$5.3 million at September 30, 2016.

Liquidity and Funding Sources

Cash and available-for-sale investment securities totaled \$5.46 billion, or 19.5 percent, of total assets at September 30, 2016, compared to \$5.05 billion, or 19.0 percent, at December 31, 2015, an increase of \$407.8 million, or 8.1 percent. At September 30, 2016, the district's cash balance was \$508.9 million, a decrease of \$41.9 million from the balance at December 31, 2015. Cash held at the Federal Reserve Bank at September 30, 2016, totaled \$489.4 million, compared to \$512.2 million at December 31, 2015. The district diversified its liquidity positions with the purchase of U.S. Treasury securities in the second quarter of 2016. The bank maintains levels of cash and other highly liquid assets to meet loan demand, maturing debt and other liquidity needs. At September 30, 2016, the bank had 198 days of liquidity to cover maturing debt obligations, as compared to 200 days at December 31, 2015. Interest-bearing

liabilities, consisting of bonds and notes, increased by \$1.30 billion, or 5.9 percent, from December 31, 2015, to September 30, 2016.

Subordinated Debt

In September 2008, the bank issued \$50.0 million of 8.406 percent unsecured subordinated notes due in 2018, generating proceeds of \$49.4 million. The proceeds were used to increase regulatory permanent capital and total surplus pursuant to FCA regulations and for general corporate purposes. This debt was unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders.

On March 10, 2016, the FCA approved a final rule to modify the regulatory capital requirements for System banks and associations, effective January 1, 2017. The final rule to modify regulatory capital requirements changes the favorable capital treatment of the subordinated debt, and, therefore, qualifies as a regulatory event. On March 30, 2016, the bank's board approved a resolution authorizing the redemption of all outstanding subordinated debt at par. The redemption occurred on June 6, 2016.

Investments

The district's investments at September 30, 2016, included the bank's available-for-sale portfolio with a fair value of \$4.84 billion and the district associations' held-to-maturity portfolio recorded at an amortized cost of \$27.0 million at September 30, 2016. 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, U.S. Treasury securities and asset-backed securities (ABS). All 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 \$55.6 million. The district's held-to-maturity portfolio consisted of Farmer Mac AMBS held by district associations which had an amortized cost of \$27.0 million and a fair value of \$27.2 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:

	September 30, 2016		December 31, 2015	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Agency-guaranteed debt	\$ 233,543	\$ 234,200	\$ 252,436	\$ 248,355
Corporate debt	202,356	202,663	201,332	200,602
Federal agency-guaranteed collateralized mortgage-backed securities:				
GNMA	1,811,037	1,813,660	1,740,411	1,731,756
FNMA and FHLMC	2,224,816	2,229,602	2,008,449	1,998,669
U.S. Treasury securities	199,508	200,023	-	-
Asset-backed securities	162,579	162,614	200,485	200,073
Total liquidity investments	<u>\$ 4,833,839</u>	<u>\$ 4,842,762</u>	<u>\$ 4,403,113</u>	<u>\$ 4,379,455</u>

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

	September 30, 2016		December 31, 2015	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Agricultural mortgage-backed securities	\$ 57,346	\$ 55,634	\$ 67,268	\$ 65,650

During the nine months ended September 30, 2016, there was an increase in unrealized gains on investments totaling \$32,487, due primarily to the effect of developments in the interest rate market on the bank's fixed rate investment 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.

At September 30, 2016, the bank did not hold any investments that were ineligible for liquidity purposes by FCA regulations due to credit ratings that were below AAA rating by all NRSROs.

Capital Resources

The district's combined capital at September 30, 2016, totaled \$4,206,241, consisting of \$600,000 of Class B non-cumulative subordinated perpetual preferred stock, \$63,902 of capital stock and participation certificates, \$3,432,083 in retained earnings and \$224,625 in additional paid-in capital, offset by \$114,369 of accumulated other comprehensive loss. The district's capital reflected an increase of \$277,615, or 7.1 percent, from December 31, 2015 to September 30, 2016, due to net income of \$314,179, other comprehensive income changes of \$42,575 and net stock issuance of \$1,446, offset by \$50,398 in patronage distributions and preferred stock dividends of \$30,187. As of September 30, 2016, the bank and all district associations exceeded all regulatory capital requirements.

Key financial condition comparisons:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Members' equity to assets	15.01%	14.76%
Total liabilities to members' equity	5.66:1	5.78:1
Allowance for loan losses to total loans	0.36%	0.33%

OTHER

CONDITIONS IN THE DISTRICT

In the majority of the district, timely precipitation during the quarter contributed to topsoil and subsoil moisture conditions, which have remained supportive of field crops throughout much of the growing season. However, in August there was substantial flooding across some areas of southern Louisiana. The historic flooding in the region reduced the yield potential for rice, delayed soybean harvest progress and severely impacted the sugarcane crop. Also, drought conditions intensified during the quarter in northern Alabama and, to a lesser extent, Mississippi. However, approximately 70 percent of the land area within the district is unaffected by drought, which is the highest percentage observed at this point in the season in the past seven years.

Prices for row crops fell during the quarter, as the U.S. Department of Agriculture forecasted record corn and soybean yields for the 2016 growing season. Corn yields are expected to surpass existing records in eight states across many regions, including the Southeast, Midwest and Pacific Northwest. Within the district, about three-quarters of the corn crop had been harvested through the end of September. In Texas, where over 50 percent of the district's corn is grown, yields are expected to be well above the five-year average. Approximately half of the soybeans in the district have been harvested, and anticipated yields are comparable to those achieved in the prior year. The cotton crop is progressing as expected, and yields in the district, where the majority of the nation's cotton is grown, are likely to be in line with the previous season.

In the protein sectors, increased production in the beef industry is pressuring cattle prices, a trend that is expected to persist over the medium-term. Beef packers are likely to capture a relatively high share of industry profitability in the short-term, while cattle producers will experience lower margins. Although lean hog prices fell by about one-third during the quarter, prices are comparable to those observed at the start of the year. Hog values are projected to move lower through the next few months, as slaughter peaks seasonally in the fourth quarter. The effects of the late 2014 outbreak of highly-pathogenic avian influenza continue to linger, and U.S. agencies are still working to re-open trade channels with some foreign countries. Though broiler production will increase only slightly this year, poultry supplies in cold storage remain at historically high levels.

Supported by seasonal increases in demand for fluid milk, dairy prices improved during the quarter. Margins for dairy producers have benefitted from improving revenues and declining feed costs, but record cheese stocks may affect the market for the next several months.

In August, unemployment rates in district states ranged from a low of 4.7 percent in Texas to a high of 6.6 percent in New Mexico. Oil prices fluctuated between \$40 and \$50 per barrel in the past three months, and the stability in the market encouraged drillers to increase production. According to Baker Hughes, the number of active rotary rigs in the U.S. increased by over 100 during the quarter, with about 50 percent of the new activity occurring in Texas. Consequently, the rate of job loss in the mining and logging and manufacturing sectors slowed. Employment conditions in the district were relatively unchanged during the quarter and, in general, remain positive.

Preliminary data suggests that the national economy may have expanded at an annualized rate of two to three percent in the third quarter, as consumer confidence rose to its highest level in nine years. The national unemployment rate held steady at 4.9 percent in August. In the fourth quarter, the focus will shift to the elections and the Federal Reserve, which may consider raising its benchmark interest rate before year-end.

Land values in all states in the district increased on a year-over-year basis in the third quarter. Despite the strong historic correlation between oil prices and land values in Texas, statewide declines in rural land values have not yet been observed. The conservative advance rates on real estate loans in the district would mitigate the impact of potential land value declines in the short to medium term. The bank continues to monitor economic conditions and other factors influencing collateral values and credit quality in the district.

RATING AGENCY ACTIONS

Fitch Ratings Actions

On April 13, 2016, 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 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 first-loss position on the majority of their loan portfolio.

Moody's Investors Service Rating Actions

On October 3, 2016, Moody's Investors Service affirmed the bank's issuer rating at "Aa3" 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 preferred stock rating incorporated 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

At September 30, 2016, there were no district associations under written agreements with the FCA.

On July 28, 2016, the Farm Credit Administration published a final regulation to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the rule are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the system's 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 final rule will replace existing core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 and Total Capital risk-based capital ratio requirements. The final rule will also replace the existing net collateral ratio with a Tier 1 Leverage ratio and is applicable to all Banks and Associations. The Permanent Capital Ratio will continue to remain in effect with the final rule.

The effective date of the new capital requirements is anticipated to be January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. Based on the Farm Credit Administration's analysis, System institutions are well-positioned to be in compliance with the new requirements at adoption.

The final rule to modify regulatory capital requirements changes the capital treatment of our subordinated debt and, therefore, qualifies as a regulatory event, triggering a right of redemption. On March 30, 2016, the bank's board approved a resolution authorizing the redemption of all outstanding subordinated debt at par. The redemption occurred on June 6, 2016.

On June 12, 2014, the Farm Credit Administration approved a proposed rule to revise the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014. FCA anticipates releasing a final rule in the first quarter of 2017.

The undersigned certify that we have reviewed the September 30, 2016, 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

November 9, 2016


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

November 9, 2016

Combined Balance Sheets

(dollars in thousands)	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash	\$ 508,942	\$ 550,852
Federal funds sold and overnight investments	22,031	22,413
Investment securities	4,925,415	4,475,318
Loans (includes \$26,884 and \$27,506 at fair value, held under fair value option)	22,120,384	21,181,818
Less allowance for loan losses	80,531	70,350
Net loans	22,039,853	21,111,468
Accrued interest receivable	206,520	166,462
Other property owned	22,369	18,744
Premises and equipment, net	118,638	105,040
Other assets	173,136	166,717
Total assets	\$ 28,016,904	\$ 26,617,014
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	\$ 23,356,829	\$ 22,056,726
Subordinated debt, net	-	49,801
Accrued interest payable	49,143	47,351
Patronage distributions payable	38,742	141,878
Preferred stock dividends payable	20,063	20,063
Other liabilities	345,886	372,569
Total liabilities	23,810,663	22,688,388
Commitments and contingent liabilities (Note 4)		
Members' equity		
Preferred stock	600,000	600,000
Capital stock and participation certificates	63,902	62,456
Allocated retained earnings	552,454	588,262
Unallocated retained earnings	2,879,629	2,610,227
Additional paid-in-capital	224,625	224,625
Accumulated other comprehensive loss	(114,369)	(156,944)
Total members' equity	4,206,241	3,928,626
Total liabilities and members' equity	\$ 28,016,904	\$ 26,617,014

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest Income				
Loans	\$ 237,242	\$ 215,049	\$ 700,079	\$ 631,964
Investment securities	18,574	14,788	52,361	45,401
Total interest income	255,816	229,837	752,440	677,365
Interest Expense				
Bonds, notes and subordinated debt	62,946	50,081	182,950	142,780
Notes payable and other	10,757	6,864	30,735	20,288
Total interest expense	73,703	56,945	213,685	163,068
Net interest income	182,113	172,892	538,755	514,297
Provision for credit losses	3,334	4,781	10,164	6,919
Net interest income after provision for credit losses	178,779	168,111	528,591	507,378
Noninterest Income				
Patronage income	4,582	4,146	17,076	14,124
Fees for loan-related services	6,163	10,895	16,535	23,778
Losses on loans held under fair value option	(92)	(486)	(14)	(685)
Other income, net	490	1,106	6,286	6,229
Total noninterest income	11,143	15,661	39,883	43,446
Noninterest Expense				
Salaries and employee benefits	49,261	46,387	146,129	140,243
Occupancy and equipment expense	7,097	6,989	22,522	21,188
Insurance Fund premiums	9,233	6,016	24,788	17,572
Loss (gain) on other property owned, net	1,172	(261)	1,392	(3,912)
Other operating expenses	19,012	18,964	59,233	59,072
Total noninterest expense	85,775	78,095	254,064	234,163
Income before provision for income taxes	104,147	105,677	314,410	316,661
Provision for income taxes	28	31	231	232
Net Income	104,119	105,646	314,179	316,429
Other comprehensive income				
Change in unrealized gain on investments	(11,688)	10,793	32,487	19,338
Change in pension and postretirement benefit plans	4,179	4,527	12,536	13,843
Change in cash flow derivative instruments	1,462	297	(2,448)	701
Total other comprehensive income	(6,047)	15,617	42,575	33,882
Comprehensive Income	\$ 98,072	\$ 121,263	\$ 356,754	\$ 350,311

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	Common Stock and Participation Certificates	Retained Earnings Allocated	Unallocated	Additional Paid-in-Capital	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2014	\$ 600,000	\$ 60,242	\$ 542,896	\$ 2,557,039	\$ 149,179	\$ (166,791)	\$ 3,742,565
Net income	-	-	-	316,429	-	-	316,429
Other comprehensive gain	-	-	-	-	-	33,882	33,882
Capital stock/participation certificates issued	-	7,349	-	-	-	-	7,349
Capital stock/participation certificates and allocated retained earnings retired	-	(5,660)	(39,869)	-	-	-	(45,529)
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	-	-	-	(30,187)	-	-	(30,187)
Patronage distributions							
Cash	-	-	-	(10,284)	-	-	(10,284)
Members' equity	-	-	(3)	3	-	-	-
Balance at September 30, 2015	\$ 600,000	\$ 61,931	\$ 503,024	\$ 2,754,638	\$ 224,625	\$ (132,909)	\$ 4,011,309
Balance at December 31, 2015	\$ 600,000	\$ 62,456	\$ 588,262	\$ 2,610,227	\$ 224,625	\$ (156,944)	\$ 3,928,626
Net income	-	-	-	314,179	-	-	314,179
Other comprehensive gain	-	-	-	-	-	42,575	42,575
Capital stock/participation certificates issued	-	7,383	-	-	-	-	7,383
Capital stock/participation certificates and allocated retained earnings retired	-	(5,937)	(36,783)	-	-	-	(42,720)
Preferred stock dividends	-	-	-	(30,187)	-	-	(30,187)
Patronage distributions							
Cash	-	-	-	(13,615)	-	-	(13,615)
Members' equity	-	-	975	(975)	-	-	-
Balance at September 30, 2016	\$ 600,000	\$ 63,902	\$ 552,454	\$ 2,879,629	\$ 224,625	\$ (114,369)	\$ 4,206,241

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	Nine Months Ended September 30,	
	2016	2015
Operating activities		
Net income	\$ 314,179	\$316,429
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	10,164	6,919
Carrying value adjustment on other property owned	303	382
Depreciation and amortization on premises and equipment	11,053	10,094
Accretion of net premium on loans	5,055	9,865
Amortization and accretion on debt instruments	14,934	(2,550)
Amortization of net premium on investments	2,586	1,739
Decrease in fair value on loans under fair value option	14	685
Loss (gain) on sales of other property owned	763	(4,293)
Gain on sale of loans	(3,678)	-
Loss on other earning assets	297	-
Loss from sales of premises and equipment	1,972	134
Allocated equity patronage from System bank	(13,852)	(13,498)
Increase in accrued interest receivable	(40,057)	(40,640)
Decrease in other assets, net	4,993	35,566
Increase in accrued interest payable	1,792	6,297
Decrease in other liabilities, net	(16,782)	(22,052)
Net cash provided by operating activities	<u>293,736</u>	<u>305,077</u>
Investing activities		
Net decrease (increase) in federal funds sold	382	(156)
Investment securities		
Purchases	(1,258,632)	(1,032,783)
Proceeds from maturities, calls and prepayments	838,436	796,932
Increase in loans, net	(946,821)	(1,182,220)
Proceeds from sales of other property owned	5,680	19,564
Proceeds from sales of premises and equipment	2,737	2,619
Expenditures for premises and equipment	(28,864)	(21,543)
Investment in other earning assets	(2,485)	-
Net cash used in investing activities	<u>(1,389,567)</u>	<u>(1,417,587)</u>
Financing activities		
Bonds and notes issued	16,599,444	9,702,595
Bonds and notes retired	(15,311,540)	(8,446,407)
Redemption of subordinated debt	(50,000)	-
(Decrease) Increase in advanced conditional payments	(1,383)	4,420
Repayments on capital lease obligation	(326)	-
Capital stock and participation certificates issued	7,383	7,349
Capital stock and participation certificates retired	(5,937)	(5,663)
Cash dividends on preferred stock	(30,187)	(30,187)
Cash patronage distributions paid	(153,533)	(155,815)
Net cash provided by financing activities	<u>1,053,921</u>	<u>1,076,292</u>
Net decrease in cash	(41,910)	(36,218)
Cash at beginning of year	550,852	437,201
Cash at end of quarter	<u>\$ 508,942</u>	<u>\$ 400,983</u>
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	\$ 266	\$ 858
Loan assets transferred to other property owned	10,636	4,874
Net increase in unrealized gains on investment securities	32,487	19,339
Equity issued as a result of association merger	-	76,487
Equity retired as a result of association merger	-	(76,487)
Adjustment of allowance for loan losses related to association merger	-	(2,363)
Cash dividends or patronage distributions payable	38,742	41,771
Preferred stock dividend payable	20,063	-
Capital lease obligation	1,199	-
Supplemental information		
Cash paid for:		
Interest	\$ 211,893	\$ 156,771
Income taxes	2	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, 2015, are contained in the 2015 Annual Report to stockholders (Annual Report). These unaudited third quarter 2016 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 August 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the district's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The bank and associations will evaluate the impact of adoption on their financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The bank and associations are currently evaluating the impact of adoption on their financial condition and results of operations.

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the bank or association’s financial condition or their 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 of the bank and associations will be required to make their 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 August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning 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). A summary of the amortized cost and fair value of investment securities available for sale, at September 30, 2016, and December 31, 2015, is as follows:

Investments in the bank's available-for-sale liquidity portfolio at September 30, 2016:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	\$ 233,543	\$ 1,944	\$ (1,287)	\$ 234,200	1.77 %
Corporate debt	202,356	522	(215)	202,663	1.31
Federal agency-guaranteed collateralized mortgage-backed securities:					
GNMA	1,811,037	8,354	(5,731)	1,813,660	1.51
FNMA and FHLMC	2,224,816	9,307	(4,521)	2,229,602	1.33
U.S. Treasury securities	199,508	515	-	200,023	0.91
Asset-backed securities	162,579	61	(26)	162,614	0.95
Total available-for-sale liquidity investments	\$ 4,833,839	\$ 20,703	\$ (11,780)	\$ 4,842,762	1.39 %

Investments in the bank's available-for-sale other investments portfolio at September 30, 2016:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 57,346	\$ 71	\$ (1,783)	\$ 55,634	4.22 %

Investments in the bank's available-for-sale liquidity portfolio at December 31, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	\$ 252,436	\$ 112	\$ (4,193)	\$ 248,355	1.68 %
Corporate debt	201,332	54	(784)	200,602	0.97
Federal agency-guaranteed collateralized mortgage-backed securities:					
GNMA	1,740,411	3,778	(12,433)	1,731,756	1.51
FNMA and FHLMC	2,008,449	2,996	(12,776)	1,998,669	1.31
Asset-backed securities	200,485	2	(414)	200,073	0.85
Total available-for-sale liquidity investments	\$ 4,403,113	\$ 6,942	\$ (30,600)	\$ 4,379,455	1.37 %

Investments in the bank's available-for-sale other investments portfolio at December 31, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 67,268	\$ -	\$ (1,618)	\$ 65,650	4.10 %

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at September 30, 2016:

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	\$ -	\$ -	\$ 234,200	\$ -	\$ 234,200
Corporate debt	67,521	135,142	-	-	202,663
Federal agency-guaranteed collateralized mortgage-backed securities:					
GNMA	-	466	3,225	1,809,969	1,813,660
FNMA and FHLMC	-	23,699	335,032	1,870,871	2,229,602
U.S. Treasury securities	-	200,023	-	-	200,023
Asset-backed securities	2,776	156,490	-	3,348	162,614
Total fair value	\$ 70,297	\$ 515,820	\$ 572,457	\$ 3,684,188	\$ 4,842,762
Total amortized cost	\$ 70,301	\$ 514,734	\$ 570,893	\$ 3,677,911	\$ 4,833,839
Weighted average yield	1.15%	1.09%	1.57%	1.41%	1.39%

Investments in the bank's available-for-sale other investments portfolio:

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	\$ 23,610	\$ 32,024	\$ 55,634
Total amortized cost	\$ 24,136	\$ 33,210	\$ 57,346
Weighted average yield	4.17%	4.26%	4.22%

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 September 30, 2016. 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	\$ 35,756	\$ (102)	\$ 92,423	\$ (1,185)	\$ 128,179	\$ (1,287)
Corporate debt	14,906	(95)	22,404	(120)	37,310	(215)
Federal agency-guaranteed collateralized mortgage-backed securities:						
GNMA	546,407	(1,465)	308,031	(4,266)	854,438	(5,731)
FNMA and FHLMC	700,333	(1,915)	401,147	(2,606)	1,101,480	(4,521)
Asset-backed securities	35,852	(11)	37,395	(15)	73,247	(26)
Total	\$ 1,333,254	\$ (3,588)	\$ 861,400	\$ (8,192)	\$ 2,194,654	\$ (11,780)

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 event of an investment being designated OTTI, to measure the amount related to credit loss in the determination of OTTI, the bank utilizes a third-party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan-level data. Loan-level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan-level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses. In the nine months ended September 30, 2016, the district did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at September 30, 2016, December 31, 2015 and September 30, 2015.

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 September 30, 2016, is as follows:

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 27,019	\$ 224	\$ (92)	\$ 27,151	4.62%

The following table summarizes the contractual maturity, fair value, amortized cost and weighted average yield of the district's held-to-maturity investments at September 30, 2016:

		Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	\$	16,504	\$ 10,647	\$ 27,151
Total amortized cost	\$	16,280	\$ 10,739	\$ 27,019
Weighted average yield		4.97%	4.08%	4.62%

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

A summary of the district's loans follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Real estate mortgage	\$ 13,038,362	\$ 12,187,679
Production and intermediate term	2,643,707	2,763,018
Loans to cooperatives	336,332	233,171
Processing and marketing	3,232,592	3,126,782
Farm-related business	304,203	326,641
Communication	436,550	465,149
Energy (rural utilities)	1,444,345	1,288,196
Water and waste disposal	169,835	165,762
Rural residential real estate	335,927	301,305
Agricultural export finance	-	9,713
Lease receivables	6,525	6,258
Loans to other financing institutions	42,089	42,598
Mission-related	129,917	265,546
	<u>\$ 22,120,384</u>	<u>\$ 21,181,818</u>

Included in the amounts above is the bank's capital markets loan portfolio. The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank 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. During the first nine months of 2016 the bank sold \$50.0 million in mission-related loans; additionally, a district association re-evaluated \$47.0 million in mission-related loans, which were reclassified to real estate mortgage loans and the remaining \$38.6 million decrease in mission-related loans was due to payoffs.

The following table presents information regarding the district's balances of participations purchased and sold, excluding syndications, at September 30, 2016:

	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	\$ 198,012	\$ 302,749	\$ 213,711	\$ 23,628	\$ 411,723
Production and intermediate term	462,286	482,846	8,144	75,269	470,430	558,115
Agribusiness	2,055,027	28,236	23,931	1,488	2,078,958	29,724
Communication	437,295	-	-	-	437,295	-
Energy (rural utilities)	1,444,946	-	-	-	1,444,946	-
Water and waste disposal	150,770	-	-	-	150,770	-
Lease receivables	6,095	-	-	-	6,095	-
Mission-related	4,825	-	5,218	-	10,043	-
Loans to other financing institutions	-	13,566	-	-	-	13,566
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	\$ 4,759,256	\$ 4,677,397	\$ 251,004	\$ 100,385	\$ 5,010,260	\$ 4,777,782

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 September 30, 2016, ACPs netted against borrowers’ related loan balances totaled \$191,254 and ACPs included in other liabilities totaled \$18,169, compared to \$172,908 and \$19,551, respectively, at December 31, 2015.

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 \$26,884 at September 30, 2016. 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 nine months ended September 30, 2016:

Balance at January 1, 2016	\$ 27,506
Net gain on financial instruments under fair value option	(14)
Net principal reductions	-
Premium amortization	(608)
Balance at September 30, 2016	<u>\$ 26,884</u>

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

	September 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	\$ 92,004	\$ 89,067
Production and intermediate term	34,637	15,962
Agribusiness	2,463	2,088
Rural residential real estate	2,381	1,116
Lease receivables	4	16
Mission-related	5,399	5,177
Total nonaccrual loans	136,888	113,426
Accruing restructured loans:		
Real estate mortgage	32,533	20,123
Production and intermediate term	13,627	23,702
Rural residential real estate	178	340
Mission-related	5,885	5,934
Total accruing restructured loans	52,223	50,099
Accruing loans 90 days or more past due:		
Real estate mortgage	8,095	498
Production and intermediate term	932	603
Rural residential real estate	-	223
Mission-related	-	729
Total accruing loans 90 days or more past due	9,027	2,053
Total nonperforming loans	198,138	165,578
Other property owned	22,369	18,744
Total nonperforming assets	\$ 220,507	\$ 184,322

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:

	September 30, 2016	December 31, 2015
Real estate mortgage:		
Acceptable	97.4 %	97.2 %
OAEM	1.3	1.5
Substandard/Doubtful	1.3	1.3
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	93.0 %	96.4 %
OAEM	3.0	1.8
Substandard/Doubtful	4.0	1.8
	100.0 %	100.0 %
Agribusiness:		
Acceptable	98.4 %	97.7 %
OAEM	1.0	1.7
Substandard/Doubtful	0.6	0.6
	100.0 %	100.0 %
Energy and water/waste disposal:		
Acceptable	94.0 %	98.2 %
OAEM	6.0	1.8
Substandard/Doubtful	-	-
	100.0 %	100.0 %
Communication:		
Acceptable	100.0 %	99.7 %
OAEM	-	-
Substandard/Doubtful	-	0.3
	100.0 %	100.0 %
Rural residential real estate:		
Acceptable	97.6 %	97.7 %
OAEM	1.0	1.1
Substandard/Doubtful	1.4	1.2
	100.0 %	100.0 %
Agricultural export finance:		
Acceptable	- %	100.0 %
OAEM	-	-
Substandard/Doubtful	-	-
	- %	100.0 %
Lease receivables:		
Acceptable	99.3 %	99.7 %
OAEM	0.6	-
Substandard/Doubtful	0.1	0.3
	100.0 %	100.0 %
Loans to other financing institutions:		
Acceptable	100.0 %	100.0 %
OAEM	-	-
Substandard/Doubtful	-	-
	100.0 %	100.0 %
Mission-related:		
Acceptable	95.9 %	98.1 %
OAEM	-	-
Substandard/Doubtful	4.1	1.9
	100.0 %	100.0 %
Total loans:		
Acceptable	96.8 %	97.3 %
OAEM	1.8	1.6
Substandard/Doubtful	1.4	1.1
	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:

September 30, 2016

	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	\$ 60,458	\$ 40,909	\$ 101,367	\$ 13,074,090	\$ 13,175,457	\$ 8,095
Production and intermediate term	23,082	8,948	32,030	2,646,540	2,678,570	932
Agribusiness	1,082	-	1,082	3,889,220	3,890,302	-
Communication	-	-	-	436,823	436,823	-
Energy and water/waste disposal	-	-	-	1,621,127	1,621,127	-
Rural residential real estate	3,126	1,026	4,152	333,157	337,309	-
Lease receivables	-	-	-	6,577	6,577	-
Loans to other financing institutions	-	-	-	42,146	42,146	-
Mission-related	-	-	-	130,849	130,849	-
Total	\$ 87,748	\$ 50,883	\$ 138,631	\$ 22,180,529	\$ 22,319,160	\$ 9,027

December 31, 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	\$ 40,516	\$ 32,245	\$ 72,761	\$ 12,224,166	\$ 12,296,927	\$ 498
Production and intermediate term	21,945	9,251	31,196	2,758,027	2,789,223	603
Agribusiness	6,633	143	6,776	3,694,602	3,701,378	-
Communication	-	-	-	465,457	465,457	-
Energy and water/waste disposal	-	-	-	1,459,502	1,459,502	-
Rural residential real estate	1,737	288	2,025	300,578	302,603	223
Agricultural export finance	-	-	-	9,735	9,735	-
Lease receivables	8	-	8	6,330	6,338	-
Loans to other financing institutions	-	-	-	42,647	42,647	-
Mission-related	227	5,906	6,133	261,884	268,017	729
Total	\$ 71,066	\$ 47,833	\$ 118,899	\$ 21,222,928	\$ 21,341,827	\$ 2,053

Additional impaired loan information is as follows:

	At September 30, 2016			At December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	\$ 10,457	\$ 10,825	\$ 1,517	\$ 14,105	\$ 14,724	\$ 2,649
Production and intermediate term	14,938	15,259	3,244	6,742	6,832	2,534
Processing and marketing	735	735	115	-	-	-
Farm-related business	821	4,746	111	934	4,858	121
Rural residential real estate	31	31	23	51	51	10
Mission-related	2,488	2,488	186	2,549	2,549	184
Total	<u>\$ 29,470</u>	<u>\$ 34,084</u>	<u>\$ 5,196</u>	<u>\$ 24,381</u>	<u>\$ 29,014</u>	<u>\$ 5,498</u>
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	\$ 122,175	\$ 127,978	\$ -	\$ 95,583	\$ 105,816	\$ -
Production and intermediate term	34,258	48,056	-	33,525	47,230	-
Processing and marketing	907	21,378	-	1,008	26,748	-
Farm-related business	-	164	-	146	563	-
Energy and water/waste disposal	-	9,043	-	-	22,730	-
Rural residential real estate	2,528	2,645	-	1,628	1,823	-
Lease receivables	4	4	-	16	16	-
Mission-related	8,796	8,796	-	9,291	12,482	-
Total	<u>\$ 168,668</u>	<u>\$ 218,064</u>	<u>\$ -</u>	<u>\$ 141,197</u>	<u>\$ 217,408</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 132,632	\$ 138,803	\$ 1,517	\$ 109,688	\$ 120,540	\$ 2,649
Production and intermediate term	49,196	63,315	3,244	40,267	54,062	2,534
Processing and marketing	1,642	22,113	115	1,008	26,748	-
Farm-related business	821	4,910	111	1,080	5,421	121
Energy and water/waste disposal	-	9,043	-	-	22,730	-
Rural residential real estate	2,559	2,676	23	1,679	1,874	10
Lease receivables	4	4	-	16	16	-
Mission-related	11,284	11,284	186	11,840	15,031	184
Total	<u>\$ 198,138</u>	<u>\$ 252,148</u>	<u>\$ 5,196</u>	<u>\$ 165,578</u>	<u>\$ 246,422</u>	<u>\$ 5,498</u>

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:								
Real estate mortgage	\$ 10,216	\$ 49	\$ 16,760	\$ 150	\$ 10,720	\$ 218	\$ 17,953	\$ 364
Production and intermediate term	15,896	44	3,924	10	11,842	347	3,782	34
Processing and marketing	743	1	-	-	258	13	350	-
Farm-related business	824	-	932	-	847	-	915	-
Energy and water/waste disposal	-	-	-	-	-	-	2,292	-
Rural residential real estate	32	-	34	-	180	4	53	1
Mission-related	2,489	48	5,048	150	2,515	164	3,419	297
Total	\$ 30,200	\$ 142	\$ 26,698	\$ 310	\$ 26,362	\$ 746	\$ 28,764	\$ 696
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	\$ 123,057	\$ 965	\$ 118,907	\$ 1,749	\$ 115,618	\$ 4,130	\$ 119,496	\$ 4,428
Production and intermediate term	31,725	331	31,852	1,164	28,742	1,284	31,439	3,581
Processing and marketing	906	-	2,499	-	907	-	2,986	-
Farm-related business	-	5	151	7	1	8	166	14
Energy and water/waste disposal	-	-	-	-	-	4	2,255	-
Rural residential real estate	2,290	7	1,459	15	1,649	23	1,357	39
Lease receivables	7	-	22	-	11	-	26	-
Mission-related	8,675	54	1,491	82	9,026	180	3,896	285
Total	\$ 166,660	\$ 1,362	\$ 156,381	\$ 3,017	\$ 155,954	\$ 5,629	\$ 161,621	\$ 8,347
Total impaired loans:								
Real estate mortgage	\$ 133,273	\$ 1,014	\$ 135,667	\$ 1,899	\$ 126,338	\$ 4,348	\$ 137,449	\$ 4,792
Production and intermediate term	47,621	375	35,776	1,174	40,584	1,631	35,221	3,615
Processing and marketing	1,649	1	2,499	-	1,165	13	3,336	-
Farm-related business	824	5	1,083	7	848	8	1,081	14
Energy and water/waste disposal	-	-	-	-	-	4	4,547	-
Rural residential real estate	2,322	7	1,493	15	1,829	27	1,410	40
Lease receivables	7	-	22	-	11	-	26	-
Mission-related	11,164	102	6,539	232	11,541	344	7,315	582
Total	\$ 196,860	\$ 1,504	\$ 183,079	\$ 3,327	\$ 182,316	\$ 6,375	\$ 190,385	\$ 9,043

At September 30, 2016, impaired loans of \$29.5 million had a related specific allowance of \$5.2 million, while the remaining \$168.7 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 September 30, 2016, was \$196.9 million. The district recognized interest income of \$1.5 million on impaired loans during the three months ended September 30, 2016.

The average recorded investment in impaired loans for the nine months ended September 30, 2016, was \$182.3 million. The district recognized interest income of \$6.4 million on impaired loans during the nine months ended September 30, 2016.

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 Credit Losses											
Balance at June 30, 2016	\$ 37,807	\$ 20,385	\$ 10,856	\$ 1,051	\$ 5,665	\$ 635	\$ -	\$ 45	\$ -	\$ 230	\$ 76,674
Charge-offs	(14)	(1,068)	-	-	-	(4)	-	-	-	-	(1,086)
Recoveries	424	66	134	1,764	-	1	-	-	-	-	2,389
Provision for credit losses (loan loss reversal)	(1,519)	5,481	989	(1,488)	(26)	(78)	-	(1)	-	(24)	3,334
Other *	(126)	(341)	(305)	(1)	(8)	1	-	-	-	-	(780)
Balance at September 30, 2016	\$ 36,572	\$ 24,523	\$ 11,674	\$ 1,326	\$ 5,631	\$ 555	\$ -	\$ 44	\$ -	\$ 206	\$ 80,531
Balance at December 31, 2015	\$ 39,195	\$ 17,461	\$ 8,262	\$ 1,087	\$ 3,442	\$ 620	\$ 3	\$ 43	\$ -	\$ 237	\$ 70,350
Charge-offs	(1,208)	(1,872)	(73)	-	-	(4)	-	-	-	-	(3,157)
Recoveries	1,409	279	1,292	1,832	-	6	-	-	-	-	4,818
Provision for credit losses (loan loss reversal)	(2,723)	9,862	2,568	(1,586)	2,146	(70)	(3)	1	-	(31)	10,164
Other *	(101)	(1,207)	(375)	(7)	43	3	-	-	-	-	(1,644)
Balance at September 30, 2016	\$ 36,572	\$ 24,523	\$ 11,674	\$ 1,326	\$ 5,631	\$ 555	\$ -	\$ 44	\$ -	\$ 206	\$ 80,531
Individually evaluated for impairment	\$ 1,810	\$ 3,244	\$ 226	\$ -	\$ -	\$ 22	\$ -	\$ -	\$ -	\$ 186	\$ 5,488
Collectively evaluated for impairment	34,762	21,279	11,448	1,326	5,631	533	-	44	-	20	75,043
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2016	\$ 36,572	\$ 24,523	\$ 11,674	\$ 1,326	\$ 5,631	\$ 555	\$ -	\$ 44	\$ -	\$ 206	\$ 80,531
Balance at June 30, 2015	\$ 34,779	\$ 11,439	\$ 7,693	\$ 808	\$ 2,718	\$ 540	\$ 23	\$ 45	\$ -	\$ 535	\$ 58,580
Charge-offs	(114)	(305)	1	-	-	(10)	-	-	-	-	(428)
Recoveries	749	332	306	-	-	1	-	-	-	-	1,388
Provision for credit losses (loan loss reversal)	2,887	2,251	(513)	98	50	23	(23)	2	-	5	4,780
Adjustment due to merger	-	1	-	-	-	(1)	-	-	-	-	-
Other *	31	(134)	211	(16)	23	1	-	-	-	-	116
Balance at September 30, 2015	\$ 38,332	\$ 13,584	\$ 7,698	\$ 890	\$ 2,791	\$ 554	\$ -	\$ 47	\$ -	\$ 540	\$ 64,436
Balance at December 31, 2014	\$ 38,137	\$ 10,404	\$ 6,215	\$ 716	\$ 8,155	\$ 472	\$ -	\$ 44	\$ -	\$ 214	\$ 64,357
Charge-offs	(1,707)	(784)	(14)	-	(2,065)	(18)	-	-	-	-	(4,588)
Recoveries	1,055	1,390	759	190	-	5	-	-	-	-	3,399
Provision for credit losses (loan loss reversal)	1,673	4,343	3,801	3	(3,340)	108	-	3	-	327	6,918
Adjustment due to merger	(1,013)	(1,223)	(125)	-	-	(2)	-	-	-	-	(2,363)
Other *	187	(546)	(2,938)	(19)	41	(11)	-	-	-	(1)	(3,287)
Balance at September 30, 2015	\$ 38,332	\$ 13,584	\$ 7,698	\$ 890	\$ 2,791	\$ 554	\$ -	\$ 47	\$ -	\$ 540	\$ 64,436
Individually evaluated for impairment	\$ 4,075	\$ 949	\$ 826	\$ -	\$ -	\$ 13	\$ -	\$ -	\$ -	\$ 182	\$ 6,045
Collectively evaluated for impairment	34,219	12,617	6,872	890	2,791	541	-	47	-	358	58,335
Loans acquired with deteriorated credit quality	38	18	-	-	-	-	-	-	-	-	56
Balance at September 30, 2015	\$ 38,332	\$ 13,584	\$ 7,698	\$ 890	\$ 2,791	\$ 554	\$ -	\$ 47	\$ -	\$ 540	\$ 64,436
Recorded Investments											
in Loans Outstanding:											
Ending balance at June 30, 2016	\$ 13,175,457	\$ 2,678,570	\$ 3,890,302	\$ 436,823	\$ 1,621,127	\$ 337,309	\$ -	\$ 6,577	\$ 42,146	\$ 130,849	\$ 22,319,160
Individually evaluated for impairment	\$ 134,898	\$ 49,106	\$ 2,463	\$ -	\$ -	\$ 2,595	\$ -	\$ 4	\$ -	\$ 11,205	\$ 200,271
Collectively evaluated for impairment	\$ 13,039,999	\$ 2,629,436	\$ 3,887,839	\$ 436,823	\$ 1,621,127	\$ 334,714	\$ -	\$ 6,573	\$ 42,146	\$ 119,644	\$ 22,118,301
Loans acquired with deteriorated credit quality	\$ 560	\$ 28	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 588
Ending balance at September 30, 2015	\$ 12,188,458	\$ 2,596,065	\$ 3,475,947	\$ 423,208	\$ 1,415,730	\$ 291,152	\$ 9,915	\$ 4,545	\$ 29,785	\$ 276,653	\$ 20,711,458
Individually evaluated for impairment	\$ 127,536	\$ 38,386	\$ 5,469	\$ -	\$ -	\$ 1,550	\$ -	\$ 20	\$ -	\$ 6,666	\$ 179,627
Collectively evaluated for impairment	\$ 12,058,001	\$ 2,557,592	\$ 3,470,333	\$ 423,208	\$ 1,415,730	\$ 289,602	\$ 9,915	\$ 4,525	\$ 29,785	\$ 269,987	\$ 20,528,678
Loans acquired with deteriorated credit quality	\$ 2,921	\$ 87	\$ 145	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,153

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. 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 September 30, 2016, the total recorded investment of TDR loans was \$66,514, including \$14,291 classified as nonaccrual and \$52,223 classified as accrual, with specific allowance for loan losses of \$814. Additional commitments to lend to borrowers whose loan terms have been modified in TDRs were \$297 at September 30, 2016, and \$335 at December 31, 2015.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 38,646	\$ 31,424	\$ 6,113	\$ 11,301
Production and intermediate term	14,382	24,174	755	472
Agribusiness	1,686	1,788	1,686	1,788
Rural residential real estate	516	546	338	206
Mission-related	11,284	5,934	5,399	-
Total	<u>\$ 66,514</u>	<u>\$ 63,866</u>	<u>\$ 14,291</u>	<u>\$ 13,767</u>

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 nine months ended September 30, 2016, and September 30, 2015. 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 September 30, 2016:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 1,447	\$ 1,466
Production and intermediate term	346	348
Mission-related	3,515	3,481
Total	<u>\$ 5,308</u>	<u>\$ 5,295</u>

For the three months ended September 30, 2015:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 318	\$ 315
Rural residential real estate	100	100
Total	<u>\$ 418</u>	<u>\$ 415</u>

For the nine months ended September 30, 2016:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 2,037	\$ 2,043
Production and intermediate term	825	827
Mission-related	5,581	5,462
Total	\$ 8,443	\$ 8,332

For the nine months ended September 30, 2015:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 1,489	\$ 1,492
Production and intermediate term	1,029	597
Rural residential real estate	161	159
Total	\$ 2,679	\$ 2,248

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 reductions.

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 September 30, 2016	Recorded Investment at September 30, 2015
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage	\$ 146	\$ -
Total	\$ 146	\$ -

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 September 30, 2016, were approximately \$251.99 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 2015 Annual Report for a more complete description.

Assets and liabilities recorded at fair value on a recurring basis at September 30, 2016, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at September 30, 2016			
	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	\$ 22,031	\$ -	\$ 22,031	\$ -
Investments available for sale:				
Agency-guaranteed debt	234,200	-	234,200	-
Corporate debt	202,663	-	202,663	-
Mortgage-backed securities	4,043,262	-	4,043,262	-
U.S. Treasury securities	200,023	-	200,023	-
Asset-backed securities	162,614	-	162,614	-
Mission-related and other available-for-sale investments	55,634	-	-	55,634
Loans valued under the fair value option	26,884	-	26,884	-
Derivative assets	161	-	161	-
Assets held in nonqualified benefit trusts	6,960	6,960	-	-
Total assets	\$ 4,954,432	\$ 6,960	\$ 4,891,838	\$ 55,634
Liabilities:				
Derivative liabilities	\$ 2,809	\$ -	\$ 2,809	\$ -
Standby letters of credit	851	-	-	851
Total liabilities	\$ 3,660	\$ -	\$ 2,809	\$ 851

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 June 30, 2016, to September 30, 2016:

	Assets	Liabilities	
	Agricultural Mortgage- Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:			
Balance at June 30, 2016	\$ 59,674	\$ 1,136	\$ 58,538
Net losses included in other comprehensive income	(160)	-	(160)
Purchases, issuances and settlements	(3,880)	(285)	(3,595)
Balance at September 30, 2016	<u>\$ 55,634</u>	<u>\$ 851</u>	<u>\$ 54,783</u>

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, 2016, to September 30, 2016:

	Assets			Liabilities	
	Mortgage- Backed Securities	Agricultural Mortgage- Backed Securities	Loan Held For Sale	Standby Letters of Credit	Net
Balance at January 1, 2016	\$ 50,250	\$ 65,650	\$ 4,850	\$ 967	\$ 119,783
Net losses included in other comprehensive income	-	(94)	-	-	(94)
Purchases, issuances and settlements	-	(9,922)	(4,850)	(116)	(14,656)
Transfers out of Level 3	(50,250)	-	-	-	(50,250)
Balance at September 30, 2016	<u>\$ -</u>	<u>\$ 55,634</u>	<u>\$ -</u>	<u>\$ 851</u>	<u>\$ 54,783</u>

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the nine months ended September 30, 2016. At December 31, 2015, Level 3 investments included one agency MBS and one loan held for sale due to the fact that their valuations were based on Level 3 criteria (broker quotes). In the nine months ended September 30, 2016, the loan held for sale was disposed of and the agency MBS was transferred to Level 2 when it had a valuation based on Level 2 criteria (independent third party valuation services). AMBS are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for standby letters of credit is included in Level 3 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2016, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at September 30, 2016				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
Assets:					
Loans	\$ 143,086	\$ -	\$ -	\$ 143,086	\$ (3,157)
Other property owned	24,855	-	-	24,855	(1,392)
Total assets	\$ 167,941	\$ -	\$ -	\$ 167,941	\$ (4,549)

Assets and liabilities recorded at fair value on a recurring basis at December 31, 2015, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at December 31, 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	\$ 22,413	\$ -	\$ 22,413	\$ -
Investments available for sale:				
Agency-guaranteed debt	248,355	-	248,355	-
Corporate debt	200,602	-	200,602	-
Mortgage-backed securities	3,730,425	-	3,680,175	50,250
Asset-backed securities	200,073	-	200,073	-
Mission-related and other available-for-sale investments	65,650	-	-	65,650
Loans valued under the fair value option	27,506	-	27,506	-
Loans held for sale in other assets	4,850	-	-	4,850
Derivative assets	504	-	504	-
Assets held in nonqualified benefit trusts	6,399	6,399	-	-
Total assets	\$ 4,506,777	\$ 6,399	\$ 4,379,628	\$ 120,750
Liabilities:				
Standby letters of credit	\$ 967	\$ -	\$ -	\$ 967
Total liabilities	\$ 967	\$ -	\$ -	\$ 967

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 June 30, 2015, to September 30, 2015:

	Assets	Liabilities	
	Agricultural Mortgage- Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:			
Balance at June 30, 2015	\$ 71,631	\$ 1,820	\$ 69,811
Net gains included in other comprehensive loss	220	-	220
Purchases, issuances and settlements	(2,871)	(317)	(2,554)
Balance at September 30, 2015	<u>\$ 68,980</u>	<u>\$ 1,503</u>	<u>\$ 67,477</u>

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 September 30, 2015:

	Assets		Liabilities	
	Mortgage- Backed Securities	Agricultural Mortgage- Backed Securities	Standby Letters of Credit	Net
Balance at January 1, 2015	\$ 7	\$ 80,583	\$ 993	\$ 79,597
Net gains included in other comprehensive loss	-	505	-	505
Purchases, issuances and settlements	(7)	(12,108)	510	(12,625)
Balance at September 30, 2015	<u>\$ -</u>	<u>\$ 68,980</u>	<u>\$ 1,503</u>	<u>\$ 67,477</u>

There were no transfers of assets or liabilities into or out of Level 1, Level 2 or Level 3 from other levels during the nine months ended September 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 December 31, 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	\$ 115,468	\$ -	\$ -	\$ 115,468	\$ (4,907)
Other property owned	20,826	-	-	20,826	2,984
Total assets	<u>\$ 136,294</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,294</u>	<u>\$ (1,923)</u>

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:

	September 30, 2016				
	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
	Assets:				
Cash	\$ 508,942	\$ 508,942	\$ -	\$ -	\$ 508,942
Held-to-maturity investments	27,019	-	-	27,151	27,151
Net loans	21,869,883	-	-	21,987,222	21,987,222
Total assets	\$ 22,405,844	\$ 508,942	\$ -	\$ 22,014,373	\$ 22,523,315
Liabilities:					
Systemwide debt securities and other notes	\$ 23,356,829	\$ -	\$ -	\$ 23,532,694	\$ 23,532,694
Total Liabilities	\$ 23,356,829	\$ -	\$ -	\$ 23,532,694	\$ 23,532,694

	December 31, 2015				
	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
	Assets:				
Cash	\$ 550,852	\$ 550,852	\$ -	\$ -	\$ 550,852
Held-to-maturity investments	30,213	-	-	30,019	30,019
Net loans	20,968,494	-	-	20,946,692	20,946,692
Total assets	\$ 21,549,559	\$ 550,852	\$ -	\$ 20,976,711	\$ 21,527,563
Liabilities:					
Systemwide debt securities and other notes	\$ 22,056,726	\$ -	\$ -	\$ 22,112,446	\$ 22,112,446
Subordinated debt	49,801	-	-	52,972	52,972
Total Liabilities	\$ 22,106,527	\$ -	\$ -	\$ 22,165,418	\$ 22,165,418

Valuation Techniques

As more fully discussed in Note 2, “Summary of Significant Accounting Policies,” of the 2015 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 and would include certain mortgage-backed securities. To estimate the fair value of investments, the bank obtains prices from first-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 are 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 may include fair value interest rate swaps, interest rate caps and cash flow interest rate swaps. The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

Assets Held in Nonqualified Benefit Trusts

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

Standby Letters of Credit

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

Loans

Fair value is estimated by discounting the expected future cash flows using the 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.

Systemwide Debt Securities and Other 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.

Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

Quantitative Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

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

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Federal funds sold	Carrying value	Par/principal
Investment securities available for sale	Quoted prices	Price for similar security
	Discounted cash flow	Constant prepayment rate Appropriate interest rate yield curve
Loans held under the fair value option	Quoted prices	Price for similar asset
	Discounted cash flow	Constant prepayment rate Appropriate interest rate yield curve
Interest rate caps	Discounted cash flow	Benchmark yield curve Counterparty credit risk Volatility
Interest rate swaps	Discounted cash flow	Benchmark yield curve Counterparty credit risk 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
Systemwide debt securities	Discounted cash flow	Benchmark yield curve Derived yield spread

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.

The bank may enter into 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 bank’s interest rate swaps and interest rate caps held and the amount of activity during the period are summarized in the following table:

	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2016	\$ -	\$ 310,000	\$ 310,000
Additions	200,000	-	200,000
Maturities/Amortizations	-	(115,000)	(115,000)
Balance at September 30, 2016	\$ 200,000	\$ 195,000	\$ 395,000

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 are reflected in the financial statements on a gross basis regardless of the netting agreement. At September 30, 2016, and December 31, 2015, the bank’s exposure to counterparties was \$161 and \$504, respectively. At September 30, 2016, and December 31, 2015, the bank had posted no securities as collateral, nor had any counterparty been required to post collateral.

Cash Flow Hedges

The bank's derivative instruments at September 30, 2016, and December 31, 2015, 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	Fair Value	Fair Value	Balance Sheet	Fair Value	Fair Value
	Location	September 30, 2016	December 31, 2015	Location	September 30, 2016	December 31, 2015
Interest rate caps	Other assets	\$ 161	\$ 504	Other liabilities	\$ -	\$ -
Pay fixed swaps	Other assets	-	-	Other liabilities	2,809	-

Derivatives designated as hedging instruments	Amount of (Loss)		Location of Gain Reclassification from AOCI into Income	Amount of Gain	
	Gain Recognized in OCL on Derivatives (Effective Portion)			Reclassified from AOCL into Income (Effective Portion)	
	September 30,			September 30,	
	2016	2015		2016	2015
Interest rate caps	\$ (343)	\$ (419)	Interest expense	\$ 665	\$ 1,120
Pay fixed swaps	3,484	-	Interest expense	714	-

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 nine months ended September 30:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2016	2015	2016	2015
Service cost	\$ 3,519	\$ 3,995	\$ 961	\$ 1,161
Interest cost	12,626	11,908	2,257	2,338
Expected return on plan assets	(13,234)	(15,420)	-	-
Amortization of prior service costs	-	3	(696)	(734)
Amortization of net loss	13,096	13,658	135	654
Net periodic benefit cost	<u>\$ 16,007</u>	<u>\$ 14,144</u>	<u>\$ 2,657</u>	<u>\$ 3,419</u>

As of September 30, 2016, contributions of \$11.8 million have been made to the defined benefit pension plan. The district presently anticipates no additional contributions to fund its pension plan in 2016.

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 nine months ended September 30, 2016:

	Total	Unrealized Gain (Loss) on Securities	Pension and Other Post- Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2016	\$ (156,944)	\$ (25,276)	\$ (129,761)	\$ (1,907)
Change in unrealized gains on available-for-sale securities				
Net increase in unrealized gains on investment securities	32,487	32,487		
Net change in unrealized gains on securities	<u>32,487</u>	<u>32,487</u>		
Change in pension and postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(695)		(695)	
Amortization of net losses	13,231		13,231	
Net change in pension and postretirement benefit plans	<u>12,536</u>		<u>12,536</u>	
Change in cash flow derivative instruments				
Unrealized losses on cash flow derivative instruments	(3,827)			(3,827)
Reclassification of loss recognized in interest expense	1,379			1,379
Net change in cash flow derivative instruments	<u>(2,448)</u>			<u>(2,448)</u>
Total other comprehensive income	42,575	32,487	12,536	(2,448)
Balance, September 30, 2016	<u>\$ (114,369)</u>	<u>\$ 7,211</u>	<u>\$ (117,225)</u>	<u>\$ (4,355)</u>

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

	Total	Unrealized Gain (Loss) 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 gains on available-for-sale securities				
Net decrease in unrealized losses on investment securities	19,338	19,338		
Net change in unrealized losses on securities	<u>19,338</u>	<u>19,338</u>		
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	(684)		(684)	
Amortization of net losses	14,311		14,311	
Net change in pension and postretirement benefit plans	<u>13,843</u>		<u>13,843</u>	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(419)			(419)
Reclassification of loss recognized in interest expense	1,120			1,120
Net change in cash flow derivative instruments	<u>701</u>			<u>701</u>
Total other comprehensive income	33,882	19,338	13,843	701
Balance, September 30, 2015	<u>\$ (132,909)</u>	<u>\$ 3,238</u>	<u>\$ (134,153)</u>	<u>\$ (1,994)</u>

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

Component of AOCL	Amount Reclassified from AOCL		Affected Line in the Statement of Comprehensive Income
	2016	2015	
Amortization of net charges on pension and postretirement benefit plans	\$ 12,536	\$ 13,627	Salaries and employee benefits
Amortization on cash flow derivative instruments	1,379	1,120	Interest expense
Total reclassifications	<u>\$ 13,915</u>	<u>\$ 14,747</u>	

NOTE 10 — SUBSEQUENT EVENTS

The district has evaluated subsequent events through November 9, 2016, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of November 9, 2016.

NOTE 11 — 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	September 30, 2016	December 31, 2015
Cash	\$ 504,708	\$ 545,090
Federal funds sold and overnight investments	22,031	22,413
Investment securities	4,898,396	4,445,105
Loans	15,681,830	14,771,006
Less allowance for loan losses	7,683	5,833
Net loans	<u>15,674,147</u>	<u>14,765,173</u>
Accrued interest receivable	52,317	47,816
Other property owned	-	438
Premises and equipment, net	35,509	27,835
Other assets	154,709	135,705
Total assets	<u>\$ 21,341,817</u>	<u>\$ 19,989,575</u>
Bonds and notes, net	\$ 19,506,829	\$ 18,206,726
Subordinated debt, net	-	49,801
Accrued interest payable	45,456	44,766
Preferred stock dividends payable	20,063	20,063
Other liabilities	89,729	114,641
Total liabilities	<u>19,662,077</u>	<u>18,435,997</u>
Preferred stock	600,000	600,000
Capital stock	255,823	255,823
Retained earnings	821,348	725,086
Accumulated other comprehensive income (loss)	2,569	(27,331)
Total shareholders' equity	<u>1,679,740</u>	<u>1,553,578</u>
Total liabilities and shareholders' equity	<u>\$ 21,341,817</u>	<u>\$ 19,989,575</u>

Statement of income data	Nine Months Ended September 30,	
	2016	2015
Interest income	\$ 357,605	\$ 315,222
Interest expense	182,950	142,780
Net interest income	174,655	172,442
Provision (negative provision) for credit losses	388	(1,574)
Net interest income after provision		
(negative provision) for credit losses	174,267	174,016
Noninterest income	28,075	30,773
Noninterest expense	69,947	59,843
Net income	<u>132,395</u>	<u>144,946</u>
Other comprehensive income:		
Change in fair value of investments	32,487	19,338
Change in postretirement benefit plans	(139)	(87)
Change in cash flow derivative instruments	(2,448)	701
Total other comprehensive income	<u>29,900</u>	<u>19,952</u>
Comprehensive Income	<u>\$ 162,295</u>	<u>\$ 164,898</u>