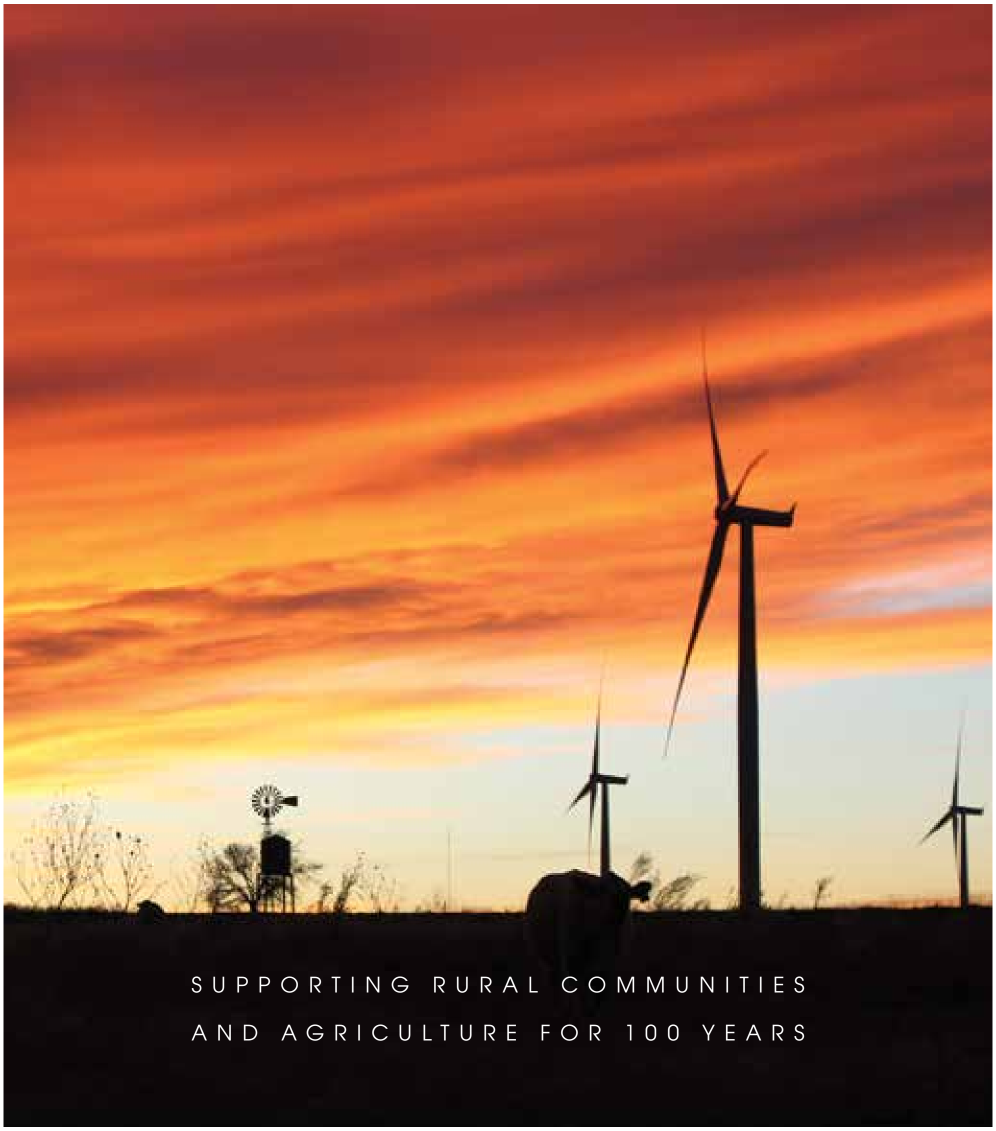
FARM CREDIT BANK OF TEXAS

2016 ANNUAL REPORT

YESTERDAY | TODAY | TOMORROW



In 1916, a nationwide network of customer-owned lending institutions was established to be a permanent source of reliable and consistent credit for agriculture. In order to have products and services that the marketplace didn't provide, farmers and ranchers soon banded together to form local Farm Credit cooperatives.

Over the next century, agricultural producers and rural communities thrived with the help of Farm Credit funding, growing ever more productive and sophisticated.

What hasn't changed is agriculture's need for capital and Farm Credit's mission to provide dependable credit. Together, our cooperatives and their members will flourish.

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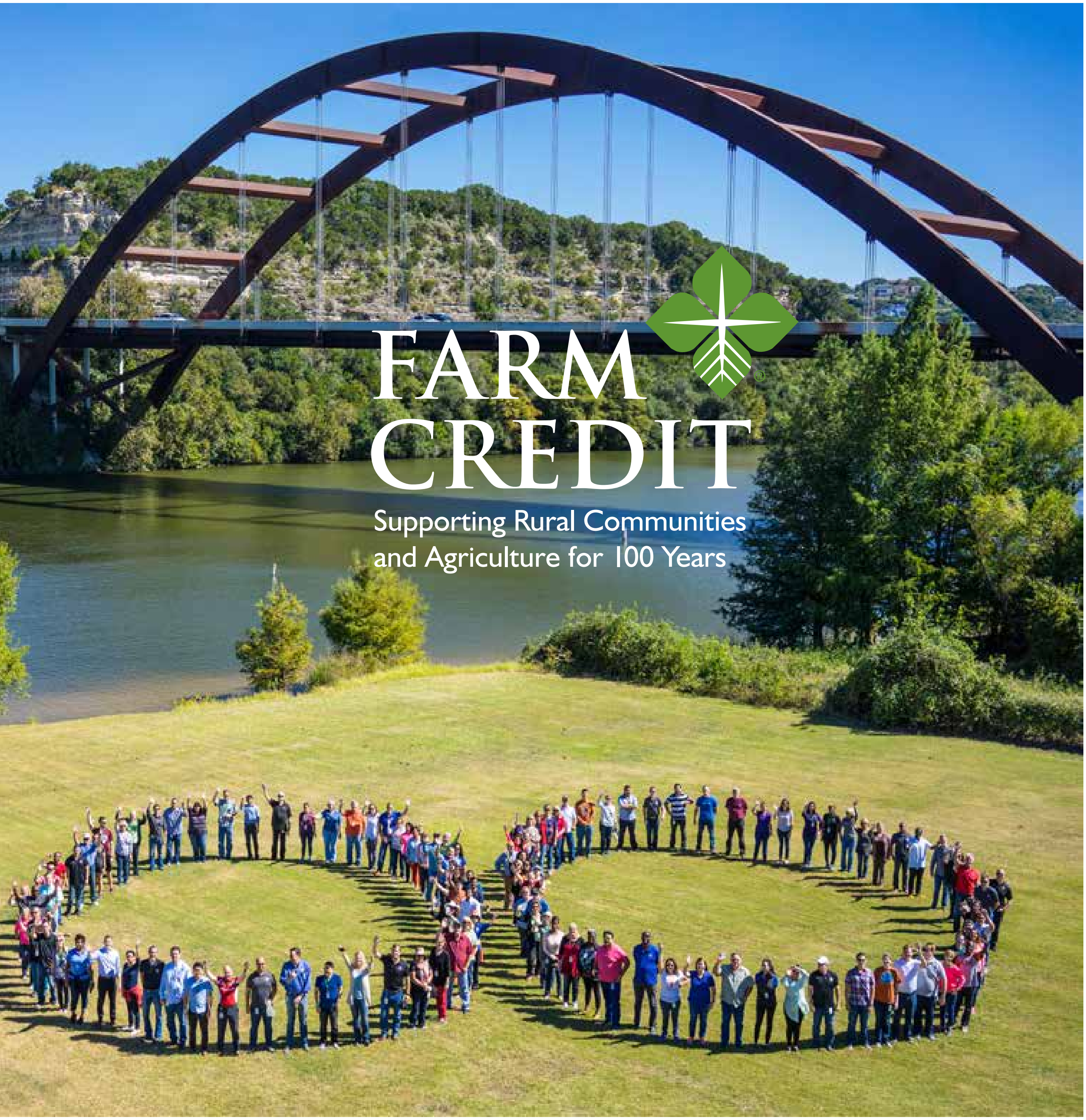
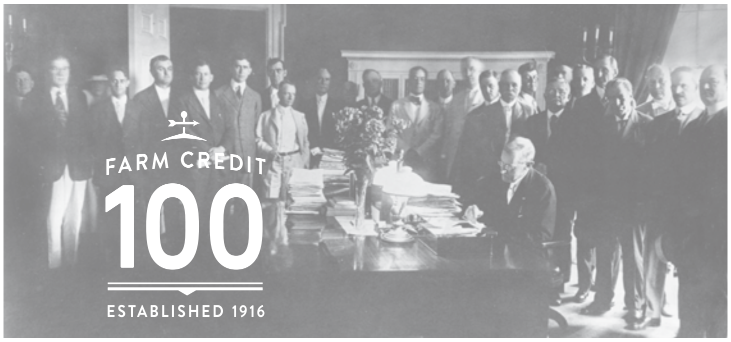
FARM CREDIT BANK OF TEXAS
4801 Plaza on the Lake Drive
Austin, Texas 78746
512.465.0400
FAX 512.465.0675
farmcreditbank.com
findfarmcredit.com



Farm Credit Bank of Texas employees salute Farm Credit for its first century of service.



100 Years and Growing

Seldom does a business survive for 100 years. Yet through adversity and change, Farm Credit has flourished for a century, proving the strength of the cooperative business model while supporting rural communities and agriculture.

Key Dates in Our History

1916 On July 17, President Woodrow Wilson signed the Federal Farm Loan Act.

1917 Between March 1 and April 3, 12 Federal Land Banks (FLBs) were chartered across the country to provide long-term mortgage financing to farmers and ranchers in their respective geographic districts. The banks were funded through the sale of tax-exempt bonds to private investors and partly capitalized by $125 million in federal seed money.

On May 22, the first loan in the Tenth (Texas) Farm Credit District was made to W.S. and Mary Smith of Grayson County, Texas, by the Van Alstyne National Farm Loan Association (NFLA). This local financing cooperative was one of several hundred NFLAs established by U.S. farmers in 1917 to serve as lending and servicing agents for the Federal Land Banks.

1923 Congress addressed the lack of short-term credit for farmers by passing the Agricultural Credits Act of 1923, which created 12 Federal Intermediate Credit Banks (FICBs) that could discount funds to commercial banks and lend to agricultural co-ops. A fiscal agency was established to manage the sale of Farm Credit bonds.

1928 The FLB of Houston finished paying back the federal government for $735,285 in capital that the U.S. Treasury had invested in the bank initially.

1929 The stock market crash and ensuing Great Depression, plus a severe drought, caused many rural independent banks to close and threw thousands of farmers into bankruptcy.

1933 Congress passed legislation that expanded the Farm Credit System, enabling it to help countless U.S. farmers and ranchers:

- Under the Emergency Farm Mortgage Act, Federal Land Banks were authorized to issue up to $2 billion in U.S. Treasury–guaranteed bonds to fund mortgages. Another $200 million was allotted for refinancing loans.
- Under the Farm Credit Act of 1933, a short-term credit delivery system was established through Production Credit Corporations and farmer-owned Production Credit Associations (PCAs). Twelve district Banks for Cooperatives also were created.
- The Farm Credit Administration was established to oversee all federal functions related to agricultural credit.

1947 Texas PCA of San Angelo became the first PCA in the nation to repay its federal government capital and become fully borrower-owned.

1953 President Dwight D. Eisenhower signed legislation making the Farm Credit Administration an independent federal agency under the executive branch.

1968 All Farm Credit institutions had repaid their government capital by 1968, making the System wholly owned by its borrowers.

1971 The Farm Credit System's charter was updated, authorizing Farm Credit institutions to offer rural home mortgages, commercial fishing loans, leasing and related services.

1979 The FLB of Houston and the FICB of Houston changed their names, replacing Houston with Texas.

1980 Congress further expanded the System's lending authorities to include basic processing and marketing facilities and agricultural export and import transactions; provided for the creation of service organizations; and encouraged more lending to young, beginning and small farmers.

1982 The FLB of Texas, the FICB of Texas and the Texas Bank for Cooperatives jointly relocated from Houston to Austin.

1985 Legislation restructured the Farm Credit Administration, giving it increased oversight and regulatory powers, and providing for a full-time president-appointed three-member board.

1987 In the midst of a farm debt crisis, Congress passed the Agricultural Credit Act of 1987, providing up to $4 billion in federal loans to Farm Credit institutions. It created the Farm Credit System Insurance Corporation, required the merger of the FLB and FICB in each district, and authorized PCAs and Federal Land Bank Associations (FLBAs) to merge into Agricultural Credit Associations (ACAs). The Act also created the Federal Agricultural Mortgage Corporation (Farmer Mac).

1988 The FLB of Texas and the FICB of Texas merged to form Farm Credit Bank of Texas. Texas Bank for Cooperatives became part of the National Bank for Cooperatives. Across the country, FICBs and FLBs merged in all districts but one.

1989 Farm Credit Bank of Texas paid nearly $1 billion to purchase 17,000 loans from the FLB of Jackson in Receivership, extending its mortgage lending charter to Alabama, Louisiana and Mississippi. Six new FLBAs were chartered in the three states.

1990 Farm Credit Bank of Texas' charter was extended to New Mexico to serve Albuquerque PCA, which reaffiliated from the Wichita Farm Credit District to the Texas District.

1990-91 Congress authorized Farm Credit to play a larger role in financing agricultural marketing and processing, as well as financing water and sewer development in rural communities.

1998 Farm Credit Bank of Texas stockholders approved the transfer of direct mortgage lending authority from the bank to the district FLBAs.

2001 Ten associations in Texas became the district's first ACAs, with authority to make both long-term mortgage and short-term operating loans.

2003 PREFERRED STOCK $100 MILLION

Farm Credit Bank of Texas completed its first private preferred stock offering as a way to increase capital without seeking additional stock from associations.

2016 At age 100, the nationwide Farm Credit System was composed of 74 borrower-owned lending co-ops and four wholesale funding banks. Combined, these cooperatives provided nearly half a billion borrowers with more than $238 billion in loans, leases and related services — over 40 percent of the credit extended to U.S. agriculture.

Y E S T E R D A Y

James F. "Jimmy" Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

OUR MISSION is to enhance the quality of life in rural communities by following cooperative principles to provide competitive credit and superior service to our member-owners.

TO OUR STOCKHOLDERS

In 2016 we celebrated Farm Credit's centennial, a milestone that signals the enduring strength of our mission and our cooperative business structure.

The nationwide Farm Credit System was founded in 1916 to meet agriculture's need for dependable capital. One hundred years later, it was a great honor to look back on our long history while achieving excellent financial results so that our bank may provide reliable, consistent credit and financial services today and tomorrow.

The bank's highly diversified loans and investments are its earnings engine, generating the stable income necessary to cover operating costs so that we can provide credit and services regardless of fluctuations in the general and agricultural economies. Our record results in 2016 surpassed our projections, a testament to our well-balanced portfolios.

As a result of our growth, we passed along more earnings to our members in agriculture and rural communities through our patronage programs, and enhanced our products, services and technologies to meet the needs of our affiliated cooperatives and their borrowers for generations to come.

Financial Highlights

The bank reported $192.4 million in net income, marking another year of record earnings.

Our $21.2 billion in total assets and $15.9 billion in gross loan volume were new highs. Most significant was a $1.0 billion increase in direct notes to the bank's affiliated lending cooperatives, also known as associations, and other financing institutions (OFIs), which serve the rural marketplace across our five-state territory. The bank also had a $134.4 million increase in capital markets participation loans to businesses that ag producers and rural communities rely on, such as food processors, agribusinesses and companies that provide essential services and infrastructure in rural America.

Earnings grew at a much slower rate than our assets, reflecting a challenging environment that included continued low interest rates, pressure on rate spreads and a rising cost of doing business. Operating expenses increased $8.9 million, or 10.3 percent, driven by the bank's technology projects and costs related to increased loan volume.

As a part of our asset/liability management strategy, we enhanced our earnings by taking advantage of the rate environment, primarily by calling $7.9 billion in debt and issuing new debt at lower rates.

The bank maintained strong asset quality and relatively low risk exposure, benefiting from sound underwriting standards, portfolio management and the diversified economy in our territory. At year end, 99.8 percent of the overall portfolio was considered acceptable or special mention.

The Cooperative Advantage

Our purpose as a funding bank is to help our affiliated lending cooperatives and other partners be successful so that they can help our nation's agricultural producers and rural communities succeed.

We receive dependable, low-cost funding through the sale of highly rated Farm Credit securities to investors, and in turn provide funding to our affiliated lenders in a five-state district. We also partner with Farm Credit institutions and commercial banks in capital markets participation loans.

As a federated cooperative — a cooperative owned by cooperatives — we provide many support services for our member associations, absorbing the cost and minimizing duplicated effort so that they are free to focus on serving their local customers.

One key cooperative principle is to return earnings to our patrons. In December 2016, we distributed a patronage payment representing 41 basis points on direct notes to our 14 lending associations and three OFIs, effectively lowering their borrowing costs and enabling them to pass the value along to the farmers, ranchers and other borrowers they serve.

In total, the bank returned $96.4 million in cash through four patronage programs and allocated another $6.0 million for potential cash payout to one of our participations partners:

Earnings Patronage on Direct Note	$ 57.8 million
Participations Patronage	$ 37.7 million
Stock Investment Patronage	$ 4.8 million
Capitalized Participation Pool Patronage	$ 2.1 million
Total	$ 102.4 million

The bank distributed another $50.2 million in preferred stock dividends, returning a total of $152.6 million in total patronage and dividends, or 79.3 percent of 2016 net income, to our affiliated lending cooperatives and other stockholders.

Supporting Rural America, Ensuring Safety and Soundness

Farm Credit's cooperative structure didn't happen by accident. A hundred years ago, farmers and ranchers had insufficient access to affordable credit because commercial banks weren't always willing to take a risk on agriculture.

This critical need for capital inspired the passage of the Federal Farm Loan Act of 1916, establishing a network of farmer-owned lending cooperatives with a mission to help rural communities and agriculture grow and thrive.

Our unique cooperative structure contributes to our strength and stability. The customers who own our cooperative entrust us to take a careful approach to risk, manage the operation responsibly, and maintain strong capital and liquidity for the future.

YESTERDAY

In 2016 we celebrated a 50-year partnership between the Farm Credit Bank of Texas and the Texas A&M University Real Estate Center, which we provide with sales data in return for third-party research and analysis. Our collateral risk management tool, considered one of the best in the Farm Credit System, uses the research results to monitor rural land values in our territory and the loan-to-value ratios in our bank's and associations' portfolios. Quarterly analyses continue to show stable land values and well-collateralized loans in our district.

We are continually enhancing our risk management practices, and in 2016 added multiple regression analysis to our annual stress test to more precisely forecast financial performance in a variety of scenarios. The resulting test is comparable to those used by commercial banks of our size.

We went through an extensive assessment of our internal controls over financial reporting as a readiness exercise for the coming year, when an external accounting firm will issue an opinion of the controls at the bank rather than just for the Farm Credit System as a whole. Our first attestation will appear in our 2017 annual report, and will be similar to commercial financial institutions' compliance with the Sarbanes-Oxley Act.

We also prepared to transition from capital ratios that have been unique to Farm Credit and over to those comparable to the Basel III international regulatory framework. The bank's capital position remains very strong, and the ratios that go into effect in 2017 will make it easier to compare our regulatory capital with that of commercial financial institutions.

Laying the Foundation for a Strong Future

As agriculture has grown more complex and capital-intensive, we have advanced with it, expanding on our products, services and technologies to meet the needs of a changing market.

We are investing in the future through greater automation, flexibility, speed and security.

In 2016, Farm Credit Bank of Texas introduced a new credit analysis and spreading tool that will help our associations streamline underwriting, analyze risk and appropriately price loans. We provided centralized training for the district through a new learning management system, reducing travel and improving recordkeeping.

To help our associations meet the demand for rural home financing, we narrowed our search for a consumer lending system to handle loan applications, underwriting and mortgage disclosures. We also started preparing for new data collection and reporting that will begin in 2018 under the Home Mortgage Disclosure Act.

We have made great progress on our largest initiative — the conversion to new loan origination and loan accounting systems that will be user-friendly, yet powerful enough to handle the most complex loans. As part of this multi-year effort, in 2016 we upgraded the customer relationship management system used by the bank and associations.

Achieving solid earnings and modernizing the way we deliver credit takes a great deal of collaboration. The bank's team is one of the strongest in our memory, benefiting from our recruiting efforts, our inclusive and engaging culture, and the understanding that the work we do makes a difference in rural America.

In addition to recruiting for the bank, we assist associations with talent acquisition and many other services. We also foster new talent by supporting educational and professional development, and partner with our member associations to fund scholarships at several universities.

Looking Ahead

Farm Credit Bank of Texas is very proud to have achieved rising earnings for many years running. It's an extraordinary record that reflects prosperous times for agriculture in our district.

Because Farm Credit's purpose is to be there for agriculture and rural communities in good times and bad, we are using our earnings to be strong for the challenges and the opportunities ahead. Investing today to meet the needs of tomorrow's borrowers is one of the ways we are ensuring the long-term health of the bank and our member associations.

It has been an honor to serve rural America for 100 years. We're ready for 100 more.

James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

KEY ACCOMPLISHMENTS

Bank achieves record earnings for 11th consecutive year.
Net income increased .09 percent to $192.4 million, benefiting from a $2.0 billion increase in average earning assets and careful management of the bank's debt portfolio in a low interest rate environment.

Diversified loans and investments reach new highs.
Total assets increased 6.2 percent to a record $21.2 billion, reflecting growth in direct loans, capital markets participation loans and investments. Total loan volume increased 7.7 percent to a record $15.9 billion, with extremely high credit quality.

Patronage lowers associations' cost of funds.
In keeping with its cooperative business model, the bank shared its 2016 earnings with its affiliated lending cooperatives by distributing a patronage payment of 41 basis points on direct note volume. As a result, the associations paid no more for funding than the bank paid.

Bank maintains strong capital and liquidity.
The bank's solid capital position, highly diversified portfolios, investments in high-quality liquid assets, interest rate risk management and debt management provide opportunities for growth and protection from adversity.

Products and support services add value for associations and their customers.
As part of its major operational and technology initiatives, the bank launched a loan analysis tool for district lenders and upgraded several business systems that will enhance efficiency, risk management, regulatory compliance and customer service.

FARM CREDIT B

2016 TOP FINANCIAL MARKERS

ASSOCIATION DIRECT NOTE GROWTH OF

$1.0
BILLION

— OR —

10.4%

RECORD NET INCOME

$192.4
MILLION

PATRONAGE AND PREFERRED STOCK DIVIDENDS

$152.6
MILLION
which represents 79.3% of net income

CREDIT QUALITY

99.3%
ACCEPTABLE

CAPITAL LEVEL

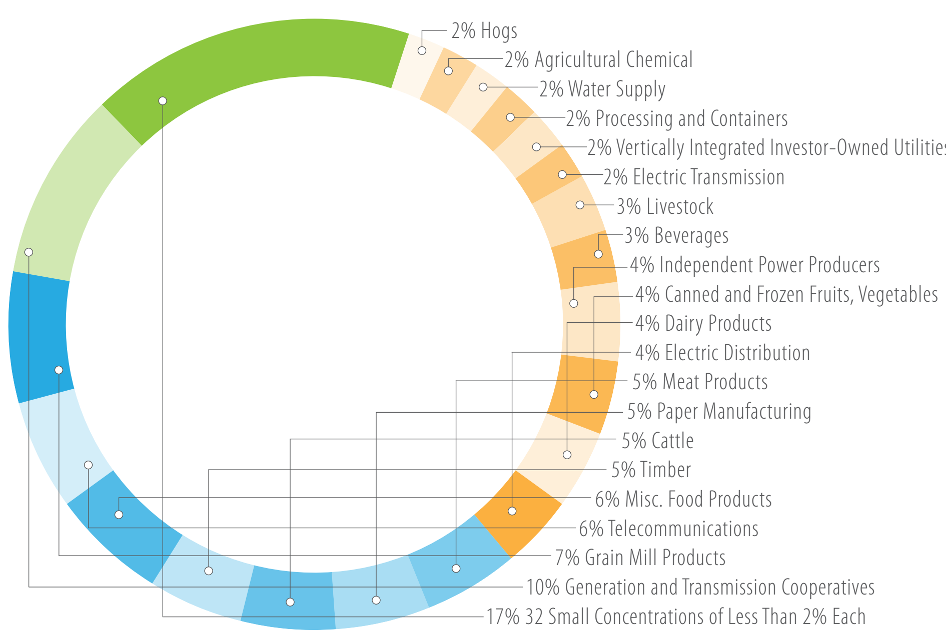
$1.6
BILLION
resulting in a permanent capital ratio of 17.4%, which is above the 7% regulatory minimum requirement

FARM CREDIT 100
ESTABLISHED 1916

ASSET GROWTH

6.2%

DIVERSIFICATION OF CAPITAL MARKETS LOANS BY COMMODITY

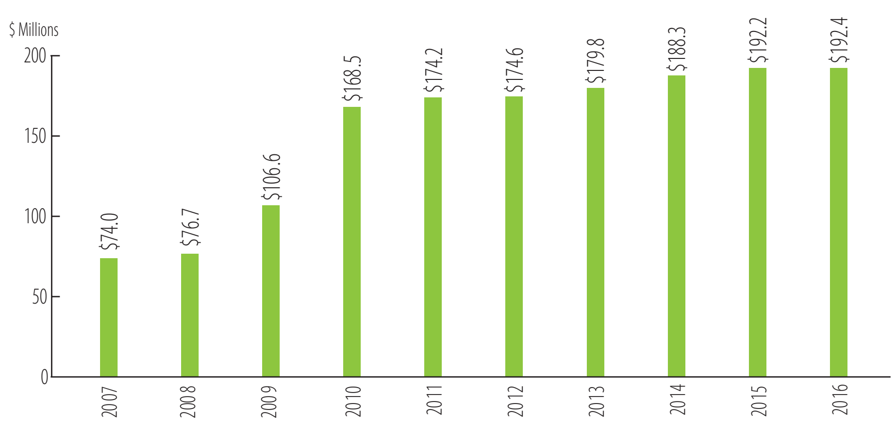


FINANCIAL HIGHLIGHTS

For the Year (in thousands)	**2016**	2015	2014
Net interest income	**$ 238,321**	$ 232,468	$ 226,659
(Provision) negative provision			
for credit losses	**(563)**	2,506	5,433
Noninterest expense, net	**(45,352)**	(42,735)	(43,832)
Net income	**$ 192,406**	$ 192,239	$ 188,260
Rate of return on:			
Average assets	**0.92%**	1.02%	1.12%
Average shareholders' equity	**11.67%**	12.22%	12.68%
Cash patronage declared	**$ 96,449**	$ 82,478	$ 76,414

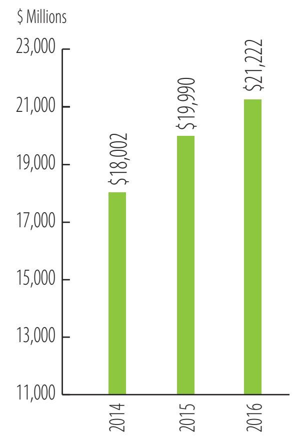
At Year End (in millions)			
Total loans	**$ 15,909**	$ 14,771	$ 13,260
Total assets	**21,222**	19,990	18,002
Total liabilities	**19,600**	18,436	16,523
Total shareholders' equity	**1,622**	1,554	1,479
Permanent capital ratio	**17.40%**	17.74%	18.33%
Total surplus ratio	**14.98%**	15.48%	15.86%
Core surplus ratio	**9.97%**	9.88%	10.07%
Net collateral ratio	**107.35%**	107.70%	108.00%

BANK NET INCOME



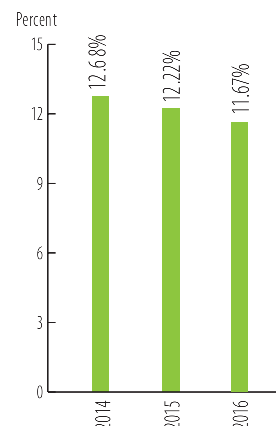
TOTAL ASSETS OUTSTANDING

AT YEAR END



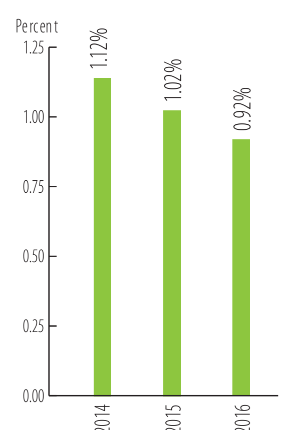
RETURN ON AVERAGE EQUITY

FOR THE YEAR



RETURN ON AVERAGE ASSETS

FOR THE YEAR



Jon M. "Mike" Garnett

Board Bids Farewell to Retiring Director

Longtime director Jon M. "Mike" Garnett retired from the Farm Credit Bank of Texas (FCBT) Board of Directors at the end of 2016.

A farmer and rancher from Spearman, Texas, he has served with distinction on the association, district and national levels in Farm Credit for 41 years. Over the decades, he was board chairman of Panhandle-Plains Land Bank, vice chairman of the FCBT board, and vice chairman and chairman of the national Farm Credit Council board.

Always diligent and mindful of the needs of agricultural producers, Garnett earned respect across the Farm Credit System for his integrity, diplomacy and commitment to the Farm Credit mission.

Linda Floerke

District Cooperatives Elect New Board Member

Linda Floerke of Lampasas, Texas, joined the FCBT Board of Directors in January 2017 following her election in 2016.

Floerke brings many years of experience in agriculture-related businesses, board governance and Farm Credit to her new role. She is a former board member of two Farm Credit associations, and helped shepherd them through a merger in 2014. She also serves on an Extension leadership advisory board, is past president of her county's chamber of commerce, and has been a director or trustee of numerous organizations.

She partners in an agricultural operation with her husband, and co-owns a family business that provides products and services to area farmers and ranchers.

FARM CREDIT BANK OF TEXAS

BOARD OF DIRECTORS

(Left to right) Lester Little, Vice Chairman
Brad C. Bean
Ralph W. "Buddy" Cortese
James F. "Jimmy" Dodson, Chairman
Elizabeth G. "Betty" Flores
M. Philip "Phil" Guthrie
Jon M. "Mike" Garnett

The bank provides funding and support services to lending cooperatives in a five-state district, helping these local associations be successful so that they can help agricultural producers and rural communities succeed.

Its board of directors establishes policies for the bank, provides strategic direction, oversees management and ensures that the bank operates in a safe and sound manner.

The board members have extensive business and leadership experience in a variety of backgrounds. Five of the directors in 2016 were farmers or ranchers, elected by the local financing cooperatives that own the bank. The two board-appointed directors have backgrounds in banking, finance and business operations.

SENIOR MANAGEMENT TEAM

The bank's leaders are guided by the experience they have gained during their long tenures in the Farm Credit System and in lending, finance, government, information technology, agriculture and farmer-owned cooperatives.

In addition to overseeing day-to-day operations, the senior management team sets the course for the bank's future success by working with the board to establish business goals and strategies.

Through their vision, combined experience and conservative approach to risk, they ensure that the bank is a stable source of funding and an earnings engine for the five-state district it serves, strengthening our affiliated lenders' ability to provide competitive credit and superior service for the rural marketplace.

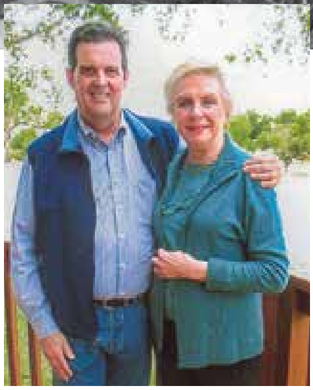
(Left to right) Stan Ray, Chief Administrative Officer
Amie Pala, Chief Financial Officer
Kurt Thomas,
Senior Vice President, Chief Credit Officer
Larry Doyle, Chief Executive Officer
Michael Elliott, Chief Information Officer
Carolyn Owen,
Senior Vice President, Corporate Affairs,
General Counsel and Corporate Secretary
Susan Wallar, Chief Audit Executive

Generations of Relationships—A Century of Service

For 100 years, Farm Credit has been helping our members achieve their goals and fulfill their dreams — from purchasing their first piece of land, to planting next year's crop, to establishing an innovative agribusiness.

Generations of borrowers have looked to Farm Credit for reliable, consistent credit, and in so doing have found a lender they could trust — a lending cooperative that understood their needs and supported agriculture. Over the century, Farm Credit has evolved with the agricultural industry, helping our customers grow in new directions through diversification, technology and value-added products. We treasure our relationships with our borrowers, both old and new, and we look forward to supporting agricultural producers for many generations to come.

Members of the Todd and Nix families enjoy a Sunday afternoon picnic on the family ranch near Canadian, Texas, circa 1917.



Bill and Puddin Nix oversee the ranch today.

A Ranching Legacy

In the Texas Panhandle, where the sprawling Nix Ranch has been producing cattle since 1892, fourth-generation rancher Bill Nix acknowledges that his family's ranching legacy would be different today if it weren't for Farm Credit's support over the decades.

"We likely would not have weathered the '30s and '50s without the Farm Credit System," says Nix, who took out his first loan in 1951 at age 10. "I'm not sure how much land would still be in the ownership of families."

Although his son is now the fifth generation to do business with Capital Farm Credit, Nix says it was a sad day when he paid off his own Farm Credit loan two years ago. "I was actually tempted to keep a loan just to maintain my Farm Credit membership," he says.

James and Shannon Worrell and son Jarrett on the family land near Mason, Texas

A 97-Year Relationship

The Farm Credit System was in its infancy in 1919 when George and Meta Kasper purchased 200 acres of land near Mason, Texas, and financed it through their local National Farm Loan Association — now part of Capital Farm Credit — at a rate and terms that beat what commercial banks offered. The ranch has continued to support four generations of their descendants, and every generation since has done business with Farm Credit.

"We still go with Farm Credit because of the family's long relationship with them and the ease of doing business — and we like receiving our patronage dividends," says their great-granddaughter Shannon Worrell, who raises purebred Hereford and Angus cattle on the original homestead.

Trust in Their Lender

Land ownership has been a tradition in Noe and Elda Flores' family since the 1700s, when the King of Spain issued land grants to settlers in South Texas. For the past 60 to 70 years, financing with Farm Credit has been another family tradition. After marrying in 1955, the couple gradually built up a ranch and cattle business near Hebbronville, Texas, relying on Texas Farm Credit for operating capital, just as Elda's parents did in the 1940s and '50s. Today, their sons, Pete and Juan, continue to finance the cattle operation with the same lender.

"We couldn't have done all this without Texas Farm Credit in Hebbronville," says Elda. "They have always been there for us."

Noe and Elda Flores, in front, with sons Pete, left, and Juan at the family home near Hebbronville, Texas

Loyal to the Land Bank

The Harris family of Mineola, Ala., has known tough times since Burl Harris purchased 120 acres of land in the 1920s with Federal Land Bank financing. Burl often struggled to pay a $5 note during the Depression, and decades later, his son, Carey, sometimes didn't make enough hay to sustain a cattle herd. Yet through all the challenges, the family has never considered changing lenders.

"There have been tight times, and Farm Credit has told us 'Don't worry.' That means a lot. They've been great partners," says Burl's grandson, Steve Harris, an Alabama Ag Credit customer who grows timber and farms on the family homestead. "We're lucky to work with lenders who give us slack when we need it."

Steve and Kathleen Harris, left, and family members on their timber property outside Mineola, Ala.

Pat Thomasson, CEO of Thomasson Co., a Mississippi wood products business

New Growth

The family-owned Thomasson Co. of Philadelphia, Miss., is one of Mississippi's best-known wood products companies, with customers in 48 states and 10 countries. Established in 1972 as a lumber distributor, Thomasson Co. started diversifying in the late 1990s to survive in the highly competitive wood products industry. It now mills utility poles, pilings, railroad cross-ties and wood mats that support heavy equipment, and has doubled its sales since 2010.

To meet its growing financial needs, Thomasson Co. turned to Southern AgCredit for the co-op's lending expertise, innovative financing options and cash management services, as well as the financial strength of its lending partners, including Farm Credit Bank of Texas. "Our lending relationship is really where we need it to be now," says company CEO Pat Thomasson.

Seizing Opportunities

Louisiana Land Bank Vice President David Bergeron, left, with John Earles Jr., center, and John Earles Sr. in a rice field on the duo's Bunkie, La., farm

Vertical integration is a key to success for south-central Louisiana farmers John Earles Sr. and John Earles Jr. Over the past decade, the father-son team has reduced their farming risk by investing in the supply chain that supports their Bunkie, La., sugarcane, rice and soybean operation. They offer land grading and leveling, commercial rice drying, aerial application and rice seeding, and a fuel service. In addition, they partnered with other growers to purchase a sugar mill in 2015, and most recently they opened three car washes.

Through all the challenges of expanding their operations, Louisiana Land Bank has supported the pair. "The Earles are good, hard-working customers," says their Land Bank loan officer, David Bergeron. "They've been smart to reinvest their profits in diversification."

From Boll to Bedding

The Yeager family on their Moulton, Ala., cotton farm, from left to right: Cassandra, Mark, Anna, Mark Jr. and Joe

When cotton prices dropped a few years ago, Alabama cotton farmer Mark Yeager didn't give up on the crop. Instead, he and his family decided to launch their own line of linens under the name Red Land Cotton. Beginning with 50 bales of their 2015 crop, the Yeagers produced about 3,500 sets of heirloom-quality sheets, which they marketed online beginning in October 2016. They plan to increase production sevenfold in 2017, and eventually use their entire crop in their own textiles.

"Mark is a top-notch row-crop farmer and businessman," says his loan officer, Heath Davis, vice president and branch manager of Alabama Farm Credit in Tuscumbia. "We applaud his entrepreneurial spirit and are proud to be his lending partner."

A Hot Crop

Southern New Mexico's Hatch Valley is famous for chile, but Portales, N.M., farmer Rick Ledbetter is proving that the state's signature crop holds promise for eastern New Mexico, too.

The only commercial chile grower in a region known for dairies and row crops, Ledbetter grows jalapeños for powdered spices and paprika for coloring agents, as well as the long green peppers that are popular in enchilada sauces, chile rellenos and stews. "It's a labor-intensive crop, and labor is hard to get," says Ledbetter, but, "chile is much more valuable than anything else we're growing."

During his career, he has tried over a dozen different crops, and Ag New Mexico has financed each one. "The association has always been in our corner, through good times and bad," says his wife, Evelyn.

Chile growers Evelyn and Rick Ledbetter on their farm near Portales, N.M.

Five-Year Summary of Selected Financial Data

Farm Credit Bank of Texas

(dollars in thousands)	2016	2015	2014	2013	2012
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 218,380**	$ 567,503	$ 450,447	$ 624,261	$ 526,379
Investment securities	**4,831,375**	4,445,105	4,086,391	3,637,855	3,346,479
Loans	**15,909,403**	14,771,006	13,259,837	11,778,741	11,338,830
Less allowance for loan losses	**7,650**	5,833	10,112	13,660	17,258
Net loans	**15,901,753**	14,765,173	13,249,725	11,765,081	11,321,572
Other property owned	**-**	438	10,310	13,812	30,739
Other assets*	**270,890**	211,356	205,143	158,693	138,597
Total assets	**$ 21,222,398**	$ 19,989,575	$ 18,002,016	$ 16,199,702	$ 15,363,766
Obligations with maturities of one year or less*	**$ 9,082,248**	$ 7,995,821	$ 6,474,695	$ 5,288,760	$ 5,113,949
Obligations with maturities greater than one year*	**10,517,898**	10,440,176	10,048,100	9,517,695	8,975,974
Total liabilities	**19,600,146**	18,435,997	16,522,795	14,806,455	14,089,923
Preferred stock	**600,000**	600,000	600,000	600,000	482,000
Capital stock	**284,038**	255,823	233,468	220,543	212,588
Allocated retained earnings	**33,171**	27,203	22,508	20,314	16,984
Unallocated retained earnings	**737,622**	697,883	643,067	585,503	534,438
Accumulated other comprehensive (loss) income	**(32,579)**	(27,331)	(19,822)	(33,113)	27,833
Total shareholders' equity	**1,622,252**	1,553,578	1,479,221	1,393,247	1,273,843
Total liabilities and shareholders' equity	**$ 21,222,398**	$ 19,989,575	$ 18,002,016	$ 16,199,702	$ 15,363,766
Statement of Income Data					
Net interest income	**$ 238,321**	$ 232,468	$ 226,659	$ 215,720	$ 220,824
(Provision) negative provision for credit losses	**(563)**	2,506	5,433	(6,253)	(27,121)
Noninterest expense, net	**(45,352)**	(42,735)	(43,832)	(29,647)	(19,123)
Net income	**$ 192,406**	$ 192,239	$ 188,260	$ 179,820	$ 174,580
Financial Ratios (unaudited)					
Rate of return on:					
Average assets	**0.92%**	1.02%	1.12%	1.16%	1.18%
Average shareholders' equity	**11.67**	12.22	12.68	12.31	13.56
Net interest income to average earning assets	**1.18**	1.27	1.39	1.44	1.55
Net (recoveries) charge-offs to average loans	**(0.01)**	0.01	0.02	0.09	0.19
Total shareholders' equity to total assets	**7.64**	7.77	8.21	8.59	8.28
Debt to shareholders' equity (:1)	**12.08**	11.87	11.18	10.64	11.07
Allowance for loan losses to total loans	**0.05**	0.04	0.08	0.12	0.15
Permanent capital ratio	**17.40**	17.74	18.33	21.64	18.64
Total surplus ratio	**14.98**	15.48	15.86	17.29	15.92
Core surplus ratio	**9.97**	9.88	10.07	10.12	9.92
Net collateral ratio	**107.35**	107.70	108.00	108.67	107.94
Net Income Distributions					
Net income distributions declared and accrued					
Preferred stock cash dividends	**$ 50,250**	$ 50,250	$ 50,250	$ 49,931	$ 43,761
Patronage distributions declared					
Cash	**$ 96,449**	$ 82,478	$ 76,414	$ 71,505	$ 65,843
Allocated retained earnings	**5,968**	4,695	4,032	3,253	2,471

* For 2014, 2013 and 2012, unamortized debt issuance costs have been reclassified from "Other Assets" to be reflected as a direct deduction from the related debt liability. See Note 2, "Summary of Significant Accounting Policies," section M: "Change in Accounting Principle – Debt Issuance Costs" for more information.

Average Balances and Net Interest Earnings

Farm Credit Bank of Texas

(unaudited)
December 31,

	2016			2015			2014		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Investment securities and federal funds sold	**$ 4,782,499**	**$ 69,353**	**1.45%**	$ 4,246,242	$ 60,563	1.43%	$ 3,880,310	$ 52,924	1.36%
Loans	**15,488,896**	**411,159**	**2.65**	13,988,057	367,797	2.63	12,438,960	336,899	2.71
Total interest-earning assets	**20,271,395**	**480,512**	**2.37**	18,234,299	428,360	2.35	16,319,270	389,823	2.39
Cash	**325,672**			346,075			354,998		
Accrued interest receivable	**42,973**			41,443			37,881		
Allowance for loan losses	**(6,922)**			(7,985)			(11,145)		
Other noninterest-earning assets	**198,936**			173,144			162,967		
Total average assets	**$ 20,832,054**			$ 18,786,976			$ 16,863,971		
Liabilities and Shareholders' Equity									
Bonds, medium-term notes and subordinated debt, net	**$ 16,321,944**	**$ 228,466**	**1.40%**	$ 15,184,487	$ 191,775	1.26%	$ 13,684,863	$ 160,985	1.18%
Discount notes, net	**2,702,217**	**13,725**	**0.51**	1,891,208	4,117	0.22	1,548,329	2,179	0.14
Total interest-bearing liabilities	**19,024,161**	**242,191**	**1.27**	17,075,695	195,892	1.15	15,233,192	163,164	1.07
Noninterest-bearing liabilities	**158,764**			138,323			146,405		
Total liabilities	**19,182,925**			17,214,018			15,379,597		
Shareholders' equity and retained earnings	**1,649,129**			1,572,958			1,484,374		
Total average liabilities and shareholders' equity	**$ 20,832,054**			$ 18,786,976			$ 16,863,971		
Net interest rate spread		**$ 238,321**	**1.10%**		$ 232,468	1.20%		$ 226,659	1.32%
Net interest margin			**1.18%**			1.27%			1.39%

The following commentary is a discussion and analysis of the financial position and the results of operations of the Farm Credit Bank of Texas (the bank or FCBT) for the years ended December 31, 2016, 2015 and 2014. The commentary should be read in conjunction with the accompanying financial statements, notes to the financial statements (notes) and additional sections of this annual report. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank, together with its affiliated associations (the district), are part of the federally chartered Farm Credit System (System). The district serves Texas, Alabama, Mississippi, Louisiana and most of New Mexico. The bank provides funding to the district associations, which, in turn, provide credit to their borrower-shareholders. As of December 31, 2016, the bank served one Federal Land Credit Association (FLCA), 13 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs) which are not part of the System. The FLCA and ACAs are collectively referred to as associations. See Note 1, "Organization and Operations," to the accompanying financial statements for an expanded description of the structure and operations of the bank.

Forward-Looking Information

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

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, government-sponsored enterprises and OFIs; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Critical Accounting Policies

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," to the accompanying financial statements. The following is a summary of certain critical policies.

- *Reserves for credit losses* — The bank records reserves for credit losses, consisting of an allowance for loan losses, reported as a reduction of loans on the bank's balance sheet, and a reserve for losses on unfunded commitments, including standby letters of credit and unused loan commitments, which is reported as a liability on the bank's balance sheet. These reserves are management's best estimate of the amount of probable losses existing in and inherent in our loan portfolio. The allowance for loan losses and reserves for credit losses are increased through provisions for credit losses and loan recoveries and are decreased through loan loss reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired. Each of these individual loans is evaluated based on the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. If the present value of expected future cash flows (or, alternatively, the fair value of the collateral) is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), an impairment is recognized by making an addition to the allowance for loan losses with a corresponding charge to the provision for credit losses or by similarly adjusting an existing valuation allowance. The reserve includes a specific reserve for impaired letters of credit as well as a general reserve for expected credit deterioration and losses on unfunded commitments that are not individually evaluated.
- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are used when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Third-party valuation services are utilized by management to obtain fair values for the majority of the bank's investments. Management utilizes significant estimates and assumptions to value items

for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the bank's results of operations.

- *Pensions and retirement plans* — The bank and its related associations participate in the district's defined benefit retirement plan (DB plan). The plan is noncontributory, and benefits are based on salary and years of service. In addition, the bank and its related associations also participate in defined contribution retirement savings plans.

  The structure of the district's single-employer DB plan is characterized as multiemployer for participating employers' accounting purposes, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. Participating employers are jointly and severally liable for the plan obligations. Upon withdrawal or termination of their participation in the plan, a participating employer must pay all associated costs of its withdrawal from the plan, including its unfunded liability (the difference between replacement annuities and the withdrawing employer's share of allocated plan assets). As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only. The bank records current contributions to the DB plan as an expense in the current year.

  The liability and expense for other postemployment benefits is determined actuarially based on certain assumptions, including discount rate and mortality assumptions. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to the Aon Hewitt AA Only Above-Median Yield Curve, actuarial analyses and industry norms. The Aon Hewitt yield curves are determined based on actual corporate bond yields for bonds rated AA as of the measurement date. The discount rate at December 31, 2016, was 4.60 percent, compared to 4.70 percent at December 31, 2015.

OVERVIEW

General

The bank's loan portfolio totaled $15.91 billion at December 31, 2016, a 7.7 percent increase from the prior year. The increase in the bank's loan portfolio was mainly due to an increase in the bank's direct loans to associations and OFIs and an increase in the bank's capital markets loan portfolio. The bank's $167 increase in net income for 2016 was driven primarily by a $9,781 increase in noninterest income and a $5,853 increase in net interest income, offset by a $12,398 increase in non-interest expenses and a $3,069 increase in provision for loans. The increase in net interest income was the result of a $2.04 billion increase in average earning assets, net of a reduction in the bank's net interest rate spread. The bank's net interest rate spread declined by 10 basis points due to an increase in the cost of debt.

Funding

During 2016, the System continued to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. Investor demand for Systemwide debt securities has remained favorable across all products. The bank has continued to have reliable access to funding at competitive rates and terms necessary to support our lending and business operations. Future ratings action affecting the U.S. government and related entities (including the System) may affect our borrowing cost and/or limit our access to the debt capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve.

Conditions in the Texas District

Texas, Louisiana and New Mexico have all been relatively unaffected by drought in 2016. However, portions of the interior Southeast struggled to maintain adequate soil moisture during the second half of the year, as observed precipitation was well below normal across most of Mississippi and Alabama. According to the National Oceanic and Atmospheric Administration, drought conditions are likely to persist in Mississippi and Alabama through the first several months of 2017.

Beef cattle producers retained a historically high level of heifers to support herd expansion in 2015 and through the first half of 2016. Although there are indications that the rate of cattle herd expansion has slowed in recent months, beef production is forecasted to increase significantly in the upcoming year. The rapid increase in observed and projected production has weighed on cattle prices, but retail beef prices have held relatively steady. The expansionary environment has resulted in strong margins for beef processors, while cattle producers have seen reduced profitability. Production of pork and poultry also increased during 2016, leading to a highly competitive retail environment for meat products. Although total stocks of protein products in cold storage have eased since reaching record highs in 2015, existing supplies remain substantially elevated relative to historical averages. Protein prices are likely to remain depressed for an extended period of time, as beef production continues to expand and near-record-high stocks of frozen meat weigh on the market.

Cotton prices increased during 2016 due to adverse growing conditions in several cotton-producing countries, including China, Pakistan and India. In the U.S., conditions were generally favorable, and Texas cotton growers are expected to achieve their highest yield per acre since 2010. Nevertheless, cotton prices are likely to come under pressure in 2017, as both the U.S. Department of Agriculture and the International Cotton Advisory Committee are expecting world cotton production to increase by 8 percent in the upcoming year. Moreover, the price of polyester, a competing man-made fiber, has remained low. In 2016, U.S. farmers produced record amounts of corn and soybeans, forcing the prices of both commodities lower. Soybean prices, however, were supported somewhat by production deficits in South America. If the current price relationship holds through March, it will encourage farmers to shift several million acres from corn to soybean production in the upcoming season.

At the end of 2016, the value of the U.S. dollar reached its highest level since 2002, when measured against the currencies of a broad group of trade partners. The strong dollar has made U.S. exports less competitive on a global scale, leading to broad declines in commodity prices. If interest rates in the U.S. remain high relative to other countries, additional investment in the dollar is likely to continue. At present, there is substantial uncertainty regarding the trade policy of the incoming administration. An unfavorable trade environment could materially impact global demand for U.S. agricultural products.

During 2016, the spot price of West Texas Intermediate (WTI) crude oil averaged about $43 per barrel, down from $49 per barrel in the previous year. The oil markets have continued to be extremely volatile, with prices falling to below $27 per barrel in February before stabilizing above $50 per barrel by the end of the year. As OPEC members and several non-OPEC producers look to implement production caps through the first half of 2017, the economics of shale oil extraction have improved. Correspondingly, the number of active rotary rigs in the Permian Basin more than doubled from May through December.

The resurgence in oil-related activity has benefited the Texas economy in recent months. After increasing by an annualized rate of less than 1 percent in the first half of the year, employment in Texas grew at an annualized rate of about 2 percent during the final six months of 2016. The Texas economy is forecasted to expand at a moderate pace in 2017. In general, employment conditions throughout the district remain positive. The district portfolio continues to be supported by strong credit quality, high levels of capital, low advance rates and diversification.

RESULTS OF OPERATIONS

Net Income

The bank's net income of $192,406 for the year ended December 31, 2016, reflects an increase of .09 percent over 2015, while 2015 net income of $192,239 increased by 2.10 percent from 2014. The return on average assets was 0.92 percent for the year ended December 31, 2016, down from 1.02 percent reported for the year ended December 31, 2015. The return on average assets was 1.12 percent for the year ended December 31, 2014.

Changes in the major components of net income for the referenced periods are outlined in the table below and in the discussion following:

	Year Ended December 31,	
	2016 vs. 2015	**2015 vs. 2014**
Net income (prior period)	**$ 192,239**	$ 188,260
Increase due to:		
Increase in interest income	**52,152**	38,537
Increase in interest expense	**(46,299)**	(32,728)
Increase in net interest income	**5,853**	5,809
Decrease in negative provision for credit losses	**(3,069)**	(2,927)
Increase in noninterest income	**9,781**	2,793
Increase in noninterest expense	**(12,398)**	(1,696)
Total change in net income	**167**	3,979
Net income	**$ 192,406**	$ 192,239

Discussion of the changes in components of net income is included in the following narrative.

Interest Income

Total interest income for the year ended December 31, 2016, was $480,512, an increase of $52,152, or 12.2 percent, compared to 2015. Total interest income for the year ended December 31, 2015, was $428,360, an increase of $38,537, or 9.9 percent, compared to 2014. The increase for 2016 was due primarily to a $2.04 billion increase in average earning assets and 2-basis-point increase in the average yield. The increase for 2015 was due primarily to a $1.92 billion increase in average earning assets, net of the effects of a 4-basis-point decrease in the average yield.

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

	Year Ended December 31,	
	2016 vs. 2015	**2015 vs. 2014**
Increase in average earning assets	**$ 2,037,096**	$ 1,915,029
Average yield (prior year)	**2.35%**	2.39%
Interest income variance attributed to change in volume	**47,872**	45,769
Average earning assets (current year)	**20,271,395**	18,234,299
Increase (decrease) in average yield	**0.02%**	(0.04)%
Interest income variance attributed to change in yield	**4,280**	(7,232)
Net change in interest income	**$ 52,152**	$ 38,537

Interest Expense

Total interest expense for the year ended December 31, 2016, was $242,191, an increase of $46,299, or 23.6 percent, compared to the same period of 2015. Total interest expense for the year ended December 31, 2015, was $195,892, an increase of $32,728, or 20.1 percent, compared to the same period of 2014. The increase in 2016 was due primarily to the effects of a 12-basis-point increase in the average cost of debt and a $1.95 billion increase in average interest-bearing liabilities. The increase for 2015 was due primarily to a $1.84 billion increase in average interest-bearing liabilities and the effects of an 8-basis-point increase in the average cost of debt.

During 2016, 2015 and 2014, the bank was able to reduce its interest expense by calling and replacing debt totaling $7.92 billion, $5.57 billion and $2.33 billion, respectively.

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

	Year Ended December 31,	
	2016 vs. 2015	**2015 vs. 2014**
Increase in average interest-bearing liabilities	**$ 1,948,466**	$ 1,842,503
Average rate (prior year)	**1.15%**	1.07%
Interest expense variance attributed to change in volume	**22,407**	19,715
Average interest-bearing liabilities (current year)	**19,024,161**	17,075,695
Increase in average rate	**0.12%**	0.08%
Interest expense variance attributed to change in rate	**23,892**	13,013
Net change in interest expense	**$ 46,299**	$ 32,728

Net Interest Income

Net interest income, the excess of interest income over interest expense, increased by $5,853 from 2015 to 2016, and increased by $5,809 from 2014 to 2015. The increase in 2016 was due to the effects of a $2.04 billion increase in average interest-earning assets, partially offset by a 10-basis-point decrease in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt. The bank's increase in average earning assets included growth in direct notes to district associations, the bank's capital markets loan portfolio and the investment portfolio.

Net interest income in 2015 was $5,809 greater than 2014. The increase in 2015 was due to the effects of a $1.92 billion increase in average interest-earning assets, partially offset by a 12-basis-point decrease in the interest rate spread.

ANALYSIS OF NET INTEREST INCOME

	2016		2015		2014	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 15,488,896**	**$ 411,159**	$ 13,988,057	$ 367,797	$ 12,438,960	$ 336,899
Investments	**4,782,499**	**69,353**	4,246,242	60,563	3,880,310	52,924
Total earning assets	**20,271,395**	**480,512**	18,234,299	428,360	16,319,270	389,823
Interest-bearing liabilities	**19,024,161**	**242,191**	17,075,695	195,892	15,233,192	163,164
Impact of capital	**$ 1,247,234**		$ 1,158,604		$ 1,086,078	
Net Interest Income		**$ 238,321**		$ 232,468		$ 226,659

	Average Yield	Average Yield	Average Yield
Yield on loans	**2.65%**	2.63%	2.71%
Yield on investments	**1.45%**	1.43%	1.36%
Yield on earning assets	**2.37%**	2.35%	2.39%
Cost of interest-bearing liabilities	**1.27%**	1.15%	1.07%
Interest rate spread	**1.10%**	1.20%	1.32%
Impact of capital	**0.08%**	0.07%	0.07%
Net interest income/average earning assets	**1.18%**	1.27%	1.39%

Provision for Credit Losses

The bank's provision for credit losses for 2016 totaled $563, an increase of $3,069 from the $2,506 negative provision recorded for 2015. The $563 provision included a $1,814 increase in the general allowance for loan losses due to downgrades on two energy loans and a $304 increase in general reserves on unfunded commitments and letters of credit (LOC), offset by recoveries of $1,558.

The $2,506 negative provision for credit losses in 2015 included a $3,400 reversal of a specific allowance related to an energy loan and an $857 reversal of a specific reserve on an unfunded letter of credit, offset by a $1,200 increase in general provisions for credit losses due to loan growth and the use of an updated probability of default (PD) curve. In the fourth quarter of 2015, the bank adopted an updated 2015 PD curve used in the calculation of general reserves for credit losses.

Noninterest Income

Noninterest income for the year ended December 31, 2016, was $50,419, an increase of $9,781, or 24.1 percent, compared to 2015. The increase was primarily due to a $6,052 increase in patronage income, a $5,088 increase in gain on sale of loans, and a $3,133 decrease in loss due to the write-off of loan accounting software no longer deemed to be a usable asset, offset by $5,779 of dividends received in 2015 on the preferred stock of an ethanol facility in other property owned (OPO).

Noninterest income for the year ended December 31, 2015, was $40,638, an increase of $2,793, or 7.4 percent, compared to 2014. The increase included a $4,101 increase in dividends received on the preferred stock of an ethanol facility in OPO and a $1,918 increase in patronage income, offset by a $3,133 loss due to the write-off of loan accounting software no longer deemed a usable asset.

Noninterest Expenses

Noninterest expenses totaled $95,771 for 2016, an increase of $12,398, or 14.9 percent, from 2015. This increase was primarily due to a $3,667 increase in Farm Credit System Insurance Corporation (FCSIC) premiums, a $3,529 decrease in gains on OPO, a $1,672 increase in occupancy and equipment, a $1,523 increase in salaries and benefits, and a $1,504 increase in professional and contract services.

FCSIC premiums increased due to a rate increase on outstanding debt from 13 basis points in 2015 to 16 basis points for the first half of 2016 and 18 basis points for the second half of 2016, and to an increase in debt required to fund earning asset growth. The increase in occupancy and equipment included a $1,248 increase in computer expenses. The increase in salaries and benefits included a $2,450 increase in compensation, offset by an $852 increase in capitalization of salaries and benefits as a part of internally developed software.

Noninterest expenses totaled $83,373 for 2015, an increase of $1,696, or 2.1 percent, from 2014. This increase was primarily due to a $2,218 increase in occupancy and equipment expenses and a $1,560 increase in premiums to the FCSIC, offset by a $2,776 increase in gains related to OPO. The $2,218 increase in occupancy and equipment expenses includes a $1,571 increase in computer expenses, which is primarily an increase in software depreciation and maintenance. Premiums to FCSIC increased as a result of the rate increase from 12 basis points in 2014 to 13 basis points in 2015 and an increase in debt required to fund earning asset growth.

Operating expense (salaries and employee benefits, occupancy and equipment, FCSIC premiums and other operating expenses) statistics are set forth below for each of the three years ended December 31:

	2016	2015	2014
Excess of net interest income over operating expense	**$ 142,989**	$ 146,005	$ 144,668
Operating expense as a percentage of net interest income	**40.0%**	37.2%	36.2%
Operating expense as a percentage of net interest income and noninterest income	**33.0**	31.7	31.0
Operating expense as a percentage of average loans	**0.62**	0.62	0.66
Operating expense as a percentage of average earning assets	**0.47**	0.47	0.50

CORPORATE RISK PROFILE

Overview

The bank is in the business of funding and participating in agricultural and other loans which requires us to take certain risks in exchange for compensation for the risks undertaken. Management of risks inherent in our business is essential for our current and long-term financial performance. Our goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities.

The major types of risk to which we have exposure are:

- structural risk — risk inherent in our business and related to our structure (an interdependent network of lending institutions);
- credit risk — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed;
- interest rate risk — risk that changes in interest rates may adversely affect our operating results and financial condition;
- liquidity risk — risk of loss arising from the inability to meet obligations when they come due without incurring unacceptable losses;
- operational risk — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events;
- reputational risk — risk of loss resulting from events, real or perceived, that shape the image of the bank, the System or any System entities, including the impact of investors' perceptions about agriculture, the reliability of district or System financial information or the overt actions of any district or System institution; and
- political risk — risk of loss of support for the System and agriculture by the federal and state governments.

Structural Risk Management

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

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

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

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

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

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

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

	Net Collateral Ratio	Permanent Capital Ratio
Category I	<104.00%*	<8.00%
Category II	<103.00%	<7.00%
Category III	<102.00%	<5.00%

*A bank is required to maintain a net collateral ratio of at least 50 basis points greater than its 104.00 percent regulatory minimum to avoid being placed in Category I.

As required by the MAA, the banks and the Funding Corporation undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. In connection with the most recent review, the banks and the Funding Corporation agreed to enter into the Second Amended and Restated MAA, which became effective on January 1, 2012. One important change requires the banks to maintain a net collateral ratio of at least 50 basis points greater than the regulatory minimum (103 percent for the bank) in order to avoid being placed in Category I.

Periodically, the CIPA model and the MAA performance criteria are reviewed to take into consideration current performance standards in the financial services industry or regulatory changes.

As a result of the changes to regulatory capital ratio requirements that became effective January 1, 2017, the MAA criteria have been adjusted as follows:

	Tier 1 Leverage Ratio	Total Capital Ratio
Category I	<5.0%	<10.5%
Category II	<4.0%	<8.0%
Category III	<3.0%	<7.0%

During the three years ended December 31, 2016, all banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2016, all banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2016, the banks met the defined CIPA score required by the MAA.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolio and derivative counterparty credit exposures. We manage credit risk associated with our lending activities through an assessment of the credit risk profile of an individual borrower. We set our own underwriting standards and lending policies, approved by the board of directors, that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

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

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

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

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

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

Loans

The bank's loan portfolio consists of direct notes receivable from district associations and qualifying other financing institutions (OFIs), the bank's capital markets loan portfolio and other bank-owned loans. See Note 1, "Organization and Operations," Note 2, "Summary of Significant Accounting Policies" and Note 4, "Loans and Reserves for Credit Losses," to the accompanying financial statements for further discussions.

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 seeks 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.

Gross loan volume of $15.91 billion at December 31, 2016, reflected an increase of $1.14 billion, or 7.7 percent, from December 31, 2015. The balance of $14.77 billion at December 31, 2015, reflected an increase of $1.51 billion, or 11.4 percent, from the $13.26 billion balance at December 31, 2014. The increase in the loan portfolio from 2015 to 2016 is mainly attributable to a $1.00 billion increase in the bank's direct loans to associations and OFIs and a $134,365 increase in the bank's capital markets loan portfolio.

The following table presents each loan category as a percentage of the total loan portfolio:

	December 31,		
	2016	2015	2014
Direct notes receivable from district associations and OFIs	**66.8%**	65.1%	64.1%
Participations purchased	**33.2**	34.9	35.9
Other bank-owned loans	**-**	-	-
Total	**100.0%**	100.0%	100.0%

The following table discloses the credit quality of the bank's loan portfolio:

	December 31,		
	2016	2015	2014
Acceptable	**99.3%**	98.2%	98.3%
Special mention	**0.5**	1.7	0.5
Substandard	**0.2**	0.1	1.2
Total	**100.0%**	100.0%	100.0%

The increase in acceptable loan volume (dollar perspective) as of December 31, 2016, compared to December 31, 2015, is mainly driven by an increase in direct note volume, the upgrade of an association's direct note to acceptable from substandard and, to a lesser extent, growth in the capital markets loan portfolio.

The bank's capital markets loan portfolio's concentration of credit risk in various commodities is shown in the following table at December 31:

	Percentage of Portfolio		
Commodity Group	**2016**	2015	2014
Rural electric	**24%**	21%	23%
Livestock	**10**	9	9
Grain mill products	**7**	7	8
Telecommunication	**6**	7	5
Miscellaneous food products	**6**	6	6
Dairy	**6**	5	4
Timber	**5**	5	5
Meat products	**5**	4	6
Other	**31**	36	34
Total	**100%**	100%	100%

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

	December 31,		
	2016	2015	2014
Texas	**15%**	12%	13%
Illinois	**7**	9	10
Georgia	**7**	6	6
Minnesota	**5**	4	4
Ohio	**4**	4	4
All other states	**62**	65	63
Total	**100%**	100%	100%

The balance of the bank's association direct notes sold to another System bank was $3.85 billion at December 31, 2016, and $3.85 billion and $3.65 billion at December 31, 2015 and 2014, respectively. The bank's OFI direct notes sold to another System bank totaled $11,190 at December 31, 2016, and was $15,900 at December 31, 2015 and December 31, 2014.

In December 2015, the bank transferred a loan with a par value of $5.0 million to a loans held for sale category included in "Other assets" at its fair value of $4.85 million. A loss of $77 was recognized upon adjustment of the loan to fair value in December 2015. The loan was subsequently sold in February 2016 with a gain recognition of $75.

Association Direct Notes

As the preceding table illustrates, 66.8 percent of the bank's loan portfolio consisted of direct notes from associations and OFIs at December 31, 2016. Terms of loans to associations and OFIs are specified in a separate general financing agreement between each association and OFI and the bank, and all assets of each association secure the direct notes to the bank. Each association is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). See Note 1, "Organization and Operations," to the accompanying financial statements for further discussion of the Farm Credit System.

The credit exposure of the bank's loans to associations, which are evidenced by direct notes with full recourse, is dependent on the associations' creditworthiness and the ability of their borrowers to repay loans made to them. The credit risk to the bank is mitigated by diversity in the associations' loan portfolios in terms of underlying collateral and income sources, geography and range of individual loan amounts. In addition, the risk-bearing capacities of the associations are assessed quarterly by the bank and are currently deemed adequate to absorb most interest-related shocks. Each association maintains an allowance for loan losses determined by its management and is capitalized to serve its unique market area. Associations are subject to FCA regulations concerning minimum capital, loan underwriting and portfolio management, and are audited annually by independent auditors. In addition, associations are required by condition of the general financing agreement with the bank to provide copies of their risk-based internal credit review reports and other audit/examination reports. The associations are required to maintain a risk-based internal credit review program including procedures addressing: reviewer qualification and independence, review frequency, accuracy of risk ratings, credit administration, regulatory compliance, scope selection, documentation of audit committee approval of reviewers and audit committee review of the internal control reports. As of December 31, 2016, all associations were in compliance with their general financing agreements with the bank.

Loans held by district associations totaled $17.10 billion at December 31, 2016, an increase of $1.11 billion, or 7.0 percent, from loan volume at December 31, 2015, due to more robust lending at the district associations. In 2015 and 2014, association loan volume increased by $1.44 billion and $1.29 billion, respectively.

The combined associations' concentration of credit risk in various agricultural commodities is shown in the following table at December 31:

	Percentage of Portfolio		
Commodity Group	**2016**	2015	2014
Livestock	**40%**	41%	41%
Crops	**17**	17	17
Timber	**9**	9	9
Cotton	**5**	5	5
Poultry	**5**	5	5
Dairy	**3**	2	3
Rural home	**2**	2	2
Other	**19**	19	18
Total	**100%**	100%	100%

The diversity of states underlying the combined associations' loan portfolio is reflected in the following table:

	December 31,		
	2016	2015	2014
Texas	**65%**	65%	66%
Alabama	**9**	9	9
Mississippi	**8**	8	9
Louisiana	**4**	4	4
New Mexico	**1**	2	1
All other states	**13**	12	11
Total	**100%**	100%	100%

Direct notes from the associations in Texas represent the majority of the bank's direct notes from all district associations. However, these notes are collateralized by a diverse loan portfolio, both in terms of geography and underlying commodities, which helps to mitigate the concentration risk often associated with one state or locale. Associations in each state have commodity diversification that is being augmented by purchases of loan participations.

The combined associations' loans by size are shown in the following table at December 31:

Size (thousands)	**2016**
<$250	**21%**
$250-$500	**15**
$500-$1,000	**16**
$1,000-$5,000	**33**
$5,000-$25,000	**14**
$25,000-$100,000	**1**
Total	**100%**

Credit quality at the district's associations remained strong, with loans classified as "acceptable" or "other assets especially mentioned" (special mention) as a percentage of total loans of 98.2, 98.6 and 98.2 percent at December 31, 2016, 2015 and 2014, respectively. Association nonearning assets as a percentage of total loans at December 31, 2016, were 1.0 percent, compared to 1.2 percent and 1.3 percent at December 31, 2015 and 2014, respectively. The $30,325 increase in association nonearning assets from 2015 to 2016 was largely due to a $34,091 increase nonaccrual loans offset by an $8,145 decrease in formally restructured loans at the district's associations.

From the perspective of the district, which is the bank and its related associations collectively, the loan portfolio consists only of retail loans. The diversity of the commodity types and income sources supporting district loan repayment further mitigates credit risk at the bank.

The following table illustrates the district's loan portfolio by major commodity segments at December 31:

	Percentage of Portfolio		
Commodity Group	**2016**	2015	2014
Livestock	**33%**	33%	33%
Crops	**13**	13	13
Timber	**8**	8	9
Cotton	**4**	4	4
Poultry	**4**	4	3
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**34**	34	34
Total	**100%**	100%	100%

The following table reflects the district's geographic distribution, by major states, at December 31:

	December 31,		
	2016	2015	2014
Texas	**55%**	52%	53%
Mississippi	**7**	7	7
Alabama	**6**	7	7
Louisiana	**5**	3	4
Illinois	**2**	3	3
All other states	**25**	28	26
Total	**100%**	100%	100%

High-Risk Assets

Nonperforming loan volume is composed of nonaccrual loans, accruing restructured loans and loans 90 days or more past due and still accruing interest, and is referred to as impaired loans. High-risk assets consisted of impaired loans and OPO.

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

	2016	2015	2014
Nonaccrual loans	**$ 2,862**	$ 4,672	$ 10,568
Accruing formally restructured loans	**6,495**	16,102	16,481
Loans past due 90 days or more and still accruing interest	**-**	-	-
Other property owned	**-**	438	10,310
Total high-risk assets	**$ 9,357**	$ 21,212	$ 37,359

High-risk assets at December 31, 2016 decreased by $11,855, or 55.9 percent, from $21,212, and high-risk assets at December 31, 2015 decreased $16,147 or 43.3 percent from December 31, 2014. The decrease in nonaccrual loans and accruing formally restructured loans are due to repayments. At December 31, 2016, $2,862, or 100.0 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $2,593, or 55.5 percent, and $21, or 0.2 percent, at December 31, 2015 and 2014, respectively.

The decrease in nonaccrual loans at December 31, 2015, was primarily attributable to repayments of $6.1 million and charge-offs of $2.1 million, offset by transfers to nonaccrual of $2.1 million and recoveries on nonaccrual of $293. The decrease in OPO at December 31, 2015 was attributable mainly to disposals totaling $13.0 million, including $3.1 million in gains on disposal. During 2015, the bank recorded charge-offs totaling $2.1 million against the allowance for loan losses due to known losses, primarily related to a loan in the electric services sector.

Allowance and Reserve for Credit Losses

The allowance for loan losses at December 31, 2016, was $7,650, compared to $5,833 at December 31, 2015, and $10,112 at December 31, 2014. The increase from 2015 to 2016 reflects a $1,814 general allowance increase due to downgrades on two energy loans. The reserve for credit losses on standby letters of credit and unfunded commitments was $1,646, $1,342 and $1,342 at December 31, 2016, 2015 and 2014, respectively. Because analysis indicates that an allowance on the association direct notes is not warranted, the entire balance of the allowance and reserve for credit losses reflects reserves for risks identified in the bank's participation loans.

The following table provides an analysis of key statistics related to the allowance and reserve for credit losses at December 31,

	2016	2015	2014
Allowance and reserve for credit losses as a percentage of:			
Average loans	**0.05%**	0.05%	0.09%
Loans at year end			
Total loans	**0.05**	0.05	0.09
Participations	**0.15**	0.14	0.24
Nonaccrual loans	**267.26**	153.57	108.38
Total high-risk loans	**81.75**	34.54	42.35
Net (recoveries) charge-offs to average loans	**(0.01)**	0.01	0.02
Provision (negative provision) expense to average loans	**0.00**	(0.02)	(0.04)

The activity in the reserves for credit losses is discussed further in Note 4, "Loans and Reserves for Credit Losses," to the accompanying financial statements.

Interest Rate Risk Management

Asset/liability management is the bank's process for directing and controlling the composition, level and flow of funds related to the bank's and district's interest-rate-sensitive assets and liabilities. The bank is able to manage the balance sheet composition by using various debt issuance strategies and hedging transactions to match its asset cash flows. Management's objective is to generate adequate and stable net interest income in a changing interest rate environment.

The bank uses a variety of techniques to manage its financial exposure to changes in market interest rates. These include monitoring the difference in the maturities or repricing cycles of interest-rate-sensitive assets and liabilities; simulating changes in net interest income under various interest rate scenarios; and monitoring the change in the market value of interest-rate-sensitive assets and liabilities under various interest rate scenarios.

The interest rate risk inherent in a district association's loan portfolio is substantially mitigated through its funding relationship with the bank. The bank manages district interest rate risk through its direct loan pricing and funding processes. Under the Farm Credit Act of 1971, as amended, a district association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members and is secured by the total assets of the association.

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

The bank maintains a loan pricing philosophy that loan rates should be based on competitive market rates of interest. The district associations offer a wide variety of products, including LIBOR- and prime-indexed variable-rate loans and loans with fixed-rate terms ranging from under one year to 30 years. The interest rates on these loans are directly related to the bank's cost to issue debt in the capital markets and a credit spread added for borrower risk.

The bank offers an array of loan programs to associations that are designed to meet the needs of the associations' borrowers. These loan programs have varying repayment terms, including fixed and level principal payments, and a choice of payment frequencies, such as monthly, quarterly, semi-annual and annual payments. Additionally, the bank offers a choice of prepayment options to meet customer needs.

FCBT uses complex modeling tools to manage and measure the risk characteristics of its earning assets and liabilities, including gap and simulation analyses. The following interest rate gap analysis sets forth the bank's interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2016, which are expected to mature or reprice in each of the future time periods shown:

Interest Rate Gap Analysis

as of December 31, 2016

	Interest-Sensitive Period						
	One Month or Less	More Than One Through Six Months	More Than Six Through Twelve Months	**Total Twelve Months or Less**	More Than One Year but Less Than Five Years	More Than Five Years and Non-Rate-Sensitive	**Total**
Interest-Earning Assets							
Total loans	$ 3,027,569	$ 2,172,373	$ 1,577,662	**$ 6,777,604**	$ 6,221,560	$ 2,910,239	**$ 15,909,403**
Total investments	1,930,006	328,590	264,220	**2,522,816**	1,526,013	805,447	**4,854,276**
Total interest-earning assets	4,957,575	2,500,963	1,841,882	**9,300,420**	7,747,573	3,715,686	**20,763,679**
Interest-Bearing Liabilities							
Total interest-bearing funds	4,283,844	2,470,159	2,720,871	**9,474,874**	8,739,910	1,175,878	**19,390,662**
Excess of interest-earning assets over interest-bearing liabilities	-	-	-	**-**	-	1,373,017	**1,373,017**
Total interest-bearing liabilities	4,283,844	2,470,159	2,720,871	**9,474,874**	8,739,910	2,548,895	**$ 20,763,679**
Interest rate sensitivity gap	$ 673,731	$ 30,804	$ (878,989)	**$ (174,454)**	$ (992,337)	$ 1,166,791	
Cumulative interest rate sensitivity gap	$ 673,731	$ 704,535	$ (174,454)	**$ (174,454)**	$ (1,166,791)		

The amount of assets or liabilities shown in each of the time periods was determined based on the earlier of repricing date, contractual maturity or anticipated loan payments, or projected exercise date on callable debt. To reflect the expected cash flow and repricing characteristics of the bank's balance sheet, an estimate of expected prepayments on loans and mortgage-related investments is used to adjust the maturities of the loans and investments in the earning assets section of the gap analysis. Changes in market interest rates will affect the volume of prepayments on loans. Correspondingly, adjustments have been made to reflect the characteristics of callable debt instruments and the effect derivative financial instruments have on the repricing structure of the bank's balance sheet. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the bank has a negative gap position, indicating that the bank has an exposure to increasing interest rates. This would occur when interest expense on maturing or repricing interest-bearing liabilities increases sooner than interest income on maturing repricing assets.

The cumulative gap, which is a static measure, does not take into consideration the changing value of options available to the bank in order to manage this exposure, specifically the ability to exercise or not exercise options on callable debt. These options are considered when projecting the effects of interest rate changes on net income and on the market value of equity in the following tables.

Interest rate risk exposure as measured by simulation modeling calculates the bank's expected net interest income and market value of equity based upon projections of interest-rate-sensitive assets, liabilities, derivative financial instruments and interest rate scenarios. The bank monitors its financial exposure to multiple interest rate scenarios. The bank's policy guideline for the maximum negative impact as a result of a 200-basis-point change in interest rates is 16 percent for net interest income and 20 percent for market value of equity. Per FCA regulations, when the current three-month Treasury bill interest rate is less than 4 percent, the minus 200-basis-point scenario should be replaced with a downward shock equal to one-half of the three-month Treasury bill rate. The bank manages its interest rate risk exposure within these guidelines. As of December 31, 2016, projected annual net interest income would increase by $4,373, or 1.7 percent, if interest rates were to increase by 100 basis points, and would decrease by $237, or 0.09 percent, if interest rates were to decrease by 25 basis points. Market value of equity is projected to decrease by 8.1 percent as a result of a 100-basis-point increase in interest rates and to increase by 1.7 percent if interest rates were to decline by 25 basis points as of December 31, 2016.

The following tables set forth the bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of December 31, 2016, based on the bank's interest-earning assets and interest-bearing liabilities at December 31, 2016:

Net Interest Income

Scenario	Net Interest Income	% Change
+200 BP Shock	$ 265,735	3.16%
+100 BP Shock	261,966	1.70%
0 BP	257,593	-
-25 BP Shock**	257,356	(.09)%

Market Value of Equity

Scenario	Assets	Liabilities*	Equity*	% Change
Book value	$ 21,252,854	$ 20,200,146	$ 1,052,707	-
+200 BP Shock	20,141,500	19,358,216	783,284	(17.09%)
+100 BP Shock	20,647,779	19,779,182	868,597	(8.06%)
0 BP	21,164,235	20,219,525	944,710	-
-25 BP Shock**	21,291,281	20,330,252	961,029	1.73%

*For interest rate risk management, the $600,000 noncumulative perpetual preferred stock is included in liabilities.

**When the 3-month Treasury bill is below 4.00%, the shock-down 200 scenario is replaced with a shock-down equal to half of the 3-month Treasury bill.

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

At December 31, 2016, the bank held interest rate caps with a notional amount of $170.0 million and a fair value of $414, and pay fixed interest rate swap contracts with a notional amount of $200.0 million and a fair value of $7,660. See Note 15, "Derivative Instruments and Hedging Activity," to the accompanying financial statements for further discussion. Unrealized losses on interest rate caps, the difference between their amortized cost and fair value, are recorded as a reduction of accumulated other comprehensive income. To the extent that its derivatives have a negative fair value, the bank has a payable on the instrument and the counterparty is exposed to the credit risk of the bank. To the extent that its derivatives have a positive fair value, the bank has a receivable on the instrument and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the bank monitors the credit ratings of its counterparties and has bilateral collateral agreements with counterparties. At December 31, 2016, the bank had credit risk exposure to four counterparties on derivative contracts totaling $8,074.

The bank's activity in derivative financial instruments for 2016 is summarized in the table below:

Activity in Derivative Financial Instruments (Notional Amounts)

(in millions)	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2016	$ -	$ 310	$ 310
Additions	200	-	200
Maturities/amortizations	-	(140)	(140)
Balance at December 31, 2016	**$ 200**	**$ 170**	**$ 370**

Liquidity Risk Management

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

FCSIC insures the timely payment of principal and interest on Systemwide debt securities. FCSIC maintains the Insurance Fund for this purpose and for certain other purposes. In the event a System bank is unable to timely pay principal or interest on any insured debt obligation for which that bank is primarily liable, FCSIC must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the System banks on the debt obligation cannot be invoked until the Insurance Fund is exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

FCSIC has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to FCSIC. Under its existing statutory authority, FCSIC may use these funds to provide assistance to the System banks in demanding market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10.00 billion and terminates on September 30, 2017, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is in the discretion of FCSIC, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding will be available if needed by the System.

The bank's primary source of liquidity is the ability to issue Systemwide debt securities, which are the general unsecured joint and several obligations of the System banks as discussed below. As a secondary source of liquidity, the bank maintains an investment portfolio composed primarily of high-quality liquid securities. The securities provide a stable source of income for the bank, and their high quality ensures the portfolio can quickly be converted to cash should the need arise.

FCA regulations require each bank to maintain a minimum of 90 days of liquidity coverage on a continuous basis, assuming no access to the capital markets. Liquidity coverage is defined as the number of days that maturing Systemwide debt securities could be funded with cash and eligible liquidity investments maintained by the bank. Regulations on liquidity reserve requirement divided the existing eligible liquidity reserve requirement into three levels: Level 1 consists of cash and cash-like instruments and must provide 15 days of coverage; Level 2 consists primarily of government guaranteed securities and must provide 30 days of coverage (combined with Level 1); and Level 3 consists primarily of agency guaranteed securities and must provide a total of 90 days of coverage (combined with Level 1 and Level 2). Additionally, regulations require the bank to maintain a supplemental liquidity reserve above the 90-day minimum to cover cash flow requirements unique to the bank. At December 31, 2016, the bank met all individual level criteria and had a total of 199 days of liquidity coverage, as compared with 200 days at December 31, 2015.

Funding Sources

The bank continually raises funds to support its mission to provide credit and related services to the rural and agricultural sectors, repay maturing Systemwide debt securities and meet other obligations. As a government-sponsored enterprise, the bank has had access to the nation's and world's capital markets. This access has provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the rural and agricultural sectors. Moody's Investors Service and Standard & Poor's rate the System's long-term debt as Aaa and AA+, respectively. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's government-sponsored enterprise status. Standard and Poor's rating on long-term debt of AA+ is in concert with its sovereign credit rating on the United States of America at AA+. Material changes to the factors considered could result in a different debt rating. However, as a result of the System's financial performance, credit quality and standing in the capital markets, we anticipate continued access to funding necessary to support System needs. The U.S. government does not guarantee, directly or indirectly, Systemwide debt securities.

The types and characteristics of securities are described in Note 8, "Bonds and Notes," to the accompanying financial statements. As a condition of the bank's participation in the issuance of Systemwide debt securities, the bank is required by regulation to maintain specified eligible assets as collateral in an amount equal to or greater than the total amount of bonds and notes outstanding for which the bank is liable. At December 31, 2016, the bank had excess collateral of $1.56 billion. Management expects the bank to maintain sufficient collateral to permit its continued participation in Systemwide debt issuances in the foreseeable future.

In September 2008, the bank issued $50.0 million in subordinated debt in a private placement to one investor. The debt was a 10-year instrument with a coupon rate of 8.406 percent. Prior to the bank's issuance of its Class B noncumulative subordinated perpetual preferred stock (Class B Series 1) in August 2010, the subordinated debt received preferential regulatory capital and collateral treatment, being includible in portions of permanent capital and total surplus and being excludable from total liabilities for purposes of net collateral ratio calculation. Regulatory conditions related to the issuance of the Class B Series 1 preferred stock reduced the benefit of the favorable capital ratio treatment received by subordinated debt, and required that it no longer receive favorable treatment in net collateral calculations.

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 debt at par. The redemption occurred on June 6, 2016.

The bank receives ratings from two rating agencies:

- 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 second-loss position on the majority of their loan portfolio.

- 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 Investors Service highest assessments of any financial institution, both domestically and globally.

The following table provides a summary of the period-end balances of the debt obligations of the bank:

	December 31,		
(dollars in millions)	**2016**	2015	2014
Bonds and term notes outstanding	**$ 16,838**	$ 15,770	$ 14,751
Average effective interest rates	**1.34%**	1.26%	1.08%
Average remaining life (years)	**2.6**	2.7	2.7
Subordinated debt outstanding	**$ -**	$ 50	$ 50
Average effective interest rates	**-**	8.41%	8.41%
Average remaining life (years)	**-**	2.8	3.8
Discount notes outstanding	**$ 2,552**	$ 2,437	$ 1,579
Average effective interest rates	**0.63%**	0.30%	0.12%
Average remaining life (days)	**157**	110	140

The following table provides a summary of the average balances of the debt obligations of the bank:

	For the years ended December 31,		
	2016	2015	2014
Average interest-bearing liabilities outstanding	**$ 19,024**	$ 17,076	$ 15,233
Average interest rates on interest-bearing liabilities	**1.27%**	1.15%	1.07%

Investments

As permitted under FCA regulations, a bank is authorized to hold eligible investments for the purposes of maintaining a diverse source of liquidity, profitably managing short-term surplus funds and managing interest rate risk. The bank is authorized to hold an amount not to exceed 35.0 percent of loans outstanding. The bank's holdings are within this limit as of December 31, 2016.

FCA regulations also define eligible investments by specifying credit rating criteria, final maturity limit and percentage of investment portfolio limit for each investment type. Generally, the bank's investments must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard & Poor's or Fitch Ratings. If an investment no longer meets eligibility criteria, the investment becomes ineligible.

At December 31, 2016, the bank had no investments which were ineligible for liquidity purposes as a result of credit downgrading.

At December 31, 2016 and December 31, 2015, the bank held no securities that were designated as other-than-temporarily impaired investment (OTTI) and the bank had no credit losses related to OTTI securities. During 2014, the bank recognized credit losses on the sale of one OTTI security with a book value of $301, realizing a loss of $37. In December 2014, the bank sold five ineligible securities, which were not OTTI, with a combined book value of $7.0 million, realizing a net loss of $212.

The bank's liquidity investment portfolio consisted of the following at December 31:

	2016		2015	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 225,457**	**$ 222,374**	$ 252,436	$ 248,355
Corporate debt	**202,365**	**202,403**	201,332	200,602
Federal agency collateralized mortgage-backed securities:				
GNMA	**1,697,627**	**1,682,999**	1,740,411	1,731,756
FNMA & FHLMC	**2,308,775**	**2,290,579**	2,008,449	1,998,669
U.S. Treasury securities	**249,502**	**249,006**	-	-
Asset-backed securities	**130,703**	**130,679**	200,485	200,073
Total liquidity investments	**$ 4,814,429**	**$ 4,778,040**	$ 4,403,113	$ 4,379,455

Total liquidity investments increased $398,585, or 9.1 percent, in 2016. The growth was primarily the result of increased agency debt securities and U.S. Treasury securities.

The bank's other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), purchased from three district associations as part of the bank's Capitalized Participation Pool (CPP) program. The AMBS are not included in the bank's liquidity portfolio. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements. As a part of the CPP program, any positive impact to the net income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool.

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

The bank's other investment portfolio consisted of Farmer Mac AMBS securities at December 31:

	2016		2015	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 55,475**	**$ 53,335**	$ 67,268	$ 65,650

The bank's available-for-sale investments are reflected at fair value.

Capital Adequacy

Total shareholders' equity at December 31, 2016, was $1,662,252, compared to $1,553,578 and $1,479,221 at December 31, 2015 and 2014, respectively. The $68,674 increase during 2016 was due primarily to net income of $192,406 and a $29,218 issuance of capital stock offset by an increase of $5,248 in accumulated other comprehensive loss, $96,449 in patronage declared, $50,520 in dividends paid on preferred stock and a $1,003 retirement of capital stock. The bank's $96,449 in declared patronage included $57,782 in direct loan patronage, $31,763 in patronage on certain participations, $4,790 in patronage based on the associations' and OFIs' stock investment in the bank and Capitalized Participation Pool (CPP) patronage of $2,114. The bank's goal is to provide direct note patronage at a level that would result in a cost of funds to district associations equal to the bank's marginal cost of funds, which was achieved for the year ended 2016.

Preferred stock totaled $600,000 at December 31, 2016, 2015 and 2014. Class B noncumulative subordinated perpetual preferred stock, which totaled $600,000 at December 31, 2016, 2015 and 2014, included $300,000 of Class B-1, issued in 2010, and $300,000 of Class B-2, issued in July 2013. Dividends on the Class B-1 preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. Dividends on the Class B-2 preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2013, at an annual fixed rate of 6.75 percent of par value of $100 per share, up to, but excluding September 15, 2023, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 4.01 percent. The Class B preferred stock ranks senior to all of our outstanding common stock. For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. "Dividend/patronage stopper" clauses in the preferred stock offerings require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and were required before payment of the December 31, 2016, bank investment and direct note patronage to associations and OFIs could be paid.

Accumulated other comprehensive loss (AOCL) increased $5,248, or 19.2 percent, to a $32,579 loss at December 31, 2016, from a $27,331 loss at December 31, 2015, due to an increase of $13,253 in unrealized net losses on the bank's investments, net of a $323 decrease related to retirement benefits and an increase of $8,328 in unrealized gains on the bank's cash flow hedges. The increase in unrealized net losses on investments was primarily attributable to the effects of market interest rate changes on the bank's fixed-rate investments. The $8,328 increase of unrealized gain on cash flow hedges is the result of changes in the valuation of interest rate swaps the bank held during 2016. The bank held cash flow interest rate swaps at December 31, 2016, and no cash flow interest rate swaps at December 31, 2015 or 2014. The $323 decrease on retirement benefits was primarily due to an actuarial loss on postretirement benefit plans. The actuarial loss included the effects of an increase in the discount rate used to determine the present value of our future benefit obligations.

Capital adequacy is evaluated using various ratios for which the FCA has established regulatory minimums. The following table reflects the bank's capital ratios at December 31:

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	**17.40%**	17.74%	18.33%	7.00%
Total surplus ratio	**14.98**	15.48	15.86	7.00
Core surplus ratio	**9.97**	9.88	10.07	3.50
Collateral ratio	**107.35**	107.70	108.00	103.00

The regulatory minimum for the collateral ratio is 103.00 or, if there is outstanding subordinated debt, 104.00. The bank redeemed all subordinated debt in June 2016, changing the required minimum for the bank from 104.00 at December 31, 2015 and 2014 to 103.00 at December 31, 2016. For additional information about the bank's capital, see Note 9, "Shareholders' Equity," to the accompanying financial statements.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. The board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution;
- adoption of internal audit and control procedures;
- direction for the operation of a program to review and assess its assets;
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation;
- adoption of asset quality classification standards;
- adoption of standards for assessing credit administration, including the appraisal of collateral; and
- adoption of standards for the training required to initiate a program.

In general, we address operational risk through the organization's internal governance structure. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are risk-based and are re-evaluated on an annual basis, or more frequently, if necessary. The board of directors is responsible for defining the role of the audit committee in providing oversight and review of the institution's internal controls.

Reputational Risk Management

Reputational risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the bank, the System or any of its entities. The bank and its affiliated associations could be harmed if its reputation were impacted by negative publicity about the System as a whole, an individual System entity or the agriculture industry in general.

Reputational risk is the direct responsibility of each System entity. For reputational issues that have broader consequences for the System as a whole, System governance will communicate guidance to the System supporting those business practices that are consistent with our mission.

Political Risk Management

We, as part of the System, are an instrumentality of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that affects the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

We manage political risk by actively supporting The Farm Credit Council (Council), which is a full-service, federal trade association representing the System before Congress, the executive branch and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, we take an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to the Council, each district has its own council, which is a member of the Council. The district councils represent the interests of their members on a local and state level, as well as on a federal level.

Recent Accounting Pronouncements

In 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 repayment 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 bank'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 Financial Accounting Standards Board (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 will evaluate the impact of adoption on its financial condition and its 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 is currently evaluating the impact of adoption on its 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. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. 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's financial condition or its results of operations.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In 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 is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

Regulatory Matters

At December 31, 2016, there were no district associations under written agreements with the Farm Credit Administration.

On October 30, 2015, the Farm Credit Administration, along with four other federal agencies, issued a final rule to establish capital and margin requirements for covered swap entities as required by the Dodd-Frank Act. On the same date, FCA and the other agencies also issued an interim final rule with a request for comments exempting certain financial end users from the margin requirements in the final rule. The deadline for submission of public comments was January 31, 2016. Both the final and the interim final rules became effective April 1, 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.

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 proposed rule are as follows:

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

The 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 new capital requirements became effective January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. Based on pro forma analysis conducted by the bank, it is expected 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. 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 February 20, 2014, FCA published a proposed rule to amend its regulations governing standards of conduct of directors, employees and agents of Farm Credit System institutions, excluding the Federal Agricultural Mortgage Corporation. The amendments would clarify and strengthen reporting requirements and prohibitions, require institutions to establish a Code of Ethics, and enhance the role of the Standards of Conduct Official. The public comment period ended on June 20, 2014. According to its Fall 2016 Regulatory Projects Plan, FCA plans to issue a re-proposed regulation in the first quarter of 2017.

Report of Management

The financial statements of the Farm Credit Bank of Texas (bank) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, except as noted. Other financial information included in this annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the bank's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. To monitor compliance, the internal audit staff of the Farm Credit Bank of Texas audits the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are audited by PricewaterhouseCoopers LLP (PwC), independent auditors, who also conduct a review of internal accounting controls to establish a basis for reliance thereon in determining the nature, extent and timing of the audit tests applied in the examination of the financial statements. In addition, the bank is examined annually by the Farm Credit Administration.

In the opinion of management, the financial statements are true and correct and fairly state the financial position of the Farm Credit Bank of Texas at December 31, 2016, 2015 and 2014. The independent auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of the bank.

The undersigned certify that we have reviewed the December 31, 2016, annual report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

March 2, 2017

Report of Audit Committee

The audit committee (committee) is composed of the entire board of directors of the Farm Credit Bank of Texas (bank). The committee oversees the bank's system of internal controls and the adequacy of management's action with respect to recommendations arising from those internal control activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's website at *www.farmcreditbank.com*. In 2016, 11 committee meetings were held, with some of these meetings including executive sessions between the committee and Pricewaterhouse-Coopers LLP (PwC) and the bank's internal auditor. The committee approved the appointment of PwC as independent auditors for 2016.

Management is responsible for the bank's internal controls and for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the bank's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed the bank's audited financial statements for the year ended December 31, 2016, with management and PwC. The committee also reviewed with PwC the matters required to be discussed by Auditing Standard Section 380 (Communication with Audit Committees).

PwC has provided to the committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees). The committee discussed with appropriate representatives of PwC the firm's independence from the bank. The committee also approved the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the auditor's independence. Furthermore, throughout 2016 the committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate. Both PwC and the bank's internal auditor directly provided reports on significant matters to the committee.

Brad C. Bean, Chairman
M. Philip Guthrie, Vice Chairman
Ralph W. Cortese
James F. Dodson
Linda C. Floerke
Elizabeth G. Flores
Lester Little

Audit Committee Members

March 2, 2017

Report on Internal Control Over Financial Reporting

The Farm Credit Bank of Texas' (bank's) principal executive and principal financial officer are responsible for establishing and maintaining adequate internal control over financial reporting for the bank's financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the bank's principal executive and principal financial officer, or persons performing similar functions, and effected by its boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the bank's assets that could have a material effect on its financial statements.

The bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. In making the assessment, management used the updated Internal Control – Integrated Framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission on May 14, 2013, commonly referred to as the "COSO 2013 Framework."

Based on the assessment performed, the bank concluded that as of December 31, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the bank determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2016. A review of the assessment performed was reported to the bank's audit committee.

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

March 2, 2017

pwc

Report of Independent Auditors

To the Board of Directors of Farm Credit Bank of Texas

We have audited the accompanying financial statements of Farm Credit Bank of Texas (the Bank), which comprise the balance sheets as of December 31, 2016, 2015 and 2014, and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit Bank of Texas as of December 31, 2016, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 2, 2017

PricewaterhouseCoopers LLP, 300 West 6th Street, Suite 1800, Austin, Texas 78701
T: (512) 477-1300, F: (512) 477-8681, www.pwc.com/us

Balance Sheets

Farm Credit Bank of Texas

(dollars in thousands)	2016	December 31, 2015	2014
Assets			
Cash	**$ 195,479**	$ 545,090	$ 428,361
Federal funds sold and overnight investments	**22,901**	22,413	22,086
Investment securities	**4,831,375**	4,445,105	4,086,391
Loans (includes $16,311, $27,506 and $40,532 at fair value held under fair value option)	**15,909,403**	14,771,006	13,259,837
Less allowance for loan losses	**7,650**	5,833	10,112
Net loans	**15,901,753**	14,765,173	13,249,725
Accrued interest receivable	**50,191**	47,816	44,429
Other property owned	**-**	438	10,310
Premises and equipment, net	**37,999**	27,835	25,197
Other assets	**182,700**	135,705	135,517
Total assets	**$ 21,222,398**	$ 19,989,575	$ 18,002,016
Liabilities and Shareholders' Equity			
Liabilities			
Bonds and notes, net	**$ 19,390,662**	$ 18,206,726	$ 16,330,008
Subordinated debt, net	**-**	49,801	49,739
Accrued interest payable	**50,255**	44,766	38,122
Reserve for credit losses	**1,646**	1,342	1,342
Preferred stock dividends payable	**20,063**	20,063	20,063
Patronage payable	**29,398**	22,414	19,698
Other liabilities	**108,122**	90,885	63,823
Total liabilities	**19,600,146**	18,435,997	16,522,795
Commitments and contingencies (Note 12)			
Shareholders' Equity			
Preferred stock	**600,000**	600,000	600,000
Capital stock	**284,038**	255,823	233,468
Allocated retained earnings	**33,171**	27,203	22,508
Unallocated retained earnings	**737,622**	697,883	643,067
Accumulated other comprehensive loss	**(32,579)**	(27,331)	(19,822)
Total shareholders' equity	**1,622,252**	1,553,578	1,479,221
Total liabilities and shareholders' equity	**$ 21,222,398**	$ 19,989,575	$ 18,002,016

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

Statements of Comprehensive Income

Farm Credit Bank of Texas

(dollars in thousands)	2016	Year Ended December 31, 2015	2014
Interest Income			
Loans	**$ 411,159**	$ 367,797	$ 336,899
Investment securities	**69,353**	60,563	52,924
Total interest income	**480,512**	428,360	389,823
Interest Expense			
Bonds, notes and subordinated debt	**242,191**	195,892	163,164
Net Interest Income	**238,321**	232,468	226,659
Provision (negative provision) for credit losses	**563**	(2,506)	(5,433)
Net interest income after provision (negative provision) for credit losses	**237,758**	234,974	232,092
Noninterest Income			
Patronage income	**27,504**	21,452	19,534
Fees for services to associations	**4,355**	4,150	3,806
Fees for loan-related services	**13,834**	13,514	12,968
Loss on sale of securities	**-**	-	(212)
Loss on loans held under fair value option	**(418)**	(838)	(367)
Other income, net	**5,144**	2,360	2,153
Impairment losses on investments			
Total other-than-temporarily impaired losses	**-**	-	(37)
Less: portion of loss recognized in other comprehensive income	**-**	-	-
Net impairment loss recognized in earnings	**-**	-	(37)
Total noninterest income	**50,419**	40,638	37,845
Noninterest Expenses			
Salaries and employee benefits	**37,430**	35,907	35,583
Occupancy and equipment	**16,489**	14,817	12,599
FCSIC premiums	**12,671**	9,004	7,444
Losses (gains) on other property owned	**439**	(3,090)	(314)
Other operating expenses	**28,742**	26,735	26,365
Total noninterest expenses	**95,771**	83,373	81,677
Net Income	**$ 192,406**	$ 192,239	$ 188,260
Other comprehensive (loss) income			
Change in postretirement benefit plans	**(323)**	879	(2,669)
Change in unrealized (loss) gain on investments	**(13,253)**	(9,176)	14,203
Change in cash flow derivative instruments	**8,328**	788	1,757
Total other comprehensive (loss) income	**(5,248)**	(7,509)	13,291
Comprehensive Income	**$ 187,158**	$ 184,730	$ 201,551

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

Statements of Changes In Shareholders' Equity

Farm Credit Bank of Texas

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2013	$ 600,000	$ 220,543	$ 20,314	$ 585,503	$ (33,113)	$ 1,393,247
Net income	-	-	-	188,260	-	188,260
Other comprehensive gain	-	-	-	-	13,291	13,291
Capital stock and allocated retained earnings issued	-	14,714	-	-	-	14,714
Capital stock and allocated retained earnings retired	-	(1,789)	(1,838)	-	-	(3,627)
Preferred stock dividends	-	-	-	(50,250)	-	(50,250)
Patronage distributions						
Cash	-	-	-	(76,414)	-	(76,414)
Shareholders' equity	-	-	4,032	(4,032)	-	-
Balance at December 31, 2014	600,000	233,468	22,508	643,067	(19,822)	1,479,221
Net income	-	-	-	192,239	-	192,239
Other comprehensive loss	-	-	-	-	(7,509)	(7,509)
Capital stock and allocated retained earnings issued	-	23,742	-	-	-	23,742
Capital stock and allocated retained earnings retired	-	(1,387)	-	-	-	(1,387)
Preferred stock dividends	-	-	-	(50,250)	-	(50,250)
Patronage distributions						
Cash	-	-	-	(82,478)	-	(82,478)
Shareholders' equity	-	-	4,695	(4,695)	-	-
Balance at December 31, 2015	600,000	255,823	27,203	697,883	(27,331)	1,553,578
Net income	-	-	-	192,406	-	192,406
Other comprehensive loss	-	-	-	-	(5,248)	(5,248)
Capital stock and allocated retained earnings issued	-	29,218	-	-	-	29,218
Capital stock and allocated retained earnings retired	-	(1,003)	-	-	-	(1,003)
Preferred stock dividends	-	-	-	(50,250)	-	(50,250)
Patronage distributions						
Cash	-	-	-	(96,449)	-	(96,449)
Shareholders' equity	-	-	5,968	(5,968)	-	-
Balance at December 31, 2016	**$ 600,000**	**$ 284,038**	**$ 33,171**	**$ 737,622**	**$ (32,579)**	**$ 1,622,252**

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

Statements of Cash Flows

Farm Credit Bank of Texas

(dollars in thousands)	Year Ended December 31, 2016	2015	2014
Cash Flows From Operating Activities			
Net income	**$ 192,406**	$ 192,239	$ 188,260
Reconciliation of net income to net cash provided by operating activities			
Provision (negative provision) for credit losses	**563**	(2,506)	(5,433)
Loss (gain) on sales of other property owned	**439**	(3,090)	(461)
Carrying value adjustments on other property owned	**-**	-	159
Depreciation and amortization on premises and equipment	**6,048**	5,621	4,737
Amortization of net premium on loans	**4,681**	11,504	8,122
Amortization and accretion on debt instruments	**27,153**	11,857	5,167
Accretion of net premium on investments	**3,711**	1,058	2,962
Decrease in fair value of loans held under fair value option	**418**	838	367
Decrease in fair value of loans held for sale	**-**	77	-
Gain on sale of loans	**(4,867)**	-	-
Loss on sale of investment securities	**-**	-	212
Loss on impairment of available-for-sale investments	**-**	-	37
Allocated equity patronage from System bank	**(13,847)**	(13,498)	(13,083)
Losses on other earning assets	**240**	-	-
(Gain) loss on sales of premises and equipment	**(4)**	3,124	(24)
Increase in accrued interest receivable	**(2,375)**	(3,387)	(6,772)
(Increase) decrease in other assets, net	**(26,614)**	551	432
Increase in accrued interest payable	**5,489**	6,644	373
Increase in other liabilities, net	**27,789**	4,644	(994)
Net cash provided by operating activities	**221,230**	215,676	184,061
Cash Flows From Investing Activities			
Net increase in federal funds sold	**(488)**	(327)	(277)
Investment securities			
Purchases	**(1,565,888)**	(1,412,538)	(1,341,218)
Proceeds from maturities, calls and prepayments	**1,162,654**	1,043,591	896,601
Proceeds from sales	**-**	-	7,073
Increase in loans, net	**(1,306,619)**	(1,686,087)	(1,538,800)
Proceeds from sale of loans	**163,839**	200,000	-
Proceeds from sale of other property owned	**-**	12,962	3,804
Proceeds from sale of premises and equipment	**14**	59	70
Expenditures for premises and equipment	**(16,222)**	(10,320)	(6,766)
Investment in other earning assets	**(3,239)**	(3,459)	-
Net cash used in investing activities	**(1,565,949)**	(1,856,119)	(1,979,513)
Cash Flows From Financing Activities			
Bonds and notes issued	**19,670,304**	15,030,200	10,355,988
Bonds and notes retired	**(18,513,323)**	(13,165,277)	(8,621,886)
Redemption of subordinate debt	**(50,000)**	-	-
Repayments on capital lease obligation	**(374)**	(94)	-
Capital stock issued	**29,218**	23,742	14,714
Capital stock retired and allocated retained earnings distributed	**(1,003)**	(1,387)	(3,627)
Cash dividends on preferred stock	**(50,250)**	(50,250)	(50,250)
Cash patronage distributions paid	**(89,464)**	(79,762)	(73,578)
Net cash provided by financing activities	**995,108**	1,757,172	1,621,361
Net (decrease) increase in cash	**(349,611)**	116,729	(174,091)
Cash at beginning of year	**545,090**	428,361	602,452
Cash at End of Year	**$ 195,479**	$ 545,090	$ 428,361
Supplemental Schedule of Noncash Investing and Financing Activities			
Net (decrease) increase in unrealized gains on investment securities	**$ (13,253)**	$ (9,176)	$ 14,203
Preferred stock dividends payable	**20,063**	20,063	20,063
Patronage distributions payable	**29,398**	22,414	19,698
Capital lease obligation	**655**	1,028	-
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 236,702**	$ 189,248	$ 162,791

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

Notes to Financial Statements

Farm Credit Bank of Texas

(dollars in thousands, except per share amounts and as otherwise noted)

Note 1 — Organization and Operations

A. Organization

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

As of December 31, 2016, the nation was served by three Farm Credit Banks (FCBs), each of which has specific lending authority within its chartered territory, and one Agricultural Credit Bank (ACB) — collectively, the "System banks" — which has nationwide lending authority for lending to cooperatives. The ACB also has the lending authorities of an FCB within its chartered territories. The bank is chartered to serve the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Federal Land Credit Associations (FLCAs) and/or Agricultural Credit Associations (ACAs). The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (district). The district's one FLCA, 13 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs) and preferred stockholders jointly owned the bank at December 31, 2016. The FLCA and ACAs collectively are referred to as associations.

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

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

B. Operations:

The Farm Credit Act sets forth the types of authorized lending activities and financial services which can be offered by the bank and defines the eligible borrowers which it may serve.

The bank lends primarily to the district associations in the form of revolving lines of credit (direct notes) to fund the associations' loan portfolios. These direct notes are collateralized by a pledge of substantially all of each association's assets. The terms of the revolving direct notes are governed by a general financing agreement between the bank and each association. Each advance is structured so that the principal cash flow, repricing characteristics and underlying index (if any) of the advance match those of the assets being funded. By match-funding the association loans, the interest rate risk is effectively transferred to the bank. Advances are also made to fund general operating expenses of the associations. The FLCA borrows money from the bank and, in turn, originates and services long-term real estate and agribusiness loans to their members. ACAs borrow from the bank and in turn originate and service long-term mortgage loans through the FLCA subsidiary and short- and intermediate-term loans through the PCA subsidiary. The OFIs borrow from the bank and in turn originate and service short- and intermediate-term loans to their members. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority, but not all, of its loan advances to association member-borrowers.

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, human resources and marketing. The fees charged by the bank for these services are included in the bank's noninterest income.

The bank is also authorized to provide, in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The bank may also lend to qualifying financial institutions engaged in lending to eligible borrowers.

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

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) — provides for the issuance, marketing and processing of Systemwide debt securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- Farm Credit System Building Association — leases premises and equipment to the FCA, as required by the Farm Credit Act.

- Farm Credit System Association Captive Insurance Company — as a reciprocal insurer, provides insurance services to its member organizations.

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

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

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the bank conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires the management of the bank to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these notes as applicable.

Revisions and Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. In addition, the bank revised its cash flow statement for 2015 and 2014 between the net cash provided by operating activities, the net cash used in investing activities and net cash provided by financing activities to correctly present the accretion on net premium on loans, the issuance of new debt concession costs, the amortization and accretion on debt instruments and the accretion of net premium on investments. The revision resulted in an increase to net cash provided by operating activities of $20.8 million for 2015 and $10.6 million for 2014, an increase in net cash used in investing activities of $3.2 million for 2015 and $3.6 million for 2014 and a decrease in net cash provided by financing activities of $17.6 million for 2015 and $7.0 million for 2014. Management has evaluated the impact of these corrections and concluded that the amounts are immaterial to previously issued financial statements; however, it has elected to revise the cash flow statement in order to correctly present such amounts. The correction had no effect on the balance sheet, the statement of comprehensive income, earnings or the financial ratios.

The accompanying financial statements include the accounts of the bank and reflect the investments in and allocated earnings of the service organizations in which the bank has partial ownership interests.

The multiemployer structure of certain retirement and benefit plans of the district results in the recording of these plans only in the combined financial statements of the district.

A. Cash:

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

B. Investment Securities and Federal Funds:

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

The bank's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2016, 2015 and 2014. These investments are reported at fair value, and unrealized holding gains and losses on investments are netted and reported as a separate component of members' equity in the balance sheet (accumulated other comprehensive gain [loss]). Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other-than-temporarily impaired. The bank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the bank would record an additional other-than-temporarily impaired and adjust the yield of the security prospectively. The amount of total other-than-temporarily impaired for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporarily impaired and its fair value. Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The bank does not hold investments for trading purposes.

The bank may also hold additional investments in accordance with mission-related investment programs, approved by the Farm Credit Administration. These programs allow the bank to make investments that further the System's mission to serve rural America. Mission-related investments are not included in the bank's liquidity calculations and are not covered by the eligible investment limitations specified by the FCA regulations. Mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) are considered other investments in the available-for-sale portfolio and are also excluded from the limitation and the bank's liquidity calculations.

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

C. Loans and Reserves for Credit Losses:

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

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

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

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

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

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

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

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

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

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

The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs. The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

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

D. Other Property Owned:

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

E. Premises and Equipment:

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

F. Other Assets and Other Liabilities:

The bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the bank on such balances. There were no significant balances of ACPs at December 31, 2016, 2015 and 2014.

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

Other assets also includes any loans that are designated as a held-for-sale portfolio, of which there were none at December 31, 2016.

G. Employee Benefit Plans:

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

The structure of the district's defined benefit plan (DB plan) is characterized as multiemployer, since neither the assets, liabilities nor cost of the plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. Participating employers are jointly and severally liable for the plan obligations. Upon withdrawal or termination of their participation in the plan, a participating employer must pay all associated costs of its withdrawal from the plan, including its unfunded liability (the difference between replacement annuities and the withdrawing employer's share of allocated plan assets). As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination at the district level only. The bank records current contributions to the DB plan as an expense in the current year.

In addition to pension benefits, the bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

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

H. Income Taxes:

The bank is exempt from federal and certain other income taxes as provided in the Farm Credit Act.

I. Derivative Instruments and Hedging Activity:

In the normal course of business, the bank may enter into derivative financial instruments, including interest rate swaps and caps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions. Derivatives are recorded on the balance sheet as assets and liabilities, measured at fair value.

In accordance with authoritative accounting guidance, for fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value. For cash flow hedges, which hedge the exposure to variability in expected future cash flows, changes in the fair value of the derivative will generally be offset by an entry to accumulated other comprehensive income in shareholders' equity. The bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific liabilities on the balance sheet. The bank may use interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of authoritative accounting guidance, and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively if it was determined that a hedge has not been or is not expected to be effective as a hedge. In the event that hedge accounting were discontinued and the derivative remained outstanding, the bank would carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings. See Note 15, "Derivative Instruments and Hedging Activity," for additional disclosures about derivative instruments.

J. Fair Value Measurements:

The Financial Accounting Standards Board (FASB) guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Included in Level 1 are assets held in trust funds, which relate to deferred compensation. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities and derivative contracts. The market value of collateral assets and liabilities is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

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

The fair value disclosures are presented in Note 14, "Fair Value Measurements."

K. Recently Issued or Adopted Accounting Pronouncements:

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 repayment 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 bank'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 Financial Accounting Standards Board (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 will evaluate the impact of adoption on the bank's financial condition and its 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 is currently evaluating the impact of adoption on its 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. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. 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's financial condition or its results of operations.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In 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 is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

L. Off-Balance-Sheet Credit Exposures:

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and the third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

M. Change in Accounting Principle – Debt Issuance Costs:

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance entitled "Interest — Imputation of Interest." The guidance requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). This guidance was to become effective for interim and annual reporting periods beginning after December 15, 2015, with early application permitted. The bank elected to adopt this guidance effective December 31, 2015, with the required retroactive application. The adoption of this guidance resulted in the Balance Sheets reclassification of unamortized debt issuance costs from "Other assets" to offset balance of the related debt liability, and had no impact on retained earnings or shareholders' equity and did not result in any change to the Statements of Comprehensive Income. The amounts reclassified from "Other assets" to offset the related debt are summarized below:

	2015	2014
Bonds and notes	$ 13,652	$ 11,273
Subordinated debt	199	261
Total reclassification from Other assets	$ 13,851	$ 11,534

Note 3 — Investment Securities

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of agency-guaranteed debt instruments, mortgage-backed investments, asset-backed investments and corporate debt. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations in 2010, 2012 and 2014, as a part of the bank's Capitalized Participation Pool (CPP) program. In accordance with this program, any positive impact to the net income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

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

	2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	**$ 225,457**	**$ 160**	**$ (3,243)**	**$ 222,374**	**1.80%**
Corporate debt	**202,365**	**461**	**(423)**	**202,403**	**1.41**
Federal agency collateralized mortgage-backed securities					
GNMA	**1,697,627**	**1,452**	**(16,080)**	**1,682,999**	**1.61**
FNMA and FHLMC	**2,308,775**	**2,026**	**(20,222)**	**2,290,579**	**1.47**
U.S. Treasury securities	**249,502**	**-**	**(496)**	**249,006**	**0.90**
Asset-backed securities	**130,703**	**19**	**(43)**	**130,679**	**1.10**
Total liquidity investments	**$ 4,814,429**	**$ 4,118**	**$ (40,507)**	**$ 4,778,040**	**1.49%**

	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 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 liquidity investments	$ 4,403,113	$ 6,942	$ (30,600)	$4,379,455	1.37%

	2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 159,334	$ -	$ (4,144)	$ 155,190	1.45%
Corporate debt	241,516	313	(299)	241,530	0.76
Federal agency collateralized mortgage-backed securities					
GNMA	1,708,215	6,212	(13,010)	1,701,417	1.54
FNMA and FHLMC	1,829,075	6,174	(9,355)	1,825,894	1.36
Other collateralized mortgage-backed securities	7	-	-	7	2.42
Asset-backed securities	81,806	10	(46)	81,770	0.59
Total liquidity investments	$ 4,019,953	$ 12,709	$ (26,854)	$4,005,808	1.39%

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

	2016				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	**$ 55,475**	**$ -**	**$ (2,140)**	**$ 53,335**	**4.23%**

	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%

	2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 82,539	$ -	$ (1,956)	$ 80,583	4.17%

There were no investments in the held-to-maturity portfolio at December 31, 2016, December 31, 2015 or December 31, 2014.

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of the available-for-sale liquidity portfolio at December 31, 2016:

	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	$ -	$ -	$ 222,374	$ -	$ 222,374
Corporate debt	97,549	104,854	-	-	202,403
Federal agency collateralized mortgage-backed securities					
GNMA	-	349	1,871	1,680,779	1,682,999
FNMA and FHLMC	-	20,880	320,013	1,949,686	2,290,579
U.S. Treasury securities	-	249,006	-	-	249,006
Asset-backed securities	1,960	125,598	-	3,121	130,679
Total fair value	$ 99,509	$ 500,687	$ 544,258	$ 3,633,586	$ 4,778,040
Total amortized cost	$ 99,469	$ 501,190	$ 548,402	$ 3,665,368	$ 4,814,429
Weighted average yield	1.32%	1.11%	1.62%	1.53%	1.49%

Collateralized mortgage obligations (CMOs) have stated contractual maturities in excess of 15 years. However, the security structure of the CMOs is designed to produce a relatively short-term life. At December 31, 2016, the CMO portfolio had a weighted average remaining life of 3.5 years.

Investments in the available-for-sale other investments portfolio at December 31, 2016:

	Due after one year through five years	**Due after five years through 10 years**	**Total**
Fair value of agricultural mortgage-backed securities	$ 22,789	$ 30,546	$ 53,335
Total amortized cost	$ 23,434	$ 32,041	$ 55,475
Weighted average yield	4.19%	4.27%	4.23%

The ratings of the eligible investments held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk must meet the applicable regulatory guidelines, which require these securities to be high-quality, senior class and rated triple-A at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through overcollateralization and the priority of payments of senior classes over junior classes. The bank performs analysis based on expected behavior of the loans, whereby these loan performance scenarios are applied against each security's credit-support structure to monitor credit-enhancement sufficiency to protect the investment. The model output includes projected cash flows, including any shortfalls in the capacity of the underlying collateral to fully return the original investment, plus accrued interest.

If an investment no longer meets the credit rating criteria, the investment becomes ineligible. At December 31, 2016, the bank held no investments that were ineligible for liquidity purposes by FCA standards.

There were no sales of other-than-temporarily impaired (OTTI) investments at December 31, 2016 or December 31, 2015. There was a sale of one OTTI security in 2014. Proceeds and related losses on sales or impairments of specific investment securities follow:

	Year Ended December 31, 2014
Proceeds on sales	$ 264
Realized losses on sales	37
Realized losses due to Impairment	-

At December 31, 2016, the bank had 302 investments, including 184 investments that were in a loss position. The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position. The continuous loss position is based on the date the impairment occurred.

	December 31, 2016					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	**$ 97,764**	**$ (1,380)**	**$ 89,055**	**$ (1,863)**	**$ 186,819**	**$ (3,243)**
Corporate debt	**14,993**	**(3)**	**27,098**	**(420)**	**42,091**	**(423)**
Federal agency collateralized mortgage-backed securities						
GNMA	**1,019,022**	**(8,613)**	**399,310**	**(7,467)**	**1,418,332**	**(16,080)**
FNMA and FHLMC	**1,343,532**	**(14,666)**	**511,743**	**(5,556)**	**1,855,275**	**(20,222)**
U.S. Treasury securities	**249,006**	**(496)**	**-**	**-**	**249,006**	**(496)**
Asset-backed securities	**47,705**	**(39)**	**8,649**	**(4)**	**56,354**	**(43)**
Total	**$ 2,772,022**	**$ (25,197)**	**$ 1,035,855**	**$ (15,310)**	**$ 3,807,877**	**$ (40,507)**

	December 31, 2015					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	$ 128,784	$ (1,413)	$ 95,370	$ (2,780)	$ 224,154	$ (4,193)
Corporate debt	144,151	(637)	12,398	(147)	156,549	(784)
Federal agency collateralized mortgage-backed securities						
GNMA	406,962	(1,775)	571,789	(10,658)	978,751	(12,433)
FNMA and FHLMC	1,366,070	(7,925)	138,358	(4,851)	1,504,428	(12,776)
Asset-backed securities	175,092	(393)	14,979	(21)	190,071	(414)
Total	$ 2,221,059	$ (12,143)	$ 832,894	$ (18,457)	$ 3,053,953	$ (30,600)

	December 31, 2014					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	$ 64,869	$ (128)	$ 90,321	$ (4,016)	$ 155,190	$ (4,144)
Corporate debt	77,228	(290)	14,991	(9)	92,219	(299)
Federal agency collateralized mortgage-backed securities						
GNMA	567,669	(2,188)	394,308	(10,822)	961,977	(13,010)
FNMA and FHLMC	431,074	(2,343)	437,178	(7,012)	868,252	(9,355)
Other collateralized mortgage-backed securities	-	-	7	-	7	-
Asset-backed securities	47,256	(46)	-	-	47,256	(46)
Total	$ 1,188,096	$ (4,995)	$ 936,805	$ (21,859)	$ 2,124,901	$ (26,854)

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," the guidance for other-than-temporarily impaired contemplates numerous factors in determining whether an impairment is other-than-temporary, including: (i) whether or not an entity intends to sell the security, (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs or (iii) whether or not an entity expects to recover the security's entire amortized cost basis (even if it does not intend to sell).

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

There were no other-than-temporarily impaired (OTTI) securities at December 31, 2016 or 2015. During 2014, the bank recognized credit losses on the sale of one other-than-temporarily impaired investment (OTTI) security with a book value of $301, realizing a loss of $37.

To measure the amount related to credit loss in the determination of other-than-temporary impairment, the bank may utilize an independent third party's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan level data. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses.

The following table details the activity related to the credit loss component of the amortized cost of debt securities that have been written down for other-than-temporarily impaired and the credit component of the loss that is recognized in earnings for the twelve months ending December 31:

	2016	2015	2014
Credit loss component, beginning of period	**$ -**	$ -	$ 454
Additions:			
Subsequent credit impairment	**-**	-	37
Reductions:			
For securities sold	**-**	-	(491)
Credit loss component, end of period	**$ -**	$ -	$ -

Note 4 — Loans and Reserves for Credit Losses

Loans comprised the following categories at December 31:

	2016	2015	2014
Direct notes receivable from district associations and OFIs	**$ 10,625,132**	$ 9,621,039	$ 8,504,806
Participations purchased	**5,283,917**	5,149,552	4,753,363
Other bank-owned loans	**354**	415	1,668
Total loans	**$ 15,909,403**	$ 14,771,006	$ 13,259,837

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

	2016	2015	2014
Direct notes receivable from district associations	**$ 10,583,054**	$ 9,578,441	$ 8,465,887
Real estate mortgage	**463,955**	314,098	337,777
Production and intermediate term	**525,931**	604,007	567,721
Agribusiness			
Loans to cooperatives	**296,486**	184,918	141,478
Processing and marketing	**2,134,186**	2,193,850	1,951,908
Farm-related business	**132,813**	164,074	227,125
Communications	**335,171**	345,555	252,117
Energy (rural utilities)	**1,248,297**	1,120,981	1,109,552
Water and waste disposal	**129,116**	144,187	134,644
Rural home	**-**	11	16
Agricultural export finance	**-**	9,713	-
Mission-related	**18,316**	68,573	32,693
Loans to other financing institutions	**42,078**	42,598	38,919
Total	**$ 15,909,403**	$ 14,771,006	$ 13,259,837

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank seeks 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 subparticipated to the associations or to other System entities.

The bank purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations.

The following table presents information on loan participations, excluding syndications, at December 31, 2016:

	Other Farm Credit Institutions		Non–Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 745,953	$ 346,195	$ -	$ 1,780	$ 745,953	$ 347,975
Production and intermediate term	1,328,639	771,732	11,472	84,947	1,340,111	856,679
Agribusiness	2,027,555	811,042	13,000	-	2,040,555	811,042
Communications	466,050	130,409	-	-	466,050	130,409
Energy (rural utilities)	1,434,493	185,876	-	-	1,434,493	185,876
Water and waste disposal	140,389	10,951	-	-	140,389	10,951
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Mission-related	4,512	-	-	-	4,512	-
Loans to other financing institutions	-	11,190	-	-	-	11,190
Total	**$ 6,147,591**	**$ 6,117,395**	**$ 24,472**	**$ 86,727**	**$ 6,172,063**	**$ 6,204,122**

A substantial portion of the bank's loan portfolio consists of direct notes receivable from district associations. As described in Note 1, "Organization and Operations," these notes are used by the associations to fund their loan portfolios, and therefore the bank's implicit concentration of credit risk in various agricultural commodities approximates that of the district as a whole. Loan concentrations are considered to exist when there are amounts loaned to borrowers engaged in similar activities, which could cause them to be similarly impacted by economic or other conditions. A substantial portion of the associations' lending activities is collateralized and the associations' exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the bank's credit risk exposure is considered in the bank's allowance for loan losses.

At December 31, 2016, the bank had a total of $3.85 billion of district association direct notes sold to another System bank. The sales included participations of 11 direct notes receivable from district associations. These sales provide diversification benefits between Farm Credit entities.

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 $16,311 at December 31, 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 twelve months ended December 31, 2016:

Balance at January 1, 2016	$ 27,506
Maturities, repayments and calls by issuers	(9,881)
Net losses on financial instruments under fair value option	(418)
Premium amortization	(896)
Balance at December 31, 2016	$ 16,311

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

In March 2010, the bank purchased loans which had experienced credit deterioration and OPO from a district association. The remaining loans from this purchase of $1.2 million were transferred to accrual status in November 2013 and were included in "other bank-owned loans." The loans were sold at par to a district association during 2015.

The bank has purchased loan participations from two district associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value. CPP loans held at December 31, 2016, totaled $36,868.

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, collectively referred to as "impaired loans." Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties. The bank's impaired loans consisted of participations purchased; no direct notes to district associations were impaired at December 31, 2016, 2015 and 2014.

	December 31,		
	2016	2015	2014
Nonaccrual loans			
Current as to principal and interest	**$ 2,862**	$ 2,588	$ 21
Past due	**-**	2,084	10,547
Total nonaccrual loans	**2,862**	4,672	10,568
Impaired accrual loans			
Restructured accrual loans	**6,495**	16,102	16,481
Total impaired accrual loans	**6,495**	16,102	16,481
Total impaired loans	**$ 9,357**	$ 20,774	$ 27,049

The decrease in nonaccrual loans and restructured accrual loans is attributable to repayments.

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

	December 31, 2016	2015	2014
Nonaccrual loans:			
Real estate mortgage	**$ 967**	$ 2,588	$ 3,545
Waste disposal	**-**	-	7,023
Mission-related	**1,895**	2,084	-
Total nonaccrual loans	**2,862**	4,672	10,568
Accruing restructured loans:			
Real estate mortgage	**3,818**	19	870
Production and intermediate term	**-**	13,341	12,805
Mission-related	**2,677**	2,742	2,806
Total accruing restructured loans	**6,495**	16,102	16,481
Total nonperforming loans	**9,357**	20,774	27,049
Other property owned	**-**	438	10,310
Total nonperforming assets	**$ 9,357**	$ 21,212	$ 37,359

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

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

The following table presents loans and related accrued interest classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2016	2015	2014
Real estate mortgage:			
Acceptable	**99.0%**	92.5%	89.5%
OAEM	**-**	6.7	9.2
Substandard/Doubtful	**1.0**	0.8	1.3
	100.0%	100.0%	100.0%
Production and intermediate term:			
Acceptable	**98.8%**	98.6%	99.2%
OAEM	**0.4**	1.4	0.8
Substandard/Doubtful	**0.8**	-	-
	100.0%	100.0%	100.0%
Agribusiness:			
Acceptable	**99.3%**	98.4%	99.2%
OAEM	**0.4**	1.3	0.8
Substandard/Doubtful	**0.3**	0.3	-
	100.0%	100.0%	100.0%
Energy & water/waste disposal:			
Acceptable	**94.9%**	98.0%	98.5%
OAEM	**5.1**	2.0	0.9
Substandard/Doubtful	**-**	-	0.6
	100.0%	100.0%	100.0%
Rural home:			
Acceptable	**-**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/Doubtful	**-**	-	-
	-	100.0%	100.0%
Communications:			
Acceptable	**98.6%**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/Doubtful	**1.4**	-	-
	100.0%	100.0%	100.0%
Agricultural export finance:			
Acceptable	**-**	100.0%	-
OAEM	**-**	-	-
Substandard/Doubtful	**-**	-	-
	-	100.0%	-
Direct notes to associations:			
Acceptable	**100.0%**	98.3%	98.2%
OAEM	**-**	1.7	-
Substandard/Doubtful	**-**	-	1.8
	100.0%	100.0%	100.0%
Loans to other financing institutions:			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/Doubtful	**-**	-	-
	100.0%	100.0%	100.0%
Mission-related:			
Acceptable	**89.8%**	97.0%	93.4%
OAEM	**-**	-	-
Substandard/Doubtful	**10.2**	3.0	6.6
	100.0%	100.0%	100.0%
Total loans:			
Acceptable	**99.3%**	98.2%	98.3%
OAEM	**0.5**	1.7	0.5
Substandard/Doubtful	**0.2**	0.1	1.2
	100.0%	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 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 Greater Than 90 Days Past Due and Accruing
Real estate mortgage	**$ -**	**$ -**	**$ -**	**$ 467,157**	**$ 467,157**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**527,619**	**527,619**	**-**
Agribusiness	**-**	**-**	**-**	**2,573,463**	**2,573,463**	**-**
Energy & water/waste disposal	**14,590**	**-**	**14,590**	**1,370,017**	**1,384,607**	**-**
Communications	**-**	**-**	**-**	**335,359**	**335,359**	**-**
Direct notes to associations	**-**	**-**	**-**	**10,603,982**	**10,603,982**	**-**
Loans to OFIs	**-**	**-**	**-**	**42,143**	**42,143**	**-**
Mission-related	**-**	**-**	**-**	**18,562**	**18,562**	**-**
Total	**$ 14,590**	**$ -**	**$ 14,590**	**$ 15,938,302**	**$ 15,952,892**	**$ -**

The following table provides an age analysis of past due loans (including accrued interest) as of 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 Greater Than 90 Days Past Due and Accruing
Real estate mortgage	$ -	$ -	$ -	$ 316,668	$ 316,668	$ -
Production and intermediate term	-	-	-	605,952	605,952	-
Agribusiness	-	-	-	2,554,906	2,554,906	-
Energy & water/waste disposal	-	-	-	1,270,310	1,270,310	-
Communications	-	-	-	345,799	345,799	-
Agricultural export finance	-	-	-	9,734	9,734	-
Direct notes to associations	-	-	-	9,597,745	9,597,745	-
Loans to OFIs	-	-	-	42,647	42,647	-
Mission-related	-	2,084	2,084	66,981	69,065	-
Total	$ -	$ 2,084	$ 2,084	$ 14,810,742	$ 14,812,826	$ -

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2014:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	$ -	$ 3,574	$ 3,574	$ 337,332	$ 340,906	$ -
Production and intermediate term	-	-	-	569,642	569,642	-
Agribusiness	-	-	-	2,331,382	2,331,382	-
Energy & water/waste disposal	4,916	2,086	7,002	1,242,382	1,249,384	-
Communications	-	-	-	252,336	252,336	-
Direct notes to associations	-	-	-	8,482,934	8,482,934	-
Loans to OFIs	-	-	-	38,966	38,966	-
Mission-related	-	-	-	32,960	32,960	-
Total	$ 4,916	$ 5,660	$ 10,576	$ 13,287,934	$ 13,298,510	$ -

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

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

As of December 31, 2016, the total recorded investment of troubled debt restructured loans was $8,390, with $6,495 classified as accrual and $1,895 classified as nonaccrual, with specific allowance for loan losses of $78.

There were no payment defaults on troubled debt restructurings that occurred within the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2016 and December 31, 2015.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, which occurred during the years ended December 31, 2016 and December 31, 2014. There were no new troubled debt restructurings identified during 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 the restructuring occurred.

For the year ended December 31, 2016:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Mission-related	$ 2,066	$ 1,947
Total	$ 2,066	$ 1,947

For the year ended December 31, 2014:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Production & Intermediate term	$ 4,576	$ 4,051
Total	$ 4,576	$ 4,051

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

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

	Total Loans Modified as TDRs			TDRs in Nonaccrual Status		
	December 31,			December 31,		
	2016	2015	2014	**2016**	2015	2014
Real estate mortgage	**$ 3,818**	$ 19	$ 1,675	**$ -**	$ -	$ 805
Production and intermediate term	**-**	13,341	12,805	**-**	-	-
Agribusiness	**-**	-	-	**-**	-	-
Mission-related	**4,572**	2,742	2,806	**1,895**	-	-
Total	**$ 8,390**	$ 16,102	$ 17,286	**$ 1,895**	$ -	$ 805

Additional impaired loan information at December 31, 2016, is as follows:

	Recorded Investment		Unpaid Principal Balance*		Related Allowance		Average Impaired Loans		Interest Income Recognized
Impaired loans with a related allowance for credit losses:									
Mission-related	$	210	$	210	$	78	$	214	$ 15
Total	$	210	$	210	$	78	$	214	$ 15
Impaired loans with no related allowance for credit losses:									
Real estate mortgage	$	4,785	$	4,789	$	-	$	6,687	$ 153
Production and intermediate term		-		3,035		-		6,836	375
Processing and marketing		-		1,192		-		-	-
Energy & water/waste disposal		-		9,043		-		-	-
Mission-related		4,362		4,362		-		4,430	138
Total	$	9,147	$	22,421	$	-	$	17,953	$ 666
Total impaired loans:									
Real estate mortgage	$	4,785	$	4,789	$	-	$	6,687	$ 153
Production and intermediate term		-		3,035		-		6,836	375
Processing and marketing		-		1,192		-		-	-
Energy & water/waste disposal		-		9,043		-		-	-
Mission-related		4,572		4,572	$	78		4,644	152
Total	$	9,357	$	22,631	$	78	$	18,167	$ 680

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

Additional impaired loan information at December 31, 2015, is as follows:

	Recorded Investment		Unpaid Principal Balance*		Related Allowance		Average Impaired Loans		Interest Income Recognized
Impaired loans with a related allowance for credit losses:									
Energy & water/waste disposal	$	-	$	-	$	-	$	1,714	$ -
Mission-related		219		219		75		852	54
Total	$	219	$	219	$	75	$	2,566	$ 54
Impaired loans with no related allowance for credit losses:									
Real estate mortgage	$	2,607	$	7,081	$	-	$	3,525	$ 52
Production and intermediate term		13,341		16,129		-		12,874	1,228
Processing and marketing		-		1,371		-		-	-
Energy & water/waste disposal		-		17,578		-		1,687	-
Mission-related		4,607		7,797		-		1,885	115
Total	$	20,555	$	49,956	$	-	$	19,971	$ 1,395
Total impaired loans:									
Real estate mortgage	$	2,607	$	7,081	$	-	$	3,525	$ 52
Production and intermediate term		13,341		16,129		-		12,874	1,228
Processing and marketing		-		1,371		-		-	-
Energy & water/waste disposal		-		17,578		-		3,401	-
Mission-related		4,826		8,016		75		2,737	169
Total	$	20,774	$	50,175	$	75	$	22,537	$ 1,449

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

Additional impaired loan information at December 31, 2014, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ 723	$ 448
Production and intermediate term	-	-	-	6,694	-
Energy & water/waste disposal	7,023	7,023	5,500	2,857	21
Mission-related	228	228	72	221	17
Total	$ 7,251	$ 7,251	$ 5,572	$ 10,495	$ 486
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,415	$ 11,056	$ -	$ 5,074	$ 955
Production and intermediate term	12,805	15,597	-	12,049	1,105
Processing and marketing	-	1,381	-	-	-
Energy & water/waste disposal	-	17,578	-	-	1
Mission-related	2,578	5,763	-	2,567	163
Total	$ 19,798	$ 51,375	$ -	$ 19,690	$ 2,224
Total impaired loans:					
Real estate mortgage	$ 4,415	$ 11,056	$ -	$ 5,797	$ 1,403
Production and intermediate term	12,805	15,597	-	18,743	1,105
Processing and marketing	-	1,381	-	-	-
Energy & water/waste disposal	7,023	24,601	5,500	2,857	22
Mission-related	2,806	5,991	72	2,788	180
Total	$ 27,049	$ 58,626	$ 5,572	$ 30,185	$ 2,710

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

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans were as follows at December 31:

	2016	2015	2014
Interest income which would have been recognized under the original loan terms	**$ 1,965**	$ 3,255	$ 4,724
Less: interest income recognized	**680**	1,449	2,710
Foregone interest income	**$ 1,285**	$ 1,806	$ 2,014

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses:											
Balance at December 31, 2015	$ 789	$ 428	$ 1,586	$ 343	$ 2,575	$ -	$ 3	$ -	$ -	$ 109	$ 5,833
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	12	-	179	1,367	-	-	-	-	-	-	1,558
Provision for credit losses	(728)	354	524	(1,183)	1,626	-	(3)	-	-	(27)	563
Other*	1	(70)	(30)	(1)	(204)	-	-	-	-	-	(304)
Balance at December 31, 2016	$ 74	$ 712	$ 2,259	$ 526	$ 3,997	$ -	$ -	$ -	$ -	$ 82	$ 7,650
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 78	$ 78
Collectively evaluated for impairment	74	712	2,259	526	3,997	-	-	-	-	4	7,572
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2016	$ 74	$ 712	$ 2,259	$ 526	$ 3,997	$ -	$ -	$ -	$ -	$ 82	$ 7,650
Recorded Investments in loans outstanding:											
Balance at December 31, 2016	$ 467,157	$ 527,619	$ 2,573,463	$ 335,359	$ 1,384,607	$ -	$ -	$ 10,603,982	$42,143	$ 18,562	$15,952,892
Ending Balance for loans individually evaluated for impairment	$ 4,785	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,603,982	$ -	$ 4,573	$10,613,340
Ending Balance for loans collectively evaluated for impairment	$ 462,372	$ 527,619	$ 2,573,463	$ 335,359	$ 1,384,607	$ -	$ -	$ -	$42,143	$ 13,989	$ 5,339,552
Ending Balance for loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses:											
Balance at December 31, 2014	$ 794	$ 304	$ 1,120	$ 200	$ 7,590	$ -	$ -	$ -	$ -	$ 104	$ 10,112
Charge-offs	-	-	-	-	(2,065)	-	-	-	-	-	(2,065)
Recoveries	140	-	11	142	-	-	-	-	-	-	293
Provision for credit losses	(173)	43	536	18	(2,940)	-	3	-	-	7	(2,506)
Other*	28	81	(81)	(17)	(10)	-	-	-	-	(2)	(1)
Balance at December 31, 2015	$ 789	$ 428	$ 1,586	$ 343	$ 2,575	$ -	$ 3	$ -	$ -	$ 109	$ 5,833
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 75	$ 75
Collectively evaluated for impairment	789	428	1,586	343	2,575	-	3	-	-	34	5,758
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2015	$ 789	$ 428	$ 1,586	$ 343	$ 2,575	$ -	$ 3	$ -	$ -	$ 109	$ 5,833
Recorded Investments in loans outstanding:											
Balance at December 31, 2015	$ 316,657	$ 605,952	$ 2,554,906	$ 345,799	$ 1,270,310	$ 11	$ 9,734	$ 9,597,745	$ 42,647	$ 69,065	$14,812,826
Ending Balance for loans individually evaluated for impairment	$ 2,607	$ 13,341	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,826	$ 20,774
Ending Balance for loans collectively evaluated for impairment	$ 314,050	$ 592,611	$ 2,554,906	$ 345,799	$ 1,270,310	$ 11	$ 9,734	$ 9,597,745	$ 42,647	$ 64,239	$14,792,052
Ending Balance for loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses:											
Balance at December 31, 2013	$ 1,954	$ 5,075	$ 2,781	$ 215	$ 3,596	$ -	$ 7	$ -	$ -	$ 32	$ 13,660
Charge-offs	(2,072)	-	(290)	-	-	-	-	-	-	-	(2,362)
Recoveries	13	-	5	-	41	-	-	-	-	-	59
Provision for credit losses	(146)	(4,621)	(757)	-	-	-	(7)	-	-	98	(5,433)
Other*	1,045	(150)	(619)	(15)	3,953	-	-	-	-	(26)	4,188
Balance at December 31, 2014	$ 794	$ 304	$ 1,120	$ 200	$ 7,590	$ -	$ -	$ -	$ -	$ 104	$ 10,112
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 5,500	$ -	$ -	$ -	$ -	$ 72	$ 5,572
Collectively evaluated for impairment	794	304	1,120	200	2,090	-	-	-	-	32	4,540
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2014	$ 794	$ 304	$ 1,120	$ 200	$ 7,590	$ -	$ -	$ -	$ -	$ 104	$ 10,112
Recorded Investments in loans outstanding:											
Balance at December 31, 2014	$ 340,890	$ 569,642	$ 2,331,382	$ 252,336	$ 1,249,384	$ 16	$ -	$ 8,482,934	$ 38,966	$ 32,960	$13,298,510
Ending Balance for loans individually evaluated for impairment	$ 4,415	$ 12,805	$ -	$ -	$ 7,023	$ -	$ -	$ -	$ -	$ 2,806	$ 27,049
Ending Balance for loans collectively evaluated for impairment	$ 336,475	$ 556,837	$ 2,331,382	$ 252,336	$ 1,242,361	$ 16	$ -	$ 8,482,934	$ 38,966	$ 30,154	$13,271,461
Ending Balance for loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

The bank's reserves for credit losses include the allowance for loan losses and a reserve for losses on unfunded commitments. The reserve for losses on unfunded commitments includes letters of credit and unused loan commitments, and is recorded in "Other liabilities" in the Balance Sheets. At December 31, 2016, 2015 and 2014, the reserve totaled $1,646, $1,342 and $1,342, respectively, representing management's estimate of probable credit losses related to letters of credit and other unfunded commitments.

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2016	2015	2014
Leasehold improvements	**$ 2,468**	$ 2,390	$ 2,339
Computer equipment & software	**62,915**	48,900	41,688
Furniture and equipment	**3,310**	3,066	2,556
	68,693	54,356	46,583
Accumulated depreciation	**(30,694)**	(26,521)	(21,386)
Total	**$ 37,999**	$ 27,835	$ 25,197

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space. Under the terms of the lease amendment, the bank will pay annual base rental ranging from $18 per square foot in the first year to $26 per square foot in the last year. Annual lease expenses for the facility, including certain operating expenses passed through from the landlord, were $3,844, $3,504 and $2,999 for 2016, 2015 and 2014, respectively. As a part of lease extensions and renewals, there were abatements of pass-through costs for six months in 2014.

On July 31, 2015, the bank entered into a lease of computer network storage equipment, the terms of which provide for payments of $32 per month for 36 months. In that the present value of the minimum lease payments is greater than 90 percent of the fair value of the asset at the inception of the lease, the lease has been capitalized. At December 31, 2016, the capitalized lease had a book value of $623, net of depreciation totaling $499, and a related liability of $655. Interest on the capital lease obligation totaled $7 during 2016.

Following is a schedule of the minimum lease payments remaining on building and computer leases:

	Minimum Lease Payments
2017	**$ 2,918**
2018	**2,896**
2019	**2,683**
2020	**2,602**
2021	**2,626**
Thereafter	**7,389**
Total minimum lease payments	**$ 21,114**

Note 6 — Other Property Owned

OPO, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. There was no OPO at December 31, 2016, as compared to $439 and $10,310 at December 31, 2015 and December 31, 2014, respectively.

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

	December 31:		
	2016	2015	2014
Gain (loss) on sale, net	**$ (439)**	$ 3,090	$ 461
Carrying value adjustments	**-**	-	(159)
Operating expense, net	**-**	-	12
Net (loss) gain on other property owned	**$ (439)**	$ 3,090	$ 314

Note 7 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2016	2015	2014
Investment in other System bank	**$ 112,713**	$ 98,867	$ 85,369
Participations accounts receivable	**-**	-	21,806
Other accounts receivable	**48,627**	22,815	21,148
RBIC investment	**6,775**	3,776	757
Fair value of derivatives	**8,074**	504	748
Loan held for sale	**-**	4,850	-
Other	**6,511**	4,893	5,689
Total	**$ 182,700**	$ 135,705	$ 135,517

Other liabilities comprised the following at December 31:

	2016	2015	2014
Payable to associations for cash management services	**$ 35,420**	$ 30,375	$ 23,280
Accounts payable – participations	**275**	15,961	-
Accounts payable – other	**36,812**	13,183	10,246
Obligation for nonpension postretirement benefits	**10,967**	10,455	11,026
Mortgage life additional reserve	**3,850**	3,667	3,431
FCSIC premium payable	**12,671**	9,004	7,444
Accrued building lease payable	**3,363**	3,488	3,183
Other	**4,764**	4,752	5,213
Total	**$ 108,122**	$ 90,885	$ 63,823

Note 8 — Bonds and Notes

Systemwide Debt Securities:

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Systemwide bonds, medium-term notes and discount notes (Systemwide debt securities) are the joint and several liability of the System banks. Certain conditions must be met before the bank can participate in the issuance of Systemwide debt securities. The bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2016, the bank had such specified eligible assets totaling $21.00 billion and obligations and accrued interest payable totaling $19.44 billion, resulting in excess eligible assets of $1.56 billion.

The System banks and the Funding Corporation have entered into the second amended and restated Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2016, the bank was, and currently remains, in compliance with the conditions and requirements of the System banks' and the Funding Corporation's MAA.

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

The bank's participation in Systemwide debt securities at December 31, 2016, follows *(dollars in millions)*:

	Systemwide					
	Bonds		Discount Notes		Total	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2017	$ 6,321	0.89%	$ 2,552	0.63%	$ 8,873	0.81%
2018	2,936	1.03	-	-	2,936	1.03
2019	2,135	1.33	-	-	2,135	1.33
2020	1,607	1.53	-	-	1,607	1.53
2021	1,241	1.95	-	-	1,241	1.95
Subsequent years	2,598	2.39	-	-	2,598	2.39
Total	$ 16,838	1.34%	$ 2,552	0.63%	$ 19,390	1.25%

In the preceding table, the weighted average interest rate reflects the effects of interest rate caps and interest rate swaps used to manage the interest rate risk on the bonds and notes issued by the bank. The bank's interest rate swap strategy is discussed more fully in Note 2, "Summary of Significant Accounting Policies," and Note 15, "Derivative Instruments and Hedging Activity."

Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2016, was 157 days.

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2016 *(dollars in thousands)*:

Year of Maturity	Amount	Range of First Call Dates
2017	$ 580,050	1/9/2017 - 1/27/2017
2018	1,294,000	1/2/2017 - 1/28/2017
2019	1,636,984	1/1/2017 - 6/13/2017
2020	1,388,997	1/1/2017 - 12/14/2017
2021	975,111	1/1/2017 - 10/12/2017
Subsequent years	1,922,819	1/1/2017 - 3/1/2018
Total	$ 7,797,961	1/1/2017 - 3/1/2018

Callable debt may be called on the first call date and, generally, every day thereafter with seven days' notice. Expenses associated with the exercise of call options on debt issuances are included in interest expense.

As described in Note 1, "Organization and Operations," the Insurance Fund is available to ensure the timely payment of principal and interest on bank bonds and Systemwide debt securities (insured debt) of insured System banks to the extent net assets are available in the Insurance Fund. All other liabilities in the financial statements are uninsured. At December 31, 2016, the assets of the Insurance Fund aggregated $4.45 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal and interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon.

FCSIC has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to FCSIC. Under its existing statutory authority, FCSIC may use these funds to provide assistance to the System banks in demanding market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10.00 billion and terminates on September 30, 2017, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is in the discretion of FCSIC, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding will be available if needed by the System.

Subordinated Debt:

In September 2008, the bank issued $50.0 million of 8.406 percent unsecured subordinated notes due in 2018, generating proceeds of $49.4 million. The proceeds were used to increase regulatory permanent capital and total surplus pursuant to Farm Credit Administration regulations and for general corporate purposes. Due to regulatory limitations on third-party capital (including preferred stock and subordinated debt) instituted upon the issuance of the bank's Class B Series 1 Noncumulative Subordinated Perpetual Preferred Stock, subordinated debt was no longer qualified for inclusion in permanent capital or total surplus. This debt was unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest was payable semi-annually on March 15 and September 15. In accordance with FCA's approval of the bank's subordinated debt offering, the bank's minimum net collateral ratio for all regulatory purposes while any subordinated debt was outstanding was 104.00 percent, instead of the 103.00 percent stated by regulation.

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 debt at par. The redemption occurred on June 6, 2016.

Note 9 — Shareholders' Equity

Descriptions of the bank's equities, capitalization requirements, and regulatory capitalization requirements and restrictions are provided below.

A. Description of Bank Equities:

Class B Series 1 Noncumulative Subordinated Perpetual Preferred Stock (Class B-1 preferred stock) – On August 26, 2010, the bank issued $300,000 of Class B noncumulative subordinated perpetual preferred stock, representing 300,000 shares at $1,000 per share par value for net proceeds of $296.6 million. The net proceeds of the issuance were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B-1 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B-1 preferred stock ranks, both as to dividends and upon liquidation, senior to all outstanding capital stock. Due to regulatory limitations on third-party capital, the preferred stock issuance required that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. Class B-1 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid. In 2016, 2015 and 2014, Class B-1 preferred stock dividends totaling $30.0 million were declared and paid. At December 31, 2016, dividends payable on Class B-1 preferred stock totaled $15.0 million.

Class B Series 2 Noncumulative Subordinated Perpetual Preferred Stock (Class B-2 preferred stock) – On July 23, 2013, the bank issued $300,000 of Class B noncumulative subordinated perpetual preferred stock, Series 2, representing three million shares at $100 per share par value, for net proceeds of $296.0 million. Dividends on the Class B-2 preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2013, at an annual fixed rate of 6.75 percent of par value of $100 per share up to, but excluding September 15, 2023, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 4.01 percent. The Class B-2 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank on any dividend payment date on or after September 15, 2023. The Class B-2 preferred stock ranks, both as to dividends and upon liquidation, pari passu with respect to the existing Class B-1 preferred stock, and senior to all other classes of the bank's outstanding capital stock. For regulatory purposes, the Class B-2 preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Class B-2 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid. In 2016, 2015 and 2014, Class B-2 preferred stock dividends totaling $20.2 million were declared and paid. At December 31, 2016, dividends payable on Class B-2 preferred stock totaled $5.1 million.

Class A Voting Common Stock – According to the bank's bylaws, the minimum and maximum stock investments that the bank may require of the ACAs and FLCA are 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of each association's average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock (with a par value of $5 per share) and allocated retained earnings. The current investment required of the associations is 2 percent of their average borrowings from the bank. Under the CPP program, the stock investment that the bank requires is 1.6 percent of each AMBS pool and 8 percent of each loan pool. No Class A voting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. There were 56.6 million shares, 50.9 million shares and 46.5 million shares of Class A voting common stock issued and outstanding at December 31, 2016, 2015 and 2014, respectively.

Class A Nonvoting Common Stock – The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of $5 per share) in the bank based on a minimum stock investment of 2 percent (or one thousand dollars, whichever is greater) and on a maximum of 5 percent, respectively, of the OFIs' average borrowings from the bank. The current investment required of the OFIs is 2 percent of their average borrowings from the bank. No Class A nonvoting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 232 thousand shares, 220 thousand shares and 223 thousand shares of Class A nonvoting common stock issued and outstanding at December 31, 2016, 2015 and 2014, respectively.

Allocated retained earnings of $33,171, $27,203 and $22,508 at December 31, 2016, 2015 and 2014, respectively, consisted of allocated equity for the payment of patronage on loans participated with another System bank.

At December 31, the bank's equities included the following:

	2016	2015	2014
Class A voting common stock – associations	**$ 282,880**	$ 254,723	$ 232,354
Class A nonvoting common stock – Other Financing Institutions	**1,158**	1,100	1,114
Total common stock	**284,038**	255,823	233,468
Preferred stock	**600,000**	600,000	600,000
Allocated retained earnings			
Associations	**-**	-	-
Other entities	**33,171**	27,203	22,508
Total allocated retained earnings	**33,171**	27,203	22,508
Total capital stock and allocated retained earnings	**$ 917,209**	$ 883,026	$ 855,976

Patronage may be paid to the holders of Class A voting common stock, Class A nonvoting stock and allocated retained earnings of the bank, as the board of directors may determine by resolution, subject to the capitalization requirements defined by the FCA. During 2016, $96,449 in cash patronages were declared to district associations, OFIs and other entities, compared to $82,478 in 2015 and $76,414 in 2014. Cash patronage in 2016 consisted of direct loan patronage of $57,782, patronage on certain participations of $31,763, patronage on association and OFI investment in the bank of $4,790 and capitalized participation pool patronage of $2,114.

B. Regulatory Capitalization Requirements and Restrictions:

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

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

The regulatory minimum for the collateral ratio is 103.00 or, if there is outstanding subordinated debt, 104.00. The bank redeemed all subordinated debt in June 2016, changing the required minimum for the bank from 104.00 at December 31, 2015 and December 31, 2014 to 103.00 at December 31, 2016.

The following table reflects the bank's capital ratios at December 31:

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	**17.40%**	17.74%	18.33%	7.00%
Total surplus ratio	**14.98**	15.48	15.86	7.00
Core surplus ratio	**9.97**	9.88	10.07	3.50
Collateral ratio	**107.35**	107.70	108.00	103.00

C. Accumulated Other Comprehensive (Loss) Income:

Following is a summary of the components of accumulated other comprehensive (loss) income (AOCI) and the changes occurring during the year ended December 31, 2016:

	Total	Unrealized Loss on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2016	**$ (27,331)**	**$ (25,276)**	**$ (148)**	**$ (1,907)**
Change in unrealized losses on available-for-sale securities				
Net change in unrealized losses on investment securities	**(13,253)**	**(13,253)**		
Net change in unrealized losses on securities	**(13,253)**	**(13,253)**		
Change in retirement benefit plans				
Actuarial losses	**(137)**		**(137)**	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	**(186)**		**(186)**	
Net change in retirement benefit plans	**(323)**		**(323)**	
Change in cash flow derivative instruments				
Unrealized gains on cash flow derivative instruments	**6,507**			**6,507**
Reclassification of loss recognized in interest expense	**1,821**			**1,821**
Net change in cash flow derivative instruments	**8,328**			**8,328**
Total other comprehensive (loss) income	**(5,248)**	**(13,253)**	**(323)**	**8,328**
Balance, December 31, 2016	**$ (32,579)**	**$ (38,529)**	**$ (471)**	**$ 6,421**

Following is a summary of the components of accumulated other comprehensive income (loss) (AOCI) and the changes occurring during the year ended December 31, 2015:

	Total	Unrealized Loss on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2015	$ (19,822)	$ (16,100)	$ (1,027)	$ (2,695)
Change in unrealized losses on available-for-sale securities				
Net change in unrealized losses on investment securities	(9,176)	(9,176)		
Net change in unrealized losses on securities	(9,176)	(9,176)		
Change in retirement benefit plans				
Actuarial gains	994		994	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(186)		(186)	
Amortization of net losses	71		71	
Net change in retirement benefit plans	879		879	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(586)			(586)
Reclassification of loss recognized in interest expense	1,374			1,374
Net change in cash flow derivative instruments	788			788
Total other comprehensive (loss) income	(7,509)	(9,176)	879	788
Balance, December 31, 2015	$ (27,331)	$ (25,276)	$ (148)	$ (1,907)

Following is a summary of the components of accumulated other comprehensive income (loss) (AOCI) and the changes occurring during the year ended December 31, 2014:

	Total	Unrealized Loss on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2014	$ (33,113)	$ (30,303)	$ 1,642	$ (4,452)
Change in unrealized losses on available-for-sale securities				
Net change in unrealized losses on investment securities	13,940	13,940		
Reclassification adjustment for losses on sales of securities included in net income	212	212		
Decrease in noncredit portion of other-than-temporarily impaired (OTTI) losses	14	14		
Reclassification adjustment for OTTI credit losses included in net income	37	37		
Net change in unrealized losses on securities	14,203	14,203		
Change in retirement benefit plans				
Actuarial losses	(2,477)		(2,477)	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(192)		(192)	
Amortization of net losses	-		-	
Net change in retirement benefit plans	(2,669)		(2,669)	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(791)			(791)
Reclassification of loss recognized in interest expense	2,548			2,548
Net change in cash flow derivative instruments	1,757			1,757
Total other comprehensive (loss) income	13,291	14,203	(2,669)	1,757
Balance, December 31, 2014	$ (19,822)	$ (16,100)	$ (1,027)	$ (2,695)

The following table summarizes amounts reclassified out of accumulated other comprehensive loss to current earnings:

Description	Amount Reclassified from Accumulated Other Comprehensive Loss			Location of Gain (Loss) Recognized in Statement of Comprehensive Income
	2016	2015	2014	
Unrealized Losses on Securities				
Losses on sales of other-than-temporarily-impaired securities	**$ -**	$ -	$ (37)	Impairment losses on investments
Retirement Benefit Plans				
Amortization of prior service credits	**186**	186	192	Salaries and employee benefits
Amortization of net actuarial losses	**-**	(71)	$ -	Salaries and employee benefits
Cash Flow Derivative Instruments				
Losses on cash flow derivatives	**(1,821)**	(1,374)	(2,548)	Interest expense
	$ (1,635)	$ (1,259)	$ (2,393)	

Note 10 — Employee Benefit Plans

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

The structure of the district's DB plan is characterized as multiemployer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The bank records current contributions to the DB plan as an expense in the current year.

The DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees. The plan sponsor is the board of directors of the bank. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2016. The risks of participating in this multiemployer plan are different from single-employer plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the participating employer chooses to stop participating in the multiemployer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the bank's contributions and the percentage of bank contribution to total plan contributions for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
Funded status of plan	**66.4%**	66.8%	67.5%
Bank's contribution	**$ 691**	$ 985	$ 2,133
Percentage of bank's contribution to total contributions	**5.9%**	9.2%	17.5%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 70.6 percent, 72.5 percent and 74.5 percent at December 31, 2016, 2015 and 2014, respectively.

Actuarial information regarding the DB pension plan accumulated benefit obligation and plan assets is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and all employees hired on or after January 1, 1996. Participants in the non-elective pension feature of the DC plan direct the placement of their employers' contributions (5 percent of eligible compensation during 2016) made on their behalf into various investment alternatives.

The district also participates in the Farm Credit Benefits Alliance 401(k) plan, which offers a pre-tax and after-tax Roth compensation deferral feature. Employers match 100 percent of employee contributions for the first 3 percent of eligible compensation and then match 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent of eligible compensation.

Certain executive or highly compensated employees in the bank are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (Supplemental 401(k) Plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

Contributions of $56, $44 and $126 were made to this plan for the years ended December 31, 2016, 2015 and 2014. There were no distributions from the plan in 2016, 2015 and 2014. The present value of accumulated benefits and funded balance in the plan totaled $410 at December 31, 2016.

The following table presents the bank's retirement benefit expenses for the years ended:

	2016	2015	2014
District DB plan	**$ 691**	$ 985	$ 2,133
DC plan	**1,311**	1,210	1,072
401(k) plan	**989**	929	864
Supplemental 401(k) plan	**56**	44	126
Total	**$ 3,047**	$ 3,168	$ 4,195

The bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired on or after January 1, 2004, may be eligible for retiree medical benefits for themselves and their spouses at their expense and will be responsible for 100 percent of the related premiums.

The following tables reflect the benefit obligation, cost, funded status and actuarial assumptions for the bank's other postretirement benefits:

	Other Postretirement Benefits		
	2016	2015	2014
Change in projected benefit obligation			
Projected benefit obligation, beginning of year	**$ 10,455**	$ 11,048	$ 8,274
Service cost	**236**	280	212
Interest cost	**485**	496	423
Plan participants' contributions	**72**	84	111
Plan amendments	**-**	-	-
Curtailment loss	**-**	-	-
Actuarial (gain) loss	**137**	(994)	2,477
Benefits paid	**(418)**	(459)	(449)
Projected benefit obligation, end of year	**$ 10,967**	$ 10,455	$ 11,048
Change in plan assets			
Plan assets at fair value, beginning of year	**-**	-	-
Actual return on plan assets	**-**	-	-
Company contributions	**346**	375	338
Plan participants' contributions	**72**	84	111
Benefits paid	**(418)**	(459)	(449)
Plan assets at fair value, end of year	**-**	-	-
Funded status at end of year	**$ (10,967)**	$ (10,455)	$ (11,048)
Amounts recognized in the balance sheets consist of:			
Other postretirement liabilities	**$ (10,967)**	$ (10,455)	$ (11,048)
Accumulated other comprehensive income (loss)	**472**	149	1,027
Amounts recognized in accumulated other comprehensive income			
Net actuarial loss	**$ 797**	$ 659	$ 1,724
Prior service cost (credit)	**(325)**	(510)	(697)
Total	**$ 472**	$ 149	$ 1,027
Net periodic benefit cost			
Service cost	**$ 236**	$ 280	$ 212
Interest cost	**484**	496	423
Expected return on plan assets	**-**	-	-
Amortization of:			
Prior service cost (credit)	**(186)**	(186)	(192)
Net actuarial loss	**-**	71	-
Total periodic benefit cost	**$ 534**	$ 661	$ 443
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income			
Net actuarial (gain) loss	**$ 137**	$ (994)	$ 2,477
Amortization of net actuarial gain	**-**	-	-
Prior service costs	**-**	-	-
Amortization of prior service costs	**186**	186	192
Termination recognition of prior service costs	**-**	(71)	-
Net change	**$ 323**	$ (879)	$ 2,669
AOCI amounts expected to be amortized in 2017			
Prior service cost (credit)	**$ (186)**		
Net actuarial loss (gain)	**-**		
Net amount recognized	**$ (186)**		

	Other Postretirement Benefits		
	2016	2015	2014
Weighted-average assumptions used to determine benefit obligation at year end			
Measurement date	**12/31/2016**	12/31/2015	12/31/2014
Discount rate	**4.60%**	4.70%	4.55%
Health care cost trend rate assumed for next year (pre/post-65)-medical	**6.75%/6.50%**	7.00%/6.50%	7.25%/6.75%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions	**6.50%**	6.50%	6.75%
Ultimate health care cost trend rate	**4.50%**	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	**2024**	2025	2024
Weighted-average assumptions used to determine net periodic cost for the year			
Measurement date	**12/31/2015**	12/31/2014	12/31/2013
Discount rate	**4.70%**	4.55%	5.20%
Expected return on plan assets	**N/A**	N/A	N/A
Health care cost trend rate assumed for next year (pre/post-65)-medical	**7.00%/6.50%**	7.25%/6.75%	7.50%/6.50%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions	**6.50%**	6.75%	6.50%
Ultimate health care cost trend rate	**4.50%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2023**	2024	2024

Effect of Change in Assumed Health Care Cost Trend Rates

Effect on total service cost and interest cost components	
One-percentage-point increase	**$ 157**
One-percentage-point decrease	**(121)**
Effect on year-end postretirement benefit obligation	
One-percentage-point increase	**2,021**
One-percentage-point decrease	**(1,599)**

Expected Future Cash Flow Information

	Other Postretirement Benefits
Expected Benefit Payments	
Fiscal 2017	**$ 398**
Fiscal 2018	**408**
Fiscal 2019	**439**
Fiscal 2020	**474**
Fiscal 2021	**508**
Fiscal 2022 - 2026	**2,821**
Expected Contributions	
Fiscal 2017	**$ 398**

The bank's plan for other postretirement benefits does not have plan assets.

Note 11 — Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was $240,132, $213,802 and $188,732 for 2016, 2015 and 2014, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Reserves for Credit Losses," and Note 9, "Shareholders' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was $4,355, $4,150 and $3,806 for 2016, 2015 and 2014, respectively, and was included in the bank's noninterest income.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2016, 2015 and 2014.

Note 12 — Commitments and Contingencies

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

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of other System banks. The total bank and consolidated Systemwide debt obligations of the System at December 31, 2016, were approximately $257.78 billion.

In the normal course of business, the bank incurs a certain amount of claims, litigation, and other legal and administrative proceedings, all of which are considered incidental to the normal conduct of business. The bank believes it has meritorious defenses to the claims currently asserted against it, and, with respect to such legal proceedings, intends to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interest of the bank and its shareholders.

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

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

Note 13 — Financial Instruments With Off-Balance-Sheet Risk

The bank may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage its exposure to interest-rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2016, $2.67 billion of commitments to extend credit and $71,798 of standby letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon.

The bank also participates in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the bank. At December 31, 2016, $71,798 of standby letters of credit with a fair value of $594 was included in other liabilities. Outstanding standby letters of credit generally have expiration dates ranging from 2017 to 2020.

The credit risk involved in issuing commitments and letters of credit is essentially the same as that involved in extending loans to customers, and the same credit policies are applied by management. In the event of funding, the credit risk amounts are equal to the contract amounts, assuming that counterparties fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. At December 31, 2016, 2015 and 2014, the bank had a reserve for losses on letters of credit and unfunded commitments of $1,646, $1,342 and $1,342, respectively, representing management's estimate of probable credit losses related to letters of credit and unfunded commitments.

Note 14 — Fair Value Measurements

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2016, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 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	$ 22,901	$ -	$ 22,901	$ -
Investments available-for-sale				
Corporate debt	202,403	-	202,403	-
U.S. Treasury securities	249,006	-	249,006	-
Agency-guaranteed debt	222,374	-	222,374	-
Mortgage-backed securities	3,973,578	-	3,973,578	-
Asset-backed securities	130,679	-	130,679	-
Mission-related investments	53,335	-	-	53,335
Loans valued under the fair value option	16,311	-	16,311	-
Derivative assets	8,074	-	8,074	-
Assets held in nonqualified benefit trusts	405	405	-	-
Total assets	$ 4,879,066	$ 405	$ 4,825,326	$ 53,335
Liabilities:				
Standby letters of credit	$ 594	$ -	$ -	$ 594
Total liabilities	$ 594	$ -	$ -	$ 594

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2016:

	Assets			Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Loan Held For Sale	Standby Letters of Credit	Total
Balance at January 1, 2016	$ 50,250	$ 65,650	$ 4,850	$ 807	$ 119,943
Net (losses) gains in earnings	-	(522)	-	-	(522)
Purchases, issuances and settlements	-	(11,793)	(4,850)	(213)	(16,430)
Transfers out of Level 3	(50,250)	-	-	-	(50,250)
Balance at December 31, 2016	$ -	$ 53,335	$ -	$ 594	$ 52,741

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the year ended December 31, 2016. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At December 31, 2016, there were no agency MBS investments in Level 1. The liability for standby letters of credit are included in Level 3 as 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, 2016 for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2016

	Total	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	$ 2,785	$ -	$ -	$ 2,785	$ -
Other property owned	-	-	-	-	(438)
Total assets	$ 2,785	$ -	$ -	$ 2,785	$ (438)

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

	Fair Value Measurement 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				
Corporate debt	200,602	-	200,602	-
Agency-guaranteed debt	248,355	-	248,355	-
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	347	347	-	-
Total assets	$ 4,500,725	$ 347	$ 4,379,628	$ 120,750
Liabilities:				
Standby letters of credit	$ 807	$ -	$ -	$ 807
Total liabilities	$ 807	$ -	$ -	$ 807

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2015:

	Assets			Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Loan Held For Sale	Standby Letters of Credit	Total
Balance at January 1, 2015	$ 7	$ 80,583	$ -	$ 797	$ 79,793
Net (losses) gains included in other comprehensive loss	(171)	338	-	-	167
Purchases, issuances and settlements	50,414	(15,271)	-	10	35,133
Transfers into Level 3	-	-	4,850	-	4,850
Balance at December 31, 2015	$ 50,250	$ 65,650	$ 4,850	$ 807	$ 119,943

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the year ended December 31, 2015. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. 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). The liability for standby letters of credit are included in Level 3 as 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 values are summarized below:

	Fair Value Measurement at December 31, 2015				
Assets:	Total	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Loans	$ 4,597	$ -	$ -	$ 4,597	$ (2,065)
Other property owned	487	-	-	487	3,090
Total assets	$ 5,084	$ -	$ -	$ 5,084	$ 1,025

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

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

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2014:

	Assets					Liabilities	
	Corporate Debt	Agency-Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit	Total
Available-for-sale investment securities:							
Balance at January 1, 2014	$ 15,000	$ 26,949	$ 7,529	$ 97,423	$ 1,157	$ -	$ 148,058
Net (losses) gains included in other comprehensive loss	-	29	(75)	1,684	65	-	1,703
Net losses included in earnings	-	-	(207)	-	(42)	-	(249)
Purchases, issuances and settlements	-	(195)	139,690	(18,524)	(1,180)	(35)	119,756
Transfers into Level 3	-	-	-	-	-	832	832
Transfers out of Level 3	(15,000)	(26,783)	(146,930)	-	-	-	(188,713)
Balance at December 31, 2014	$ -	$ -	$ 7	$ 80,583	$ -	$ 797	$ 81,387

None of the losses included in earnings in 2014 were attributable to assets still held at December 31, 2014.

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the year ended December 31, 2014. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At December 31, 2014, Level 3 investments included one non-agency MBS. In 2014, one corporate debt security and three agency debt securities which had previously been included in Level 3 were valued using independent third-party valuation services using Level 2 criteria and were, accordingly, transferred from Level 3 to Level 2. The liability for standby letters of credit was transferred into Level 3 during 2014 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

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

Fair Value Measurement at December 31, 2014					
	Total	Quoted Price in Active Markets for Identical As- (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	$ 4,996	$ -	$ -	$ 4,996	$ (2,362)
Other property owned	11,456	-	-	11,456	314
Total assets	$ 16,452	$ -	$ -	$ 16,452	$ (2,048)

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

	December 31, 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	**$ 195,479**	**$ 195,479**	**$ -**	**$ -**	**$ 195,479**
Net loans	**15,882,657**	**-**	**-**	**15,796,675**	**15,796,675**
Total assets	**$ 16,078,136**	**$ 195,479**	**$ -**	**$ 15,796,675**	**$ 15,992,154**
Liabilities:					
Systemwide debt securities	**$ 19,390,662**	**$ -**	**$ -**	**$ 19,384,908**	**$ 19,384,908**
	$ 19,390,662	**$ -**	**$ -**	**$ 19,384,908**	**$ 19,384,908**

	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	$ 545,090	$ 545,090	$ -	$ -	$ 545,090
Net loans	14,733,070	-	-	14,676,805	14,676,805
Total assets	$ 15,278,160	$ 545,090	$ -	$ 14,676,805	$ 15,221,895
Liabilities:					
Systemwide debt securities	$ 18,206,726	$ -	$ -	$ 18,265,040	$ 18,265,040
Subordinated debt	49,801	-	-	52,972	52,972
	$ 18,256,527	$ -	$ -	$ 18,318,012	$ 18,318,012

	December 31, 2014				
	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	$ 428,361	$ 428,361	$ -	$ -	$ 428,361
Net loans	13,204,197	-	-	13,182,903	13,182,903
Total assets	$ 13,632,558	$ 428,361	$ -	$ 13,182,903	$ 13,611,264
Liabilities:					
Systemwide debt securities	$ 16,330,008	$ -	$ -	$ 16,406,719	$ 16,406,719
Subordinated debt	49,739	-	-	53,989	53,989
	$ 16,379,747	$ -	$ -	$ 16,460,708	$ 16,460,708

VALUATION TECHNIQUES

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," authoritative accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the bank for assets and liabilities:

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2.

Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. At December 31, 2016, there were no agency MBS investments in Level 3. Level 3 assets at December 31, 2016, included the bank's AMBS portfolio, which is valued by the bank using a model that incorporates underlying rates and current yield curves.

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

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

Assets Held in Nonqualified Benefits Trusts

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

Derivatives

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

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

Standby Letters of Credit

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

Loans

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

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. The fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Accordingly, these assets are classified within Level 2.

Bonds and Notes

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

Subordinated Debt

The fair value of subordinated debt was estimated using discounted cash flows. Generally, the instrument would be classified as Level 2; however, due to limited activity and less transparency around inputs to the valuation, the securities were classified as Level 3.

Other Property Owned

OPO is generally classified as Level 3. The process for measuring the fair value of OPO involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

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.

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
Loans held for sale	Discounted cash flow	Appropriate interest rate yield curve

With regard to impaired loans and OPO, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and OPO and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Federal funds sold	Carrying value	Par/principal
Investment securities available for sale	Quoted prices Discounted cash flow	Price for similar security Constant prepayment rate Appropriate interest rate yield curve
Loans held under the fair value option	Quoted prices Discounted cash flow	Price for similar security Constant prepayment rate Appropriate interest rate yield curve
Interest rate caps	Discounted cash flow	Appropriate interest rate yield curve Annualized 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 balance
Loans	Discounted cash flow	Prepayment forecasts Appropriate interest rate yield curve Probability of default Loss severity
Systemwide debt securities	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

Note 15 — Derivative Instruments and Hedging Activity

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

The bank 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 bank has interest rate caps and pay fixed interest rate swaps in order to reduce the impact of rising interest rates on its floating-rate assets. At December 31, 2016, the bank held interest rate caps with a notional amount of $170,000 and a fair value of $414, and pay fixed interest rate swaps with a notional amount of $200,000 and a fair value of $7,660. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the year ended December 31, 2016, is 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	-	(140,000)	(140,000)
Balance at December 31, 2016	**$ 200,000**	**$ 170,000**	**$ 370,000**

By using derivative instruments, the bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the bank's credit risk will equal the fair value gain of the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the bank, thus creating a repayment risk for the bank. When the fair value of the derivative contract is negative, the bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the bank maintains collateral agreements to limit exposure to agreed upon thresholds; the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of, and levels of exposure to, individual counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. At December 31, 2016, the bank had credit exposure to counterparties totaling $8,074, as compared with $500 at December 31, 2015 and $80 at December 31, 2014.

The credit exposure represents the exposure to credit loss on derivative instruments, which is estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts in a gain position.

The table below presents the credit ratings of counterparties to whom the bank has credit exposure at December 31, 2016:

	Remaining Years to Maturity			Maturity			Exposure
	Less Than One to Five Years	More Than Five Years	Total	Distribution Netting	Exposure	Collateral Held	Net of Collateral
Moody's Credit Rating							
A1	$ -	$ 127	$ 127	$ -	$ 127	$ -	$ 127
Aa1	29	-	29	-	29	-	29
Aa2	-	7,918	7,918	-	7,918	-	7,918

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

Fair Values of Derivative Instruments:

The following table represents the fair value of derivative instruments as of December 31, 2016, 2015 and 2014:

	Balance Sheet Location	**Fair Value 2016**	Fair Value 2015	Fair Value 2014	**Balance Sheet Location**	**Fair Value 2016**	Fair Value 2015	Fair Value 2014
Interest rate caps	Other assets	**$ 414**	$ 504	$ 748	Other liabilities	**$ -**	$ -	$ -
Pay fixed swaps	Other assets	**7,660**	-	-	Other liabilities	**-**	-	-

The following table sets forth the amount of gain (loss) recognized in Other Comprehensive Income (OCI) for the years ended December 31, 2016, 2015 and 2014:

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) at December 31,		
	2016	2015	2014
Interest rate caps	**$ (89)**	$ (586)	$ (791)
Pay fixed swaps	**6,596**	-	-

	Amount of Gain Reclassified From AOCI Into Income (Effective Portion) at December 31,		
	2016	2015	2014
Interest expense	**$ 1,089**	$ 1,374	$ 2,548
Interest expense	**732**	-	-

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

December 31, 2016 *(dollars in millions)*	**Maturities of 2016 Derivative Products and Other Financial Instruments** 2017	2018	2019	2020	2021	Subsequent Years	Total	**Fair Value**
Total Systemwide debt obligations:								
Fixed rate	$ 4,708	$ 2,661	$ 2,135	$ 1,607	$ 1,241	$ 2,598	$ 14,950	$ 14,938
Weighted average interest rate	0.88%	1.06%	1.33%	1.53%	1.95%	2.39%	1.40%	
Variable rate	$ 4,165	$ 275	$ -	$ -	$ -	$ -	$ 4,440	$ 4,447
Weighted average interest rate	0.74%	0.74%	-	-	-	-	0.74%	
Total Systemwide debt obligations:	$ 8,873	$ 2,936	$ 2,135	$ 1,607	$ 1,241	$ 2,598	$ 19,390	$ 19,385
Weighted average interest rate	0.79%	1.03%	1.33%	1.53%	1.95%	2.39%	1.25%	
Derivative instruments:								
Interest rate caps								
Notional value	$ 50	$ -	$ -	$ 50	$ -	$ 70	$ 170	$ -
Weighted average receive rate	-	-	-	-	-	-	-	
Weighted average pay rate	-	-	-	-	-	-	-	
Pay fixed swaps								
Notional value	$ -	$ -	$ -	$ -	$ -	$ 200	$ 200	$ 8
Weighted average receive rate	-	-	-	-	-	0.73%	0.73%	
Weighted average pay rate	-	-	-	-	-	1.33%	1.33%	

Note 16 — Selected Quarterly Financial Information (Unaudited)

Quarterly results of operations are shown below for the years ended December 31:

	2016 First	Second	Third	Fourth	Total
Net interest income	**$ 56,933**	**$ 58,184**	**$ 59,538**	**$ 63,666**	**$238,321**
Provision (negative provision) for credit losses	**693**	**799**	**(1,104)**	**175**	**563**
Noninterest expense (income), net	**14,130**	**11,293**	**16,449**	**3,480**	**45,352**
Net income	**$ 42,110**	**$ 46,092**	**$ 44,193**	**$ 60,011**	**$192,406**

	2015 First	Second	Third	Fourth	Total
Net interest income	$ 56,701	$ 58,268	$ 56,188	$ 61,311	$232,468
(Negative provision) provision for credit losses	871	(2,538)	93	(932)	(2,506)
Noninterest expense (income), net	3,729	13,641	10,415	14,950	42,735
Net income	$ 52,101	$ 47,165	$ 45,680	$ 47,293	$192,239

	2014 First	Second	Third	Fourth	Total
Net interest income	$ 51,941	$ 56,142	$ 59,628	$ 58,948	$226,659
(Negative provision) provision for credit losses	(3)	(692)	(5,157)	419	(5,433)
Noninterest expense (income), net	7,138	10,346	9,698	16,650	43,832
Net income	$ 44,806	$ 46,488	$ 55,087	$ 41,879	$188,260

Note 17 — Combined Association Financial Data (Unaudited)

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

Balance Sheet Data	Year Ended December 31, **2016**	2015	2014
Cash	**$ 11,750**	$ 5,762	$ 8,840
Investment securities	**25,693**	30,213	39,086
Loans	**17,098,664**	15,985,054	14,547,612
Less allowance for loan losses	**74,087**	64,517	54,245
Net loans	**17,024,577**	15,920,537	14,493,367
Accrued interest receivable	**152,749**	137,950	122,702
Other property owned	**19,354**	18,306	22,400
Other assets	**448,656**	400,359	372,360
Total assets	**$ 17,682,779**	$ 16,513,127	$ 15,058,755
Notes payable	**$ 14,427,545**	$ 13,420,186	$ 12,110,352
Other liabilities	**361,535**	336,638	327,132
Total liabilities	**14,789,080**	13,756,824	12,437,484
Capital stock and participation certificates	**63,277**	61,356	59,127
Additional paid-in-capital	**224,625**	224,625	149,179
Retained earnings	**2,610,251**	2,473,964	2,422,878
Accumulated other comprehensive loss	**(4,454)**	(3,642)	(9,913)
Total shareholders' equity	**2,893,699**	2,756,303	2,621,271
Total liabilities and shareholders' equity	**$ 17,682,779**	$ 16,513,127	$ 15,058,755

	Year Ended December 31,		
Income Statement	**2016**	2015	2014
Interest income	**$ 773,894**	$ 710,829	$ 647,257
Interest expense	**282,455**	241,469	214,588
Net interest income	**491,439**	469,360	432,669
Provision (negative provision) for loan losses	**10,929**	8,159	(1,037)
Net interest income after provision (negative provision) for loan losses	**480,510**	461,201	433,706
Noninterest income	**93,413**	85,911	79,296
Noninterest expense	**248,057**	233,915	198,856
Provision for (benefit from) income taxes	**91**	(75)	529
Net income	**$ 325,775**	$ 313,272	$ 313,617
Other comprehensive (loss) income	**(812)**	6,271	(12,162)
Comprehensive income	**$ 324,963**	$ 319,543	$ 301,455

Note 18 — Subsequent Events

The bank has evaluated subsequent events through March 2, 2017, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of March 2, 2017.

Disclosure Information and Index

DISCLOSURES REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

DESCRIPTION OF BUSINESS

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

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

Board of Directors and Senior Officers

FCBT is governed by a seven-member board of directors. Five directors are farmers or ranchers, who are elected by the customers of the 14 associations that own the bank. Two directors, who are not stockholders of any of the associations, are appointed by the elected board members. The board of directors is responsible for directing the operations of the bank. The bank's senior officers, through the bank's chief executive officer, are accountable to the board of directors and work with the board of directors to set the bank's direction, goals and strategies.

The following represents certain information regarding the board of directors and senior officers of the bank as of December 31, 2016, including business experience during the past five years:

DIRECTORS

James F. "Jimmy" Dodson, 63, chairman of the board of directors, is from Robstown, Texas. He grows cotton, corn, wheat and milo on four family farm operations and owns a seed sales business. Mr. Dodson serves on the bank's audit and compensation committees and was chairman of the Tenth District Farm Credit Council for 2016. In January 2017, he was elected vice chairman of the Tenth District Farm Credit Council. He is one of the board's designated financial experts on the board audit committee for the bank. He also serves on the National Farm Credit Council Board of Directors, where he is a member of the executive committee. Mr. Dodson joined the board of directors of FCC Services, an integrated services firm, in January 2017. He is also president of Dodson Farms, Inc. and Dodson Ag, Inc., and is a partner in Legacy Farms and 3-D Farms. He is manager of Weber Station LLC, which is the managing partner of Weber Greene, Ltd., both of which are family farm real estate management firms. Mr. Dodson is a founding member of Cotton Leads, a responsible cotton production initiative of U.S. and Australian Cotton Producer organizations. He also serves on the boards of Gulf Coast Cooperative, an agricultural retail cooperative, and the Texas Agricultural Cooperative Council, an industry trade association. He is past chairman of the National Cotton Council of America, the American Cotton Producers and the Cotton Foundation, and formerly served as a director of Cotton Incorporated. He is past chairman of the Texas AgFinance, FCS board of directors and a former member of the Texas District's Stockholders Advisory Committee. Mr. Dodson became a director of the bank in 2003 and his current term expires at the end of 2017.

Lester Little, 66, vice chairman of the board of directors, is from Hallettsville, Texas. He owns and operates a farm and offers custom-farming services, primarily reclaiming farms and handling land preparation. His principal crops are corn, milo, hay and wheat. Mr. Little is a member of the bank's audit and compensation committees. He is also a member of the Tenth District Farm Credit Council. In addition, he is a member of the Farm Bureau, an agriculture trade organization, and served on the Lavaca Regional Water Planning Group, a regional water planning authority in Texas, during 2016. He previously was a board member of the Lavaca Central Appraisal District, a county organization in Texas that hires the chief appraiser for the county for purposes of assigning real estate values for tax assessments, and board chairman of the Hallettsville Independent School District Board of Trustees. He is former chairman of the Capital Farm Credit board of directors and previously served as vice chairman of the Texas District's Stockholders Advisory Committee. Mr. Little became a director in 2009 and his term expires at the end of 2017.

Brad C. Bean, 56, is from Gillsburg, Mississippi. He is a dairy farmer with other farming interests, including corn, sorghum and timber. Mr. Bean is chairman of the bank's audit committee and is also a member of the bank's compensation committee. In January 2017, he was elected chairman of the Tenth District Farm Credit Council and was also elected to the National Farm Credit Council (FCC) Board of Directors as a district representative. Mr. Bean serves on the boards of the Amite County Farm Bureau and the Amite County Cooperative, both of which are trade organizations. Mr. Bean is a former chairman of the Southern AgCredit, ACA board of directors and a former vice chairman of the Texas District's Stockholders Advisory Committee. Mr. Bean became a director in 2013 and his term expires at the end of 2018.

Ralph W. "Buddy" Cortese, 70, is from Fort Sumner, New Mexico. He is president of Cortese Farm and Ranch, Inc., a farming and ranching operation. He is chairman of the bank's compensation committee and is a member of the bank's audit committee. Mr. Cortese also is a member of the Tenth District Farm Credit Council board. He currently serves on the board of the Federal Farm Credit Banks Funding Corporation. Mr. Cortese served as chairman of the board of directors of the bank from 2000 through 2011. He is a member of the Texas Agricultural Cooperative Council board of directors, an industry association. From 2003 to 2008, he served on the board of Federal Agricultural Mortgage Corporation (Farmer

Mac), a government agency chartered to create a secondary market for agricultural loans, and is a former board member of the American Land Foundation, a property rights organization. Prior to joining the bank board, he was chairman of the PCA of Eastern New Mexico board of directors. Mr. Cortese became a director in 1995 and his term expired at the end of 2016. He was re-elected to another three-year term effective January 1, 2017.

Linda C. Floerke, 55, was elected to her first term on the board of directors effective January 1, 2017, and her current term expires December 31, 2019. She is a member of the bank's audit and compensation committees and is also a member of the Tenth District Farm Credit Council. Ms. Floerke lives near Lampasas, Texas, where she and her husband, Benton, raise cattle, whitetail deer and hay as Buena Vista Ranch, FLP. They also own and manage Agro-Tech Services, Inc., a family business in which she has been involved for over 30 years and has owned and managed for the past 18 years, which provides services such as liquid fertilizer, crop chemicals, custom application and cattle protein supplements to area farmers and ranchers. They also own and manage rental property in Uvalde, Real and Williamson counties. She is a co-owner of Casa Floerke LLC, a rental property business, and is the secretary/treasurer and co-owner of Jarrell Farm Supply, Inc. Ms. Floerke serves on the Staff Parish Relations Committee for the Lampasas United Methodist Church and serves on the Texas A&M AgriLife Extension Leadership Advisory Board, which provides oversight of agricultural extension services. She previously served as a trustee of the Lampasas Independent School District. Ms. Floerke was a director of Lone Star Ag Credit, formerly Texas Land Bank, from 2012 through the end of 2016.

Elizabeth G. "Betty" Flores, 72, is from Laredo, Texas, where she served as city mayor from 1998 to 2006. Ms. Flores is one of the two appointed members on the board and serves on the bank's audit committee. In January 2017, she was elected vice chairman of the bank's compensation committee. She is also a member of the Tenth District Farm Credit Council. Previously, she was senior vice president of the Laredo National Bank. Ms. Flores serves on the boards of the Texas Agricultural Cooperative Council, an industry association; Mercy Ministries of Laredo, a domestic violence nonprofit corporation; Laredo Main Street, a nonprofit organization; and Texas A&M International University Dustdevils, an athletics promotion organization. In 2016, she was appointed by the Texas A&M University Chancellor, John Sharp, to serve on the selection committee to identify a new president for Texas A&M University. Ms. Flores is a graduate of Leadership Texas 1995, a leadership program for women professional and community leaders for the state of Texas, and Leadership America 2008, a national leadership program for women professional and community leaders. In 2010, she was appointed to serve as a member of the Farm Credit System Diversity Workgroup. Ms. Flores is a partner in a ranching and real estate partnership, E.G. Ranch, Ltd. She is a former member of the Federal Reserve Board Consumer Advisory Council. Ms. Flores became a director in 2006 and her term expires at the end of 2018.

Jon M. "Mike" Garnett, 72, is from Spearman, Texas. Mr. Garnett raises grain and forage crops and runs stocker cattle, and is president of Garnett Farms, Inc., a farming operation. During 2016, he was vice chairman of the bank's compensation committee and a member of the bank's audit committee. He was also a member of the Tenth District Farm Credit Council. In January 2003, Garnett joined the National Farm Credit Council (FCC) Board of Directors as a district representative, became vice chairman of the FCC Board of Directors in 2009 and served as chairman from 2011 to 2013. In addition, he was vice chairman of the FCC Board's compensation and benefits committee and a member of the board's executive, governance and coordinating committees. He also is vice chairman of the Hansford County Soil and Water Conservation District, a county organization in Texas with the role of conservation of natural resources. Mr. Garnett is a former director of a consumer cooperative; a director on the Spearman Chamber of Commerce, a trade organization; and a former member of the Spearman Independent School District Board of Trustees. Prior to joining the bank board, he was chairman of the Panhandle-Plains Land Bank, FLCA board of directors from 1995 to 1998. Mr. Garnett became a director in 1999 and he retired from the bank's board of directors upon the expiration of his term at the end of 2016.

M. Philip Guthrie, 71, was appointed effective July 1, 2015, to a term on the board expiring at the end of 2017. He is vice chairman of the bank's audit committee and also serves on the bank's compensation committee. He is also a member of the Tenth District Farm Credit Council. He is one of the board's designated financial experts on the board audit committee for the bank. Mr. Guthrie is the chief executive officer of Denham Partners LLC, a Dallas-based private investment firm, and the chief executive officer and director for Neuro Holdings International LLC, which is a medical devices firm. He also serves as a director for Neuro Resources Group, a medical devices firm, and as a director for Direct General Corporation, an insurance firm. Early in his career, he was chief financial officer of Southwest Airlines, and later served as chief financial officer of Braniff International during that airline's reorganization. Mr. Guthrie also was managing director of Mason Best Co., a Dallas-based investment firm, for 10 years, and has served as chairman, director or chief executive officer of several private and public financial service companies, both in banking and insurance. A Certified Public Accountant and a Chartered Global Management Accountant, Mr. Guthrie is audit committee–qualified under the guidelines of the Securities and Exchange Commission, the New York Stock Exchange and Nasdaq. He earned his bachelor's degree in accounting from Louisiana Tech University and his MBA from the University of Michigan. Mr. Guthrie is a stockholder of his family-managed 125-year-old livestock and crop operation in northern Louisiana.

Committees

The board of directors has established an audit committee and a compensation committee. All members of the board serve on both the audit committee and the compensation committee. As the need arises, a member of the board of directors will also participate in the functions of the bank's credit review committee. The responsibilities of each board committee are set forth in its respective approved charter.

The disclosure of director and senior officer information included in this disclosure information and index was reviewed by the compensation committee prior to the annual report's issuance (including the disclosure information and index) on March 2, 2017.

Compensation of Directors

Directors of the bank are compensated in cash for service on the bank's board. An annual compensation amount is considered as a retainer for all services performed by the director in an official capacity during the year except for extraordinary services for which additional compensation may be paid. The annual retainer fee is to be paid in equal monthly installments. Compensation for 2016 was paid at the rate of $57,391 per year, payable at $4,782.58 per month. In addition to days served at board meetings, directors may serve additional days on other official assignments and under exceptional circumstances where extraordinary time and effort are involved, the board may approve additional compensation, not to exceed 30 percent of the annual maximum allowable by FCA regulations. During 2016, no additional compensation was paid to a board member. No director received non-cash compensation exceeding $5,000 in 2016. Total cash compensation paid to all directors as a group during 2016 was $401,737.

Information for each director for the year ended December 31, 2016, is provided below:

Board Member	Days Served at Board Meetings*	Days Served on Other Official Assignments**	Total Compensation Paid***
James F. Dodson	29.50	33.25	$ 57,391
Lester Little	29.50	25.25	57,391
Brad C. Bean	29.50	26.50	57,391
Ralph W. Cortese	29.50	21.25	57,391
Elizabeth G. Flores	23.00	23.25	57,391
Jon M. Garnett	26.25	23.50	57,391
M. Philip Guthrie	22.25	17.50	57,391
			$ 401,737

*Includes travel time, but does not include time required to prepare for board meetings. Also includes attendance via teleconference.

**Includes audit committee meetings, compensation committee meetings, credit review committee meetings, special assignments, training and travel time.

***Gross compensation for year presented.

Directors are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. The aggregate amount of expenses reimbursed to directors in 2016, 2015 and 2014 totaled $122,538, $139,053 and $119,718, respectively. A copy of the bank's travel policy is available to shareholders upon request.

SENIOR OFFICERS

Name and Title	Position	Experience – Past Five Years	Other Business Interests – Past Five Years
Larry R. Doyle, *Chief Executive Officer*	13.5 years		He was appointed to be a member of the board of directors for the Federal Farm Credit Banks Funding Corporation in September of 2016 and was reappointed in March of 2017 for a three-year term. He was chairman of the Farm Credit System Presidents Planning Committee (PPC), currently serves on the PPC executive and business practices committees and is chairman of the PPC finance committee. He serves on the National Council of Farmer Cooperatives Executive Council. He is the managing member of the following organizations: Lone Star Plantation LLC, a family-owned farming and land ownership operation, K&R Farm LLC, a family-owned farming operation and K&R Land Holdings, a family-owned land ownership operation.
Kurt Thomas, *Senior Vice President,* *Chief Credit Officer*	6.6 years		He served as a member of the board of governors for the Farm Credit System Captive Insurance Corporation until his term expired in February 2011 and currently serves as a member of the Farm Credit System Credit Workgroup. He is the manager of Estancia Maximo, a hunting and ranching business.
Carolyn Owen, *Senior Vice President,* *Corporate Affairs, General Counsel and Corporate Secretary*	3.8 years	Vice President, Corporate Affairs, Deputy General Counsel, FCBT	She serves as a member of the Farm Credit System Capital Workgroup.
Amie Pala, *Chief Financial Officer*	6.4 years		She serves as a member of the Farm Credit System Capital Workgroup and of the Farm Credit System Disclosure Committee.
Michael Elliott, *Chief Information Officer*	3 years	Vice President of Information Technology, FCBT 2011-2013	
Stan Ray, *Chief Administrative Officer*	6.4 years		He serves on the AgFirst/FCBT Plan Sponsor Committee, the Texas District Benefits Administration Committee, the Farm Credit System's Reputation Risk Analysis and Planning Workgroup and is president of the Tenth District Farm Credit Council, a trade organization. He is a member of the board of directors for the following organizations: Texas FFA Foundation, a nonprofit organization promoting youth in agriculture; Texas Agricultural Cooperative Council, an industry association; and Rodeo Austin, a nonprofit organization promoting youth education and Western heritage.
Susan Wallar, *Chief Audit Executive*	5 years	Vice President of Internal Audit, FCBT	She serves as a member of the board of governors and is chairman of the audit committee for the Farm Credit System Captive Insurance Corporation. She is a member of the Farm Credit System Review, Audit and Appraisal Workgroup (RAAW) and the Farm Credit System Internal Controls over Financial Reporting (ICFR) Workgroup.

Compensation Discussion and Analysis – Senior Officers

Overview

The board of directors of the Farm Credit Bank of Texas, through its compensation committee, has pursued a compensation philosophy for the bank that promotes leadership in the adoption and administration of a comprehensive compensation program.

A description of the bank's compensation plans is as follows.

Base Pay

Market-based salaries along with the other incentive and benefits described below are critical to attracting and retaining needed talent in a highly competitive job market and at a time of high retirement risks.

Defined Benefit Pension Plan

The Defined Benefit Pension Plan (Pension Plan) is a final average pay plan which was closed to new participants in 1996, and later fully closed to all participants, including rehires who had formerly participated in the plan. The Pension Plan benefits are based on the average monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35).

The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the employee's retirement age is 65, that the employee is married on the date the annuity begins, that the spouse is exactly 2 years younger than the employee and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Pension Plan benefit is offset by the pension benefits any employee may have from another Farm Credit System institution.

The Pension Plan was amended in 2013 to allow those retiring after September 1, 2013, to elect a lump-sum distribution option. The plan was also amended to allow participating employers to exclude from pension compensation new long-term incentive plans which began after January 1, 2014.

In 2014 the plan was amended to allow terminated employees with a vested benefit to also elect a lump-sum distribution beginning January 1, 2015.

401(k) Plan – Elective

Farm Credit Benefits Alliance (FCBA) 401(k) Plan is open to all bank employees and includes up to a 4 percent employer match on employee deferrals up to Internal Revenue Service (IRS) directed limits. Employees become fully vested in the plan upon participation. The plan allows for self-directed investment choices by participants.

401(k) Plan – Non-Elective Defined Contribution Plan

FCBA 401(k) Plan's Defined Contribution component is open to employees not participating in the Defined Benefit Pension Plan. Employees become fully vested in the plan upon participation and receive a 5 percent employer contribution each pay period up to IRS-directed limits to the participant's account which is invested in the self-directed investment choices available.

Nonqualified Supplemental 401(k) Plan

With the exception of the CEO, this plan is open to all employees who meet the minimum salary requirements set by the IRS. It has three features: elective deferral of employee compensation; discretionary employer contributions; and restored employer contributions that make an employee "whole" when 401(k) IRS limitations are met. Deferred money is invested with similar investment fund choices as the qualified 401(k) Plan at the participant's direction.

Success Sharing Plan

The purpose of the Farm Credit Bank of Texas Success Sharing Plan (SSP) is to advance the mission of the bank by recognizing employees with variable pay through a discretionary bonus. The SSP (also categorized as a bonus or profit-sharing plan), rewards employees as the overall organization experiences success and performs within the realities of the current market environment and in accordance with business planning goals and objectives. Additionally, it is expected to help to attract, motivate and retain bank staff.

The SSP provides an annual award that is paid after the bank's operational results and strategic objectives are reported and assessed by the compensation committee of the board. The compensation committee has the final authority to determine if a success sharing award is to be paid and what percentage of the award target will be funded. The CEO does not participate in this plan; otherwise, all employees are eligible to participate in the SSP for that year (formerly employees hired after the third quarter were excluded from the plan). This program applies the concept of differential factors for all eligible bank participants, and is tiered into five groups according to employee job grades and their accountability level inside the entire organization. Each employee group has its own Success Sharing Award Factor for this plan. This factor is multiplied by the employee's December 31st annualized base salary to arrive at the Success Sharing Plan award target for the year.

An additional modification in 2014 included the following change. When a promotion or salary adjustment occurs during the year that elevates an employee's job grade into a higher employee group in the plan, the plan's award calculation will be prorated and paid at the separate employee group percentages for the periods the employee was in each of the employee groups. Additionally, when a salary adjustment occurs, the plan's award calculation will be prorated and paid at the separate employee salaries for the periods the employee was at each salary.

FCBT Retention Plan

This is a nonqualified plan for bank employees that provides dollar incentives to remain employed for specific time periods to accomplish important bank initiatives or to aid in leadership succession. It is paid according to the agreement arranged for each participant. The CEO approves and recommends participants to the compensation committee, which approves plan provisions and participant agreements. Several employees were offered and accepted three-year retention plans in 2015. These employees have expertise with current software and systems that the bank is transitioning from to new software/system solutions. In order to retain these employees with critical knowledge, the bank offered retention plans that were accepted by the employees. The three-year retention plans are back loaded. The employees will receive 15 percent payout at the end of the first and second year if employed on December 31 each year. At the end of the third and final year, the employees will receive the last payment of 70 percent of the agreed-upon amount.

Spot Awards Program

This bank program allows for discretionary awards to be paid to employees throughout the year in recognition of outstanding performance events or service provided to the bank's customers. Senior officers do not participate in this program.

Bank-Owned Vehicle Program

Use of bank-owned vehicles is provided to three groups within the bank: the executive group, which is comprised of voting members of the bank's executive committee; the senior management group, which includes members defined by the CEO exclusive of the voting members of the executive committee; and the other group consisting of employees who have been identified by executive committee members as requiring a vehicle for job performance. Any current employee who was in possession of a bank-provided vehicle when vehicle eligibility guidelines were set was grandfathered for their remaining uninterrupted employment term at the bank. Employees assigned use of a bank-owned vehicle are required to maintain written records of their business and personal use. This data is used to annually impute to the employee's taxable wages the personal use value of the vehicle following the IRS lease value rule.

Educational and Training Program

This program was established in recognition that ongoing enrichment of employees' skills, knowledge and expertise is essential not only for the success of the bank and the retention of key employees, but for the realization of employees' personal growth and achievement.

This program is directed to employees at all levels and includes formal orientation of new hires, a continuing education and degree program, and a licensing and certification program. The degree program reimbursement is open to full-time employees who have been with the bank at least six months. This program covers tuition, lab fees, books and registration fees if the employee receives a grade of C or better in undergraduate courses and B or better in graduate-level courses and expenses are in excess of those reimbursable by a scholarship or other sources.

Tuition reimbursement will not normally exceed the cost per semester hour charged at state-supported universities. Expenses incurred above the state-supported university baseline are the responsibility of the employee. Certain positions in the bank must be staffed by employees who hold professional licenses and/or certifications. In these instances, the membership and license fees, training and educational expenses for obtaining and maintaining professional status, licenses and certifications are reimbursable.

Compensation, Risk and Performance

One of the critical strategic goals of the bank is to provide market-driven financial products and support services to add value to our association customers. The bank succeeds at this through robust customer communications and relationships to stay aware of their business needs. Our staff provides technical, credit, operational and marketing support, and offers leadership in talent acquisition, retention and development. Our ability to succeed in these areas is dependent upon having a knowledgeable and experienced customer-service-focused workforce that is responsive but also proactive in meeting our district's business challenges and recognizing and taking advantage of opportunities, including promoting the bank's mission as a government-sponsored enterprise.

Market and higher compensation programs are required to keep Farm Credit competitive in the talent war currently being waged in Austin, Texas. The bank is located in one of the nation's top economic markets. It has become known as the "Silicon Hills" for the large number of technology firms located here that pay top salaries to information technology professionals as well as many other employee classifications. The unemployment rate has for years been lower than the national average (currently about 3 percent compared to 5 percent nationally), which makes attracting talent a struggle with not only the aggressive tech sector, but also with competition from major medical, real estate and government employers. Austin is one of the country's fastest growing regions bringing new talent into the market, but also attracts new employers seeking those same resources. All these factors exert an upward pressure on all aspects of the employee value proposition and stress in acquiring and retaining the skilled workforce needed to achieve the bank's goals.

While external factors impact compensation programs, internal measures are in place to make certain there is alignment with the bank's performance. Market-driven base salaries are combined with a bonus program that is at risk each year. The compensation committee of the district board annually determines the structure and the award for the Success Sharing Plan (SSP), a short-term bonus plan. This gives them the agility to modify or discontinue the plan in response to changing circumstances. The bank is not locked into an incentive program for any extended period of time.

The SSP in regard to the total compensation mix is not overly significant or significantly larger than the market practice. Multiple performance measures are considered, which include financial and operational metrics. Although awards are based on a single year's performance, because the bank's customers are its cooperative associations, performance in the time period measured is less uncertain than in businesses with larger and lesser known customer bases. The board and compensation committee review the bank's financial and operational performance at each meeting, so SSP decisions are reviewed by the same centralized group who hear those reports all year. Additionally, the compensation committee has external resources to support its oversight and uses that independent compensation consultant to review SSP awards with its annual executive compensation update.

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

Chief Executive Officer (CEO) Compensation Table and Policy

In December 2016, a memorandum of understanding between the bank and the CEO was executed with an effective date of January 1, 2017, which supersedes the previous memorandum of understanding effective January 2, 2014. The memorandum of understanding is effective for a term of three years, until December 31, 2019. The base salary for each year of the three-year term for the CEO will be $1,375,000. Bonus payments, if any, are at the sole discretion of the compensation committee. The employment relationship between the bank and CEO remains at-will, meaning the bank may terminate the CEO's employment at any time, and the CEO may choose to leave at any time.

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

The following table summarizes the compensation paid to the CEO of the bank during 2016, 2015 and 2014.

Summary Compensation Table for the CEO

		Annual					
Name of Chief Executive Officer	Year	Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	Total
Larry R. Doyle	2016	$ 1,250,048	$ 1,375,000	$ 102,812	$ 960	$ -	$ 2,728,820
Larry R. Doyle	2015	1,250,048	1,250,000	(29,609)	9,294	-	2,479,733
Larry R. Doyle	2014	1,250,048	1,250,000	274,628	21,523	-	2,796,199

(a) Gross salary for year presented.

(b) Bonus compensation is presented in the year earned, and bonuses are paid within the first 30 days of the subsequent calendar year. For 2016, bonus compensation was paid in January 2017 of $1,375,000 based on the performance of the bank during 2016. For 2015 and 2014, bonus compensation was paid in January 2016 and January 2015 of $1,250,000 for each year based on the performance of the bank during 2015 and 2014.

(c) For 2016, 2015 and 2014, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. For 2016, the change in pension value is primarily associated with a decline in the discount rate as compared to 2015. For 2015, the negative (or decrease) change in pension value is due to the increase in the accounting disclosure rate for 2015 as compared to 2014. For 2014, the increase in the change in pension value is associated with a decline in the discount rate and a change in the mortality table used to calculate the present value of the pension plan as compared to 2013.

(d) Deferred/Perquisites for 2016 includes premiums paid for life insurance. For 2015 and 2014, the amounts reflected include contributions to a 401(k) plan, automobile benefits and premiums paid for life insurance.

(e) No values to disclose.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the aggregate number of officers of the bank during 2016, 2015 and 2014. Amounts reflected in the table are presented in the year the compensation is earned.

Summary Compensation Table for Other Officers

		Annual					
Aggregate Number in Group (excludes CEO)	Year	Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	Total
8 Officers	2016	$ 2,043,668	$ 975,921	$ 1,276,074	$ 270,692	$ -	$ 4,566,355
8 Officers	2015	1,939,518	925,184	135,850	260,208	-	3,260,760
9 Officers	2014	1,936,172	887,312	1,410,779	264,664	33,420	4,532,347

(a) Gross salary for year presented.

(b) Bonuses paid within the first 30 days of the subsequent calendar year.

(c) For 2016, 2015 and 2014, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. The significant increase in the change in pension value for 2016 is due to an officer attaining the required years of service and age to receive the maximum benefit allowed under the plan. The significant increase in the change in pension value for 2014 is due to a decline in the discount rate and a change in the mortality table used to calculate the present value of the pension plan as compared to 2013.

(d) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance.

(e) For 2014, "Other" represents payments to one senior officer for their remaining annual leave hours at retirement.

For 2014, the aggregate number of officers includes one senior officer who retired from the bank during 2014.

Disclosure of the compensation paid during 2016 to any senior officer or officer included in the table is available and will be disclosed to shareholders of the institution and stockholders of the district's associations upon written request.

Neither the CEO nor any other senior officer received non-cash compensation exceeding $5,000 in 2016.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. A copy of the bank's travel policy is available to shareholders upon request.

Pension Benefits Table for the CEO and Senior Officers as a Group

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO and senior officers as a group for the year ended December 31, 2016:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2016
Larry R. Doyle	Farm Credit Bank of Texas Pension Plan	43.138	$ 1,743,166	$ -

Name	Plan Name	Average Years Credited Service	Present Value of Accumulated Benefit	Payments During 2016
Officers, including Other Highly Compensated Employees	Farm Credit Bank of Texas Pension Plan	34.293	$ 5,639,748	$ -

Description of Property

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility located at 4801 Plaza on the Lake Drive, Austin, Texas. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space and an "early out" option to terminate the lease in 2020.

Legal Proceedings

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

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 12, "Commitments and Contingencies," to the accompanying financial statements outlines the bank's position with regard to possible contingencies at December 31, 2016.

Description of Capital Structure

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

Description of Liabilities

The district's debt outstanding is described in Note 8, "Bonds and Notes," to the accompanying combined financial statements. The district's contingent liabilities are described in Note 13, "Commitments and Contingencies," to the accompanying combined financial statements. See also Note 11, "Employee Benefit Plans," with regard to obligations related to employee retirement plans.

Selected Financial Data

The selected financial data for the five years ended December 31, 2016, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Combined Financial Data" included in this annual report to stockholders.

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

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

Transactions With Senior Officers and Directors

The policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 11, "Related Party Transactions," to the accompanying financial statements.

Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was $240,149, $213,802 and $188,732 for 2016, 2015 and 2014, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Reserves for Credit Losses," and Note 9, "Shareholders' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was $4,355, $4,150 and $3,806 for 2016, 2015 and 2014, respectively, and was included in the bank's noninterest income.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2016, 2015 and 2014.

Relationship With Public Accountants

There were no changes in independent qualified public accountants since the prior annual report to shareholders, and there were no material disagreements with our independent qualified public accountants on any matter of accounting principles or financial statement disclosure during the period.

Fees for professional services paid by the bank during 2016 by PricewaterhouseCoopers LLP, the bank's independent qualified public accountants, were as follows.

- Audit services of $448 related to annual audits of the financial statements for the bank and district, of which $192 was associated with the completion of the 2015 annual audit of the financial statements and $21 related to out-of-pocket expenses for 2015 and 2016. Engagement letters for audit services for 2016 annual audit of the financial statements reflect an estimated fee of $358 for the bank and district, plus reasonable out-of-pocket expenses.
- Audit-related services of $347 of which $187 was associated with an internal controls over financial reporting (ICFR) readiness project for the bank and $2 was associated with the completion of agreed upon procedures relating to certain business application activities performed by FCBT on behalf of our affiliated associations for 2015. An engagement letter estimated the fees for the ICFR readiness project for 2016 to be $175 to $195, plus any out-of-pocket expenses. The remaining $158 of the total was related to procedures completed for the bank's SOC2 (Service Organization Control 2) assessment, specifically directed at evaluating the suitability of design and operating effectiveness of controls related to credit delivery, accounting, processing and related application hosting system

to meet the criteria for the security and availability principles set forth in SOC2. An engagement letter estimated the fees for the SOC2 engagement for 2016 to be $130 to $143, plus any out-of-pocket expenses.

- Non-audit services associated with the tabulation of ballots for the elections of the FCBT Board of Directors and bank nominating committee members and reporting of the results to the bank was completed by PricewaterhouseCoopers LLP with no fee paid.
- FCBT is exempt from federal and certain other income taxes as provided in the Farm Credit Act. No tax services were provided by PricewaterhouseCoopers LLP.

Fees paid for the audit of the Farm Credit Benefits Alliance (FCBA) 401(k) plan for 2015 as engaged by the AgFirst/FCBT Plan Fiduciary Committee totaled $15 and represented the bank's proportionate share of fees paid.

With the exception of the audit of the FCBA 401(k) plan, the non-audit services for the bank listed above required pre-approval of the bank's audit committee, which was obtained.

Relationships With Unincorporated Business Entities (UBEs)

The bank has relationships with the following three UBEs, which are all limited liability companies organized for the purpose of acquiring and managing unusual or complex collateral associated with loans:

- FCBT BioStar A LLC
- FCBT BioStar B LLC
- MB/BP Properties Joint Venture LLC

The bank and a district association are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC will facilitate private equity investments in agriculture-related businesses that will create growth and job opportunities in rural America. Each limited partner has a commitment to contribute up to $20.0 million over a 10-year period and, as of December 31, 2016, FCBT has invested $6.8 million, included in "Other assets" on the Balance Sheets.

Information regarding UBEs for district associations is disclosed in the individual association annual reports.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 2, 2017, and the report of management in this annual report to shareholders, are incorporated herein by reference.

The Farm Credit Bank of Texas' and its affiliated associations' (district) annual and quarterly reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720 or by calling (512) 483-9260. Copies of the district's quarterly and annual stockholder reports can be requested by sending an e-mail to *fcb@farmcreditbank.com*. The bank's and district's quarterly reports are available approximately 40 days after the end of each fiscal quarter. The bank's and district's annual reports will be posted on the bank's website (*www.farmcreditbank.com*) within 75 calendar days of the end of the bank's fiscal year. This posting coincides with an electronic version of the report being provided to its regulator, the Farm Credit Administration. Within 90 calendar days of the end of the bank's fiscal year, a copy of the bank's annual report will be provided to its stockholders.

Borrower Information Regulations

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

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

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

In line with its mission, the district has policies and programs for making credit available to young, beginning and small farmers and ranchers.

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

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

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

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

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

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

	At December 31, 2016	
	Number of Loans	Volume
(dollars in thousands)		
Total loans and commitments	75,383	$27,231,211
Loans and commitments to young farmers and ranchers	13,539	$ 2,288,656
Percent of loans and commitments to young farmers and ranchers	17.96%	8.40%
Loans and commitments to beginning farmers and ranchers	38,912	$ 8,328,322
Percent of loans and commitments to beginning farmers and ranchers	51.62%	30.58%

The following table summarizes information regarding new loans to young and beginning farmers and ranchers:

	For the year ended December 31, 2016	
	Number of Loans	Volume
(dollars in thousands)		
Total loans and commitments	17,501	$ 8,479,692
Loans and commitments to young farmers and ranchers	3,012	$ 739,584
Percent of loans and commitments to young farmers and ranchers	17.21%	8.72%
New loans and commitments to beginning farmers and ranchers	7,592	$ 2,322,931
Percent of loans and commitments to beginning farmers and ranchers	43.38%	27.39%

The following table summarizes information regarding loans to small farmers and ranchers:

	At December 31, 2016				
	Loan Size				
	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
(dollars in thousands)					
Total number of loans and commitments	14,027	16,953	23,801	20,602	75,383
Number of loans and commitments to small farmers and ranchers	10,469	13,469	18,382	11,802	54,122
Percent of loans and commitments to small farmers and ranchers	74.63%	79.45%	77.23%	57.29%	71.80%
Total loans and commitments volume	$ 2,812,147	$ 958,333	$ 3,143,866	$ 20,316,865	$ 27,231,211
Total loans and commitments to small farmers and ranchers volume	$ 277,407	$ 729,629	$ 2,321,498	$ 6,498,983	$ 9,827,517
Percent of loans and commitments volume to small farmers and ranchers	9.86%	76.14%	73.84%	31.99%	36.09%

The following table summarizes information regarding new loans made to small farmers and ranchers:

	At December 31, 2016				
	Loan Size				
	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
(dollars in thousands)					
Total new number of loans and commitments	3,691	3,095	4,681	6,034	17,501
Number of new loans and commitments to small farmers and ranchers	2,655	2,334	3,321	2,561	10,871
Percent of new loans and commitments to small farmers and ranchers	71.93%	75.41%	70.95%	42.44%	62.12%
Total new loans and commitments volume	$ 97,293	$ 235,376	$ 781,773	$ 7,365,250	$ 8,479,692
Total new loans and commitments to small farmers and ranchers volume	$ 73,861	$ 177,593	$ 548,209	$ 1,790,403	$ 2,590,066
Percent of loans and commitments volume to small farmers and ranchers	75.92%	75.45%	70.12%	24.31%	30.54%