FARM CREDIT BANK OF TEXAS

2017 FIRST QUARTER REPORT

MARCH 31, 2017

FIRST QUARTER 2017

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

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the three months ended March 31, 2017. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2016 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

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

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

The bank and its affiliated associations collectively are referred to as the "district." At March 31, 2017, the bank provided financing to 14 district associations and certain OFIs.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2017, was $46,772, an increase of $4,662, or 11.1 percent, over the same period of 2016. The increase in net income for the three months ended March 31, 2017, consisted of a $4,804 increase in net interest income, a $1,637 decrease in provision for credit losses, and a $497 increase in noninterest income, offset by a $2,276 increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended March 31, 2017, was $61,737, an increase of $4,804, or 8.4 percent, from the three months ended March 31, 2016. The increase in net interest income for the quarter ended March 31, 2017, was attributable to a volume increase of $1.7 billion in the bank's average earning assets. The bank's interest rate spread remained steady at 111 basis points. Effective interest rates on earning assets increased 5 basis points from the first quarter of 2016 to the first quarter of 2017, while the effective rates on interest-bearing liabilities increased 5 basis points. The increase in the bank's average earning assets included growth in its direct notes from associations, investment portfolio and capital markets loan portfolio. The bank recognized $28 in concession expenses on $120,050 of debt called in the three months ended March 31, 2017, compared to $2,240 concession expense on $1.2 billion of debt called in the three months ended March 31, 2016, which impacted interest expense.

Provision for Credit Losses

The bank's negative provision for credit losses for the three months ended March 31, 2017, totaled $944, a decrease of $1,637 from the $693 provision for credit losses recorded in the first three months of 2016. The $944 negative provision for the three months ended March 31, 2017 included a $1,396 increase in recoveries and a $439 increase in general reserves.

Noninterest Income

Noninterest income for the quarter ended March 31, 2017, was $8,907, an increase of $497, or 5.9 percent, over the same period of 2016. The increase included a $1.1 million increase in unrealized gains recognized on a Rural Business Investment Company (RBIC), offset by a decrease of $262 in patronage and dividends, a $206 decrease in miscellaneous gains and losses, and a $102 decrease in income from services to associations.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2017, was $24,816, an increase of $2,276, or 10.1 percent, over the same period of 2016. The increase was attributable to a $1,250 increase in other operating expenses, a $789 increase in salaries and employee benefits, and a $326 increase in occupancy and equipment. The $1,250 increase in other operating expenses was primarily the result of a $1,317 increase in professional and contract services. The $789 increase in salaries and employee benefits included an $846 increase in compensation and related payroll taxes offset by an increase of $123 in capitalized salaries and benefits. The $326 increase in occupancy and equipment included a $290 increase in computer expense.

Key results of operations comparisons:

	Annualized for the Three Months Ended March 31, 2017	Annualized for the Three Months Ended March 31, 2016
Return on average assets	**0.88%**	0.85%
Return on average shareholders' equity	**11.51%**	10.61%
Net interest income as a percentage of average earning assets	**1.19%**	1.18%
(Recoveries), net of charge-offs, to average loans	**< (0.01)%**	0.00%
Operating expenses as a percentage of net interest income and noninterest income	**35.13%**	34.50%
Operating expenses as a percentage of average earning assets	**0.48%**	0.47%

Other Comprehensive Income

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

The table below summarizes the changes in elements included in other comprehensive income for the three months ended March 31:

	2017	2016
Change in unrealized gains on available-for-sale securities		
Net (decrease) increase in unrealized gains on investment securities	**$ (1,511)**	$ 32,382
Net change in unrealized gains on securities	**(1,511)**	32,382
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(47)**	(46)
Net change in postretirement benefit plans	**(47)**	(46)
Change in cash flow derivative instruments		
Unrealized gain (loss) on cash flow derivative instruments	**180**	(207)
Reclassification of loss recognized in interest expense	**72**	213
Net change in cash flow derivative instruments	**252**	6
Other comprehensive (loss) income	**$ (1,306)**	$ 32,342

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2017, was $16.33 billion, an increase of $423.3 million, or 2.7 percent, compared to $15.91 billion at December 31, 2016. The increase in the loan portfolio is attributable to growth in the bank's direct loans to associations and, to a lesser extent, growth in the bank's capital markets loan portfolio. The growth in direct loans to associations was related to continued strong economic conditions in the district.

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.

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. There were CPP loan purchases of $13.5 million from a district association in December 2016, which resulted in a net stock issuance of $1.0 million. There have been no CPP loan purchases for the three months ended March 31, 2017. CPP loans held at March 31, 2017, totaled $34,912 and were included in "Loans" on the Balance Sheets. The balance of the AMBS CPP was $49,950 at March 31, 2017, and is included in "Investment securities" on the Balance Sheets.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 99.8 percent of total loans and accrued interest at March 31, 2017 and December 31, 2016.

The table below summarizes the balances of the bank's high-risk assets at March 31, 2017, compared to the balances at December 31, 2016:

	March 31, 2017	Decrease $	Decrease %	December 31, 2016
Nonaccrual loans	**$ 2,841**	$ (21)	(0.73) %	$ 2,862
Accruing formally restructured loans	**6,490**	(5)	(0.08)	6,495
Total high-risk assets	**$ 9,331**	$ (26)	(0.28) %	$ 9,357

The decrease in nonaccrual loans and accruing formally restructured loans were due to repayments. At March 31, 2017, and December 31, 2016, the bank did not have any nonaccrual loans on which cash payments are recognized as interest income and did not have any other property owned (OPO).

Impaired loans, consisting of nonaccrual loans and accruing formally restructured loans, and loans 90 days past due and still accruing interest, constituted 0.2 percent of gross loans at March 31, 2017 and 0.1 percent at December 31, 2016.

At March 31, 2017, the bank had reserves for credit losses totaling $9,736, including an allowance for loan losses of $8,394 and a reserve for credit losses on unfunded commitments of $1,342 related to the bank's capital markets loan portfolio. The allowance for loan losses of $8,394 equated to 0.1 percent of total loans outstanding and 0.1 percent of capital market loans outstanding. The $1,342 reserve for losses on unfunded commitments included a general reserve for losses on unused loan commitments, a general reserve for losses on letters of credit and a specific reserve related to one letter of credit, representing management's estimate of probable credit losses related to unfunded commitments.

The allowance for loan losses as a percentage of impaired loans was 90.0 percent as of March 31, 2017, as compared to 81.8 percent as of December 31, 2016. The nature of the collateral supporting many of the impaired loans (primarily first lien real estate) is considered in the determination of necessary allowances for loan losses.

Liquidity and Funding Sources

Cash and investment securities totaled $5.18 billion, or 23.8 percent, of total assets at March 31, 2017, compared to $5.05 billion, or 23.8 percent, at December 31, 2016, an increase of $133,654, or 2.6 percent. At March 31, 2017, the bank's cash balance was $217,633, a $22,154 increase from December 31, 2016. Cash held at the Federal Reserve Bank at March 31, 2017, totaled $198,565, compared to $158,610 at December 31, 2016. The bank diversified its liquidity position, including the purchase of U.S. Treasury securities in the second quarter of 2016. Levels of cash and other highly liquid assets are maintained to meet loan demand, debt servicing and other liquidity needs. At March 31, 2017, the bank had 207 days of liquidity to cover maturing debt obligations. Interest-bearing liabilities, consisting of bonds and notes, increased by $585,672, or 3.0 percent, from December 31, 2016, to March 31, 2017.

Investments

The bank's investments are all considered available for sale, and include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio had a fair value of $4.89 billion at March 31, 2017, and consisted primarily of mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt, U.S. Treasury securities and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments had a fair value of $49,950 at March 31, 2017 and consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), purchased from district associations. The Farmer Mac securities are backed by loans originated by the associations.

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

The following table summarizes the bank's available-for-sale liquidity portfolio holdings:

	March 31, 2017		December 31, 2016	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 219,996**	**$ 216,723**	$ 225,457	$ 222,374
Corporate debt	**212,710**	**212,927**	202,365	202,403
Federal agency collateralized mortgage-backed securities				
GNMA	**1,790,092**	**1,772,506**	1,697,627	1,682,999
FNMA and FHLMC	**2,340,179**	**2,323,543**	2,308,775	2,290,579
U.S. Treasury securities	**249,591**	**248,909**	249,502	249,006
Asset-backed securities	**119,070**	**119,129**	130,703	130,679
Total liquidity investments	**$ 4,931,638**	**$ 4,893,737**	$ 4,814,429	$ 4,778,040

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

	March 31, 2017		December 31, 2016	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 52,089**	**$ 49,950**	$ 55,475	$ 53,335

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

At March 31, 2017, the bank did not hold any investments that were ineligible for liquidity purposes by FCA regulations due to credit ratings by all NRSROs.

Subordinated Debt

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

On March 10, 2016, the FCA approved a final rule to modify the regulatory capital requirements for System banks and associations, which became effective January 1, 2017. The final rule to modify regulatory capital requirements changed the favorable capital treatment of the subordinated debt, and, therefore, qualifies as a regulatory event triggering a right of redemption under the terms of the subordinate debt. 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.

Capital Resources

At March 31, 2017, the bank's capital totaled $1,661,244, and consisted of $600,000 of Class B noncumulative subordinated perpetual preferred stock, $284,038 of capital stock, $811,091 in retained earnings and $33,885 in accumulated other comprehensive loss. The balance in equity reflected an increase of $38,992 from December 31, 2016, due primarily to net income of $46,772 offset by other comprehensive loss of $1,306. The balance in accumulated other comprehensive loss of $33,885 resulted from a decrease in unrealized gains on investments of $1,511 and a $252 decrease in unrealized losses on cash flow derivative instruments, net of a $47 amortization of other postretirement benefits.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2017, the bank exceeded all regulatory capital requirements.

OTHER

CONDITIONS IN THE DISTRICT

Despite abnormally high temperatures, soil moisture conditions remained adequate during the quarter across the majority of the district. At this point of the season, the percentage of Texas land area affected by drought is at the lowest level observed since 2010. Relatively dry conditions are prevalent in portions of Alabama, Louisiana and Mississippi, but the impact on farmers has been minimal, as pasture conditions are improving and moisture is sufficient to support spring planting.

In the district, the planting season for most field crops is now under way, with crop progress generally ahead of the average pace observed during the most recent five years. According to the U.S. Department of Agriculture's Prospective Plantings Report, U.S. farmers are expected to substantially increase farmland dedicated to cotton and soybean production, while decreasing cropland allocated to wheat, corn and sorghum. The decision to shift acreage to cotton and soybeans has generally been driven by market factors influencing their expected returns relative to competing field crops. Texas farmers are projected to plant nearly 7 million acres of cotton in 2017, the second-highest level observed since 1981. The district remains a crucial driver of U.S. cotton production, as it accounts for over 60 percent of all U.S. farmland dedicated to the crop. Stocks of most field crops remain historically high following consecutive years of above-average U.S. and global output. Barring a substantial yield-reducing event in one of the world's major growing regions, field crop prices are likely to remain under pressure in 2017. A declining trend in the cost of major inputs, such as fertilizer and chemicals, will assist row crop producers in maintaining profitability in the upcoming year. In addition, farmers in the district continue to utilize risk management tools, such as federally-sponsored crop insurance programs and forward, futures and options contracts, to mitigate risk and enhance margins.

Reduced feed costs relative to recent years are supportive of profitability in most segments of the livestock sector. U.S. beef production is expected to continue to rise throughout 2017, with gains in the size of the herd driven by the strong profits that cow/calf producers have earned in recent years. However, the current expansion cycle is slowing and the size of the cattle herd is likely to peak within the next one to two years. During the past three quarters, cash cattle prices have benefited from robust global and domestic demand for U.S. beef. Nevertheless, participants in cattle futures markets are anticipating that prices will come under pressure in mid-2017, as demand may be unable to fully offset increased supplies. The majority of beef producers in the district employ risk management plans in order to minimize market exposure. Poultry producers are expected to generate above-average margins in 2017, provided they are able to avoid any widespread outbreaks of avian influenza. Although isolated cases of the virus have been confirmed in several U.S. states, enhanced biosecurity procedures have been effective thus far in preventing the spread of avian influenza, which is currently active in several Asian and European countries.

Labor markets have been steadily improving in the U.S., and in March 2017, the national unemployment rate fell to the lowest level recorded since 2007. During the first two months of 2017, growth in Texas non-farm payrolls reached an annualized rate of 2.7 percent, a healthy rate compared to the increases recorded in the previous two years. The relatively stable oil prices observed during the quarter have spurred additional oil and gas-related activity within the region. 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.

RATING AGENCY ACTIONS

Fitch Ratings Actions

On April 12, 2017, 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 noncumulative perpetual preferred stock rating at “BBB” and its support floor at “AA-.” Fitch affirmed the Farm Credit System’s 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. The ratings and rating outlook are directly linked to the U.S. sovereign rating. The affirmation of the System banks’ IDRs reflect their prudent, conservative credit culture, their unique funding advantage and their structural second-loss position on the majority of their loan portfolio.

Moody’s Investors Service Rating Actions

On March 30, 2017, Moody’s Investors Service affirmed the bank’s issuer rating at “Aa3” and its noncumulative preferred stock rating at “Baa1 (hyb),” with a stable outlook. The Aa3 issuer rating reflects the bank’s “a1” baseline credit assessment (BCA), very high cooperative support from the other Federal Farm Credit Banks and moderate support from the U.S. Government, which has an “Aaa,” stable outlook. The bank’s preferred stock rating incorporated the bank’s BCA, very high cooperative support from the other Federal Farm Credit Banks and notching reflecting the debt’s relative positions in the bank’s capital structure. The bank’s BCA incorporates its solid capital levels, adequate risk-adjusted profitability and liquidity as well as the benefits associated with its lending to related associations and their strong capital levels. The “a1” BCA is one of Moody’s highest assessments of any financial institution, both domestically and globally.

REGULATORY MATTERS

At March 31, 2017, there were no district associations under written agreements with the Farm Credit Administration.

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 were as follows:

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

The final rule replaces 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 also replaces 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. The bank is in compliance with the required minimum capital standards as of March 31, 2017.

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 second quarter of 2017.

The undersigned certify that we have reviewed the March 31, 2017, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information included herein is true, accurate, and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

James F. Dodson
Chairman of the Board

Amie Pala
Chief Financial Officer

May 10, 2017

Controls and Procedures

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

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

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

May 10, 2017

Balance Sheets

(dollars in thousands)	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Cash	**$ 217,633**	$ 195,479
Federal funds sold and overnight investments	**22,089**	22,901
Investment securities	**4,943,687**	4,831,375
Loans (includes $16,056 and $16,311 at fair value, held under fair value option)	**16,332,704**	15,909,403
Less allowance for loan losses	**8,394**	7,650
Net loans	**16,324,310**	15,901,753
Accrued interest receivable	**58,403**	50,191
Premises and equipment, net	**39,988**	37,999
Other assets	**166,644**	182,700
Total assets	**$ 21,772,754**	$ 21,222,398
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 19,976,334**	$ 19,390,662
Accrued interest payable	**54,013**	50,255
Reserve for credit losses	**1,342**	1,646
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**59,758**	137,520
Total liabilities	**20,111,510**	19,600,146
Commitments and contingencies (Note 4)		
Shareholders' equity		
Preferred stock	**600,000**	600,000
Capital stock	**284,038**	284,038
Allocated retained earnings	**33,171**	33,171
Unallocated retained earnings	**777,920**	737,622
Accumulated other comprehensive loss	**(33,885)**	(32,579)
Total shareholders' equity	**1,661,244**	1,622,252
Total liabilities and shareholders' equity	**$ 21,772,754**	$ 21,222,398

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

Statements of Comprehensive Income

(unaudited)

	Quarter Ended March 31,	
(dollars in thousands)	**2017**	2016
Interest Income		
Loans	**$ 107,615**	$ 98,940
Investment securities	**18,754**	16,027
Total interest income	**126,369**	114,967
Interest Expense		
Bonds, notes and subordinated debt	**64,632**	58,034
Total interest expense	**64,632**	58,034
Net interest income	**61,737**	56,933
(Negative provision) provision for credit losses	**(944)**	693
Net interest income after (negative provision) provision for credit losses	**62,681**	56,240
Noninterest Income		
Patronage income	**4,792**	5,057
Fees for services to associations	**1,356**	1,546
Fees for loan-related services	**1,618**	1,640
(Loss) gain on loans held under fair value option	**(100)**	199
Other income, net	**1,241**	(32)
Total noninterest income	**8,907**	8,410
Noninterest Expenses		
Salaries and employee benefits	**9,804**	9,015
Occupancy and equipment	**4,985**	4,659
Insurance Fund premiums	**2,709**	2,798
Other operating expenses	**7,318**	6,068
Total noninterest expense	**24,816**	22,540
Net Income	**46,772**	42,110
Other comprehensive (loss) income		
Change in unrealized (loss) gain on investments	**(1,511)**	32,382
Change in postretirement benefit plans	**(47)**	6
Change in cash flow derivative instruments	**252**	(46)
Total other comprehensive (loss) income	**(1,306)**	32,342
Comprehensive Income	**$ 45,466**	$ 74,452

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2015	$ 600,000	$ 255,823	$ 27,203	$ 697,883	$ (27,331)	$ 1,553,578
Net income	-	-	-	42,110	-	42,110
Other comprehensive gain	-	-	-	-	32,342	32,342
Preferred stock dividends	-	-	-	(5,062)	-	(5,062)
Patronage distributions						
Cash	-	-	-	(1,185)	-	(1,185)
Shareholders' equity	-	-	2	(2)	-	-
Balance at March 31, 2016	$ 600,000	$ 255,823	$ 27,205	$ 733,744	$ 5,011	$ 1,621,783
Balance at December 31, 2016	$ 600,000	$ 284,038	$ 33,171	$ 737,622	$ (32,579)	$ 1,622,252
Net income	-	-	-	46,772	-	46,772
Other comprehensive loss	-	-	-	-	(1,306)	(1,306)
Preferred stock dividends	-	-	-	(5,062)	-	(5,062)
Patronage distributions						
Cash	-	-	-	(1,412)	-	(1,412)
Shareholders' equity	-	-	-	-	-	-
Balance at March 31, 2017	**$ 600,000**	**$ 284,038**	**$ 33,171**	**$ 777,920**	**$ (33,885)**	**$ 1,661,244**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2017	2016
Operating activities		
Net income	**$ 46,772**	$ 42,110
Reconciliation of net income to net cash provided by operating activities		
(Negative provision) provision for credit losses	**(944)**	693
Depreciation and amortization on premises and equipment	**1,688**	1,550
Accretion of net premium on loans	**1,025**	1,657
Amortization and accretion on debt instruments	**5,499**	4,656
Amortization of net premium on investments	**1,265**	912
Decrease (increase) in fair value on loans under fair value option	**100**	(199)
Gain on loan held-for-sale	**-**	(75)
(Gain) loss on other earning assets	**(990)**	137
(Gain) loss on sales of premises and equipment	**(28)**	-
Allocated equity patronage from System bank	**(14,583)**	(13,847)
Increase in accrued interest receivable	**(8,212)**	(3,142)
Decrease in other assets, net	**32,875**	16,358
Increase in accrued interest payable	**3,758**	2,807
Decrease in other liabilities, net	**(34,395)**	(11,339)
Net cash provided by operating activities	**33,830**	42,278
Investing activities		
Net decrease in federal funds sold	**812**	1,536
Investment securities		
Purchases	**(400,460)**	(255,953)
Proceeds from maturities, calls and prepayments	**285,373**	247,010
Increase in loans, net	**(437,214)**	(506,393)
Proceeds from sales of premises and equipment	**62**	7
Expenditures for premises and equipment	**(3,711)**	(3,486)
Investment in other earning assets	**(745)**	150
Net cash used in investing activities	**(555,883)**	(517,129)
Financing activities		
Bonds and notes issued	**2,973,223**	3,992,197
Bonds and notes retired	**(2,393,050)**	(3,515,210)
Repayments on capital lease obligations	**(94)**	(94)
Cash dividends on preferred stock	**(5,062)**	(5,062)
Cash patronage distributions paid	**(30,810)**	(23,599)
Net cash provided by financing activities	**544,207**	448,232
Net increase (decrease) in cash	**22,154**	(26,619)
Cash at beginning of year	**195,479**	545,090
Cash at end of quarter	**$ 217,633**	$ 518,471
Supplemental schedule of noncash investing and financing activities		
Net (decrease) increase in unrealized (losses) gains on investment securities	**$ (1,511)**	$ 32,382
Preferred stock dividend payable	**20,063**	20,063
Capital lease obligation	**561**	953
Supplemental information		
Interest paid	**$ 60,874**	$ 55,227

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

Notes to Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the Farm Credit Bank of Texas (bank). The significant accounting policies followed and the financial condition and results of operations of the bank as of and for the year ended December 31, 2016, are contained in the 2016 Annual Report to shareholders (Annual Report). These unaudited first quarter 2017 financial statements should be read in conjunction with the Annual Report.

The bank revised its cash flow statement for quarter ended March 31, 2016 between the net cash provided by operating activities and net cash provided by financing activities to correctly present the amortization and accretion on debt instruments. The revision resulted in an increase to net cash provided by operating activities of $2.0 million and a decrease in net cash provided by financing activities of $2.0 million for the quarter ended March 31, 2016.

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

The bank and its affiliated associations (district) are part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. At March 31, 2017, the bank provided financing to 14 district associations and certain other financing institutions.

In March 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Compensation-Retirement Benefits." The guidance requires the reporting of the service cost component in the same financial statement line(s) as other current compensation costs. All other components of net benefit cost must be presented separately from service cost, and outside any subtotal of income from operations. In addition, only the service cost component of expense will be eligible to be capitalized. This guidance becomes effective for interim and annual reporting periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the district's financial condition or its results of operations.

In August 2016, the (FASB) issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the 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 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 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 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.

NOTE 2 — INVESTMENTS

Investments Available for Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt, U.S Treasury securities and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations. A summary of the amortized cost and fair value of investment securities available for sale, at March 31, 2017, and December 31, 2016, is included in the following tables.

Investments in the available-for-sale liquidity portfolio at March 31, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 219,996	$ 97	$ (3,370)	$ 216,723	1.84 %
Corporate debt	212,710	531	(314)	212,927	1.52
Federal agency collateralized mortgage-backed securities					
GNMA	1,790,092	1,171	(18,757)	1,772,506	1.70
FNMA and FHLMC	2,340,179	2,389	(19,025)	2,323,543	1.60
U.S. Treasury securities	249,591	-	(682)	248,909	0.90
Asset-backed securities	119,070	93	(34)	119,129	1.28
Total liquidity investments	**$ 4,931,638**	**$ 4,281**	**$ (42,182)**	**$ 4,893,737**	**1.60** %

Investments in the available-for-sale other investments portfolio at March 31, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 52,089	$ -	$ (2,139)	$ 49,950	4.31 %

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 available-for-sale liquidity investments	$ 4,814,429	$ 4,118	$ (40,507)	$ 4,778,040	1.49 %

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 %

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at March 31, 2017:

Investments in the available-for-sale liquidity portfolio:

	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Total
Agency-guaranteed debt	$ -	$ -	$ 216,723	$ -	$ 216,723
Corporate debt	122,665	90,262	-	-	212,927
Federal agency collateralized mortgage-backed securities					
GNMA	-	269	1,405	1,770,832	1,772,506
FNMA and FHLMC	-	18,469	309,744	1,995,330	2,323,543
U.S. Treasury securities	-	248,909	-	-	248,909
Asset-backed securities	349	115,873	-	2,907	119,129
Total fair value	**$ 123,014**	**$ 473,782**	**$ 527,872**	**$ 3,769,069**	**$ 4,893,737**
Total amortized cost	**$ 122,845**	**$ 474,342**	**$ 532,133**	**$ 3,802,318**	**$ 4,931,638**
Weighted average yield	**1.52%**	**1.15%**	**1.68%**	**1.64%**	**1.60%**

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

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 4,967	$ 44,983	$ 49,950
Total amortized cost	**$ 5,038**	**$ 47,051**	**$ 52,089**
Weighted average yield	**4.07%**	**4.33%**	**4.31%**

Other-Than-Temporarily Impaired Investments Evaluation

The following table shows available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time, for securities that have been in a continuous unrealized loss position at March 31, 2017. The continuous loss position is based on the date the impairment was first identified:

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	$ 108,913	$ (1,520)	$ 86,372	$ (1,850)	$ 195,285	$ (3,370)
Corporate debt	65,290	(33)	27,229	(281)	92,519	(314)
Federal agency collateralized mortgage-backed securities						
GNMA	1,193,435	(11,077)	412,424	(7,680)	1,605,859	(18,757)
FNMA and FHLMC	1,258,407	(13,908)	484,167	(5,117)	1,742,574	(19,025)
U.S. Treasury securities	248,908	(682)	-	-	248,908	(682)
Asset-backed securities	53,850	(30)	3,478	(4)	57,328	(34)
Total	**$ 2,928,803**	**$ (27,250)**	**$ 1,013,670**	**$ (14,932)**	**$ 3,942,473**	**$ (42,182)**

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

In the event of an investment being designated OTTI, to measure the amount related to credit loss in the determination of OTTI, the bank utilizes a third-party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan-level data. Loan-level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan-level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses. For the three months ended March 31, 2017 and 2016, the bank did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at March 31, 2017 and 2016.

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

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

	March 31, 2017	December 31, 2016
Direct notes receivable from		
district associations and OFIs	**$ 10,730,145**	$ 10,625,132
Participations purchased	**5,602,263**	5,283,917
Other bank-owned loans	**296**	354
Total	**$ 16,332,704**	$ 15,909,403

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

	March 31, 2017	December 31, 2016
Direct notes receivable from		
district associations	**$ 10,689,390**	$ 10,583,054
Real estate mortgage	**469,828**	463,955
Production and intermediate term	**564,623**	525,931
Agribusiness		
Loans to cooperatives	**394,853**	296,486
Processing and marketing	**2,313,356**	2,134,186
Farm-related business	**138,349**	132,813
Communication	**344,376**	335,171
Energy (rural utilities)	**1,227,743**	1,248,297
Water and waste disposal	**131,140**	129,116
Loans to other financing institutions	**40,754**	42,078
Mission-related	**18,292**	18,316
Total	**$ 16,332,704**	$ 15,909,403

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

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

The following table presents information regarding the balances of participations purchased and sold, excluding syndications, at March 31, 2017.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 769,945	$ 350,007	$ -	$ 1,747	$ 769,945	$ 351,754
Production and intermediate term	1,446,772	843,779	10,932	96,320	1,457,704	940,099
Agribusiness	2,177,714	872,814	13,000	-	2,190,714	872,814
Communication	477,154	132,260	-	-	477,154	132,260
Energy (rural utilities)	1,408,352	180,323	-	-	1,408,352	180,323
Water and waste disposal	142,466	11,019	-	-	142,466	11,019
Mission-related	4,490	-	-	-	4,490	-
Loans to other financing institutions	-	11,190	-	-	-	11,190
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 6,426,893**	**$ 6,251,392**	**$ 23,932**	**$ 98,067**	**$ 6,450,825**	**$ 6,349,459**

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. There were CPP loan purchases of $13.5 million from a district association in December 2016, which resulted in a net stock issuance of $1.0 million. There have been no CPP loan purchases for the three months ended March 31, 2017. CPP loans held at March 31, 2017, totaled $34,912 and were included in "Loans" on the Balance Sheets. The balance of the AMBS CPP was $49,950 at March 31, 2017, and is included in "Investment securities" on the Balance Sheets.

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 March 31, 2017, or December 31, 2016. During 2012, the bank elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $16,056 at March 31, 2017. 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 three months ended March 31, 2017:

Balance at January 1, 2017	**$ 16,311**
Net loss on financial instruments under fair value option	**(100)**
Premium amortization	**(155)**
Balance at March 31, 2017	**$ 16,056**

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

	March 31, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	**$ 968**	$ 967
Mission-related	**1,873**	1,895
Total nonaccrual loans	**2,841**	2,862
Accruing restructured loans:		
Real estate mortgage	**3,774**	3,818
Mission-related	**2,716**	2,677
Total accruing restructured loans	**6,490**	6,495
Total high risk assets	**$ 9,331**	$ 9,357

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

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

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

	March 31, 2017	December 31, 2016
Real estate mortgage:		
Acceptable	**98.8 %**	99.0 %
OAEM	**-**	-
Substandard/Doubtful	**1.2**	1.0
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**99.6 %**	98.8 %
OAEM	**0.4**	0.4
Substandard/Doubtful	**-**	0.8
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**99.5 %**	99.3 %
OAEM	**-**	0.4
Substandard/Doubtful	**0.5**	0.3
	100.0 %	100.0 %
Energy and water/waste disposal:		
Acceptable	**94.9 %**	94.9 %
OAEM	**4.3**	5.1
Substandard/Doubtful	**0.8**	-
	100.0 %	100.0 %
Communication:		
Acceptable	**98.6 %**	98.6 %
OAEM	**-**	-
Substandard/Doubtful	**1.4**	1.4
	100.0 %	100.0 %
Direct notes to associations:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Loans to other financing institutions:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Mission-related:		
Acceptable	**89.8 %**	89.8 %
OAEM	**-**	-
Substandard/Doubtful	**10.2**	10.2
	100.0 %	100.0 %
Total loans:		
Acceptable	**99.4 %**	99.3 %
OAEM	**0.4**	0.5
Substandard/Doubtful	**0.2**	0.2
	100.0 %	100.0 %

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

March 31, 2017:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment > 90 Days and Accruing**
Real estate mortgage	**$ -**	**$ -**	**$ -**	**$ 473,789**	**$ 473,789**	**$ -**
Production and intermediate te	**-**	**-**	**-**	**567,375**	**567,375**	**-**
Agribusiness	**-**	**-**	**-**	**2,860,873**	**2,860,873**	**-**
Energy and water/waste dispos	**-**	**-**	**-**	**1,366,940**	**1,366,940**	**-**
Communication	**-**	**-**	**-**	**344,544**	**344,544**	**-**
Direct notes to associations	**-**	**-**	**-**	**10,710,980**	**10,710,980**	**-**
Loans to OFIs	**-**	**-**	**-**	**40,822**	**40,822**	**-**
Mission-related	**-**	**-**	**-**	**18,434**	**18,434**	**-**
Total	**$ -**	**$ -**	**$ -**	**$16,383,757**	**$16,383,757**	**$ -**

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 > 90 Days 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 and water/waste disposal	14,590	-	14,590	1,370,017	1,384,607	-
Communication	-	-	-	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	$ -

Additional impaired loan information is as follows:

	At March 31, 2017			At December 31, 2016		
Impaired loans with a related allowance for credit losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Mission-related	**$ 208**	**$ 208**	**$ 79**	$ 210	$ 210	$ 78
Total	**$ 208**	**$ 208**	**$ 79**	$ 210	$ 210	$ 78
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 4,742**	**$ 4,746**	**$ -**	$ 4,785	$ 4,789	$ -
Production and intermediate term	**-**	**3,035**	**-**	-	3,035	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**-**	**7,664**	**-**	-	9,043	-
Mission-related	**4,381**	**4,313**	**-**	4,362	4,362	-
Total	**$ 9,123**	**$ 20,950**	**$ -**	$ 9,147	$ 22,421	$ -
Total impaired loans:						
Real estate mortgage	**$ 4,742**	**$ 4,746**	**$ -**	$ 4,785	$ 4,789	$ -
Production and intermediate term	**-**	**3,035**	**-**	-	3,035	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**-**	**7,664**	**-**	-	9,043	-
Mission-related	**4,589**	**4,521**	**79**	4,572	4,572	78
Total	**$ 9,331**	**$ 21,158**	**$ 79**	$ 9,357	$ 22,631	$ 78

	For the Three Months Ended							
	March 31, 2017				March 31, 2016			
Impaired loans with a related allowance for loan losses:	**Average Impaired Loans**		**Interest Income Recognized**		Average Impaired Loans		Interest Income Recognized	
Mission-related	**$**	**209**	**$**	**4**	$	218	$	4
Total	**$**	**209**	**$**	**4**	$	218	$	4
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	**$**	**4,769**	**$**	**-**	$	3,021	$	-
Production and intermediate term		**-**		**-**		13,209		173
Mission-related		**4,324**		**37**		-		-
Total	**$**	**9,093**	**$**	**37**	$	16,230	$	173
Total impaired loans:								
Real estate mortgage	**$**	**4,769**	**$**	**-**	$	3,021	$	-
Processing and marketing		**-**		**-**		13,209		173
Mission-related		**4,533**		**41**		218		4
Total	**$**	**9,302**	**$**	**41**	$	16,448	$	177

At March 31, 2017, impaired loans of $208 had a related specific allowance of $79, while the remaining $9.1 million of impaired loans had no related specific allowance as a result of adequate collateralization.

The average recorded investment in impaired loans for the three months ended March 31, 2017, was $9.3 million. The bank recognized interest income of $41 on impaired loans during the three months ended March 31, 2017.

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses											
Balance at December 31, 2016	$ 74	$ 712	$ 2,259	$ 526	$ 3,997	$ -	$ -	$ -	$ -	$ 82	$ 7,650
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	5	-	1,380	-	-	-	-	-	1,385
Provision for credit losses (loan loss reversal)	57	(101)	43	(98)	(846)	-	-	-	-	1	(944)
Other *	1	44	171	11	76	-	-	-	-	-	303
Balance at March 31, 2017	$ 132	$ 655	$ 2,478	$ 439	$ 4,607	$ -	$ -	$ -	$ -	$ 83	$ 8,394
Individually evaluated for impairment	-	-	-	-	-	-	-	-	-	79	79
Collectively evaluated for impairment	132	655	2,478	439	4,607	-	-	-	-	4	8,315
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2017	$ 132	$ 655	$ 2,478	$ 439	$ 4,607	$ -	$ -	$ -	$ -	$ 83	$ 8,394
Balance at December 31, 2015	$ 789	$ 428	$ 1,586	$ 343	$ 2,575	$ -	$ 3	$ -	$ -	$ 109	5,833
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	11	-	-	-	-	-	-	-	11
Provision for credit losses (loan loss reversal)	7	(14)	(89)	9	783	-	(3)	-	-	-	693
Other *	1	6	19	(2)	81	-	-	-	-	-	105
Balance at March 31, 2016	$ 797	$ 420	$ 1,527	$ 350	$ 3,439	$ -	$ -	$ -	$ -	$ 109	$ 6,642
Individually evaluated for impairment	-	-	-	-	-	-	-	-	-	75	75
Collectively evaluated for impairment	797	420	1,527	350	3,439	-	-	-	-	34	6,567
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2016	$ 797	$ 420	$ 1,527	$ 350	$ 3,439	$ -	$ -	$ -	$ -	$ 109	$ 6,642
Recorded Investments in Loans Outstanding:											
Ending balance at March 31, 2017	$ 473,789	$ 567,375	$ 2,860,873	$344,544	$ 1,366,940	$ -	$ -	$ 10,710,980	$40,822	$18,434	$16,383,757
Individually evaluated for impairment	$ 4,742	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,710,980	$ -	$ 4,590	$10,720,312
Collectively evaluated for impairment	$ 469,047	$ 567,375	$ 2,860,873	$344,544	$ 1,366,940	$ -	$ -	$ -	$40,822	$13,844	$ 5,663,445
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance at March 31, 2016	$ 332,381	$ 531,891	$ 2,714,247	$349,718	$ 1,355,179	$ 11	$ -	$ 9,904,038	$43,657	$69,672	$15,300,794
Individually evaluated for impairment	$ 7,023	$ 8,172	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,848	$ 20,043
Collectively evaluated for impairment	$ 325,358	$ 523,719	$ 2,714,247	$349,718	$ 1,355,179	$ 11	$ -	$ 9,904,038	$43,657	$64,824	$15,280,751
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

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

As of March 31, 2017, the total recorded investment in TDR loans was $8,364 with all classified as accrual, with specific allowance for loan losses of $79. There were no additional commitments to lend to borrowers whose loan terms have been modified in TDRs at March 31, 2017 and December 31, 2016.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	March 31, 2017	December 31, 2016	**March 31, 2017**	December 31, 2016
Real estate mortgage	**$ 4,590**	$ 3,818	**$ -**	$ -
Mission-related	**3,774**	4,572	**1,873**	1,895
Total	**$ 8,364**	$ 8,390	**$ 1,873**	$ 1,895

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

NOTE 4 — COMMITMENTS AND CONTINGENCIES

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated bank and Systemwide obligations of the System at March 31, 2017, were approximately $258.91billion.

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

NOTE 5 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," of the 2016 Annual Report for a more complete description.

Assets and liabilities recorded at fair value on a recurring basis at March 31, 2017, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at March 31, 2017			
	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	**$ 22,089**	$ -	$ 22,089	$ -
Investments available for sale:				
Agency-guaranteed debt	**216,723**	-	216,723	-
Corporate debt	**212,927**	-	212,927	-
Mortgage-backed securities	**4,096,049**	-	4,096,049	-
U.S. Treasury securities	**248,909**	-	248,909	-
Asset-backed securities	**119,129**	-	119,129	-
Mission-related and other available-for-sale investments	**49,950**	-	-	49,950
Loans valued under the fair value option	**16,056**	-	16,056	-
Derivative assets	**8,386**	-	8,386	-
Assets held in nonqualified benefit trusts	**478**	478	-	-
Total assets	**$ 4,990,696**	$ 478	$ 4,940,268	$ 49,950
Liabilities:				
Derivative liabilities	**$ 176**	$ -	$ 176	$ -
Standby letters of credit	**488**	-	-	488
Total liabilities	**$ 664**	$ -	$ 176	$ 488

Loans With Fair Value Option

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in Noninterest Income on the Statements of Comprehensive Income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis. The fair value of loans held under the fair value option totaled $16,056 at March 31, 2017.

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2017 to March 31, 2017:

	Assets	Liabilities	
	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:			
Balance at January 1, 2017	$ 53,335	$ 594	$ 52,741
Net losses included in other comprehensive income	2	-	2
Purchases, issuances and settlements	(3,387)	(106)	(3,281)
Transfers out of Level 3	-	-	-
Balance at March 31, 2017	$ 49,950	$ 488	$ 49,462

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the three months ended March 31, 2017. Agricultural mortgage-backed securities (AMBS) are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for standby letters of credit 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 March 31, 2017, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements				
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
Assets:					
Loans	**$ 2,841**	$ -	$ -	$ 2,841	$ -
Total assets	**$ 2,841**	$ -	$ -	$ 2,841	$ -

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

	Fair Value Measurements			
	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:				
Agency-guaranteed debt	222,374	-	222,374	-
Corporate debt	202,403	-	202,403	-
Mortgage-backed securities	3,973,578	-	3,973,578	-
U.S. Treasury securities	249,006	-	249,006	-
Asset-backed securities	130,679	-	130,679	-
Mission-related and other available-for-sale 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 following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2016, to March 31, 2016:

	Assets			Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Loan Held For Sale	Standby Letters of Credit	Total
Available-for-sale investment securities:					
Balance at January 1, 2016	$ 50,250	$ 65,650	$ 4,850	$ 807	$ 119,943
Net gains included in other comprehensive loss	-	(478)	-	-	(478)
Purchases, issuances and settlements	-	(4,237)	(4,850)	263	(9,350)
Transfers out of Level 3	(50,250)	-	-	-	(50,250)
Balance at March 31, 2016	$ -	$ 60,935	$ -	$ 1,070	$ 59,865

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the three months ended March 31, 2016. At December 31, 2015, Level 3 investments included one agency MBS and one loan held for sale due to the fact that their valuations were based on Level 3 criteria (broker quotes). In the three months ended March 31, 2016, the loan held for sale was disposed of and the agency

MBS was transferred to Level 2 when it had a valuation based on Level 2 criteria (independent third party valuation services). AMBS are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for standby letters of credit is included in Level 3 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

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

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

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.

March 31, 2017:		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	**$ 217,633**	$ 217,633	$ -	$ -	$ 217,633
Net loans	**16,324,310**	-	-	16,297,429	16,297,429
Total assets	**$ 16,541,943**	$ 217,633	$ -	$ 16,297,429	$16,515,062
Liabilities:					
Systemwide debt securities	**$ 19,976,334**	$ -	$ -	$ 19,988,438	$19,988,438
Total liabilities	**$ 19,976,334**	$ -	$ -	$ 19,988,438	$19,988,438

December 31, 2016:	Total Carrying Amount	Fair Value Measurements Using: 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
Total liabilities	$ 19,390,662	$ -	$ -	$ 19,384,908	$ 19,384,908

Valuation Techniques

As more fully discussed in Note 1, "Organization and 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 March 31, 2017, there were no agency MBS investments in Level 3. Level 3 assets at March 31, 2017, 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.

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 6 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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 assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The bank considers the strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The bank may enter into derivative transactions to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities or better manage liquidity. Interest rate swaps allow the bank to raise long-term borrowings at fixed rates and swap them into floating rates to better match the repricing characteristics of earning assets. Under interest rate swap arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index. The bank may purchase interest rate options, such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt.

The bank has interest rate caps and pay fixed swaps in order to reduce the impact of rising interest rates. The primary types of derivative instruments used and the amount of activity (notional amounts derivatives) during the quarter ended March 31, 2017, are summarized in the following table:

	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2017	$ 200,000	$ 170,000	$ 370,000
Additions	25,000	-	25,000
Maturities/Amortizations	-	-	-
Balance at March 31, 2017	**$ 225,000**	**$ 170,000**	**$ 395,000**

To minimize the risk of credit losses, the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. In addition, substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to another are reached, which thresholds may vary, depending on the counterparty's credit rating. The bank does not anticipate nonperformance by any of these counterparties. However, derivative contracts are reflected in the financial statements on a gross basis regardless of the netting agreement. At March 31, 2017, and December 31, 2016, the bank's exposure to counterparties was $8,210 and $8,074, respectively. At March 31, 2017, and December 31, 2016, the bank had posted no securities as collateral, nor had any counterparty been required to post collateral.

Derivative – Counterparty Exposure

The following table represents the credit ratings of counterparties the bank has credit exposure at March 31, 2017:

	Remaining Years to Maturity			Maturity		Exposure	
	One to Five Years	More Than Five Years	Total	Distribution Netting	Exposure	Collateral Held	Net of Collateral
Moody's Credit Rating							
A1	$ -	$ 113	$ 113		$ 113		$ 113
Aa2	-	2,684	2,684		2,684		2,684
Aa2	-	5,403	5,403		5,403		5,403
Aa1	10		10		10		10
Total	$ 10	$ 8,200	$ 8,210	$ -	$ 8,210	$ -	$ 8,210

Cash Flow Hedges

The bank's derivative instruments at March 31, 2017, and December 31, 2016, which are designated and qualify as a cash flow hedge, all meet the standards for accounting treatment that presume full effectiveness. Thus, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income.

	Balance Sheet Location	Fair Value March 31, 2017	Fair Value December 31, 2016	Balance Sheet Location	Fair Value March 31, 2017	Fair Value December 31, 2016
Interest rate caps	Other assets	$ 333	$ 414	Other liabilities	$ -	$ -
Pay fixed swaps	Other assets	8,053	7,660	Other liabilities	176	-

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) at March 31, 2017	2016		Amount of Gain Reclassified From AOCI Into Income (Effective Portion) at March 31, 2017	2016
Interest rate caps	$ (82)	$ (207)	Interest expense	$ 72	$ 213
Pay fixed swaps	(66)	-	Interest expense	327	-

NOTE 7 — CAPITAL:

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

The bank's ratios were as follows:

Risk-adjusted	Regulatory Minimums	Conservation Buffers*	Total	As of March 31, 2017
Common Equity Tier 1 Ratio	4.5%	2.5% *	7.0%	9.62%
Tier 1 Capital Ratio	6.0%	2.5% *	8.5%	15.72%
Total Capital Ratio	8.0%	2.5% *	10.5%	15.81%
Permanent Capital Ratio	7.0%	0.0%	7.0%	15.73%
Non-risk-adjusted				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	7.23%
UREE Leverage Ratio	1.5%	0.0%	1.5%	2.79%

*The 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status
- Inclusion of unfunded commitments for direct notes receivable from district associations

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior offices are restricted or prohibited without prior FCA approval.

The components of the bank's risk-adjusted capital, based on 90 day average balances, were as follows at March 31, 2017:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 745,441	$ 745,441	$ 745,441	$ 745,441
Common Cooperative Equities:				
Purchased other required stock ≥7 years	247,996	247,996	247,996	247,996
Allocated stock ≥7 years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held ≥7 years	33,171	33,171	33,171	33,171
Noncumulative perpetual preferred stock		600,000	600,000	600,000
Allowance for loan losses and reserve for credit losses subject to certain limitations			9,301	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(115,468)	(115,468)	(115,468)	(115,468)
Other regulatory required deductions	(130)	(130)	(130)	(130)
Denominator:				
Risk-adjusted assets excluding allowance	9,842,702	9,842,702	9,842,702	9,835,044
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(115,598)	(115,598)	(115,598)	(115,598)
Allowance for loan losses				7,658

The components of the bank's non-risk-adjusted capital, based on 90 day average balances, were as follows at March 31, 2017:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 745,441	$ 745,441
Common Cooperative Equities:		
Purchased other required stock ≥7 years	247,996	
Allocated stock ≥7 years	36,042	
Allocated equities:		
Allocated equities held ≥ 7 years	33,171	
Noncumulative perpetual preferred stock	600,000	
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(115,468)	(115,468)
Amount of allocated equities in other System institutions		(33,171)
Other regulatory required deductions	(130)	(130)
Denominator:		
Total Assets	21,400,200	21,400,200
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(115,598)	(115,598)

NOTE 8 — EMPLOYEE BENEFIT PLANS

In addition to pension benefits, the bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses at their expense but will be responsible for 100 percent of the related premiums. The following table summarizes the components of net periodic benefit costs for the bank's other postretirement benefit costs for the three months ended March 31:

	Other Postretirement Benefits	
	2017	2016
Service Cost	**$ 61**	$ 59
Interest Cost	**124**	121
Amortization of prior service cost	**(47)**	(46)
Net periodic benefit cost	**$ 138**	$ 134

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

NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

The following table summarizes the changes in the balance of the components of AOCL for the three months ended March 31, 2017:

	Total	Unrealized Gain (Loss) on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2017	$ (32,579)	$ (38,529)	$ (471)	$ 6,421
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	(1,511)	(1,511)		
Net change in unrealized gains on securities	(1,511)	(1,511)		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(47)		(47)	
Net change in postretirement benefit plans	(47)		(47)	
Change in cash flow derivative instruments				
Unrealized gain on cash flow derivative instruments	180			180
Reclassification of amount recognized in interest expense	72			72
Net change in cash flow derivative instruments	252			252
Total other comprehensive (loss) income	**(1,306)**	**(1,511)**	**(47)**	**252**
Balance, March 31, 2017	**$ (33,885)**	**$ (40,040)**	**$ (518)**	**$ 6,673**

The following table summarizes the changes in the balance of the components of AOCI for the three months ended March 31, 2016:

	Total	Unrealized Gain (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 gains on investment securities	32,382	32,382		
Net change in unrealized gains on securities	32,382	32,382		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(46)		(46)	
Net change in postretirement benefit plans	(46)		(46)	
Change in cash flow derivative instruments				
Unrealized losses on cash flow derivative instruments	(207)			(207)
Reclassification of amount recognized in interest expense	213			213
Net change in cash flow derivative instruments	6			6
Total other comprehensive income (loss)	32,342	32,382	(46)	6
Balance, March 31, 2016	$ 5,011	$ 7,106	$ (194)	$ (1,901)

The following table summarizes reclassifications from AOCI to the Statements of Comprehensive Income for the three months ended March 31:

Component of AOCI	**Amount Reclassified from AOCI**		**Affected Line in the Statement of Comprehensive Income**
	2017	2016	
Amortization of net credits on post-retirement benefit plan	**$ (47)**	$ (46)	Salaries and employee benefits
Amortization on cash flow hedges	**72**	213	Interest expense
Total reclassifications	**$ 25**	$ 167	

NOTE 10 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through May 10, 2017, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of May 10, 2017.

NOTE 11 — COMBINED ASSOCIATION FINANCIAL DATA

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

Balance sheet data	March 31, 2017	December 31, 2016
Cash	$ 8,547	$ 11,750
Investment securities	21,430	25,693
Loans	17,238,446	17,098,664
Less allowance for loan losses	73,606	74,087
Net loans	17,164,840	17,024,577
Accrued interest receivable	142,257	152,749
Other property owned	14,504	19,354
Other assets	450,036	448,656
Total assets	$ 17,801,614	$ 17,682,779
Notes payable	$ 14,534,545	$ 14,427,545
Other liabilities	277,596	361,535
Total liabilities	14,812,141	14,789,080
Capital stock and participation certificates	83,578	63,277
Retained earnings	2,685,853	2,610,251
Additional paid-in-capital	224,625	224,625
Accumulated other comprehensive loss	(4,583)	(4,454)
Total shareholder's equity	2,989,473	2,893,699
Total liabilities and shareholder's equity	$ 17,801,614	$ 17,682,779

	Three Months Ended March 31,	
Statement of income data	2017	2016
Interest income	$ 200,934	$ 187,060
Interest expense	75,422	67,158
Net interest income	125,512	119,902
Provision for loan losses	965	4,958
Net interest income after provision for loan losses	124,547	114,944
Noninterest income	24,288	21,708
Noninterest expense	64,212	61,968
(Benefit from) Provision for income taxes	(224)	32
Net income	84,847	74,652
Other comprehensive loss:		
Change in postretirement benefit plans	(129)	(140)
Total other comprehensive loss	(129)	(140)
Comprehensive income	$ 84,718	$ 74,512

ADDITIONAL REGULATORY INFORMATION – FARM CREDIT BANK OF TEXAS
(unaudited)

The following disclosures contain regulatory disclosures as required under Farm Credit Administration Regulation 628.63 for risk-adjusted ratios: common equity tier 1, tier 1 capital and total capital. Refer to Note 7 of the accompanying Financial Statements for information regarding the statutorily required permanent capital ratio. As required, these disclosures are made available for at least three years and can be accessed at Farm Credit Bank of Texas' website at www.farmcreditbank.com.

Scope of Application

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 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 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 (Federal Land Credit Association), 13 ACA (Agricultural Credit Associations) 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 March 31, 2017. The FLCA and ACAs collectively are referred to as associations. The bank is the primary funding source for the district associations. FCBT has no subsidiaries; therefore, the financial statements are only those of the bank and are not consolidated with any other entity. In conjunction with other System entities, the bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the Farm Credit System Building Association (FCSBA), and the Farm Credit System Association Captive Insurance Company. Certain of the bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital as only the institution who issued the equities may count the amount as capital. The bank's unincorporated business entities (UBEs), including its investment in a Rural Business Investment Company (RBIC), and its investment in the Farm Credit System Association Captive Insurance Company are included in risk-weighted assets and are not deducted from any capital component in accordance with FCA regulations. The bank has no consolidated subsidiaries: therefore, there are no consolidated entities for which the total capital requirement is deducted; there are no restrictions on transfer of funds or total capital with other consolidated entities; and no subsidiary exists that is below the minimum total capital requirement.

Capital Structure

The par value of the bank's common stock is $5 and the par value of the Class B Series 1 and 2 Non-cumulative Perpetual Preferred Stock is $1,000 and $100 per share, respectively. The minimum initial borrower investment is equal to the lesser of one thousand dollars or 2 percent of the association's and OFIs' average borrowing from the bank. Our bylaws permit our board of directors to set the required level of association and OFI investment in the bank within a range of 2 to 5 percent of the average association and OFI borrowings. In 2016, the required investment level was 2 percent. There are no capital sharing agreements between the bank and its affiliated associations.

Description of Bank Equities

Descriptions of the bank’s equities, capitalization requirements and restrictions are provided as follows:

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. 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. 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.

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. 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.

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.

The following table provides a summary of the bank's capital structure at March 31, 2017:

(dollars in thousands)	Balance	Three Month Average Daily Balance
Common equity tier 1 capital (CET1)		
Common cooperative equities:		
Purchased other required stock ≥7 years	**247,996**	**247,996**
Allocated stock ≥7 years	**36,042**	**36,042**
Other required member purchased stock	**-**	**-**
Allocated equities:		
Qualified allocated equities subject to retirement	**33,171**	**33,171**
Nonqualified allocated equities subject to retirement	**-**	**-**
Nonqualified allocated equities not subject to retirement	**-**	**-**
Unallocated retained earnings	**773,557**	**745,441**
Paid-in capital	**-**	**-**
Regulatory adjustments and deductions made to CET1	**(127,423)**	**(115,598)**
Total CET1	**$ 963,343**	**$ 947,052**
Tier 1 capital		
Non-cumulative perpetual preferred stock	**$ 600,000**	**$ 600,000**
Regulatory adjustments and deductions made to tier 1 capital	**-**	**-**
Total additional tier 1 capital	**600,000**	**600,000**
Total tier 1 capital	**$ 1,563,343**	**$ 1,547,052**
Total capital		
Common cooperative equities not included in CET1	**$ -**	**$ -**
Tier 2 capital elements (subordinated debt, allowance for loan losses)	**9,736**	**9,301**
Regulatory adjustments and deductions made to total capital	**-**	**-**
Total tier 2 capital	**9,736**	**9,301**
Total capital	**$ 1,573,080**	**$ 1,556,353**

Capital Adequacy and Capital Buffers

In conjunction with the annual business and financial planning process, the board of directors reviews and approves a capital adequacy plan. As part of our business planning process, we perform stress tests to examine the bank's financial condition and performance, including capital levels, under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These stress tests illustrate the bank's ability to continue to maintain compliance with regulatory requirements through severe market conditions while continuing to fulfill our mission. Results of these stress tests are reviewed with the board of directors and the FCA. The bank regularly assesses the adequacy of our capital to support current and future activities. This assessment includes maintaining a formal capital plan that addresses our capital targets in relation to our risks and establishes the required investment levels. The plan assesses the capital level and composition necessary to support financial viability and growth. The plan considers factors such as credit risk and allowance levels, quality and quantity of earnings, sufficiency of liquid funds, operational risk, interest rate risk and growth in determining optimal capital levels. The bank periodically reviews and modifies these targets to reflect current business and economic conditions. Our capital plan is updated at least annually and is subject to change at the discretion of the bank's board of directors.

Risk-Adjusted Assets at March 31, 2017:

(dollars in thousands)	Balance	Three Month Average Daily Balance	Risk-Weighted Exposures
Exposures to:			
Sovereign entities	$ -	$ -	$ -
Supranational entities and MDBs	-	-	-
Government-sponsored entities	**11,441,969**	**11,347,352**	**2,269,470**
Depository institutions, foreign banks and credit unions*	**239,722**	**230,908**	**4,635**
Public sector entities	-	-	-
Corporate exposures, including borrower loans and leases	**5,676,288**	**5,610,721**	**5,293,969**
Residential mortgage loans	**6**	**6**	**3**
Past due and nonaccrual loans	**2,846**	**2,856**	**4,284**
Cleared transactions	-	-	-
Unsettled transactions	-	-	-
Securitizations	**119,125**	**122,819**	**129,284**
Equity investments	**127,297**	**116,051**	**116,051**
Other assets	**7,514,896**	**7,515,896**	**2,140,603**
Deductions:			
Regulatory adjustments and deductions made to CET1	-	-	**(115,598)**
Regulatory adjustments and deductions made to AT1	-	-	-
Regulatory adjustments and deductions made to T2	-	-	-
Total standardized risk-weighted assets	**$ 25,122,149**	**$ 24,946,609**	**$ 9,842,701**

*Also includes OFI exposures that are risk weighted as exposures to U.S. depository institutions and credit unions

Capital Conservation and Leverage Buffers

As of March 31, 2017, the bank was well-capitalized and exceeded all capital requirements to which it was subject, including applicable capital buffers. The bank's capital conservation buffer is the lowest of the calculated buffer listed in the table below at 5.12 percent. The bank's leverage buffer of 3.23 percent is equal to the tier 1 leverage ratio minus the minimum tier 1 leverage ratio requirement. Because the bank's conservation and leverage buffers exceed the minimum buffer requirements of 2.5 percent and 1 percent, respectively, the bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $39,739 as of March 31, 2017.

	Regulatory Minimums	Required Buffer	Ratios As of March 31, 2017	Calculated Buffer
Common equity tier 1 capital ratio*	4.5%	2.500%	9.62%	5.12%
Tier 1 capital ratio*	6.0%	2.500%	15.72%	9.72%
Total capital ratio*	8.0%	2.500%	15.81%	7.81%
Capital conservation buffer				5.12%
Tier 1 leverage ratio	4.0%	1.0%	7.23%	3.23%
Leverage buffer				3.23%

*The capital conservation buffer over risk-adjusted ratio minimums will be phased in over 3 years under the FCA revised capital requirements, up to 2.5% beginning in 2020.

Credit Risk

System entities have specific lending authorities within their chartered territories. The bank is chartered to serve its associations in Texas, Alabama, Mississippi, Louisiana and most of New Mexico. Our chartered territory is referred to as the district. FCBT serves its chartered territory by lending to the district's Federal Land Credit Association (FLCA) and Agricultural Credit Associations (ACAs). The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as PD and LGD as is further discussed in the section "Allowance for Loan Losses and Reserve for Unfunded Commitments." Allowance needs by geographic region are only considered in circumstances that may not otherwise be reflected in the probability of default (PD) and loss given default (LGD) such as flooding or drought. There was no allowance attributed to a geographic area as of March 31, 2017.

Impaired Loans

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 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.

Allowance for Loan Losses and Reserve for Unfunded Commitments

The bank uses 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 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 Sheet. The reserve for losses on unfunded commitments represents management's estimate of probable credit losses related to letters of credit and other unfunded commitments.

Credit Risk Management

Credit Risk Mitigation Related to Loans

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. The bank manages credit risk associated with our lending activities through an assessment of the credit risk profile of an individual borrower. The bank sets its 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.

Refer to the Risk-Adjusted Asset table on page 47 for the bank's total and average loans, investment securities, off -balance sheet commitments and OTC derivatives. The bank's total loans by type can be found in Note 3.

The following table provides an overview of the remaining contractual maturity of the bank's credit risk portfolio categorized by exposure at March 31, 2017:

(dollars in thousands)	Due in one year or less	Due after one year through five years	Due after five years	Total
Loans	$ 1,450,819	$ 5,220,487	$ 9,661,397	16,332,703
Off-Balance Sheet Commitments				
Financial letters of credit	6,661	46,100	9,038	61,799
Performance letters of credit	-	4,080	-	4,080
Commercial letters of credit	-	805	-	805
Unfunded commitments	3,871,165	802,723	1,552,219	6,226,107
Investments	123,014	473,782	4,296,941	4,893,737
OTC Derivatives				
Interest rate caps	50,000	50,000	70,000	170,000
Pay fixed swaps	-	-	225,000	225,000
Total	$ 5,501,659	$ 6,597,977	$ 15,814,595	$ 27,914,231

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

	March 31, 2017	December 31, 2016	December 31, 2015
Texas	**14 %**	15 %	12 %
Illinois	**8**	7	9
Georgia	**6**	7	6
Minnesota	**5**	5	4
California	**5**	4	3
All other States	**62**	62	66
	100 %	100 %	100 %

Refer to Note 3 for amounts of impaired loans with or with no related allowance, loans in nonaccrual status and greater than 90 day past due, loans past due greater than 90 days and still accruing, the allowance at the end of each reporting period, charge-offs during the period, and changes in components of our allowance for credit losses.

Counterparty Credit Risk and Credit Risk Mitigation

Credit Risk Mitigation Related to Derivatives

By using derivative instruments, the bank exposes itself to credit and market risk. 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.

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. Our over-the-counter derivative contracts require the bank or its counterparties to post cash or securities as collateral when the fair values of the derivatives change based on changes in interest rates. 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. The amount of collateral the bank would have to provide if the bank's own creditworthiness deteriorated would be dependent upon the terms of the contract with the counterparty, including agreed-upon thresholds to limit exposure, and changes in interest rates. Refer to Note 6 for details on the notional, fair value, collateral held and credit ratings of the bank's derivative contracts. The bank did not hold any purchased credit derivatives for its own credit portfolio as of March 31, 2017.

Credit Risk Mitigation Related to Investments

Credit risk in our investment portfolio is largely mitigated by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies. At March 31, 2017, 45.3 percent of our $4.94 billion investment portfolio consisted of securities that carry a full faith and credit guarantee of the U.S. government. Such securities include mortgage-backed securities issued by the Government National Mortgage Association (Ginnie Mae), Export-Import Bank of the United States and U.S. Treasury. 48.0 percent of our investment portfolio consisted of securities issued by government agencies that carry the implicit backing of the U.S. government, including MBS issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and Farmer Mac. Another 6.7 percent of our investment portfolio is made up of asset-backed investments and corporate debt.

Credit risk in our investment portfolio primarily relates to the 6.7 percent of the portfolio composed of asset-backed investments, and corporate debt.

Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to us.

For each separately disclosed credit risk portfolio, see the following table for the total exposure that is covered by guarantees/credit derivatives, and the risk-weighted asset amount associated with that exposure. The bank did not hold eligible financial collateral for its loan, investment and derivative portfolios at March 31, 2017.

Government Guaranteed Asset Type	90 Day Average (dollars in 000s)	Risk Weighting	Risk-Weighted Amount
Investments	$ 2,415,887	0%	-
Loans	2,440,000	0%	-
Total	$ 4,855,887		-

Securitization

Securitizations are transactions in which:

- The credit risk of the underlying exposure is transferred to third parties, and has been separated into two or more tranches;
- The performance of the securitization depends upon the performance of the underlying exposures or reference assets; and
- All or substantially all of the underlying exposures or reference assets are financial exposures.

Securitizations include on- or off-balance-sheet exposures (including credit enhancements) that arise from a securitization or re-securitization transaction, or an exposure that directly or indirectly references a securitization (e.g., credit derivative). A re-securitization is a securitization transaction in which one or more of the underlying exposures that have been securitized is itself a securitization. We do not currently hold any credit related re-securitization investments.

The bank currently only participates in credit-related securitizations as investors through the purchase of highly rated asset-backed securities (ABS) as included in its investment portfolio. The bank also holds securitization exposures through the purchase of U.S government and agency guaranteed securities. The bank has not transferred any exposures that it has originated or purchased from a third party in connection with a securitization of assets as of March 31, 2017, nor does it have any outstanding exposures that it intends to be securitized as of March 31, 2017. The bank did not recognize any gain or loss on securitized assets for the three months ended March 31, 2017. As of March 31, 2017, the bank did not retain any credit-related re-securitization exposures.

We are subject to liquidity risk with respect to our purchased securitization exposures. In volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value could likely be significant. In addition, because of the inherent uncertainty of determining the fair value of such investments that do not have a readily available market value during volatile market conditions, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments.

The bank monitors its purchased ABS holdings on an ongoing basis, reviewing monthly credit performance metrics against outstanding credit enhancements, monitoring issuer and servicer performance, and tracking relevant ABS market conditions and credit spreads.

Below is an overview of our purchased securitization exposures held as of March 31, 2017, by exposure type and categorized by risk weighting band and risk-based capital approach:

Description of Securitization	Risk-Based Capital Approach	Exposure Amount (dollars in 000s)	Risk Weighted
Agency MBS:			
GNMA	Standardized Risk Weight	$1,790,092	0%
FNMA and FHLMC	Standardized Risk Weight	2,340,179	20%
Asset-backed securities	Gross-up	119,070	107.8%

As of March 31, 2017, the bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

Equities

We are a limited partner in certain Rural Business Investment Companies (RBICs) for various relationship and strategic reasons. These RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. These investments are accounted for under the equity method as the bank is considered to have significant influence. These investments are not publicly traded and the book value approximates fair value. There have been no sales or liquidations of these investments during the period.

(dollars in thousands)

As of March 31, 2017	Disclosed in Other Assets	Life-to-Date Gains (Losses) Recognized in Retained Earnings*
RBIC	$8,509	$309

*Retained earnings is included in common equity tier 1 and total capital ratios

Interest Rate Risk

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.

The following table sets forth the bank's projected market value of equity for interest rate movements as prescribed by policy as of March 31, 2017, based on the bank's interest-earning assets and interest-bearing liabilities at March 31, 2017:

Market Value of Equity Sensitivity Analysis

	Basis Point Interest Rate Change		
As of March 31, 2017	Down 38*	Up 100	Up 200
Immediate Change (Shock):			
MVE Sensitivity	2.96%	-7.54%	-15.66%

For interest rate risk management, the $600.0 million noncumulative perpetual preferred stock is included in liabilities.

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