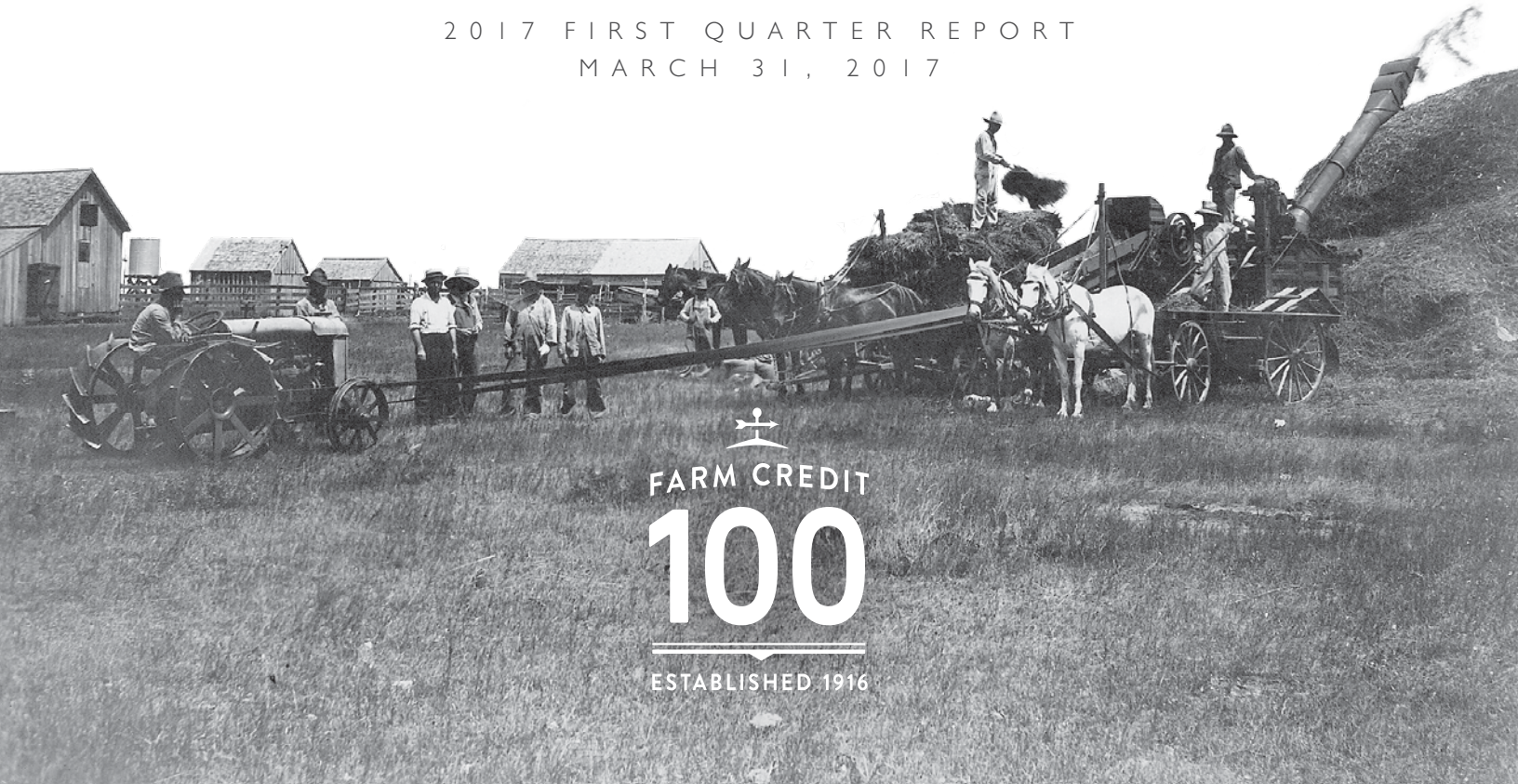
TEXAS FARM CREDIT DISTRICT

2017 FIRST QUARTER REPORT
MARCH 31, 2017



FIRST QUARTER 2017

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of the Farm Credit Bank of Texas (bank), its affiliated Federal Land Credit Association (FLCA) and affiliated Agricultural Credit Associations (ACAs) for the three months ended March 31, 2017. The FLCA and ACAs are collectively referred to as associations, and the bank and its affiliated associations are collectively referred to as the district. These comments should be read in conjunction with the accompanying combined financial statements and footnotes, along with the 2016 Annual Report to stockholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2017, was $111,708, an increase of $13,108, or 13.3 percent, over the same period of 2016. The increase in net income consisted primarily of a $10,846 increase in net interest income, a $5,630 decrease in provision for credit losses, and a $1,349 increase in noninterest income, offset by a $4,973 increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended March 31, 2017, was $186,942, an increase of $10,846, or 6.2 percent, over the same period of 2016. The increase was primarily the result of a $1.78 billion increase in combined district average earning assets. The increase in earning assets was due to increases in association average loan volume, the bank's capital markets loan portfolio and the bank's investment portfolio. The net interest rate spread of 255 basis points decreased slightly compared to the same period of 2016, with a 10 basis point increase in the effective cost of average interest earning assets offset by an 11 basis point increase in average interest-bearing liabilities. The district associations had an increase in average loan volume of $1.37 billion compared to the same period of 2016, due mainly to improved general economic conditions. 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 district's provision for credit losses on loans, standby letters of credit and unfunded commitments for the three months ended March 31, 2017, totaled $21, a decrease of $5,630 from the $5,651 provision for the same period of 2016. The decrease was due to less pressure on livestock and feedlot commodities.

Noninterest Income

Noninterest income for the three months ended March 31, 2017, was $14,888, an increase of $1,349, or 10.0 percent, from the same period of 2016. The increase was due primarily to a $2,252 increase in unrealized gains recognized on a Rural Business Investment Company (RBIC), offset by a $630 decrease in patronage income and a $531 decrease in other gains and losses compared to the same period in 2016.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2017, was $90,325, an increase of $4,973, or 5.8 percent, over the same period of 2016. The increase is primarily due to a $2,565 increase in salaries and benefits, a $1,907 increase in other operating expenses and a $587 increase in occupancy and equipment. The increase in salaries and benefits included a $2,272 increase in compensation, related payroll taxes and other benefits and a $438 increase in pension and retirement expenses. The increase in other operating expenses included a $915 increase in professional and contract services, and a $931 increase in combined travel and advertising and public member relations.

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	**1.60%**	1.49%
Return on average members' equity	**10.79%**	9.94%
Net interest income as a percentage of average earning assets	**2.75%**	2.74%
(Recoveries), net of charge-offs, to average loans	**< (0.01)%**	0.00%
Operating expenses as a percentage of net interest income and noninterest income	**44.80%**	45.04%
Operating expenses as a percentage of average earning assets	**1.33%**	1.33%

Other Comprehensive Income

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

The table below summarizes changes in elements included in other comprehensive (loss) 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 pension and postretirement benefit plans		
Amortization of prior service credits	**(185)**	(231)
Amortization of net losses	**4,439**	4,411
Net change in pension and postretirement benefit plans	**4,254**	4,180
Change in cash flow derivative instruments		
Unrealized gain (loss) on cash flow derivative instruments	**180**	(207)
Reclassification of loss recognized in interest expense	**-**	213
Net change in cash flow derivative instruments	**180**	6
Other comprehensive income	**$ 2,923**	$ 36,568

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2017, was $22.88 billion, an increase of $445.9 million, or 2.0 percent, from $22.43 billion at December 31, 2016. The increase in the loan portfolio during the first three months of 2017 was due primarily to growth in the bank's capital markets loan portfolio of $318.3 million and in the associations' loan portfolios of $139.8 million.

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

Loans classified under the Farm Credit Administration's (FCA's) Uniform Loan Classification System as "acceptable" or "special mention" as a percentage of total loans and accrued interest receivable were 98.4 percent at March 31, 2017, and 98.5 percent at December 31, 2016. Nonaccrual loans for the district were 0.6 percent of total loans at March 31, 2017, and at December 31, 2016.

Total district high-risk asset volume decreased $9.8 million, or 4.8 percent, to $194.0 million at March 31, 2017, from $203.8 million at December 31, 2016.

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

		Increase (Decrease)		
	March 31, 2017	$	%	December 31, 2016
Nonaccrual loans	**$ 132.3**	$ (13.4)	(9.2) %	$ 145.7
Accruing formally restructured loans	**35.5**	3.2	10.0	32.3
Loans 90 days past due and still accruing interest	**11.7**	5.3	82.8	6.4
Total impaired loans	**179.5**	$ (4.9)	(2.7)	184.4
Other property owned	**14.5**	$ (4.9)	(25.3)	19.4
Total high-risk assets	**$ 194.0**	$ (9.8)	(4.8) %	$ 203.8

The $13.4 million decrease in nonaccrual loans from December 31, 2016, to March 31, 2017, is primarily the result of $26.4 million in repayments offset by $11.4 million in transfers to nonaccrual status. The decrease in other property owned (OPO) was due primarily to dispositions of $5.9 million at district associations offset by $814 in additions to OPO at district associations.

At March 31, 2017, $92.9 million, or 70.2 percent, of the district's nonaccrual loans were considered current as to principal and interest. Continued satisfactory payment performance on these loans may indicate potential for a return to accrual status. At March 31, 2017, the district had $7.5 million in nonaccrual loans on which interest income is recognized upon cash receipts, compared to $7.9 million at December 31, 2016. Impaired loans, consisting of nonaccrual loans, accruing formally restructured loans and loans past due 90 days or more and still accruing interest, constituted 0.8 percent of total loans at March 31, 2017, and December 31, 2016.

The allowance for loan losses at March 31, 2017, totaled $82,000 and constituted 0.4 percent of total loans and was an increase of $263, or 0.1 percent, from the allowance for loan losses at December 31, 2016. Additional information about the allowance for loan losses is included in Note 3, "Loans and Reserves for Credit Losses." The allowance for loan losses as a percentage of impaired loans was 42.3 percent as of March 31, 2017, as compared to 40.1 percent as of December 31, 2016. The nature of the security supporting many of the impaired loans (primarily first lien real estate) is considered in the determination of necessary allowances for loan losses. The district also had reserves for credit losses on letters of credit and unfunded commitments totaling $5.7 million at March 31, 2017.

Liquidity and Funding Sources

Cash and available-for-sale investment securities totaled $5.21 billion, or 18.3 percent, of total assets at March 31, 2017, compared to $5.09 billion, or 18.2 percent, at December 31, 2016, an increase of $126.2 million, or 2.5 percent. At March 31, 2017, the district's cash balance was $226.2 million, a decrease of $19.0 million from the balance at December 31, 2016. Cash held at the Federal Reserve Bank at March 31, 2017, totaled $198.6 million, compared to $158.6 million at December 31, 2016. The district has diversified its liquidity positions, with the purchase of U.S. Treasury securities in the second quarter of 2016. The bank maintains levels of cash and other highly liquid assets to meet loan demand, maturing debt and other liquidity needs. At March 31, 2017, the bank had 207 days of liquidity to cover maturing debt obligations, as compared to 199 days at December 31, 2016. Interest-bearing liabilities, consisting of bonds and notes, increased by $585.7 million, or 2.5 percent, from December 31, 2016, to March 31, 2017.

Subordinated Debt

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

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

Investments

The district's investments at March 31, 2017, included the bank's available-for-sale portfolio with a fair value of $4.97 billion and the district associations' held-to-maturity portfolio recorded at an amortized cost of $21.4 million. The available-for-sale investments included a liquidity portfolio and a portfolio of other investments. The bank's available-for-sale liquidity portfolio consisted primarily of mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt, U.S. Treasury securities and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The available-for-sale portfolio of other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) held by the bank that had a fair value of $50.0 million. The district's held-to-maturity portfolio consisted of Farmer Mac AMBS held by district associations which had an amortized cost of $21.4 million and a fair value of $21.4 million.

The Farmer Mac AMBS are backed by loans originated by the associations and previously held by the associations under Farmer Mac's long-term standby commitment to purchase agreements. Farmer Mac is a government-sponsored enterprise and is examined and regulated by FCA. It provides a secondary market for agricultural and rural home mortgage loans that meet certain underwriting standards. Farmer Mac is authorized to provide loan guarantees and to be a direct pooler of agricultural mortgage loans. Farmer Mac is owned by both System and non-System investors, and its board of directors has both System and non-System representation. Farmer Mac is not liable for any debt or obligation of any System institution, and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac.

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

	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 available-for-sale investments	**$ 4,931,638**	**$ 4,893,737**	$ 4,814,429	$ 4,778,040

The bank's available-for-sale 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., 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 that were below AAA rating by all NRSROs.

Capital Resources

The district's combined capital at March 31, 2017, totaled $4.22 billion consisting of $620,000 of Class B noncumulative subordinated perpetual preferred stock, $64,735 of capital stock and participation certificates, $3.47 billion in retained earnings and $224,625 in additional paid-in capital, offset by $154,987 of accumulated other comprehensive loss. The district's capital reflected an increase of $120,850, or 2.9 percent, from December 31, 2016, to March 31, 2017, due to net income of $111,708, preferred stock issuance of $20,000, other comprehensive income changes of $2,995 and net capital stock issuance of $301, offset by patronage distributions of $9,092 and preferred stock dividends of $5,062.

During the first quarter of 2017 a district association issued $20 million shares of fixed-to-floating rate perpetual cumulative preferred stock with a par value of $1.00 per share. The preferred stock will have a fixed rate dividend of 5 percent for 10 years, payable semi-annually. After 10 years, the dividend rate becomes a floating rate of 5 percent above 6-month LIBOR. On or after five years, the association may, at its option, redeem all or part of the preferred stock.

Farm Credit Administration regulations require the bank and associations 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 and all district associations exceeded all regulatory capital requirements.

Key financial condition comparisons:

	March 31, 2017	December 31, 2016
Members' equity to assets	**14.79%**	14.66%
Total liabilities to members' equity	**5.76:1**	5.78:1
Allowance for loan losses to total loans	**0.36%**	0.36%

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, 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 will also replace the existing net collateral ratio with a tier 1 leverage ratio and is applicable to all banks and associations. The permanent capital ratio will continue to remain in effect with the final rule.

The new capital requirements became effective January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. The bank and its affiliated associations are 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 and district associations, that the report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information included herein is true, accurate, and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

James F. Dodson
Chairman of the Board

Amie Pala
Chief Financial Officer

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 chief financial officer evaluated our disclosure controls and procedures as of the end of and for the period covered by this quarterly report, and have concluded that our disclosure controls and procedures are effective as of that date. This evaluation relies upon the evaluations made by the individual associations and the related certifications they provide to the bank.

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

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

May 10, 2017

Combined Balance Sheets

(dollars in thousands)	**March 31, 2017 (Unaudited)**	December 31, 2016
Assets		
Cash	**$ 226,180**	$ 207,229
Federal funds sold and overnight investments	**22,089**	22,901
Investment securities	**4,965,117**	4,857,068
Loans (includes $16,056 and $16,311 at fair value, held under fair value option)	**22,882,065**	22,426,117
Less allowance for loan losses	**82,000**	81,737
Net loans	**22,800,065**	22,344,380
Accrued interest receivable	**179,071**	182,012
Other property owned	**14,504**	19,354
Premises and equipment, net	**123,653**	122,645
Other assets	**202,408**	197,202
Total assets	**$ 28,533,087**	$ 27,952,791
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	**$ 23,826,334**	$ 23,240,663
Accrued interest payable	**58,598**	54,245
Patronage distributions payable	**68,877**	157,101
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**339,444**	381,798
Total liabilities	**24,313,316**	23,853,870
Commitments and contingencies (Note 4)		
Members' equity		
Preferred stock	**620,000**	600,000
Capital stock and participation certificates	**64,735**	64,434
Allocated retained earnings	**631,669**	631,647
Unallocated retained earnings	**2,833,729**	2,736,197
Additional paid-in-capital	**224,625**	224,625
Accumulated other comprehensive loss	**(154,987)**	(157,982)
Total members' equity	**4,219,771**	4,098,921
Total liabilities and members' equity	**$ 28,533,087**	$ 27,952,791

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2017	2016
Interest Income		
Loans	**$ 246,347**	$ 227,655
Investment securities	**19,048**	16,371
Total interest income	**265,395**	244,026
Interest Expense		
Bonds, notes and subordinated debt	**64,632**	58,034
Notes payable and other	**13,821**	9,896
Total interest expense	**78,453**	67,930
Net interest income	**186,942**	176,096
Provision for credit losses	**21**	5,651
Net interest income after provision for credit losses	**186,921**	170,445
Noninterest Income		
Patronage income	**5,145**	5,779
Fees for loan-related services	**5,713**	5,733
(Loss) gain on loans held under fair value option	**(100)**	199
Other income, net	**4,130**	1,828
Total noninterest income	**14,888**	13,539
Noninterest Expense		
Salaries and employee benefits	**52,642**	50,077
Occupancy and equipment expense	**8,800**	8,213
Insurance Fund premiums	**7,573**	7,620
Gain on other property owned, net	**(103)**	(64)
Other operating expenses	**21,413**	19,506
Total noninterest expense	**90,325**	85,352
Income before provision for income taxes	**111,484**	98,632
(Benefit from) provision for income taxes	**(224)**	32
Net Income	**111,708**	98,600
Other comprehensive income		
Change in unrealized (loss) gain on investments	**(1,511)**	32,382
Change in pension and postretirement benefit plans	**4,254**	4,180
Change in cash flow derivative instruments	**252**	6
Total other comprehensive income	**2,995**	36,568
Comprehensive Income	**$ 114,703**	$ 135,168

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

Combined Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Additional Paid-in-Capital	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2015	$ 600,000	$ 62,456	$ 588,262	$ 2,610,227	$ 224,625	$ (156,944)	$ 3,928,626
Net income	-	-	-	98,600	-	-	98,600
Other comprehensive gain	-	-	-	-	-	36,568	36,568
Capital stock/participation certificates issued	-	2,386	-	-	-	-	2,386
Capital stock/participation certificates and allocated retained earnings retired	-	(2,019)	-	-	-	-	(2,019)
Impact of association merger:							
Preferred stock dividends	-	-	-	(5,062)	-	-	(5,062)
Patronage distributions							
Cash	-	-	-	(10,143)	-	-	(10,143)
Members' equity	-	-	(1)	1	-	-	-
Balance at March 31, 2016	$ 600,000	$ 62,823	$ 588,261	$ 2,693,623	$ 224,625	$ (120,376)	$ 4,048,956
Balance at December 31, 2016	$ 600,000	$ 64,434	$ 631,647	$ 2,736,197	$ 224,625	$ (157,982)	$ 4,098,921
Net income	-	-	-	111,708	-	-	111,708
Other comprehensive gain	-	-	-	-	-	2,995	2,995
Capital stock/participation certificates issued	-	2,420	-	-	-	-	2,420
Capital stock/participation certificates and allocated retained earnings retired	-	(2,119)	-	-	-	-	(2,119)
Preferred stock issued	20,000	-	-	-	-	-	20,000
Preferred stock dividends	-	-	-	(5,062)	-	-	(5,062)
Patronage distributions							
Cash	-	-	-	(9,092)	-	-	(9,092)
Members' equity	-	-	22	(22)	-	-	-
Balance at March 31, 2017	**$ 620,000**	**$ 64,735**	**$ 631,669**	**$ 2,833,729**	**$ 224,625**	**$ (154,987)**	**$ 4,219,771**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2017	2016
Operating activities		
Net income	**$ 111,708**	$98,600
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**21**	5,651
Carrying value adjustment on other property owned	**12**	50
Depreciation and amortization on premises and equipment	**4,062**	3,697
Accretion of net premium on loans	**1,959**	2,881
Amortization and accretion on debt instruments	**5,499**	4,656
Accretion of yield related to loans and notes payable acquired in merger	**(85)**	(578)
Accretion of net premium on investments	**1,265**	912
Gain (loss) on loans under fair value option	**100**	(199)
Gain from sales of other property owned	**(296)**	(61)
Gain on sale of loans held-for-sale	**-**	(75)
(Gain) loss on other earning assets	**(1,979)**	273
Loss from sales of premises and equipment	**783**	680
Allocated equity patronage from System bank	**(14,588)**	(13,852)
Decrease (increase) in accrued interest receivable	**2,941**	(881)
Decrease in other assets, net	**13,441**	16,080
Increase in accrued interest payable	**4,353**	3,495
(Decrease) increase in other liabilities, net	**(53,119)**	32,072
Net cash provided by operating activities	**76,077**	153,401
Investing activities		
Net decrease in federal funds sold	**812**	1,536
Investment securities		
Purchases	**(400,460)**	(255,953)
Proceeds from maturities, calls and prepayments	**289,636**	248,762
Increase in loans, net	**(454,467)**	(501,771)
Proceeds from sales of other property owned	**5,674**	2,746
Proceeds from sales of premises and equipment	**1,028**	801
Expenditures for premises and equipment	**(6,881)**	(9,414)
Investment in other earning assets	**(1,491)**	299
Net cash used in investing activities	**(566,149)**	(512,994)
Financing activities		
Bonds and notes issued	**2,973,223**	3,992,197
Bonds and notes retired	**(2,393,050)**	(3,515,210)
Increase in guaranteed obligations to government entities	**1,388**	-
Increase in advanced conditional payments	**9,672**	2,378
Preferred stock issued	**20,000**	-
Repayments on capital lease obligation	**(134)**	(139)
Capital stock and participation certificates issued	**2,420**	2,386
Capital stock and participation certificates retired	**(2,119)**	(2,019)
Cash dividends on preferred stock	**(5,062)**	(5,062)
Cash patronage distributions paid	**(97,315)**	(143,733)
Net cash provided by financing activities	**509,023**	330,798
Net increase (decrease) in cash	**18,951**	(28,795)
Cash at beginning of year	**207,229**	550,852
Cash at end of quarter	**$ 226,180**	$ 522,057
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 259**	$ 122
Loan assets transferred to other property owned	**814**	1,830
Net (decrease) increase in unrealized gains on investment securities	**(1,511)**	32,382
Cash dividends or patronage distributions payable	**68,877**	8,288
Preferred stock dividend payable	**20,063**	20,063
Capital lease obligation	**951**	1,386
Supplemental information		
Cash paid for:		
Interest	**$ 74,100**	$ 64,435
Income taxes	**-**	2

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

Notes to Combined Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies followed and the financial condition and results of operations of the combined bank and associations as of and for the year ended December 31, 2016, are contained in the 2016 Annual Report to stockholders (Annual Report). These unaudited first quarter 2017 financial statements should be read in conjunction with the Annual Report.

The district revised its cash flow statement for the quarter ended March 31, 2016 between the net cash provided by operating activities and net cash provided by financing activities to correctly present the accretion on net premium on loans, the issuance of new debt concession costs, the amortization and accretion on debt instruments and the accretion of net premium on investments. The revision resulted in an increase to net cash provided by operating activities of $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 district, and conform to generally accepted accounting principles. The preparation of these financial statements requires the use of management's estimates. The results of operations for any interim period are not necessarily indicative of the results to be expected for the entire year.

In 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 district's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

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

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

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. 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 or association's financial condition or their 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 and associations are in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

NOTE 2 — INVESTMENTS

Investments Available for Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The majority of the liquidity portfolio's mortgage-backed securities were federal agency-guaranteed collateralized mortgage-backed securities, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities available for sale, at March 31, 2017, and December 31, 2016, is as follows:

Investments in the bank's 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 available-for-sale liquidity investments	**$ 4,931,638**	**$ 4,281**	**$ (42,182)**	**$ 4,893,737**	**1.60** %

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

	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Total
Agency-guaranteed debt	$ -	$ -	$ 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 bank's available-for-sale other investments portfolio:

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 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 the bank's available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time, for the securities that have been in a continuous unrealized loss position at 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 district evaluates investment securities for other-than-temporary impairment (OTTI) on a quarterly basis. Impairment is considered to be other than temporary if an entity (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its cost or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell).

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

Held-to-Maturity Investments

The district's held-to-maturity investments consist of Farmer Mac guaranteed agricultural mortgage-backed securities and are held by district associations. A summary of the amortized cost and fair value of held-to-maturity investment securities at March 31, 2017, is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 21,431	$ 120	$ (121)	$ 21,430	4.76%

The following table summarizes the contractual maturity, fair value, amortized cost and weighted average yield of the district's held-to-maturity investments at March 31, 2017:

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 14,368	$ 7,062	$ 21,430
Total amortized cost	**$ 14,252**	**$ 7,178**	**$ 21,430**
Weighted average yield	**5.10%**	**4.10%**	**4.77%**

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

A summary of the district's loans follows:

	March 31, 2017	December 31, 2016
Real estate mortgage	**$ 13,656,435**	$ 13,462,730
Production and intermediate term	**2,670,689**	2,736,456
Agribusiness		
Loans to cooperatives	**516,584**	390,798
Processing and marketing	**3,347,205**	3,146,124
Farm-related business	**274,403**	258,477
Communication	**476,315**	465,257
Energy (rural utilities)	**1,407,781**	1,433,870
Water and waste disposal	**143,963**	141,587
Rural residential real estate	**218,234**	216,398
Lease receivables	**6,172**	6,169
Loans to other financing institutions	**40,754**	42,078
Mission-related	**123,530**	126,173
	$ 22,882,065	$ 22,426,117

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

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

	Other Farm Credit Institutions (Outside of the Texas District)		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 219,178	$ 300,030	$ 256,447	$ 4,849	$ 475,625	$ 304,879
Production and intermediate term	590,401	665,319	11,009	96,320	601,410	761,639
Agribusiness	2,231,827	43,105	16,207	2,468	2,248,034	45,573
Communication	477,154	-	-	-	477,154	-
Energy (rural utilities)	1,408,352	-	-	-	1,408,352	-
Water and waste disposal	143,906	-	-	-	143,906	-
Lease receivables	6,172	-	-	-	6,172	-
Mission related	4,822	-	5,119	-	9,941	-
Loans to OFIs	-	11,190	-	-	-	11,190
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 5,081,812**	**$ 4,869,644**	**$ 288,782**	**$ 103,637**	**$ 5,370,594**	**$ 4,973,281**

The bank and associations are authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. At March 31, 2017, ACPs netted against borrowers' related loan balances totaled $190,235 and ACPs included in other liabilities totaled $26,232, compared to $177,675 and $16,560, respectively, at December 31, 2016.

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $16,056 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	**$ 85,103**	$ 91,651
Production and intermediate term	**35,337**	42,225
Agribusiness	**4,204**	4,283
Rural residential real estate	**2,231**	2,103
Lease receivables	**87**	91
Mission-related	**5,328**	5,355
Total nonaccrual loans	**132,290**	145,708
Accruing restructured loans:		
Real estate mortgage	**25,124**	24,569
Production and intermediate term	**4,409**	1,816
Rural residential real estate	**167**	169
Mission-related	**5,878**	5,794
Total accruing restructured loans	**35,578**	32,348
Accruing loans 90 days or more past due:		
Real estate mortgage	**8,557**	3,014
Production and intermediate term	**3,098**	3,416
Total accruing loans 90 days or more past due	**11,655**	6,430
Total nonperforming loans	**179,523**	184,486
Other property owned	**14,504**	19,354
Total nonperforming assets	**$ 194,027**	$ 203,840

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

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

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

	March 31, 2017	December 31, 2016
Real estate mortgage:		
Acceptable	**97.2 %**	97.2 %
OAEM	**1.3**	1.5
Substandard/Doubtful	**1.5**	1.3
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**93.4 %**	93.0 %
OAEM	**2.8**	3.1
Substandard/Doubtful	**3.8**	3.9
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**98.9 %**	98.6 %
OAEM	**0.3**	0.5
Substandard/Doubtful	**0.8**	0.9
	100.0 %	100.0 %
Energy and water/waste disposal:		
Acceptable	**93.8 %**	93.9 %
OAEM	**5.1**	6.1
Substandard/Doubtful	**1.1**	-
	100.0 %	100.0 %
Communication:		
Acceptable	**99.0 %**	99.0 %
OAEM	**-**	-
Substandard/Doubtful	**1.0**	1.0
	100.0 %	100.0 %
Rural residential real estate:		
Acceptable	**97.6 %**	97.8 %
OAEM	**0.9**	0.8
Substandard/Doubtful	**1.5**	1.4
	100.0 %	100.0 %
Lease receivables:		
Acceptable	**97.4 %**	97.2 %
OAEM	**1.2**	1.3
Substandard/Doubtful	**1.4**	1.5
	100.0 %	100.0 %
Loans to other financing institutions:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Mission-related:		
Acceptable	**95.7 %**	95.8 %
OAEM	**-**	-
Substandard/Doubtful	**4.3**	4.2
	100.0 %	100.0 %
Total loans:		
Acceptable	**96.9 %**	96.7 %
OAEM	**1.5**	1.8
Substandard/Doubtful	**1.6**	1.5
	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	**$ 67,536**	**$ 33,808**	**$ 101,344**	**$13,668,681**	**$13,770,025**	**$ 8,557**
Production and intermediate term	**23,084**	**11,758**	**34,842**	**2,664,938**	**2,699,780**	**3,098**
Agribusiness	**-**	**-**	**-**	**4,156,371**	**4,156,371**	**-**
Communication	**-**	**-**	**-**	**476,534**	**476,534**	**-**
Energy and water/waste disposal	**-**	**-**	**-**	**1,560,399**	**1,560,399**	**-**
Rural residential real estate	**1,703**	**906**	**2,609**	**216,312**	**218,921**	**-**
Agricultural export finance	**-**	**-**	**-**	**-**	**-**	**-**
Lease receivables	**129**	**-**	**129**	**6,111**	**6,240**	**-**
Loans to other financing institution	**-**	**-**	**-**	**40,822**	**40,822**	**-**
Mission-related	**443**	**-**	**443**	**124,011**	**124,454**	**-**
Total	**$ 92,895**	**$ 46,472**	**$ 139,367**	**$22,914,179**	**$23,053,546**	**$ 11,655**

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	$ 47,594	$ 30,084	$ 77,678	$ 13,506,745	$ 13,584,423	$ 3,014
Production and intermediate term	36,716	13,119	49,835	2,716,403	2,766,238	3,416
Agribusiness	5,078	-	5,078	3,803,833	3,808,911	-
Communication	-	-	-	465,502	465,502	-
Energy and water/waste disposal	14,590	-	14,590	1,568,854	1,583,444	-
Rural residential real estate	1,495	1,028	2,523	214,521	217,044	-
Lease receivables	-	-	-	6,248	6,248	-
Loans to other financing institutions	-	-	-	42,143	42,143	-
Mission-related	491	-	491	126,539	127,030	-
Total	$ 105,964	$ 44,231	$ 150,195	$ 22,450,788	$ 22,600,983	$ 6,430

Additional impaired loan information is as follows:

	At March 31, 2017			At December 31, 2016		
Impaired loans with a related allowance for loan losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Real estate mortgage	**$ 8,809**	**$ 8,956**	**$ 1,318**	$ 7,475	$ 7,646	$ 1,032
Production and intermediate term	**12,228**	**13,264**	**2,504**	15,534	16,139	3,959
Processing and marketing	**2,847**	**2,847**	**369**	2,868	2,868	368
Farm-related business	**754**	**4,679**	**117**	812	4,736	111
Rural residential real estate	**183**	**184**	**36**	125	129	22
Total	**$ 27,302**	**$ 32,411**	**$ 4,536**	$ 29,298	$ 34,002	$ 5,682
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	**$ 109,975**	**$ 115,532**	**$ -**	$ 111,759	$ 117,599	$ -
Production and intermediate term	**30,616**	**45,240**	**-**	31,923	45,813	-
Processing and marketing	**603**	**11,115**	**-**	603	21,065	-
Farm-related business	**-**	**133**	**-**	-	147	-
Energy and water/waste disposal	**-**	**7,664**	**-**	-	9,043	-
Rural residential real estate	**2,215**	**2,359**	**-**	2,148	2,290	-
Mission-related	**8,725**	**8,725**	**-**	8,664	8,664	-
Total	**$ 152,221**	**$ 190,855**	**$ -**	$ 155,188	$ 204,713	$ -
Total impaired loans:						
Real estate mortgage	**$ 118,784**	**$ 124,488**	**$ 1,318**	$ 119,234	$ 125,245	$ 1,032
Production and intermediate term	**42,844**	**58,504**	**2,504**	47,457	61,952	3,959
Processing and marketing	**3,450**	**13,962**	**369**	3,471	23,933	368
Farm-related business	**754**	**4,812**	**117**	812	4,883	111
Energy and water/waste disposal	**-**	**7,664**	**-**	-	9,043	-
Rural residential real estate	**2,398**	**2,543**	**36**	2,273	2,419	22
Mission-related	**11,206**	**11,206**	**192**	11,148	11,148	190
Total	**$ 179,523**	**$ 223,266**	**$ 4,536**	$ 184,486	$ 238,715	$ 5,682

	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
Real estate mortgage	**$ 8,684**	**$ 49**	$ 14,409	$ 73
Production and intermediate term	**14,034**	**7**	5,894	207
Processing and marketing	**2,854**	**67**	-	-
Farm-related business	**806**	**-**	883	-
Rural residential real estate	**86**	**2**	52	-
Mission-related	**2,482**	**56**	2,546	65
Total	**$ 28,946**	**$ 181**	$ 23,784	$ 345
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	**$ 111,512**	**$ 1,236**	$ 107,155	$ 856
Production and intermediate term	**30,355**	**333**	22,515	459
Processing and marketing	**602**	**-**	906	-
Farm-related business	**-**	**7**	1	3
Rural residential real estate	**2,170**	**5**	1,280	8
Lease receivables	**89**	**-**	15	-
Mission-related	**8,591**	**59**	9,600	71
Total	**$ 153,319**	**$ 1,640**	$ 141,472	$ 1,397
Total impaired loans:				
Real estate mortgage	**$ 120,196**	**$ 1,285**	$ 121,564	$ 929
Production and intermediate term	**44,389**	**340**	28,409	666
Processing and marketing	**3,456**	**67**	906	-
Farm-related business	**806**	**7**	884	3
Rural residential real estate	**2,256**	**7**	1,332	8
Lease receivables	**89**	**-**	15	-
Mission-related	**11,073**	**115**	12,146	136
Total	**$ 182,265**	**$ 1,821**	$ 165,256	$ 1,742

At March 31, 2017, impaired loans of $27.3 million had a related specific allowance of $4.5 million, while the remaining $152.2 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 $182.3 million. The district recognized interest income of $1.8 million 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	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses											
Balance at December 31, 2016	$ 35,559	$ 25,341	$ 13,036	$ 1,393	$ 5,686	$ 479	$ -	$ 42	$ -	$ 201	$ 81,737
Charge-offs	(18)	(1,511)	-	-	-	-	-	-	-	-	(1,529)
Recoveries	92	151	190	-	1,381	1	-	-	-	-	1,815
Provision for credit losses (loan loss reversal)	1,846	(214)	(637)	(143)	(778)	(56)	-	-	-	3	21
Other*	1,200	155	(1,101)	(362)	9	76	-	(21)	-	-	(44)
Balance at March 31, 2017	$ 38,679	$ 23,922	$ 11,488	$ 888	$ 6,298	$ 500	$ -	$ 21	$ -	$ 204	$ 82,000
Individually evaluated for impairment	$ 1,588	$ 2,502	$ 573	$ -	$ -	$ 58	$ -	$ -	$ -	$ 105	$ 4,826
Collectively evaluated for impairment	37,091	21,419	10,916	887	6,298	442	-	22	-	99	77,174
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2017	$ 38,679	$ 23,921	$ 11,489	$ 887	$ 6,298	$ 500	$ -	$ 22	$ -	$ 204	$ 82,000
Balance at December 31, 2015	$ 39,195	$ 17,461	$ 8,262	$ 1,087	$ 3,442	$ 620	$ 3	$ 43	$ -	$ 237	70,350
Charge-offs	(71)	(455)	(73)	-	-	-	-	-	-	-	(599)
Recoveries	218	134	302	-	-	1	-	-	-	-	655
Provision for credit losses (loan loss reversal)	552	2,588	1,527	(64)	1,008	40	(3)	3	-	-	5,651
Other*	50	(585)	21	(5)	86	-	-	-	-	-	(433)
Balance at March 31, 2016	$ 39,944	$ 19,143	$ 10,039	$ 1,018	$ 4,536	$ 661	$ -	$ 46	$ -	$ 237	$ 75,624
Individually evaluated for impairment	3,172	3,163	19	-	-	10	-	-	-	185	6,549
Collectively evaluated for impairment	36,772	15,980	10,020	1,018	4,536	651	-	46	-	52	69,075
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2016	$ 39,944	$ 19,143	$ 10,039	$ 1,018	$ 4,536	$ 661	$ -	$ 46	$ -	$ 237	$ 75,624
Recorded Investments in Loans Outstanding:											
Ending balance at March 31, 2017	$ 13,770,027	$ 2,699,780	$ 4,156,371	$ 476,534	$ 1,560,398	$ 218,920	$ 6,153	$ 87	$ 40,822	$ 124,455	$ 23,053,547
Individually evaluated for impairment	$ 120,050	$ 42,922	$ 4,204	$ -	$ -	$ 2,353	$ -	$ 87	$ -	$ 11,128	$ 180,744
Collectively evaluated for impairment	$ 13,649,670	$ 2,656,846	$ 4,152,167	$ 476,534	$ 1,560,398	$ 216,567	$ 6,153	$ -	$ 40,822	$ 113,327	$ 22,872,484
Loans acquired with deteriorated credit quality	$ 307	$ 12	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 319
Ending balance at March 31, 2016	$ 12,477,516	$ 2,666,244	$ 4,035,501	$ 465,269	$ 1,574,449	$ 315,172	$ -	$ 6,399	$ 43,657	$ 253,360	$ 21,837,567
Individually evaluated for impairment	$ 120,051	$ 52,473	$ 1,746	$ -	$ 562	$ 893	$ -	$ 12	$ -	$ 12,185	$ 187,922
Collectively evaluated for impairment	$ 12,356,862	$ 2,613,737	$ 4,033,755	$ 465,269	$ 1,573,887	$ 314,279	$ -	$ 6,387	$ 43,657	$ 241,175	$ 21,649,008
Loans acquired with deteriorated credit quality	$ 603	$ 34	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 637

*Includes reserve for losses on standby letters of credit that are recorded in other liabilities and an association prior year adjustment.

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

As of March 31, 2017, the total recorded investment of TDR loans was $50,947, including $15,369 classified as nonaccrual and $35,578 classified as accrual, with specific allowance for loan losses of $1,072. Additional commitments to lend to borrowers whose loan terms have been modified in TDRs were $2,160 at March 31, 2017, and $306 at 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	**$ 32,533**	$ 31,846	**$ 7,409**	$ 7,277
Production and intermediate term	**5,399**	2,906	**990**	1,090
Agribusiness	**1,324**	1,373	**1,324**	1,373
Rural residential real estate	**485**	498	**318**	329
Mission-related	**11,206**	11,149	**5,328**	5,355
Total	**$ 50,947**	$ 47,772	**$ 15,369**	$ 15,424

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three months ended March 31, 2017, and March 31, 2016. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end after the restructuring.

For the three months ended March 31, 2017:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,419	$ 1,382
Production and intermediate term	2,999	2,542
Mission-related	-	-
Total	$ 4,418	$ 3,924

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

For the three months ended March 31, 2016:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 382	$ 369
Rural residential real estate	141	140
Total	$ 523	$ 509

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

	Recorded Investment at March 31, 2017	Recorded Investment at March 31, 2016
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage	**$ 88**	$ -
Total	**$ 88**	$ -

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 $258.91 billion.

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

NOTE 5 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2, “Summary of Significant Accounting Policies,” of the 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	**7,108**	7,108	-	-
Total assets	**$ 4,997,326**	$ 7,108	$ 4,940,268	$ 49,950
Liabilities:				
Derivative liabilities	**$ 176**	$ -	$ 176	$ -
Standby letters of credit	**621**	-	-	621
Total liabilities	**$ 797**	$ -	$ 176	$ 621

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 December 31, 2016, to March 31, 2017:

	Assets	Liabilities	
	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Balance at January 1, 2017	$ 53,335	$ 711	$ 52,624
Net gains included in other comprehensive income	2	-	2
Purchases, issuances and settlements	(3,387)	(90)	(3,297)
Balance at March 31, 2017	$ 49,950	$ 621	$ 49,329

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 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 March 31, 2017, for each of the fair value hierarchy levels are summarized below:

	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
Assets:					
Loans	**$ 140,657**	$ -	$ -	$ 140,657	**$ (1,529)**
Other property owned	**16,115**	-	-	16,115	**103**
Total assets	**$ 156,772**	$ -	$ -	$ 156,772	**$ (1,426)**

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

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	$ 22,901	$ -	$ 22,901	$ -
Investments available for sale:				
Agency-guaranteed debt	222,374	-	222,374	-
Corporate debt	202,403	-	202,403	-
U.S. Treasury securities	249,006		249,006	
Mortgage-backed securities	3,973,578	-	3,973,578	
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	7,003	7,003	-	-
Total assets	$ 4,885,664	$ 7,003	$ 4,825,326	$ 53,335
Liabilities:				
Standby letters of credit	$ 711	$ -	$ -	$ 711
Total liabilities	$ 711	$ -	$ -	$ 711

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	Net
Balance at January 1, 2016	$ 50,250	$ 65,650	$ 4,850	$ 967	$ 119,783
Net losses included in other comprehensive income	-	(478)	-	-	(478)
Purchases, issuances and settlements	-	(4,237)	(4,850)	211	(9,298)
Transfers out of Level 3	(50,250)	-	-	-	(50,250)
Balance at March 31, 2016	$ -	$ 60,935	$ -	$ 1,178	$ 59,757

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 include 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 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 Measurements at December 31, 2016				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	$148,782	$ -	$ -	$148,782	$ (3,624)
Other property owned	21,504	-	-	21,504	(2,179)
Total assets	$170,286	$ -	$ -	$170,286	$ (5,803)

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	**$ 226,180**	$226,180	$ -	$ -	$ 226,180
Mission-related and other held-to-maturity investments	**21,431**	-	-	21,430	21,430
Net loans	**22,800,065**	-	-	22,475,160	22,475,160
Total assets	**$ 23,047,676**	$226,180	$ -	$ 22,496,590	$22,722,770
Liabilities:					
Systemwide debt securities and other notes	**$ 23,826,334**	$ -	$ -	$ 23,832,954	$23,832,954
	$ 23,826,334	$ -	$ -	$ 23,832,954	$23,832,954

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. The following represent a brief summary of the valuation techniques used by the bank and associations 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. Level 3 assets at March 31, 2017, include 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 FCA 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, 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 cash flow interest rate swaps.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable 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.

For other notes, fair value is estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the current loan origination rates as well as managements' estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

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 on its floating-rate-assets. 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 to which the bank has credit exposure at March 31, 2017:

	Remaining Years to Maturity			**Maturity Distribution**		**Exposure Collateral**	**Net of**
	One to Five Years	**More Than Five Years**	**Total**	**Netting**	**Exposure**	**Held**	**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,			**Amount of Gain Reclassified From AOCI Into Income (Effective Portion) at March 31,**		
	2017	2016		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	4.50%	2.50% *	7.00%	9.62%
Tier 1 Capital Ratio	6.00%	2.50% *	8.50%	15.72%
Total Capital Ratio	8.00%	2.50% *	10.50%	15.81%
Permanent Capital Ratio	7.00%	0.00%	7.00%	15.73%
Non-risk-adjusted				
Tier 1 Leverage Ratio	4.00%	1.00%	5.00%	7.23%
UREE Leverage Ratio	1.50%	0.00%	1.50%	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

Risk-adjusted assets are 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 seven years, allocated equities held for a minimum of seven 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 noncumulative 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 five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred

stock greater than five 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 stock 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

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

The following table summarizes the components of net periodic benefit costs for the district's defined benefit pension plan and for other postretirement benefit costs for the three months ended March 31:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2017	2016	**2017**	2016
Service Cost	**$ 1,011**	$ 1,173	**$ 322**	$ 320
Interest Cost	**4,075**	4,209	**768**	753
Amortization of prior service cost	**(3,968)**	(4,411)	**(220)**	(232)
Amortization of net loss	**4,430**	4,365	**35**	45
Net periodic benefit cost	**$ 5,548**	$ 5,336	**$ 905**	$ 886

As of March 31, 2017, contributions of $11.6 million have been made to the defined benefit pension plan. The district presently anticipates no additional contributions to fund its pension plan in 2017.

NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE LOSS

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

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

	Total	Unrealized Gain (Loss) on Securities	Pension and Other Post-Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2017	$ (157,982)	$ (38,529)	$ (125,874)	$ 6,421
Change in unrealized gains on available-for-sale securities				
Change in unrealized gains on investment securities	(1,511)	(1,511)		
Net change in unrealized gains on securities	(1,511)	(1,511)		
Change in pension and postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(185)		(185)	
Amortization of net losses	4,439		4,439	
Net change in pension and postretirement benefit plans	4,254		4,254	
Change in cash flow derivative instruments				
Unrealized losses on cash flow derivative instruments	180			180
Reclassification of loss recognized in interest expense	72			72
Net change in cash flow derivative instruments	252			252
Total other comprehensive income (loss)	**2,995**	**(1,511)**	**4,254**	**252**
Balance, March 31, 2017	**$ (154,987)**	**$ (40,040)**	**$ (121,620)**	**$ 6,673**

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

	Total	Unrealized Gain (Loss) on Securities	Pension and Other Post-Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2016	$ (156,944)	$ (25,276)	$ (129,761)	$ (1,907)
Change in unrealized gains on available-for-sale securities				
Change in unrealized gains on investment securities	32,382	32,382		
Net change in unrealized gains on securities	32,382	32,382		
Change in pension and postretirement benefit plans				
Actuarial gains (losses)	-			
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(231)		(231)	
Amortization of net losses	4,411		4,411	
Net change in pension and postretirement benefit plans	4,180		4,180	
Change in cash flow derivative instruments				
Unrealized losses on cash flow derivative instruments	(207)			(207)
Reclassification of loss recognized in interest expense	213			213
Net change in cash flow derivative instruments	6			6
Total other comprehensive income (loss)	36,568	32,382	4,180	6
Balance, March 31, 2016	$ (120,376)	$ 7,106	$ (125,581)	$ (1,901)

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

Component of AOCL	**Amount Reclassified from AOCL**		**Affected Line in the Statement of Comprehensive Income**
	2017	2016	
Amortization of net charges on pension and postretirement benefit plans	**$ 4,254**	$ 4,180	Salaries and employee benefits
Amortization on cash flow hedges	**72**	213	Interest expense
Total reclassifications	**$ 4,326**	$ 4,393	

NOTE 10 — INCOME TAXES

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

NOTE 11 — SUBSEQUENT EVENTS

The district 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 12 — BANK-ONLY FINANCIAL DATA

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

Balance sheet data	**March 31, 2017**	December 31, 2016
Cash	**$ 217,633**	$ 195,479
Federal funds sold and overnight investments	**22,089**	22,901
Investment securities	**4,943,687**	4,831,375
Loans	**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
Bonds and notes, net	**$ 19,976,334**	$ 19,390,662
Accrued interest payable	**54,013**	50,255
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**61,100**	139,166
Total liabilities	**20,111,510**	19,600,146
Preferred stock	**600,000**	600,000
Capital stock	**284,038**	284,038
Retained earnings	**811,091**	770,793
Accumulated other comprehensive income (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

	Three Months Ended March 31,	
Statement of income data	**2017**	2016
Interest income	**$ 126,369**	$ 114,967
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	**8,907**	8,410
Noninterest expense	**24,816**	22,540
Net income	**46,772**	42,110
Other comprehensive income:		
Change in fair value of investments	**(1,511)**	32,382
Change in postretirement benefit plans	**(47)**	6
Change in cash flow derivative instruments	**252**	(46)
Total other comprehensive income	**(1,306)**	32,342
Comprehensive Income	**$ 45,466**	$ 74,452