FARM CREDIT BANK OF TEXAS

2017 SECOND QUARTER REPORT
JUNE 30, 2017

SECOND QUARTER 2017

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

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the six months ended June 30, 2017. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2016 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

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

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

The bank and its affiliated associations collectively are referred to as the "district." At June 30, 2017, the bank provided financing to 14 district associations and certain OFIs.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended June 30, 2017, was $45,560, a decrease of $532, or 1.2 percent, over the same period of 2016. The decrease in net income consisted of a $4,901 decrease in noninterest income and a $1,033 increase in noninterest expense offset by a $4,489 increase in net interest income and a $913 decrease in provision for credit losses.

Net income for the six months ended June 30, 2017, was $92,332, an increase of $4,130, or 4.7 percent, over the same period of 2016. The increase in net income consisted of a $9,293 increase in net interest income and a $2,551 decrease in provision for credit losses offset by a $4,406 decrease in noninterest income and a $3,308 increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended June 30, 2017, was $62,673, an increase of $4,489, or 7.7 percent, from the three months ended June 30, 2016. The increase in net interest income was attributable to a volume increase of $1.1 billion in the bank's average earning assets. The bank's interest rate spread remained steady at 107 basis points. Effective interest rates on earning assets increased 14 basis points from the second quarter of 2016 to the second quarter of 2017, while the effective rates on interest-bearing liabilities increased 14 basis points. The increase in the bank's average earning assets included growth in its direct notes from associations, investment portfolio and capital markets loan portfolio. The bank recognized $1.0 million in concession expenses on $370.2 million of debt called in the three months

ended June 30, 2017, compared to $4.1 million concession expense on $2.79 billion of debt called in the three months ended June 30, 2016, which impacted interest expense.

Net interest income for the six months ended June 30, 2017, was $124,410, an increase of $9,293, or 8.1 percent, from the six months ended June 30, 2016. The increase in net interest income was attributable to a volume increase of $1.38 billion in the bank's average earning assets and a 1-basis-point increase in the bank's interest rate spread to 110 basis points. Effective interest rates on earning assets increased 10 basis points from the six months ended June 30, 2016, to the six months ended June 30, 2017, while the effective rates on interest-bearing liabilities increased 9 basis points. The increase in the bank's average earning assets included growth in its direct notes from associations, investment portfolio and capital markets loan portfolio. Interest expense for the six months ended June 30, 2017, reflected a $5.5 million decrease in concession expenses recognized on callable debt as a result of a $3.5 billion decrease in debt called in the six months ended June 30, 2017, compared to the same period in 2016. The bank recognized $800 in concession expenses on $490.3 million of debt called in the six months ended June 30, 2017, as compared to $6.3 million on $3.99 billion of debt called in the six months ended June 30, 2016.

Provision for Credit Losses

The bank's negative provision for credit losses for the three months ended June 30, 2017, totaled $114, a decrease of $913 from the $799 provision for credit losses from the same period of 2016. The $114 negative provision for the three months ended June 30, 2017, included $46 in recoveries and a $67 decrease in general reserves.

The bank's negative provision for credit losses for the six months ended June 30, 2017, totaled $1,059, a decrease of $2,551 from the $1,492 provision for credit losses recorded in the first six months of 2016. The $1,059 provision for the six months ended June 30, 2017, included $1,431 in recoveries and a $371 increase in general reserves.

Noninterest Income

Noninterest income for the three months ended June 30, 2017, was $7,400, a decrease of $4,901, or 39.8 percent, over the same period of 2016. The decrease was due mainly to a $1,936 decrease in patronage income and a $3,096 decrease on a nonrecurring event associated with a gain of a sale of a loan in 2016.

Noninterest income for the six months ended June 30, 2017, was $16,305, a decrease of $4,406, or 21.3 percent, over the same period of 2016. The decrease was mainly due to a $2,201 decrease in patronage income and a decrease of $1,957 in other income. The decrease in other income included a $3,096 decrease on a nonrecurring event associated with a gain of a sale of a loan in 2016, offset by a $1,024 increase in unrealized gains recognized on a Rural Business Investment Company (RBIC) investment.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2017, was $24,627, an increase of $1,033, or 4.4 percent, over the same period of 2016. The increase was attributable to a $506 increase in salaries and employee benefits, a $278 increase in other operating expenses and a $249 increase in occupancy compensation and insurance fund premiums.

Noninterest expense for the six months ended June 30, 2017, was $49,442, an increase of $3,308, or 7.2 percent, over the same period of 2016. The increase was attributable to a $1,713 increase in professional fees included in other operating expenses, a $1,295 increase in salaries and employee benefits and a $497 increase in occupancy and equipment.

Key results of operations comparisons:

	Annualized for the Six Months Ended June 30, 2017	Annualized for the Six Months Ended June 30, 2016
Return on average assets	**0.86%**	0.87%
Return on average shareholders' equity	**11.16%**	10.97%
Net interest income as a percentage of average earning assets	**1.18%**	1.17%
(Recoveries), net of charge-offs to average loans	**< (0.01)%**	< (0.01)%
Operating expenses as a percentage of net interest income and noninterest income	**35.14%**	33.97%
Operating expenses as a percentage of average earning assets	**0.47%**	0.47%

Other Comprehensive Income

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

The table below summarizes the changes in elements included in other comprehensive income:

	Six Months Ended June 30	
	2017	2016
Change in unrealized gains on available-for-sale securities		
Net increase in unrealized gains on investment securities	**$ 6,224**	$ 44,175
Net change in unrealized gains on securities	**6,224**	44,175
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(93)**	(93)
Net change in postretirement benefit plans	**(93)**	(93)
Change in cash flow derivative instruments		
Unrealized loss on cash flow derivative instruments	**(2,056)**	(4,668)
Reclassification of loss recognized in interest expense	**710**	758
Net change in cash flow derivative instruments	**(1,346)**	(3,910)
Other comprehensive income	**$ 4,785**	$ 40,172

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

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2017, was $16.5 billion, an increase of $616.2 million, or 3.9 percent, compared to $15.9 billion at December 31, 2016. The increase in the loan portfolio is attributable to growth in the bank's direct loans to associations and, to a lesser extent, growth in the bank's capital markets loan portfolio. The growth in direct loans to associations was related to continued strong economic conditions in the district.

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank seeks the purchase of participations and syndications originated outside of the district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or sub-participated to the associations or to other System entities.

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. There were CPP loan purchases of $13.5 million from a district association in December 2016, which resulted in a net stock issuance of $1.0 million. There have been no CPP loan purchases for the six months ended June 30, 2017. CPP loans held at June 30, 2017, totaled $34,291 and were included in "Loans" on the Balance Sheets. The balance of the AMBS CPP was $47,661 at June 30, 2017, and is included in "Investment securities" on the Balance Sheets.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 99.8 percent of total loans and accrued interest at June 30, 2017 and 99.8 percent at December 31, 2016.

During the second quarter of 2017, the Bank downgraded the direct loan to one of our affiliated associations to the special mention credit quality classification. As of June 30, 2017, the direct note totaled $913.8 million. The Bank's loans to our affiliated associations are collateralized by substantially all of the association assets, and the earnings, capital and loan loss reserves of the association provide a buffer against losses in their retail portfolio. While the downgrade reflects a potential control weakness at the affiliated association, as a result of the collateralization and other mitigating factors, the Bank has not made any provision for loan loss or recorded any allowance for credit loss related to our direct note to that affiliated association.

The table below summarizes the balances of the bank's high-risk assets at June 30, 2017, compared to the balances at December 31, 2016:

		(Decrease)		
	June 30, 2017	$	%	December 31, 2016
Nonaccrual loans	**$ 2,825**	$ (37)	(1.29) %	$ 2,862
Accruing formally restructured loans	**6,415**	(80)	(1.23)	6,495
Total high-risk assets	**$ 9,240**	$ (117)	(1.25) %	$ 9,357

The decrease in nonaccrual loans and accruing formally restructured loans were due to repayments. At June 30, 2017, and December 31, 2016, the bank did not have any nonaccrual loans on which cash payments are recognized as interest income and did not have any other property owned (OPO).

Impaired loans, consisting of nonaccrual loans and accruing formally restructured loans, and loans 90 days past due and still accruing interest, constituted 0.06 percent of gross loans at June 30, 2017 and 0.1 percent at December 31, 2016.

At June 30, 2017, the bank had reserves for credit losses totaling $9,669, including an allowance for loan losses of $8,305 and a reserve for credit losses on unfunded commitments of $1,364 related to the bank's capital markets loan portfolio. The allowance for loan losses of $8,305 equated to 0.1 percent of total loans outstanding and 0.2 percent of capital market loans outstanding. The $1,364 reserve for losses on unfunded commitments predominantly included a general reserve for losses on unused loan commitments and for losses on letters of credit, representing management's estimate of probable credit losses related to unfunded commitments. Because analysis indicates that an allowance on the association direct notes is not warranted, the entire balance of the allowance and reserve for credit losses reflects reserves for risks identified in the bank's participation loans.

The allowance for loan losses as a percentage of impaired loans was 89.9 percent as of June 30, 2017, as compared to 81.8 percent as of December 31, 2016. The sufficiency of the collateral supporting many of the impaired loans (primarily first lien real estate) is considered in the determination of necessary allowances for loan losses.

Liquidity and Funding Sources

Cash and investment securities totaled $5.3 billion, or 23.9 percent, of total assets at June 30, 2017, compared to $5.1 billion, or 23.8 percent, at December 31, 2016, an increase of $235,840, or 4.7 percent. At June 30, 2017, the bank's cash balance was $221,865, a $26,386 increase from December 31, 2016. Cash held at the Federal Reserve Bank at June 30, 2017, totaled $208,528, compared to $158,610 at December 31, 2016. The bank diversified its liquidity position, including the purchase of U.S. Treasury securities in the second quarter of 2016. Levels of cash and other highly liquid assets are maintained to meet loan demand, debt servicing and other liquidity needs. At June 30, 2017, the bank had 208 days of liquidity to cover maturing debt obligations. Interest-bearing liabilities, consisting of bonds and notes, increased by $855,405, or 4.4 percent, from December 31, 2016, to June 30, 2017.

Investments

The bank's investments are all considered available for sale, and include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio had a fair value of $4.9 billion at June 30, 2017, and consisted primarily of federal agency-guaranteed collateralized 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 includes Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments had a fair value of $47,661 at June 30, 2017 and consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), purchased from district associations. The Farmer Mac securities are backed by loans originated by the associations.

Farmer Mac is a government-sponsored enterprise and is examined and regulated by the FCA. It provides a secondary market for agricultural and rural home mortgage loans that meet certain underwriting standards. Farmer Mac is authorized to provide loan guarantees and to be a direct pooler of agricultural mortgage loans. Farmer Mac is owned by both System and non-System investors, and its board of

directors has both System and non-System representation. Farmer Mac is not liable for any debt or obligation of any System institution and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac.

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

	June 30, 2017		December 31, 2016	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 211,880**	**$ 209,240**	$ 225,457	$ 222,374
Corporate debt	**244,943**	**245,469**	202,365	202,403
Federal agency collateralized mortgage-backed securities				
GNMA	**1,827,116**	**1,811,892**	1,697,627	1,682,999
FNMA and FHLMC	**2,325,036**	**2,312,770**	2,308,775	2,290,579
U.S. Treasury securities	**249,680**	**248,772**	249,502	249,006
Asset-backed securities	**107,150**	**107,187**	130,703	130,679
Total liquidity investments	**$ 4,965,805**	**$ 4,935,330**	$ 4,814,429	$ 4,778,040

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

	June 30, 2017		December 31, 2016	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 49,490**	**$ 47,661**	$ 55,475	$ 53,335

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

At June 30, 2017, the bank did not hold any investments that were ineligible for liquidity purposes by FCA regulations due to credit ratings by all NRSROs.

Subordinated Debt

In September 2008, the bank issued $50.0 million of 8.4 percent unsecured subordinated notes due in 2018, generating proceeds of $49.4 million. The proceeds were used to increase regulatory permanent capital and total surplus pursuant to FCA regulations and for general corporate purposes. This debt was unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders.

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

Capital Resources

At June 30, 2017, the bank's capital totaled $1,691,313, and consisted of $600,000 of Class B noncumulative subordinated perpetual preferred stock, $284,038 of capital stock, $835,069 in retained earnings and $27,794 in accumulated other comprehensive loss. The balance in equity reflected an increase of $69,061 from December 31, 2016, due primarily to net income of $92,332 offset by other comprehensive income of $4,785, a decrease of $25,125 in preferred stock dividends and a $2,931 decrease in cash patronage distributions. The balance in accumulated other comprehensive loss of $27,794 resulted from an increase in unrealized gains on investments of $6,224 and a $1,346 decrease in unrealized losses on cash flow derivative instruments, net of a $93 amortization of other postretirement benefits.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of June 30, 2017, the bank exceeded all regulatory capital requirements.

OTHER

CONDITIONS IN THE DISTRICT

During the second quarter, above-average rainfall across the majority of Louisiana, Mississippi and Alabama alleviated the relatively dry conditions that had prevailed in the prior quarter. Although the precipitation was welcome for much of the region, it became excessive in portions of Mississippi and Alabama, where total rainfall in June was more than triple the monthly average. Isolated pockets of mild drought have crept into the Texas panhandle, one of the district's key agricultural production regions. At this time, however, soil moisture conditions remain adequate in the area and throughout the district as a whole.

Field crops are progressing well across the district, and development progress for major crops is comparable to or ahead of the five-year average. Texas cotton farmers, who increased planted acreage by nearly 20 percent relative to the previous year, have benefited from favorable early-season growing conditions for the crop. Cotton is likely to be an integral component of the upcoming farm bill debate, as industry stakeholders work to improve the safety net available to cotton growers across the nation. The condition of the district's corn and soybean crops is also better than the five-year average. Grain farmers and livestock producers are closely watching the futures markets, where the volatility of corn and soybean prices increased substantially in late June and early July due to fluctuating weather conditions in key growing areas. For the remainder of the growing season, the primary focus will be on the weather and its potential impact on abandonment rates and yields. Retail prices for major crop nutrients have declined year-over-year, allowing farmers to maintain profitability despite the potential for lower prices. 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.

This year, cattle feedlots have benefited from lower feed costs, large year-over-year drops in feeder cattle prices and relatively strong prices for slaughter cattle. As cattle feedlot profitability has improved, demand for feeder steers has risen, thereby enhancing cash flow for cattle ranchers in the district. Prices are, however, expected to decline somewhat in the second half of the year, potentially reducing profitability for cattle feedlots and ranchers. U.S. beef production is projected to rise in 2017 and 2018, as the industry continues to expand at a meaningful pace for the first time in more than a decade. Increasing levels of beef exports have offset production gains, minimizing the impact of rising production on domestic beef prices. Poultry producers generated historically high profit margins throughout much of the second quarter, but margins in the industry may fall to more normalized levels in the near-term, as potential increases in feed costs and lower wholesale prices would reduce earnings. Milk prices were driven lower during the quarter by continued growth in milk production and building stocks of processed dairy products.

Through the first five months of 2017, Texas non-farm employment has grown at an annualized rate of 2.5 percent, significantly above the 1.3 percent rate observed in the nation. Job gains in the state have been driven by growth in the manufacturing and energy sectors, which have benefited from stable oil prices and a decline in the value of the U.S. dollar. 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 June 30, 2017, there were no district associations under written agreements with the Farm Credit Administration.

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

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

The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also replaces the existing net collateral ratio with a tier 1 leverage ratio and is applicable to all banks and associations. The permanent capital ratio will continue to remain in effect with the final rule.

The new capital requirements became effective January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. The bank is in compliance with the required minimum capital standards and met the conservation buffers as of June 30, 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 release of a final rule in 2017.

The undersigned certify that we have reviewed the June 30, 2017, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

James F. Dodson
Chairman of the Board

Amie Pala
Chief Financial Officer

August 9, 2017

Controls and Procedures

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

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

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

August 9, 2017

Balance Sheets

(dollars in thousands)	**June 30, 2017 (Unaudited)**	December 31, 2016
Assets		
Cash	**$ 221,865**	$ 195,479
Federal funds sold and overnight investments	**80,739**	22,901
Investment securities	**4,982,991**	4,831,375
Loans (includes $10,216 and $16,311 at fair value, held under fair value option)	**16,525,631**	15,909,403
Less allowance for loan losses	**8,305**	7,650
Net loans	**16,517,326**	15,901,753
Accrued interest receivable	**53,503**	50,191
Premises and equipment, net	**42,701**	37,999
Other assets	**174,089**	182,700
Total assets	**$ 22,073,214**	$ 21,222,398
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 20,246,067**	$ 19,390,662
Accrued interest payable	**54,317**	50,255
Reserve for credit losses	**1,364**	1,646
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**60,090**	137,520
Total liabilities	**20,381,901**	19,600,146
Commitments and contingencies (Note 4)		
Shareholders' equity		
Preferred stock	**600,000**	600,000
Capital stock	**284,038**	284,038
Allocated retained earnings	**33,171**	33,171
Unallocated retained earnings	**801,898**	737,622
Accumulated other comprehensive loss	**(27,794)**	(32,579)
Total shareholders' equity	**1,691,313**	1,622,252
Total liabilities and shareholders' equity	**$ 22,073,214**	$ 21,222,398

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Interest Income				
Loans	**$ 114,211**	$ 103,067	**$ 221,826**	$ 202,007
Investment securities	**20,353**	17,087	**39,108**	33,114
Total interest income	**134,564**	120,154	**260,934**	235,121
Interest Expense				
Bonds, notes and subordinated debt	**71,891**	61,970	**136,524**	120,004
Net interest income	**62,673**	58,184	**124,410**	115,117
Provision for credit losses				
(Negative provision) provision for credit losses	**(114)**	799	**(1,059)**	1,492
Net interest income after (negative provision) provision for credit losses	**62,787**	57,385	**125,469**	113,625
Noninterest Income				
Patronage income	**4,654**	6,590	**9,446**	11,647
Fees for services to associations	**1,033**	980	**2,389**	2,526
Fees for loan-related services	**1,893**	1,758	**3,511**	3,398
(Loss) gain on loans held under fair value option	**(45)**	(121)	**(146)**	78
Other (loss) income, net	**(135)**	3,094	**1,105**	3,062
Total noninterest income	**7,400**	12,301	**16,305**	20,711
Noninterest Expenses				
Salaries and employee benefits	**9,491**	8,985	**19,295**	18,000
Occupancy and equipment	**4,033**	3,862	**9,018**	8,521
Insurance Fund premiums	**3,023**	2,945	**5,731**	5,743
Other operating expenses	**8,080**	7,802	**15,398**	13,870
Total noninterest expense	**24,627**	23,594	**49,442**	46,134
Net Income	**45,560**	46,092	**92,332**	88,202
Other comprehensive income				
Change in unrealized gain on investments	**7,735**	11,793	**6,224**	44,175
Change in postretirement benefit plans	**(46)**	(47)	**(93)**	(93)
Change in cash flow derivative instruments	**(1,597)**	(3,916)	**(1,346)**	(3,910)
Total other comprehensive income	**6,092**	7,830	**4,785**	40,172
Comprehensive Income	**$ 51,652**	$ 53,922	**$ 97,117**	$ 128,374

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2015	$ 600,000	$ 255,823	$ 27,203	$ 697,883	$ (27,331)	$ 1,553,578
Net income	-	-	-	88,202	-	88,202
Other comprehensive gain	-	-	-	-	40,172	40,172
Preferred stock dividends	-	-	-	(25,125)	-	(25,125)
Preferred stock dividends paid	-	-	-	-	-	-
Patronage distributions						
Cash	-	-	-	(4,739)	-	(4,739)
Shareholders' equity	-	-	2	(2)	-	-
Balance at June 30, 2016	$ 600,000	$ 255,823	$ 27,205	$ 756,219	$ 12,841	$ 1,652,088
Balance at December 31, 2016	$ 600,000	$ 284,038	$ 33,171	$ 737,622	$ (32,579)	$ 1,622,252
Net income	-	-	-	92,332	-	92,332
Other comprehensive gain	-	-	-	-	4,785	4,785
Preferred stock dividends	-	-	-	(25,125)	-	(25,125)
Patronage distributions						
Cash	-	-	-	(2,931)	-	(2,931)
Shareholders' equity	-	-	-	-	-	-
Balance at June 30, 2017	**$600,000**	**$ 284,038**	**$33,171**	**$ 801,898**	**$ (27,794)**	**$ 1,691,313**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Six Months Ended June 30, 2017	2016
Operating activities		
Net income	**$ 92,332**	$ 88,202
Reconciliation of net income to net cash provided by operating activities		
(Negative provision) provision for credit losses	**(1,059)**	1,492
Depreciation and amortization on premises and equipment	**3,403**	3,010
Accretion of net premium on loans	**1,459**	2,688
Amortization and accretion on debt instruments	**12,435**	12,520
Amortization of net premium on investments	**2,592**	1,940
Decrease (increase) in fair value on loans under fair value option	**146**	(79)
Gain on sale of loans	**-**	(2,926)
Gain on sale of loan held for sale	**-**	(75)
(Gain) loss on other earning assets	**(872)**	152
Gain on sales of premises and equipment	**(41)**	-
Allocated equity patronage from System bank	**(14,583)**	(13,847)
(Increase) Decrease in accrued interest receivable	**(3,312)**	1,303
Decrease in other assets, net	**26,477**	10,723
Increase (Decrease) in accrued interest payable	**4,062**	(1,304)
Decrease in other liabilities, net	**(23,964)**	(6,354)
Net cash provided by operating activities	**99,075**	97,445
Investing activities		
Net (increase) decrease in federal funds sold	**(57,838)**	454
Investment securities		
Purchases	**(700,067)**	(1,008,975)
Proceeds from maturities, calls and prepayments	**552,084**	524,447
Increase in loans, net	**(640,901)**	(990,262)
Proceeds from sales of premises and equipment	**82**	7
Expenditures for premises and equipment	**(8,146)**	(7,338)
Investment in other earning assets	**(3,231)**	(888)
Net cash used in investing activities	**(858,017)**	(1,482,555)
Financing activities		
Bonds and notes issued	**5,935,244**	10,371,810
Bonds and notes retired	**(5,092,274)**	(9,088,319)
Redemption of subordinated debt	**-**	(50,000)
Repayments on capital lease obligations	**(187)**	(187)
Cash dividends on preferred stock	**(25,125)**	(25,125)
Cash patronage distributions paid	**(32,330)**	(27,154)
Net cash provided by financing activities	**785,328**	1,181,025
Net increase (decrease) in cash	**26,386**	(204,085)
Cash at beginning of year	**195,479**	545,090
Cash at end of quarter	**$ 221,865**	$ 341,005
Supplemental schedule of noncash investing and financing activities		
Net increase in unrealized gains on investment securities	**$ 6,224**	$ 44,175
Preferred stock dividend payable	**20,063**	20,063
Capital lease obligation	**468**	842
Supplemental information		
Interest paid	**$ 132,462**	$ 121,308

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

Notes to Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The bank revised its cash flow statement for six months ended June 30, 2016 between the net cash provided by operating activities and net cash provided by financing activities to correctly present the amortization and accretion on debt instruments. The revision resulted in an increase to net cash provided by operating activities of $4.9 million and a decrease in net cash provided by financing activities of $4.9 million for the six months ended June 30, 2016.

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

The bank and its affiliated associations (district) are part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. At June 30, 2017, the bank provided financing to 14 district associations and certain other financing institutions.

In March 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the bank's financial condition but could change the classification of certain items in the results of operations.

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

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

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

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the bank's financial condition or its results of operations.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The bank is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

NOTE 2 — INVESTMENTS

Investments Available-for-Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt, U.S Treasury securities and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations. A summary of the amortized cost and fair value of investment securities available-for-sale, at June 30, 2017, and December 31, 2016, is included in the following tables.

Investments in the available-for-sale liquidity portfolio at June 30, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 211,880	$ 194	$ (2,834)	$ 209,240	1.87 %
Corporate debt	244,943	615	(89)	245,469	1.61
Federal agency collateralized mortgage-backed securities					
GNMA	1,827,116	923	(16,147)	1,811,892	1.82
FNMA and FHLMC	2,325,036	3,578	(15,844)	2,312,770	1.73
U.S. Treasury securities	249,680	-	(908)	248,772	0.90
Asset-backed securities	107,150	61	(24)	107,187	1.49
Total available-for-sale liquidity investments	**$ 4,965,805**	**$ 5,371**	**$ (35,846)**	**$ 4,935,330**	**1.71** %

Investments in the available-for-sale other investments portfolio at June 30, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 49,490	$ -	$ (1,829)	$ 47,661	4.35 %

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

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

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

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

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at June 30, 2017:

Investments in the available-for-sale liquidity portfolio:

	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Total
Agency-guaranteed debt	$ -	$ -	$ 209,240	$ -	$ 209,240
Corporate debt	112,615	132,854	-	-	245,469
Federal agency collateralized mortgage-backed securities					
GNMA	-	194	967	1,810,731	1,811,892
FNMA and FHLMC	-	16,390	356,689	1,939,691	2,312,770
U.S. Treasury securities	199,125	49,647	-	-	248,772
Asset-backed securities	-	104,513	-	2,674	107,187
Total fair value	**$ 311,740**	**$ 303,598**	**$ 566,896**	**$ 3,753,096**	**$ 4,935,330**
Total amortized cost	**$ 312,234**	**$ 303,447**	**$ 570,995**	**$ 3,779,129**	**$ 4,965,805**
Weighted average yield	**1.16%**	**1.45%**	**1.77%**	**1.77%**	**1.71%**

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

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 4,339	$ 43,322	$ 47,661
Total amortized cost	**$ 4,399**	**$ 45,091**	**$ 49,490**
Weighted average yield	**3.92%**	**4.39%**	**4.35%**

Other-Than-Temporarily Impaired Investments Evaluation

The following table shows available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time, for securities that have been in a continuous unrealized loss position at June 30, 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	$ 91,642	$ (1,186)	$ 83,870	$ (1,648)	$ 175,512	$ (2,834)
Corporate debt	50,204	(25)	27,439	(64)	77,643	(89)
Federal agency collateralized mortgage-backed securities						
GNMA	1,145,451	(9,252)	515,912	(6,895)	1,661,363	(16,147)
FNMA and FHLMC	961,807	(11,614)	512,782	(4,230)	1,474,589	(15,844)
U.S. Treasury securities	248,772	(908)	-	-	248,772	(908)
Asset-backed securities	32,150	(23)	1,533	(1)	33,683	(24)
Total	**$ 2,530,026**	**$ (23,008)**	**$ 1,141,536**	**$ (12,838)**	**$ 3,671,562**	**$ (35,846)**

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

In the event of an investment being designated OTTI, to measure the amount related to credit loss in the determination of OTTI, the bank utilizes a third-party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan-level data. Loan-level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan-level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses. For the six months ended June 30, 2017 and 2016, the bank did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at June 30, 2017 and 2016.

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

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

	June 30, 2017	**December 31, 2016**
Direct notes receivable from district associations and OFIs	**$ 11,196,421**	$ 10,625,132
Participations purchased	**5,328,916**	5,283,917
Other bank-owned loans	**294**	354
Total	**$ 16,525,631**	$ 15,909,403

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

	June 30, 2017	**December 31, 2016**
Direct notes receivable from district associations	**$ 11,157,647**	$ 10,583,054
Real estate mortgage	**442,572**	463,955
Production and intermediate term	**547,894**	525,931
Agribusiness		
Loans to cooperatives	**305,455**	296,486
Processing and marketing	**2,231,623**	2,134,186
Farm-related business	**99,749**	132,813
Communication	**369,316**	335,171
Energy (rural utilities)	**1,173,815**	1,248,297
Water and waste disposal	**139,382**	129,116
Leases	**1,195**	-
Loans to other financing institutions	**38,774**	42,078
Mission-related	**18,209**	18,316
Total	**$ 16,525,631**	$ 15,909,403

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank seeks the purchase of participations and syndications originated outside of the district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or sub-participated to the associations or to other System entities.

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

The following table presents information regarding the balances of participations purchased and sold, excluding syndications, at June 30, 2017.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 763,647	$ 350,984	$ -	$ 1,715	$ 763,647	$ 352,699
Production and intermediate term	1,465,013	858,702	11,072	96,455	1,476,085	955,157
Agribusiness	1,973,157	852,611	13,000	-	1,986,157	852,611
Communication	507,875	137,982	-	-	507,875	137,982
Energy (rural utilities)	1,342,267	168,204	-	-	1,342,267	168,204
Water and waste disposal	151,794	12,112	-	-	151,794	12,112
Lease receivables	1,195	-	-	-	1,195	-
Mission-related	4,409	-	-	-	4,409	-
Loans to other financing institutions	-	8,814	-	-	-	8,814
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 6,209,357**	**$ 6,239,409**	**$ 24,072**	**$ 98,170**	**$ 6,233,429**	**$ 6,337,579**

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. There were CPP loan purchases of $13.5 million from a district association in December 2016, which resulted in a net stock issuance of $1.0 million. There have been no CPP loan purchases for the six months ended June 30, 2017. CPP loans held at June 30, 2017, totaled $34,291 and were included in "Loans" on the Balance Sheets. The balance of the AMBS CPP was $47,661 at June 30, 2017, and is included in "Investment securities" on the Balance Sheets.

The bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the bank on such balances. There were no significant balances of ACPs at June 30, 2017, or December 31, 2016.

During 2012, the bank elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $10,216 at June 30, 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 six months ended June 30, 2017:

Balance at January 1, 2017	**$ 16,311**
Net loss on financial instruments under fair value option	**(146)**
Maturities	**(5,665)**
Premium amortization	**(284)**
Balance at June 30, 2017	**$ 10,216**

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

	June 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	**$ 970**	$ 967
Mission-related	**1,855**	1,895
Total nonaccrual loans	**2,825**	2,862
Accruing restructured loans:		
Real estate mortgage	**3,804**	3,818
Mission-related	**2,611**	2,677
Total accruing restructured loans	**6,415**	6,495
Total high risk assets	**$ 9,240**	$ 9,357

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

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

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

	June 30, 2017	December 31, 2016
Real estate mortgage:		
Acceptable	**95.8 %**	99.0 %
OAEM	**3.1**	-
Substandard/Doubtful	**1.1**	1.0
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**98.6 %**	98.8 %
OAEM	**1.4**	0.4
Substandard/Doubtful	**-**	0.8
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**99.1 %**	99.3 %
OAEM	**0.4**	0.4
Substandard/Doubtful	**0.5**	0.3
	100.0 %	100.0 %
Energy and water/waste disposal:		
Acceptable	**94.8 %**	94.9 %
OAEM	**4.3**	5.1
Substandard/Doubtful	**0.9**	-
	100.0 %	100.0 %
Communication:		
Acceptable	**100.0 %**	98.6 %
OAEM	**-**	-
Substandard/Doubtful	**-**	1.4
	100.0 %	100.0 %
Direct notes to associations:		
Acceptable	**91.8 %**	100.0 %
OAEM	**8.2**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Loans to other financing institutions:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Mission-related:		
Acceptable	**89.9 %**	89.8 %
OAEM	**-**	-
Substandard/Doubtful	**10.1**	10.2
	100.0 %	100.0 %
Total loans:		
Acceptable	**93.8 %**	99.3 %
OAEM	**6.0**	0.5
Substandard/Doubtful	**0.2**	0.2
	100.0 %	100.0 %

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

June 30, 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	**$ -**	**$ -**	**$ -**	**$ 447,330**	**$ 447,330**	**$ -**
Production and intermediate term	**132**	**-**	**132**	**550,284**	**550,416**	**-**
Agribusiness	**-**	**-**	**-**	**2,647,012**	**2,647,012**	**-**
Energy and water/waste disposal	**-**	**-**	**-**	**1,319,296**	**1,319,296**	**-**
Communication	**-**	**-**	**-**	**369,583**	**369,583**	**-**
Leases	**-**	**-**	**-**	**1,201**	**1,201**	**-**
Direct notes to associations	**-**	**-**	**-**	**11,179,674**	**11,179,674**	**-**
Loans to OFIs	**-**	**-**	**-**	**38,845**	**38,845**	**-**
Mission-related	**1,855**	**-**	**1,855**	**16,600**	**18,455**	**-**
Total	**$ 1,987**	**$ -**	**$ 1,987**	**$ 16,569,825**	**$ 16,571,812**	**$ -**

December 31, 2016:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ -	$ -	$ -	$ 467,157	$ 467,157	$ -
Production and intermediate term	-	-	-	527,619	527,619	-
Agribusiness	-	-	-	2,573,463	2,573,463	-
Energy and water/waste disposal	14,590	-	14,590	1,370,017	1,384,607	-
Communication	-	-	-	335,359	335,359	-
Direct notes to associations	-	-	-	10,603,982	10,603,982	-
Loans to OFIs	-	-	-	42,143	42,143	-
Mission-related	-	-	-	18,562	18,562	-
Total	$ 14,590	$ -	$ 14,590	$ 15,938,302	$ 15,952,892	$ -

Additional impaired loan information is as follows:

	At June 30, 2017			At December 31, 2016		
Impaired loans with a related allowance for credit losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Mission-related	**$ 204**	**$ 204**	**$ 79**	$ 210	$ 210	$ 78
Total	**$ 204**	**$ 204**	**$ 79**	$ 210	$ 210	$ 78
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 4,774**	**$ 4,778**	**$ -**	$ 4,785	$ 4,789	$ -
Production and intermediate term	**-**	**3,035**	**-**	-	3,035	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**-**	**7,623**	**-**	-	9,043	-
Mission-related	**4,262**	**4,262**	**-**	4,362	4,362	-
Total	**$ 9,036**	**$ 20,890**	**$ -**	$ 9,147	$ 22,421	$ -
Total impaired loans:						
Real estate mortgage	**$ 4,774**	**$ 4,778**	**$ -**	$ 4,785	$ 4,789	$ -
Production and intermediate term	**-**	**3,035**	**-**	-	3,035	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**-**	**7,623**	**-**	-	9,043	-
Mission-related	**4,466**	**4,466**	**79**	4,572	4,572	78
Total	**$ 9,240**	**$ 21,094**	**$ 79**	$ 9,357	$ 22,631	$ 78

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2017		June 30, 2016		**June 30, 2017**		June 30, 2016	
Impaired loans with a related allowance for credit losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Mission-related	**$ 205**	**$ 8**	$ 215	$ 4	**$ 207**	**$ 8**	$ 216	$ 8
Total	**$ 205**	**$ 8**	$ 215	$ 4	**$ 207**	**$ 8**	$ 216	$ 8
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 4,772**	**$ 30**	$ 6,883	$ 53	**$ 4,771**	**$ 30**	$ 7,021	$ 71
Production and intermediate term	**-**	**-**	8,090	124	**-**	**-**	8,146	250
Mission-related	**4,267**	**74**	4,433	38	**$ 4,296**	**74**	4,503	76
Total	**$ 9,039**	**$ 104**	$ 19,406	$ 215	**$ 9,067**	**$ 104**	$ 19,670	$ 397
Total impaired loans:								
Real estate mortgage	**$ 4,772**	**$ 30**	$ 6,883	$ 53	**$ 4,771**	**$ 30**	$ 7,021	$ 71
Production and intermediate term	**-**	**-**	8,090	124	**-**	**-**	8,146	250
Mission-related	**4,472**	**82**	4,648	42	**4,503**	**82**	4,719	84
Total	**$ 9,244**	**$ 112**	$ 19,621	$ 219	**$ 9,274**	**$ 112**	$ 19,886	$ 405

At June 30, 2017, impaired loans of $204 had a related specific allowance of $79, while the remaining $9.0 million of impaired loans had no related specific allowance as a result of adequate collateralization.

The average recorded investment in impaired loans for the three months ended June 30, 2017, was $9.2 million. The bank recognized interest income of $112 on impaired loans during the six months ended June 30, 2017.

The average recorded investment in impaired loans for the six months ended June 30, 2017, was $9,274 million. The bank recognized interest income of $112 on impaired loans during the six months ended June 30, 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	Leases	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses												
Balance at March 31, 2017	$ 132	$ 655	$ 2,478	$ 439	$ 4,607	$ -	$ -	$ -	$ -	$ -	$ 83	$ 8,394
Charge-offs	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	6	-	-	-	40	-	-	-	-	-	-	46
Provision for credit losses (loan loss reversal)	(13)	50	142	2	(295)	-	-	-	-	-	-	(114)
Other *	(6)	(28)	(28)	7	34	-	-	-	-	-	-	(21)
Balance at June 30, 2017	$ 119	$ 677	$ 2,592	$ 448	$ 4,386	$ -	$ -	$ -	$ -	$ -	$ 83	$ 8,305
Balance at December 31, 2016	$ 74	$ 712	$ 2,259	$ 526	$ 3,997	$ -	$ -	$ -	$ -	$ -	$ 82	$ 7,650
Charge-offs	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	6	-	5	-	1,420	-	-	-	-	-	-	1,431
Provision for credit losses (loan loss reversal)	44	(51)	184	(96)	(1,141)	-	-	-	-	-	1	(1,059)
Other *	(5)	16	144	18	110	-	-	-	-	-	-	283
Balance at June 30, 2017	$ 119	$ 677	$ 2,592	$ 448	$ 4,386	$ -	$ -	$ -	$ -	$ -	$ 83	$ 8,305
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 79	$ 79
Collectively evaluated for impairment	119	677	2,592	448	4,386	-	-	-	-	-	4	8,227
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2017	$ 119	$ 677	$ 2,592	$ 448	$ 4,386	$ -	$ -	$ -	$ -	$ -	$ 83	$ 8,305
Balance at March 31, 2016	$ 797	$ 420	$ 1,527	$ 350	$ 3,439	$ -	$ -	$ -	$ -	$ -	$ 109	6,642
Charge-offs	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	7	-	167	51	-	-	-	-	-	-	-	225
Provision for credit losses (loan loss reversal)	11	129	(119)	(89)	873	-	-	-	-	-	(6)	799
Other *	1	(55)	(90)	(1)	(39)	-	-	-	-	-	-	(184)
Balance at June 30, 2016	$ 816	$ 494	$ 1,485	$ 311	$ 4,273	$ -	$ -	$ -	$ -	$ -	$ 103	$ 7,482
Balance at December 31, 2015	$ 789	$ 428	$ 1,586	$ 343	$ 2,575	$ -	$ -	$ 3	$ -	$ -	$ 109	5,833
Charge-offs	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	7	-	178	51	-	-	-	-	-	-	-	236
Provision for credit losses (loan loss reversal)	18	115	(208)	(80)	1,656	-	-	(3)	-	-	(6)	1,492
Other *	2	(49)	(71)	(3)	42	-	-	-	-	-	-	(79)
Balance at June 30, 2016	$ 816	$ 494	$ 1,485	$ 311	$ 4,273	$ -	$ -	$ -	$ -	$ -	$ 103	$ 7,482
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 75	$ 75
Collectively evaluated for impairment	816	494	1,485	311	4,273	-	-	-	-	-	28	7,407
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2016	$ 816	$ 494	$ 1,485	$ 311	$ 4,273	$ -	$ -	$ -	$ -	$ -	$ 103	$ 7,482
Recorded Investments in Loans Outstanding:												
Ending balance at June 30, 2017	$ 447,330	$ 550,416	$ 2,647,012	$ 369,583	$ 1,319,296	$ 1,201	$ -	$ -	$ 11,179,674	$ 38,845	$ 18,455	$ 16,571,812
Individually evaluated for impairment	$ 4,774	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,179,674	$ -	$ 4,466	$ 11,188,914
Collectively evaluated for impairment	$ 442,556	$ 550,416	$ 2,647,012	$ 369,583	$ 1,319,296	$ 1,201	$ -	$ -	$ -	$ 38,845	$ 13,989	$ 5,382,898
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at June 30, 2016	$ 437,134	$ 494,386	$ 2,691,513	$ 347,452	$ 1,361,235	$ -	$ 12	$ -	$ 10,378,975	$ 44,748	$ 18,616	$ 15,774,071
Individually evaluated for impairment	$ 6,835	$ 8,297	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,627	$ 19,759
Collectively evaluated for impairment	$ 430,299	$ 486,089	$ 2,691,513	$ 347,452	$ 1,361,235	$ -	$ 12	$ -	$ 10,378,975	$ 44,748	$ 13,989	$ 15,754,312
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

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

As of June 30, 2017, the total recorded investment in TDR loans was $8,270, including $1,855 classified as nonaccrual and $6,415 classified as accrual, with specific allowance for loan losses of $79. There were no additional commitments to lend to borrowers whose loan terms have been modified in TDRs at June 30, 2017 and December 31, 2016.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	June 30, 2017	December 31, 2016	**June 30, 2017**	December 31, 2016
Real estate mortgage	**$ 4,466**	$ 3,818	**$ -**	$ -
Mission-related	**3,804**	4,572	**1,855**	1,895
Total	**$ 8,270**	$ 8,390	**$ 1,855**	$ 1,895

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

NOTE 4 — COMMITMENTS AND CONTINGENCIES

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated bank and Systemwide obligations of the System at June 30, 2017, were approximately $258.39 billion.

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

NOTE 5 — FAIR VALUE MEASUREMENTS

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

Assets and liabilities recorded at fair value on a recurring basis at June 30, 2017, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at June 30, 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	**$ 80,739**	$ -	$ 80,739	$ -
Investments available for sale:				
Agency-guaranteed debt	**209,240**	-	209,240	-
Corporate debt	**245,469**	-	245,469	-
Mortgage-backed securities	**4,124,662**	-	4,083,862	40,800
U.S. Treasury securities	**248,772**	-	248,772	-
Asset-backed securities	**107,187**	-	107,187	-
Mission-related and other available-for-sale investments	**47,661**	-	-	47,661
Loans valued under the fair value option	**10,216**	-	10,216	-
Derivative assets	**7,511**	-	7,511	-
Assets held in nonqualified benefit trusts	**501**	501	-	-
Total assets	**$ 5,081,958**	$ 501	$ 4,992,996	$ 88,461
Liabilities:				
Derivative liabilities	**$ 429**	$ -	$ 429	$ -
Standby letters of credit	**763**	-	-	763
Total liabilities	**$ 1,192**	$ -	$ 429	$ 763

Loans With Fair Value Option

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in Noninterest Income on the Statements of Comprehensive Income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis. The fair value of loans held under the fair value option totaled $10,216 at June 30, 2017.

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from March 31, 2017 to June 30, 2017:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Balance at March 31, 2017	$ -	$ 49,950	$ 488	$ 49,462
Net losses included in other comprehensive income	(324)	308	-	(16)
Purchases, issuances and settlements	41,124	(2,597)	275	38,252
Balance at June 30, 2017	$ 40,800	$ 47,661	$ 763	$ 87,698

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2017, to June 30, 2017:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Balance at January 1, 2017	$ -	$ 53,335	$ 594	$ 52,741
Net losses included in other comprehensive income	(324)	310	-	(14)
Purchases, issuances and settlements	41,124	(5,984)	169	34,971
Balance at June 30, 2017	$ 40,800	$ 47,661	$ 763	$ 87,698

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the six months ended June 30, 2017. Agricultural mortgage-backed securities (AMBS) are included in Level 3 due to limited activity or less transparency around inputs to their valuation. Mortgage-backed securities (or MSB) are included in Level 3 due to the fact that their valuation was based on Level 3 criteria (broker quotes). The liability for standby letters of credit are included in Level 3 as their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at June 30, 2017, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements				
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
Assets:					
Loans	**$ 2,746**	$ -	$ -	$ 2,746	$ -
Total assets	**$ 2,746**	$ -	$ -	$ 2,746	$ -

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

	Fair Value Measurements			
	Total	**Quoted Prices in Active Markets for Identical Asset (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Federal funds	$ 22,901	$ -	$ 22,901	$ -
Investments available for sale:				
Agency-guaranteed debt	222,374	-	222,374	-
Corporate debt	202,403	-	202,403	-
Mortgage-backed securities	3,973,578	-	3,973,578	-
U.S. Treasury securities	249,006	-	249,006	-
Asset-backed securities	130,679	-	130,679	-
Mission-related and other available-for-sale investments	53,335	-	-	53,335
Loans valued under the fair value option	16,311	-	16,311	-
Derivative assets	8,074	-	8,074	-
Assets held in nonqualified benefit trusts	405	405	-	-
Total assets	$ 4,879,066	$ 405	$ 4,825,326	$ 53,335
Liabilities:				
Standby letters of credit	$ 594	$ -	$ -	$ 594
Total liabilities	$ 594	$ -	$ -	$ 594

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from March 31, 2016, to June 30, 2016:

	Assets	Liabilities	
	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Balance at March 31, 2016	$ 60,935	$ 1,070	$ 59,865
Net gains included in other comprehensive income	544	-	544
Purchases, issuances and settlements	(1,805)	(54)	(1,751)
Balance at June 30, 2016	$ 59,674	$ 1,016	$ 58,658

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 June 30, 2016:

	Assets			Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Loan Held For Sale	Standby Letters of Credit	Net
Balance at January 1, 2016	$ 50,250	$ 65,650	$ 4,850	$ 807	$ 119,943
Net gains included in other comprehensive income	-	66	-	-	66
Purchases, issuances and settlements	-	(6,042)	(4,850)	209	(11,101)
Transfers out of Level 3	(50,250)	-	-	-	(50,250)
Balance at June 30, 2016	$ -	$ 59,674	$ -	$ 1,016	$ 58,658

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

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

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

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

June 30, 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	**$ 221,865**	$ 221,865	$ -	$ -	$ 221,865
Net loans	**16,517,326**	-	-	16,543,434	16,543,434
Total assets	**$ 16,739,191**	$ 221,865	$ -	$ 16,543,434	$ 16,765,299
Liabilities:					
Systemwide debt securities	**$ 20,246,067**	$ -	$ -	$ 20,279,088	$ 20,279,088
Total liabilities	**$ 20,246,067**	$ -	$ -	$ 20,279,088	$ 20,279,088

December 31, 2016:		Fair Value Measurements Using			
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Cash	$ 195,479	$ 195,479	$ -	$ -	$ 195,479
Net loans	15,882,657	-	-	15,796,675	15,796,675
Total assets	$ 16,078,136	$ 195,479	$ -	$ 15,796,675	$ 15,992,154
Liabilities:					
Systemwide debt securities	$ 19,390,662	$ -	$ -	$ 19,384,908	$ 19,384,908
Total liabilities	$ 19,390,662	$ -	$ -	$ 19,384,908	$ 19,384,908

Valuation Techniques

As more fully discussed in Note 1, “Organization and Significant Accounting Policies,” authoritative accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the bank for assets and liabilities:

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. At June 30, 2017, there was one agency MBS investment in Level 3. Level 3 assets at June 30, 2017, also included the bank's AMBS portfolio, which is valued by the bank using a model that incorporates underlying rates and current yield curves.

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

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

Assets Held in Nonqualified Benefits Trusts

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

Derivatives

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

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

Standby Letters of Credit

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

Loans

Fair value is estimated by discounting the expected future cash flows using the banks' and/or the associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the banks' and/or the associations' current loan origination rates as well as management's 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.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Loans Evaluated for Impairment

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.

Other Property Owned

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

Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	**Unobservable Input**
Mortgage-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Asset-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Mission-related investments	Discounted cash flow	Prepayment rates
Loans held for sale	Discounted cash flow	Appropriate interest rate yield curve

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

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements

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

Information About Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Actual balance
Loans	Discounted cash flow	Prepayment forecasts Appropriate interest rate yield curve Probability of default Loss severity
Systemwide debt securities	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

NOTE 6 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

The primary types of derivative instruments used and the amount of activity (notional amounts derivatives) during the six months ended June 30, 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	75,000	100,000
Maturities/Amortizations	-	-	-
Balance at June 30, 2017	**$ 225,000**	**$ 245,000**	**$ 470,000**

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 June 30, 2017, and December 31, 2016, the bank's credit exposure to counterparties was $7,082 and $8,074, respectively. At June 30, 2017, and December 31, 2016, the bank had posted no securities as collateral, nor had any counterparty been required to post collateral.

Derivative – Counterparty Exposure

The following table represents the credit ratings of counterparties the bank has credit exposure with at June 30, 2017:

	Remaining Years to Maturity			Maturity		Exposure	
	One to Five Years	More Than Five Years	Total	Distribution Netting	Exposure	Collateral Held	Net of Collateral
Moody's Credit Rating							
A1	$ -	$ 511	$ 511	$ -	$ 511	$ -	$ 511
A1	-	54	54	-	54	-	54
Aa3	-	2,228	2,228	-	2,228	-	2,228
Aa3	13	4,274	4,287	-	4,287	-	4,287
Aa2	2	-	2	-	2	-	2
Total	$ 15	$ 7,067	$ 7,082	$ -	$ 7,082	$ -	$ 7,082

Cash Flow Hedges

The bank's derivative instruments at June 30, 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 June 30, 2017	Fair Value December 31, 2016	Balance Sheet Location	Fair Value June 30, 2017	Fair Value December 31, 2016
Interest rate caps	Other assets	$ 676	$ 414	Other liabilities	$ -	$ -
Pay fixed swaps	Other assets	6,835	7,660	Other liabilities	(429)	-

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) at June 30,			Amount of (Gain) Loss Reclassified From AOCI Into Income (Effective Portion) at June 30,		
	2017	2016		2017	2016
Interest rate caps	$ 274	$ (340)	Interest expense	$ (151)	$ 456
Pay fixed swaps	1,782	(4,328)	Interest expense	(559)	302

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 Regulatory Requirement	As of June 30, 2017
Common equity tier 1 ratio	4.5%	2.5% *	7.0%	9.96%
Tier 1 capital ratio	6.0%	2.5% *	8.5%	16.04%
Total capital ratio	8.0%	2.5% *	10.5%	16.14%
Permanent capital ratio	7.0%	0.0%	7.0%	16.05%
Non-risk-adjusted				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	7.26%
UREE leverage ratio	1.5%	0.0%	1.5%	2.90%

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

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain

limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

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

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

The components of the bank's risk-adjusted capital, based on 90 day average balances, were as follows at June 30, 2017:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 793,662	$ 793,662	$ 793,662	$ 793,662
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	-	-	9,669	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(127,800)	(127,800)	(127,800)	(127,800)
Other regulatory required deductions	(123)	(123)	(123)	(123)
Total	$ 982,948	$ 1,582,948	$ 1,592,617	$ 1,582,948
Denominator:				
Risk-adjusted assets excluding allowance	$ 9,868,593	$ 9,868,593	$ 9,868,593	$ 9,868,593
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	8,393
Total	$ 9,868,593	$ 9,868,593	$ 9,868,593	$ 9,876,986

The components of the bank's non-risk-adjusted capital, based on 90 day average balances, were as follows at June 30, 2017:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 793,662	$ 793,662
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	(127,800)	(127,800)
Amount of allocated equities in other System institutions		(33,171)
Other regulatory required deductions	(123)	(123)
Total	$ 1,582,947	$ 632,568
Denominator:		
Total Assets	$ 21,806,737	$ 21,806,737
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(127,923)	(127,923)
Total	$ 21,678,814	$ 21,678,814

NOTE 8 — EMPLOYEE BENEFIT PLANS

In addition to pension benefits, the bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses at their expense but will be responsible for 100 percent of the related premiums. The following table summarizes the components of net periodic benefit costs for the bank's other postretirement benefit costs for the six months ended June 30:

	Other Postretirement Benefits	
	2017	2016
Service Cost	**$ 121**	$ 118
Interest Cost	**248**	242
Amortization of prior service cost	**(93)**	(93)
Net periodic benefit cost	**$ 276**	$ 267

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

NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

The following table summarizes the changes in the balance of the components of AOCL for the six months ended June 30, 2017:

	Total	Unrealized Gain (Loss) on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2017	$ (32,579)	$ (38,529)	$ (471)	$ 6,421
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	6,224	6,224		
Net change in unrealized gains on securities	6,224	6,224		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(93)		(93)	
Net change in postretirement benefit plans	(93)		(93)	
Change in cash flow derivative instruments				
Unrealized loss on cash flow derivative instruments	(2,056)			(2,056)
Reclassification of amount recognized in interest expense	710			710
Net change in cash flow derivative instruments	(1,346)			(1,346)
Total other comprehensive (loss) income	**4,785**	**6,224**	**(93)**	**(1,346)**
Balance, June 30, 2017	**$ (27,794)**	**$ (32,305)**	**$ (564)**	**$ 5,075**

The following table summarizes the changes in the balance of the components of AOCI for the six months ended June 30, 2016:

	Total	Unrealized Gain (Loss) on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2016	$ (27,331)	$ (25,276)	$ (148)	$ (1,907)
Change in unrealized losses on available-for-sale securities				
Net change in unrealized gains on investment securities	44,175	44,175		
Net change in unrealized gains on securities	44,175	44,175		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(93)		(93)	
Net change in postretirement benefit plans	(93)		(93)	
Change in cash flow derivative instruments				
Unrealized losses on cash flow derivative instruments	(4,668)			(4,668)
Reclassification of amount recognized in interest expense	758			758
Net change in cash flow derivative instruments	(3,910)			(3,910)
Total other comprehensive income (loss)	40,172	44,175	(93)	(3,910)
Balance, June 30, 2016	$ 12,841	$ 18,899	$ (241)	$ (5,817)

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

Component of AOCI	**Amount Reclassified from AOCI**		**Affected Line in the Statement of Comprehensive Income**
	2017	2016	
Amortization of net credits on post-retirement benefit plan	**$ (93)**	$ (93)	Salaries and employee benefits
Amortization on cash flow hedges	**710**	758	Interest expense
Total reclassifications	**$ 617**	$ 665	

NOTE 10 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through August 9, 2017, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of August 9, 2017.

NOTE 11 — COMBINED ASSOCIATION FINANCIAL DATA

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

Balance sheet data	**June 30, 2017**	December 31, 2016
Cash	**$ 6,630**	$ 11,750
Investment securities	**20,350**	25,693
Loans	**17,699,579**	17,098,664
Less allowance for loan losses	**89,875**	74,087
Net loans	**17,609,704**	17,024,577
Accrued interest receivable	**155,842**	152,749
Other property owned	**16,447**	19,354
Other assets	**456,559**	448,656
Total assets	**$ 18,265,532**	$ 17,682,779
Notes payable	**$ 15,005,972**	$ 14,427,545
Other liabilities	**195,723**	361,535
Total liabilities	**15,201,695**	14,789,080
Capital stock and participation certificates	**84,193**	63,277
Additional paid-in-capital	**224,625**	224,625
Retained earnings	**2,759,732**	2,610,251
Accumulated other comprehensive loss	**(4,713)**	(4,454)
Total shareholder's equity	**3,063,837**	2,893,699
Total liabilities and shareholder's equity	**$ 18,265,532**	$ 17,682,779

	Six Months Ended June 30,	
Statement of income data	**2017**	2016
Interest income	**$ 412,976**	$ 379,843
Interest expense	**157,293**	136,841
Net interest income	**255,683**	243,002
Provision for loan losses	**17,139**	5,338
Net interest income after provision for loan losses	**238,544**	237,664
Noninterest income	**46,269**	41,112
Noninterest expense	**126,127**	119,901
(Benefit from) Provision for income taxes	**(164)**	203
Net income	**158,850**	158,672
Other comprehensive loss:		
Change in postretirement benefit plans	**(259)**	(281)
Total other comprehensive loss	**(259)**	(281)
Comprehensive income	**$ 158,591**	$ 158,391

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

The following disclosures contain regulatory disclosures as required under Farm Credit Administration (FCA) Regulation 628.63 for risk-adjusted ratios: common equity tier 1, tier 1 capital and total capital. Refer to Note 7 of the accompanying Financial Statements for information regarding the statutorily required permanent capital ratio. As required, these disclosures are made available for at least three years or such shorter period beginning on January 1, 2017, and can be accessed at Farm Credit Bank of Texas' website at www.farmcreditbank.com.

FCA Regulation Section 628.62(a) requires each System bank to provide timely public disclosures at the end of each calendar quarter. Qualitative disclosures that typically do not change each quarter may be disclosed annually after the end of the fourth calendar quarter, provided that any significant changes are disclosed in the interim. FCA provided additional guidance that System banks must provide their first qualitative disclosures as of March 31, 2017 and again at the end of December 31, 2017, provided that any significant changes be disclosed in the interim. After that time, System banks may provide qualitative disclosures annually, as long as any significant changes are disclosed in the interim. Thus, given no significant changes for the second quarter of 2017, the qualitative disclosures for the second quarter are not included within this disclosure as compared to the disclosures as of March 31, 2017.

Capital Structure

The following table provides a summary of the bank's capital structure at June 30, 2017:

(dollars in thousands)	Balance	Three Month Average Daily
Common equity tier 1 capital (CET1)		
Common cooperative equities:		
Purchased other required stock ≥7 years	**247,996**	**247,996**
Allocated stock ≥7 years	**36,042**	**36,042**
Other required member purchased stock	-	-
Allocated equities:		
Qualified allocated equities subject to retirement	**33,171**	**33,171**
Nonqualified allocated equities subject to retirement	-	-
Nonqualified allocated equities not subject to retirement	-	-
Unallocated retained earnings	**793,179**	**793,662**
Paid-in capital	-	-
Regulatory adjustments and deductions made to CET1	**(127,918)**	**(127,923)**
Total CET1	**$ 982,470**	**$ 982,948**
Tier 1 capital		
Non-cumulative perpetual preferred stock	**$ 600,000**	**$ 600,000**
Regulatory adjustments and deductions made to tier 1 capital	-	-
Total additional tier 1 capital	**600,000**	**600,000**
Total tier 1 capital	**$ 1,582,470**	**$ 1,582,948**
Total capital		
Common cooperative equities not included in CET1	**$ -**	**$ -**
Tier 2 capital elements (subordinated debt, allowance for loan losses)	**9,669**	**9,736**
Regulatory adjustments and deductions made to total capital	-	-
Total tier 2 capital	**9,669**	**9,736**
Total capital	**$ 1,592,139**	**$ 1,592,684**

Capital Adequacy and Capital Buffers

The bank's risk-adjusted regulatory capital ratios are calculated by dividing the relevant total capital elements by risk-weighted assets. The following table provides the bank's risk-weighted assets at June 30, 2017:

Risk-Adjusted Assets at June 30, 2017:

(dollars in thousands)	Balance	Three Month Average Daily Balance	Risk-Weighted Exposures
Exposures to:			
Sovereign entities	$ -	$ -	$ -
Supranational entities and MDBs	-	-	-
Government-sponsored entities	14,368,155	14,365,533	2,325,160
Depository institutions, foreign banks and credit unions*	302,605	226,184	8,144
Public sector entities	-	-	-
Corporate exposures, including borrower loans and leases	5,382,673	5,544,083	5,266,986
Residential mortgage loans	6	6	3
Past due and nonaccrual loans	2,829	2,840	4,260
Cleared transactions	-	-	-
Unsettled transactions	-	-	-
Securitizations	107,208	117,648	127,075
Equity investments	127,798	127,800	127,800
Other assets	7,746,836	7,665,032	2,137,088
Deductions:			
Regulatory adjustments and deductions made to CET1	-	-	(127,923)
Regulatory adjustments and deductions made to AT1	-	-	-
Regulatory adjustments and deductions made to T2	-	-	-
Total standardized risk-weighted assets	$ 28,038,110	$ 28,049,126	$ 9,868,593

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

Capital Conservation and Leverage Buffers

As of June 30, 2017, the bank was well-capitalized and exceeded all capital requirements to which it was subject, including applicable capital buffers. The bank's capital conservation buffer is the lowest of the calculated buffer listed in the table below at 5.46 percent. The bank's leverage buffer of 3.26 percent is equal to the tier 1 leverage ratio minus the minimum tier 1 leverage ratio requirement. Because the bank's conservation and leverage buffers exceed the minimum buffer requirements of 2.5 percent and 1 percent, respectively, the bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $33,171 as of June 30, 2017.

	Regulatory Minimums	**Required Buffer**	**Ratios as of June 30, 2017**	**Calculated Buffer**
Common equity tier 1 capital ratio*	4.5%	2.500%	9.96%	5.46%
Tier 1 capital ratio*	6.0%	2.500%	16.04%	10.04%
Total capital ratio*	8.0%	2.500%	16.14%	8.14%
Capital conservation buffer				5.46%
Tier 1 leverage ratio	4.0%	1.0%	7.26%	3.26%
Leverage buffer				3.26%

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

Credit Risk

System entities have specific lending authorities within their chartered territories. The bank is chartered to serve its associations in Texas, Alabama, Mississippi, Louisiana and most of New Mexico. Our chartered territory is referred to as the district. FCBT serves its chartered territory by lending to the district's Federal Land Credit Association (FLCA) and Agricultural Credit Associations (ACAs). The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as PD and LGD as is further discussed in the section "Allowance for Loan Losses and Reserve for Unfunded Commitments." Allowance needs by geographic region are only considered in circumstances that may not otherwise be reflected in the probability of default (PD) and loss given default (LGD) such as flooding or drought. There was no allowance attributed to a geographic area as of June 30, 2017.

Refer to the Risk-Adjusted Asset table on page 47 for the bank's total and average loans, investment securities, off -balance sheet commitments and OTC derivatives. The bank's total loans by type can be found in Note 3. The following table provides an overview of the remaining contractual maturity of the bank's credit risk portfolio categorized by exposure at June 30, 2017:

(dollars in thousands)	Due in one year or less	Due after one year through five years	Due after five years	Total
Loans	$ 2,480,967	$ 5,566,930	$ 8,477,734	$ 16,525,631
Off-Balance Sheet Commitments				
Financial letters of credit	9,574	42,208	10,320	62,102
Performance letters of credit	127	4,468	-	4,595
Commercial letters of credit	-	574	3,735	4,309
Unfunded commitments	3,326,835	1,123,435	1,501,225	5,951,495
Investments	311,740	303,598	4,319,991	4,935,329
OTC Derivatives				
Interest rate caps	-	15	661	676
Pay fixed swaps	-	-	6,407	6,407
Total	$ 6,129,243	$ 7,041,228	$ 14,320,073	$ 27,490,544

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

	June 30, 2017	December 31, 2016	2015
Texas	**15 %**	15 %	12 %
Illinois	**7**	7	9
Georgia	**6**	7	6
Minnesota	**4**	5	4
California	**5**	4	3
All other States	**63**	62	66
	100 %	100 %	100 %

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

Counterparty Credit Risk and Credit Risk Mitigation

The following table provides the total exposure covered by guarantees/credit derivatives for each separately disclosed credit risk portfolio and the risk-weighted asset amount associated with that exposure. The bank did not hold eligible financial collateral for its loan, investment and derivative portfolios at June 30, 2017.

Government Guaranteed Asset Type	90 Day Average (dollars in 000s)	Risk Weighting	Risk-Weighted Amount
Investments	$ 2,288,676	0%	$ -
Loans	2,380,000	0%	-
Total	$ 4,668,676		$ -

Securitization

The bank currently only participates in credit-related securitizations as investors through the purchase of highly rated asset-backed securities (ABS) as included in its investment portfolio. The bank also holds securitization exposures through the purchase of U.S. government and agency guaranteed securities. The bank has not transferred any exposures that it has originated or purchased from a third party in connection with a securitization of assets as of June 30, 2017, nor does it have any outstanding exposures that it intends to be securitized as of June 30, 2017. The bank did not recognize any gain or loss on securitized assets for the three months ended June 30, 2017. As of June 30, 2017, the bank did not retain any credit-related re-securitization exposures.

Below is an overview of our purchased securitization exposures held as of June 30, 2017, by exposure type and categorized by risk weighting band and risk-based capital approach:

Description of Securitization	Risk-Based Capital Approach	Exposure Amount (dollars in 000s)	Risk Weighted
Agency MBS:			
GNMA	Standardized Risk Weight	$1,827,116	0%
FNMA and FHLMC	Standardized Risk Weight	2,325,036	20%
Asset-backed securities	Gross-up	107,150	109%

As of June 30, 2017, the bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

Equities

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

(dollars in thousands)

As of June 30, 2017	Disclosed in Other Assets	Life-to-Date Gains (Losses) Recognized in Retained Earnings*
RBIC	$10,878	$872

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

Interest Rate Risk

The following tables set forth the bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of June 30, 2017, based on the bank's interest-earning assets and interest-bearing liabilities at June 30, 2017:

Net Interest Income

	Basis Point Interest Rate Change		
As of June 30, 2017	Down 51*	Up 100	Up 200
Immediate Change (Shock):			
Net Interest Income	2.89%	1.72%	2.74%

Market Value of Equity Sensitivity Analysis

	Basis Point Interest Rate Change		
As of June 30, 2017	Down 51*	Up 100	Up 200
Immediate Change (Shock):			
MVE Sensitivity	5.05%	(7.38%)	(15.34%)

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

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