FARM CREDIT BANK OF TEXAS

2017 THIRD QUARTER REPORT
SEPTEMBER 30, 2017

THIRD QUARTER 2017

Table of Contents

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 nine months ended September 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 make loans 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 September 30, 2017, the bank provided financing to 14 district associations and certain OFIs.

During the third quarter, the Association Class A Common Stockholders approved an amendment to the Bank's Capitalization Bylaws. The amended bylaws became effective September 15, 2017, resulting in updates to certain sections of the bylaws to conform to the FCA's updated capital adequacy regulations. The amendments did not result in significant changes to the regulatory capital requirements of the Bank as of September 30, 2017.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended September 30, 2017, was $52,860, an increase of $8,667, or 19.6 percent, over the same period of 2016. The increase in net income consisted of a $6,195 increase in noninterest income and a $3,989 increase in net interest income offset by a $1,075 increase in provision for credit losses and a $442 increase in noninterest expense.

Net income for the nine months ended September 30, 2017, was $145,192, an increase of $12,797, or 9.7 percent, over the same period of 2016. The increase in net income consisted of a $13,282 increase in net interest income, a $1,789 increase in noninterest income and a $1,476 decrease in provision for credit losses offset by a $3,750 increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended September 30, 2017, was $63,527, an increase of $3,989, or 6.7 percent, from the three months ended September 30, 2016. The increase in net interest income was attributable to a volume increase of $1.10 billion in the bank's average earning assets. The bank's interest rate spread decreased 2 basis points, from 107 to 105 basis points. Effective interest rates on earning assets increased 21 basis points from the third quarter of 2016 to the third quarter of 2017, while the effective rates on interest-bearing liabilities increased 23 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 $921 in concession expenses on $535.0 million of debt called in the three months ended September 30, 2017, compared to $5.3 million concession expense on $3.52 billion of debt called in the three months ended September 30, 2016, which impacted interest expense.

Net interest income for the nine months ended September 30, 2017, was $187,937, an increase of $13,282, or 7.6 percent, from the nine months ended September 30, 2016. The increase in net interest income was attributable to a volume increase of $1.29 billion in the bank's average earning assets, with the bank's interest rate spread remaining steady at 108 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 nine months ended September 30, 2017, reflected a $9.9 million decrease in concession expenses recognized on callable debt as a result of a $6.48 billion decrease in debt called in the nine months ended September 30, 2017, compared to the same period in 2016. The bank recognized $1.7 million in concession expenses on $1.03 billion of debt called in the nine months ended September 30, 2017, as compared to $11.6 million on $7.51 billion of debt called in the nine months ended September 30, 2016.

Provision for Credit Losses

The bank's negative provision for credit losses for the three months ended September 30, 2017, totaled $29, an increase of $1,075 from the $1,104 negative provision for credit losses from the same period of 2016. The $29 negative provision for the three months ended September 30, 2017, included $17 in recoveries and a $12 decrease in general reserves. The $1,104 negative provision for the third quarter ended September 30, 2016 included $1,322 in recoveries on a previously charged off communication loan.

The bank's negative provision for credit losses for the nine months ended September 30, 2017, totaled $1,088, a decrease of $1,476 from the $388 provision for credit losses recorded in the first nine months of 2016. The $1,088 negative provision for the nine months ended September 30, 2017, included $1,449 in recoveries and a $359 increase in general reserves. The $388 provision for the nine months ended September 30, 2016 included an increase in general provisions due to downgrades on specific credits.

Noninterest Income

Noninterest income for the three months ended September 30, 2017, was $13,559, an increase of $6,195, or 84.1 percent, over the same period of 2016. The increase was due mainly to a $2,646 increase in fees for loan-related services and a $3,575 increase on a nonrecurring event associated with a gain of a sale of a loan in 2017.

Noninterest income for the nine months ended September 30, 2017, was $29,864, an increase of $1,789, or 6.4 percent, over the same period of 2016. The increase was mainly due to a $2,759 increase in fees for loan-related services, and a $1,534 increase in other income, offset by a decrease of $2,231 in patronage income. The increase in other income included an $876 increase in unrealized gains recognized on a Rural Business Investment Company (RBIC) investment and a $574 increase on gain of sale of a loan.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2017, was $24,255, an increase of $442, or 1.9 percent, over the same period of 2016. The increase was attributable to a $1,029 increase in professional fees included in other operating expenses and $395 increase in occupancy and equipment, offset by a $507 decrease in insurance fund premiums and a $439 decrease in loss on other property owned.

Noninterest expense for the nine months ended September 30, 2017, was $73,697, an increase of $3,750, or 5.4 percent, over the same period of 2016. The increase was attributable to a $2,629 increase in professional fees included in other operating expenses, a $1,282 increase in salaries and employee benefits and an $892 increase in occupancy and equipment, offset by a $519 decrease in insurance fund premiums and a $439 decrease in loss on other property owned.

Key results of operations comparisons:

	Annualized for the Nine Months Ended September 30, 2017	Annualized for the Nine Months Ended September 30, 2016
Return on average assets	**0.89%**	0.85%
Return on average shareholders' equity	**11.50%**	10.82%
Net interest income as a percentage of average earning assets	**1.17%**	1.16%
(Recoveries), net of charge-offs to average loans	**< (0.01)%**	< (0.01)%
Operating expenses as a percentage of net interest income and noninterest income	**33.84%**	34.29%
Operating expenses as a percentage of average earning assets	**0.46%**	0.46%

Other Comprehensive (Loss) Income

Other comprehensive (loss) income consists of certain gains, losses or costs for which values are included in assets or liabilities on the balance sheets, but which have not yet been recognized in earnings. In the balance sheets, they are included in accumulated other comprehensive (loss) income in the shareholders' equity section. For the 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 (loss) income:

	Nine Months Ended September 30,	
	2017	2016
Change in unrealized gains on available-for-sale securities		
Net increase in unrealized gains on investment securities	**$ 4,315**	$ 32,487
Net change in unrealized gains on securities	**4,315**	32,487
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(139)**	(139)
Net change in postretirement benefit plans	**(139)**	(139)
Change in cash flow derivative instruments		
Unrealized loss on cash flow derivative instruments	**(2,386)**	(3,827)
Reclassification of loss recognized in interest expense	**836**	1,379
Net change in cash flow derivative instruments	**(1,550)**	(2,448)
Other comprehensive income	**$ 2,626**	$ 29,900

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2017, was $16.66 billion, an increase of $746.7 million, or 4.7 percent, compared to $15.91 billion at December 31, 2016. The increase in the loan portfolio is attributable to growth in the bank's direct loans to associations and, to a lesser extent, growth in the bank's capital markets loan portfolio. The growth in direct loans to associations was related to continued strong economic conditions in the district.

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

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. There were CPP loan purchases of $13.5 million from a district association in December 2016, which resulted in a net stock issuance of $1.0 million. There were CPP loan purchases of $3.2 million from a district association during the nine months ended September 30, 2017, which resulted in a net stock issuance of $195. CPP loans held at September 30, 2017, totaled $35,133 and were included in "Loans" on the Balance Sheets. The balance of the AMBS CPP was $46,161 at September 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 99.7 percent of total loans and accrued interest at September 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 September 30, 2017, the direct note totaled $921.8 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, 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 because of the collateralization of the direct loan and other mitigating factors.

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

		(Decrease)		
	September 30, 2017	$	%	December 31, 2016
Nonaccrual loans	**$ 1,554**	$ (1,308)	(45.70) %	$ 2,862
Accruing formally restructured loans	**6,408**	(87)	(1.34)	6,495
Total high-risk assets	**$ 7,962**	$ (1,395)	(14.91) %	$ 9,357

The decrease in nonaccrual loans and accruing formally restructured loans was due to repayments. At September 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 0.1 percent of gross loans at September 30, 2017 and December 31, 2016.

At September 30, 2017, the bank had reserves for credit losses totaling $9,657, including an allowance for loan losses of $8,100 and a reserve for credit losses on unfunded commitments of $1,557 related to the bank's capital markets loan portfolio. The allowance for loan losses of $8,100 equated to 0.1 percent of total loans outstanding and 0.2 percent of capital market loans outstanding. The $1,557 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 101.7 percent as of September 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 $5.35 billion, or 24.0 percent, of total assets at September 30, 2017, compared to $5.05 billion, or 23.8 percent, at December 31, 2016, an increase of $304,417, or 6.0 percent. At September 30, 2017, the bank's cash balance was $40,763, a $154,716 decrease from December 31, 2016. The bank made the decision to reduce the cash balance and invest in Federal funds during the third quarter of 2017. Cash held at the Federal Reserve Bank at September 30, 2017, totaled $26,179, compared to $158,610 at December 31, 2016. Levels of cash and other highly liquid assets are maintained to meet loan demand, debt servicing and other liquidity needs. At September 30, 2017, the bank had 208 days of liquidity to cover maturing debt obligations. Interest-bearing liabilities, consisting of bonds and notes, increased by $1.0 billion, or 5.2 percent, from December 31, 2016, to September 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 $5.04 billion at September 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 $46,161 at September 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:

	September 30, 2017		December 31, 2016	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 206,389**	**$ 204,271**	$ 225,457	$ 222,374
Corporate debt	**247,402**	**247,770**	202,365	202,403
Federal agency collateralized mortgage-backed securities				
GNMA	**1,888,148**	**1,870,825**	1,697,627	1,682,999
FNMA and FHLMC	**2,399,899**	**2,387,318**	2,308,775	2,290,579
U.S. Treasury securities	**249,770**	**249,119**	249,502	249,006
Asset-backed securities	**79,812**	**79,833**	130,703	130,679
Total liquidity investments	**$ 5,071,420**	**$ 5,039,136**	$ 4,814,429	$ 4,778,040

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

	September 30, 2017		December 31, 2016	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 48,090**	**$ 46,161**	$ 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 September 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.

Capital Resources

At September 30, 2017, the bank's capital totaled $1,735,560, and consisted of $600,000 of Class B noncumulative subordinated perpetual preferred stock, $284,233 of capital stock, $848,109 in retained earnings and $29,953 in accumulated other comprehensive loss. The balance in retained earnings reflected an increase of $113,308 from December 31, 2016, due primarily to net income of $145,192, other comprehensive income of $2,626, offset by $30,188 in preferred stock dividends and $4,517 in cash patronage distributions. The balance in accumulated other comprehensive loss of $29,953 resulted from an increase in unrealized gains on investments of $4,315 and a $1,550 increase in unrealized losses on cash flow derivative instruments, net of a $139 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 September 30, 2017, the bank exceeded all regulatory capital requirements.

OTHER

CONDITIONS IN THE DISTRICT

At the end of the quarter, virtually none of the district territory was experiencing drought conditions. Soil moisture remained adequate to support the development of field crops during the growing season. In late August, Hurricane Harvey made landfall along the Texas Gulf Coast. Although wind gusts of over 130 miles per hour were recorded, the most significant impact of Hurricane Harvey was flooding in and east of Houston. Some areas received over four feet of rainfall while the storm stalled in the region. Based on assessments completed by the bank and its affiliated associations, the storm and resulting damage are not expected to have any material impact on the quality of the district's loan portfolio. District institutions operating in the affected areas will continue to monitor the situation closely.

Farmers in the district are in the process of harvesting field crops. Through the end of September, about 80 percent of the district's corn had been harvested, while the soybean harvest was 66 percent complete. In Texas, where the majority of the nation's cotton is produced, farmers had harvested over 20 percent of the cotton crop. Yields for grains in the district are expected to compare favorably to the yields observed in the prior year, while cotton yields are likely to be similar to the levels achieved in 2016.

Profitability for cattle producers is being driven lower by continued increases in the size of the nation's cattle herd. On average, cattle ranchers will be profitable this year, but the level of income generated by these operations will be lower than it has been in recent years. Meanwhile, after earning strong returns during the first half of 2017, cattle feedlots are expected to operate near breakeven for the remainder of the year. The primary beneficiaries of the rising supply of cattle has been beef processors, who have experienced high plant utilization rates and have generated historically robust margins. Chicken producers continued to fare well during the third quarter due to favorable wholesale prices and reasonably low feed costs. From July through September, milk prices fell as the global supply of dairy products increased. Employment growth in Texas continues to be strong relative to the nation as a whole. Through August, Texas non-farm employment has grown at a 2.6 percent annualized rate in 2017, significantly above the 1.4 percent annualized growth rate observed in the nation during the same period. Job gains in Texas have been driven by strength in the manufacturing and energy sectors, which have benefited from stable oil prices and a decline in the value of the U.S. dollar. Elsewhere in the district, employment growth has also been positive year-to-date through August. Although Texas will experience lower GDP growth during the third quarter due to Hurricane Harvey, the impact is expected to be short-lived.

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 September 26, 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 September 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 September 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 the first quarter of 2018.

The undersigned certify that we have reviewed the September 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

November 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

November 9, 2017

Balance Sheets

(Unaudited)

(dollars in thousands)	**September 30, 2017**	December 31, 2016
Assets		
Cash	**$ 40,763**	$ 195,479
Federal funds sold and overnight investments	**228,112**	22,901
Investment securities	**5,085,297**	4,831,375
Loans (includes $10,092 and $16,311 at fair value, held under fair value option)	**16,656,127**	15,909,403
Less allowance for loan losses	**8,100**	7,650
Net loans	**16,648,027**	15,901,753
Accrued interest receivable	**60,135**	50,191
Premises and equipment, net	**45,948**	37,999
Other assets	**183,470**	182,700
Total assets	**$ 22,291,752**	$ 21,222,398
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 20,401,672**	$ 19,390,662
Accrued interest payable	**60,953**	50,255
Reserve for credit losses	**1,557**	1,646
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**71,947**	137,520
Total liabilities	**20,556,192**	19,600,146
Commitments and contingencies (Note 4)		
Shareholders' equity		
Preferred stock	**$ 600,000**	600,000
Capital stock	**284,233**	284,038
Allocated retained earnings	**33,171**	33,171
Unallocated retained earnings	**848,109**	737,622
Accumulated other comprehensive loss	**(29,953)**	(32,579)
Total shareholders' equity	**1,735,560**	1,622,252
Total liabilities and shareholders' equity	**$ 22,291,752**	$ 21,222,398

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended September 30, 2017	Quarter Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest Income				
Loans	**$ 118,993**	$ 104,231	**$ 340,819**	$ 306,238
Investment securities	**22,038**	18,253	**61,146**	51,367
Total interest income	**141,031**	122,484	**401,965**	357,605
Interest Expense				
Bonds, notes and subordinated debt	**77,504**	62,946	**214,028**	182,950
Net interest income	**63,527**	59,538	**187,937**	174,655
Provision for credit losses				
(Negative provision) provision for credit losses	**(29)**	(1,104)	**(1,088)**	388
Net interest income after (negative provision) provision for credit losses	**63,556**	60,642	**189,025**	174,267
Noninterest Income				
Patronage income	**4,354**	4,384	**13,800**	16,031
Fees for services to associations	**767**	724	**3,156**	3,250
Fees for loan-related services	**4,948**	2,302	**8,459**	5,700
Loss on loans held under fair value option	**(47)**	(92)	**(193)**	(14)
Other income, net	**3,537**	46	**4,642**	3,108
Total noninterest income	**13,559**	7,364	**29,864**	28,075
Noninterest Expenses				
Salaries and employee benefits	**9,184**	9,197	**28,479**	27,197
Occupancy and equipment	**4,184**	3,789	**13,202**	12,310
Insurance Fund premiums	**2,948**	3,455	**8,679**	9,198
Loss on other property owned	**-**	439	**-**	439
Other operating expenses	**7,939**	6,933	**23,337**	20,803
Total noninterest expense	**24,255**	23,813	**73,697**	69,947
Net Income	**52,860**	44,193	**145,192**	132,395
Other comprehensive (loss) income				
Change in unrealized (loss) gain on investments	**(1,908)**	(11,688)	**4,315**	32,487
Change in postretirement benefit plans	**(46)**	(46)	**(139)**	(139)
Change in cash flow derivative instruments	**(205)**	1,462	**(1,550)**	(2,448)
Total other comprehensive (loss) income	**(2,159)**	(10,272)	**2,626**	29,900
Comprehensive Income	**$ 50,701**	$ 33,921	**$ 147,818**	$ 162,295

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

Statement 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	-	-	-	132,395	-	132,395
Other comprehensive gain	-	-	-	-	29,900	29,900
Preferred stock dividends accrued	-	-	-	(30,188)	-	(30,188)
Patronage distributions						
Cash	-	-	-	(5,946)	-	(5,946)
Shareholders' equity	-	-	2	(1)	-	1
Balance at September 30, 2016	$ 600,000	$ 255,823	$ 27,205	$ 794,143	$ 2,569	$ 1,679,740
Balance at December 31, 2016	$ 600,000	$ 284,038	$ 33,171	$ 737,622	$ (32,579)	$ 1,622,252
Net income	-	-	-	145,192	-	145,192
Other comprehensive gain	-	-	-		2,626	2,626
Capital stock and allocated retained earnings issued	-	260	-	-	-	260
Capital stock and allocated retained earnings retired	-	(65)	-	-	-	(65)
Preferred stock dividends accrued	-	-	-	(30,188)	-	(30,188)
Patronage distributions						
Cash	-	-	-	(4,517)	-	(4,517)
Balance at September 30, 2017	**$600,000**	**$ 284,233**	**$33,171**	**$ 848,109**	**$ (29,953)**	**$ 1,735,560**

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

Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30,	
(dollars in thousands)	**2017**	2016
Operating activities		
Net income	**$ 145,192**	$ 132,395
Reconciliation of net income to net cash provided by operating activities		
(Negative provision) provision for credit losses	**(1,088)**	388
Depreciation and amortization on premises and equipment	**5,118**	4,473
Accretion of net premium on loans	**1,754**	3,809
Amortization and accretion on debt instruments	**19,904**	21,950
Amortization of net premium on investments	**4,039**	2,586
Decrease in fair value on loans under fair value option	**193**	14
Loss on sale of other property owned	**-**	439
Gain on sale of loans	**(3,575)**	(2,926)
Gain on loan held for sale	**-**	(75)
(Gain) loss on other earning assets	**(728)**	149
Gain on sales of premises and equipment	**(41)**	-
Allocated equity patronage from System bank	**(14,583)**	(13,847)
(Increase) in accrued interest receivable	**(9,944)**	(4,501)
Decrease in other assets, net	**17,089**	7,096
Increase in accrued interest payable	**10,698**	691
Decrease in other liabilities, net	**(13,638)**	(563)
Net cash provided by operating activities	**160,390**	152,078
Investing activities		
Net (increase) decrease in federal funds sold	**(205,212)**	382
Investment securities		
Purchases	**(1,119,911)**	(1,258,631)
Proceeds from maturities, calls and prepayments	**866,266**	835,241
Increase in loans, net	**(790,223)**	(1,002,045)
Proceeds from sales of loans	**23,658**	76,460
Proceeds from sales of premises and equipment	**82**	-
Expenditures for premises and equipment	**(13,108)**	(12,147)
Investment in other earning assets	**(3,573)**	(1,243)
Net cash used in investing activities	**(1,242,021)**	(1,361,983)
Financing activities		
Bonds and notes issued	**8,917,380**	16,599,444
Bonds and notes retired	**(7,926,274)**	(15,321,092)
Redemption of subordinated debt	**-**	(50,000)
Repayments on capital lease obligations	**(281)**	(281)
Capital stock issued	**260**	-
Capital stock retired and allocated retained earnings distributed	**(65)**	-
Cash dividends on preferred stock	**(30,188)**	(30,188)
Cash patronage distributions paid	**(33,917)**	(28,360)
Net cash provided by financing activities	**926,915**	1,169,523
Net (decrease) in cash	**(154,716)**	(40,382)
Cash at beginning of year	**195,479**	545,090
Cash at end of quarter	**$ 40,763**	$ 504,708
Supplemental schedule of noncash investing and financing activities		
Net increase in unrealized gains on investment securities	**$ 4,315**	$ 32,487
Preferred stock dividend payable	**20,063**	20,063
Capital lease obligation	**374**	748
Supplemental information		
Interest paid	**$ 203,330**	$ 182,260

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 third quarter 2017 financial statements should be read in conjunction with the Annual Report.

The bank revised its cash flow statement for the nine months ended September 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 $8.2 million and a decrease in net cash provided by financing activities of $8.2 million for the nine months ended September 30, 2016.

The bank revised Note 5, fair value measurements, for the reporting of certain loans measured at fair value on a nonrecurring basis using Level 3 at December 31, 2016. The disclosure was revised to report impaired loans with specific reserves only. The Level 3 fair value was disclosed at $2,785 on the 2016 Annual Report and has been revised to $132 for December 31, 2016 disclosures.

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 September 30, 2017, the bank provided financing to 14 district associations and certain other financing institutions.

In August 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The bank is evaluating the impact of adoption on the bank's financial condition and its results of operations.

In March 2017, the 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 is evaluating the impact of adoption on the bank's financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The bank is 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 September 30, 2017, and December 31, 2016, is included in the following tables.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 206,389	$ 277	$ (2,395)	$ 204,271	1.90 %
Corporate debt	247,402	561	(193)	247,770	1.73
Federal agency collateralized mortgage-backed securities					
GNMA	1,888,148	803	(18,126)	1,870,825	1.86
FNMA and FHLMC	2,399,899	3,078	(15,659)	2,387,318	1.74
U.S. Treasury securities	249,770	-	(651)	249,119	0.90
Asset-backed securities	79,812	31	(10)	79,833	1.50
Total available-for-sale liquidity investments	**$ 5,071,420**	**$ 4,750**	**$ (37,034)**	**$ 5,039,136**	**1.75** %

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 48,090	$ -	$ (1,929)	$ 46,161	4.44 %

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 September 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	$ -	$ -	$ 204,271	$ -	$ 204,271
Corporate debt	95,090	152,680	-	-	247,770
Federal agency collateralized mortgage-backed securities					
GNMA	135	-	9,986	1,860,704	1,870,825
FNMA and FHLMC	869	34,432	387,253	1,964,764	2,387,318
U.S. Treasury securities	249,119	-	-	-	249,119
Asset-backed securities	-	77,351	-	2,482	79,833
Total fair value	**$ 345,213**	**$ 264,463**	**$ 601,510**	**$ 3,827,950**	**$ 5,039,136**
Total amortized cost	**$ 345,760**	**$ 264,505**	**$ 605,585**	**$ 3,855,570**	**$ 5,071,420**
Weighted average yield	**1.10%**	**1.67%**	**1.77%**	**1.81%**	**1.75%**

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	$	4,263	$	41,898	$ 46,161
Total amortized cost	**$**	**4,321**	**$**	**43,769**	**$ 48,090**
Weighted average yield		**3.94%**		**4.49%**	**4.44%**

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 September 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	$ 74,246	$ (520)	$ 96,772	$ (1,875)	$ 171,018	$ (2,395)
Corporate debt	60,048	(140)	14,947	(53)	74,995	(193)
Federal agency collateralized mortgage-backed securities						
GNMA	1,045,155	(8,546)	658,496	(9,580)	1,703,651	(18,126)
FNMA and FHLMC	835,196	(6,969)	705,166	(8,690)	1,540,362	(15,659)
U.S. Treasury securities	249,119	(651)	-	-	249,119	(651)
Asset-backed securities	17,823	(8)	2,410	(2)	20,233	(10)
Total	**$ 2,281,587**	**$ (16,834)**	**$ 1,477,791**	**$ (20,200)**	**$ 3,759,378**	**$ (37,034)**

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 nine months ended September 30, 2017 and 2016, the bank did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at September 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:

	September 30, 2017	December 31, 2016
Direct notes receivable from district associations and OFIs	**$ 11,406,715**	$ 10,625,132
Participations purchased	**5,249,125**	5,283,917
Other bank-owned loans	**287**	354
Total	**$ 16,656,127**	$ 15,909,403

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

	September 30, 2017	December 31, 2016
Direct notes receivable from district associations	**$ 11,371,089**	$ 10,583,054
Real estate mortgage	**426,825**	463,955
Production and intermediate term	**571,487**	525,931
Agribusiness		
Loans to cooperatives	**314,765**	296,486
Processing and marketing	**2,205,061**	2,134,186
Farm-related business	**75,547**	132,813
Communication	**355,400**	335,171
Energy (rural utilities)	**1,160,950**	1,248,297
Water and waste disposal	**113,401**	129,116
Lease receivables	**8,070**	-
Loans to other financing institutions	**35,625**	42,078
Mission-related	**17,907**	18,316
Total	**$ 16,656,127**	$ 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 September 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	$ 716,362	$ 335,888	$ -	$ 2,662	$ 716,362	$ 338,550
Production and intermediate term	1,407,360	817,149	13,798	59,337	1,421,158	876,486
Agribusiness	1,899,927	817,099	-	-	1,899,927	817,099
Communication	486,245	130,414	-	-	486,245	130,414
Energy (rural utilities)	1,326,753	165,590	-	-	1,326,753	165,590
Water and waste disposal	127,155	13,467	-	-	127,155	13,467
Lease receivables	10,034	1,982	-	-	10,034	1,982
Mission-related	4,108	-	-	-	4,108	-
Loans to other financing institutions	-	8,814	-	-	-	8,814
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 5,977,944**	**$ 6,140,403**	**$ 13,798**	**$ 61,999**	**$ 5,991,742**	**$ 6,202,402**

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 were CPP loan purchases of $3.2 million from a district association for the nine months ended September 30, 2017, which resulted in a net stock issuance of $195. CPP loans held at September 30, 2017, totaled $35,133 and were included in "Loans" on the Balance Sheets. The balance of the AMBS CPP was $46,161 at September 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 September 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 $10,092 at September 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 nine months ended September 30, 2017:

Balance at January 1, 2017	**$ 16,311**
Net loss on financial instruments under fair value option	**(193)**
Maturities	**(5,665)**
Premium amortization	**(361)**
Balance at September 30, 2017	**$ 10,092**

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

	September 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	**$ -**	$ 967
Mission-related	**1,554**	1,895
Total nonaccrual loans	**1,554**	2,862
Accruing restructured loans:		
Real estate mortgage	**3,759**	3,818
Mission-related	**2,649**	2,677
Total accruing restructured loans	**6,408**	6,495
Total high risk assets	**$ 7,962**	$ 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:

	September 30, 2017		December 31, 2016	
Real estate mortgage:				
Acceptable	**93.6**	**%**	99.0	%
OAEM	**3.1**		-	
Substandard/Doubtful	**3.3**		1.0	
	100.0	**%**	100.0	%
Production and intermediate term:				
Acceptable	**93.0**	**%**	98.8	%
OAEM	**6.0**		0.4	
Substandard/Doubtful	**1.0**		0.8	
	100.0	**%**	100.0	%
Agribusiness:				
Acceptable	**99.3**	**%**	99.3	%
OAEM	**0.2**		0.4	
Substandard/Doubtful	**0.5**		0.3	
	100.0	**%**	100.0	%
Energy and water/waste disposal:				
Acceptable	**94.7**	**%**	94.9	%
OAEM	**4.4**		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	**91.9**	**%**	100.0	%
OAEM	**8.1**		-	
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	**91.4**	**%**	89.8	%
OAEM	**-**		-	
Substandard/Doubtful	**8.6**		10.2	
	100.0	**%**	100.0	%
Lease Receivables				
Acceptable	**100.0**	**%**	-	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	-	%
Total loans:				
Acceptable	**93.5**	**%**	99.3	%
OAEM	**6.2**		0.5	
Substandard/Doubtful	**0.3**		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

September 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	**$ -**	**$ -**	**$ -**	**$ 430,813**	**$ 430,813**	**$ -**
Production and intermediate term	**4,214**	**-**	**4,214**	**570,429**	**574,643**	**-**
Agribusiness	**-**	**-**	**-**	**2,608,337**	**2,608,337**	**-**
Energy and water/waste disposal	**-**	**-**	**-**	**1,282,420**	**1,282,420**	**-**
Communication	**-**	**-**	**-**	**355,729**	**355,729**	**-**
Leases	**-**	**-**	**-**	**8,105**	**8,105**	**-**
Direct notes to associations	**-**	**-**	**-**	**11,393,967**	**11,393,967**	**-**
Loans to OFIs	**-**	**-**	**-**	**35,695**	**35,695**	**-**
Mission-related	**-**	**1,554**	**1,554**	**16,493**	**18,047**	**-**
Total	**$ 4,214**	**$ 1,554**	**$ 5,768**	**$ 16,701,988**	**$ 16,707,756**	**$ -**

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 September 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	**$ 202**	**$ 202**	**$ 79**	$ 210	$ 210	$ 78
Total	**$ 202**	**$ 202**	**$ 79**	$ 210	$ 210	$ 78
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,759**	**$ 3,759**	**$ -**	$ 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	**4,001**	**4,001**	**-**	4,362	4,362	-
Total	**$ 7,760**	**$ 19,610**	**$ -**	$ 9,147	$ 22,421	$ -
Total impaired loans:						
Real estate mortgage	**$ 3,759**	**$ 3,759**	**$ -**	$ 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	**4,203**	**4,203**	**79**	4,572	4,572	78
Total	**$ 7,962**	**$ 19,812**	**$ 79**	$ 9,357	$ 22,631	$ 78

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2017		September 30, 2016		**September 30, 2017**		September 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	**$ 203**	**$ 3**	$ 212	$ 4	**$ 206**	**$ 11**	$ 215	$ 12
Total	**$ 203**	**$ 3**	$ 212	$ 4	**$ 206**	**$ 11**	$ 215	$ 12
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 3,850**	**$ 594**	$ 6,936	$ 54	**$ 4,460**	**$ 624**	$ 6,993	$ 125
Production and intermediate term	**-**	**-**	8,090	125	**-**	**-**	8,127	375
Mission-related	**4,163**	**36**	4,368	37	**4,251**	**110**	4,457	113
Total	**$ 8,013**	**$ 630**	$ 19,394	$ 216	**$ 8,711**	**$ 734**	$ 19,577	$ 613
Total impaired loans:								
Real estate mortgage	**$ 3,850**	**$ 594**	$ 6,936	$ 54	**$ 4,460**	**$ 624**	$ 6,993	$ 125
Production and intermediate term	**-**	**-**	8,090	125	**-**	**-**	8,127	375
Mission-related	**4,366**	**39**	4,580	41	**4,457**	**121**	4,672	125
Total	**$ 8,216**	**$ 633**	$ 19,606	$ 220	**$ 8,917**	**$ 745**	$ 19,792	$ 625

At September 30, 2017, impaired loans of $202 had a related specific allowance of $79, while the remaining $7.8 million of impaired loans had no related specific allowance as a result of adequate collateralization.

The average recorded investment in impaired loans for the three months ended September 30, 2017, was $8.2 million. The bank recognized interest income of $633 on impaired loans during the three months ended September 30, 2017.

The average recorded investment in impaired loans for the nine months ended September 30, 2017, was $8.9 million. The bank recognized interest income of $745 on impaired loans during the nine months ended September 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 June 30, 2017	$ 119	$ 677	$ 2,592	$ 448	$ 4,386	$ -	$ -	$ -	$ -	$ -	$ 83	$ 8,305
Charge-offs	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	18	-	-	-	-	-	-	-	-	-	-	18
Provision for credit losses (loan loss reversal)	(21)	263	18	(101)	(189)	-	-	-	-	-	1	(29)
Other *	-	(55)	(135)	4	(8)	-	-	-	-	-	-	(194)
Balance at September 30, 2017	$ 116	$ 885	$ 2,475	$ 351	$ 4,189	$ -	$ -	$ -	$ -	$ -	$ 84	$ 8,100
Balance at December 31, 2016	$ 74	$ 712	$ 2,259	$ 526	$ 3,997	$ -	$ -	$ -	$ -	$ -	$ 82	$ 7,650
Charge-offs	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	24	-	5	-	1,420	-	-	-	-	-	-	1,449
Provision for credit losses (loan loss reversal)	23	212	202	(197)	(1,330)	-	-	-	-	-	2	(1,088)
Other *	(5)	(39)	9	22	102	-	-	-	-	-	-	89
Balance at September 30, 2017	$ 116	$ 885	$ 2,475	$ 351	$ 4,189	$ -	$ -	$ -	$ -	$ -	$ 84	$ 8,100
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 79	$ 79
Collectively evaluated for impairment	116	885	2,475	351	4,189	-	-	-	-	-	5	8,021
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2017	$ 116	$ 885	$ 2,475	$ 351	$ 4,189	$ -	$ -	$ -	$ -	$ -	$ 84	$ 8,100
Balance at June 30, 2016	$ 816	$ 494	$ 1,485	$ 311	$ 4,273	$ -	$ -	$ -	$ -	$ -	$ 103	7,482
Charge-offs	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	5	-	1	1,316	-	-	-	-	-	-	-	1,322
Provision for credit losses (loan loss reversal)	(749)	262	902	(1,156)	(339)	-	-	-	-	-	(24)	(1,104)
Other *	(1)	(26)	-	2	8	-	-	-	-	-	-	(17)
Balance at September 30, 2016	$ 71	$ 730	$ 2,388	$ 473	$ 3,942	$ -	$ -	$ -	$ -	$ -	$ 79	$ 7,683
Balance at December 31, 2015	$ 789	$ 428	$ 1,586	$ 343	$ 2,575	$ -	$ -	$ 3	$ -	$ -	$ 109	5,833
Charge-offs	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	12	-	179	1,367	-	-	-	-	-	-	-	1,558
Provision for credit losses (loan loss reversal)	(731)	377	694	(1,236)	1,317	-	-	(3)	-	-	(30)	388
Other *	1	(75)	(71)	(1)	50	-	-	-	-	-	-	(96)
Balance at September 30, 2016	$ 71	$ 730	$ 2,388	$ 473	$ 3,942	$ -	$ -	$ -	$ -	$ -	$ 79	$ 7,683
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 75	$ 75
Collectively evaluated for impairment	71	730	2,388	473	3,942	-	-	-	-	-	4	7,608
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2016	$ 71	$ 730	$ 2,388	$ 473	$ 3,942	$ -	$ -	$ -	$ -	$ -	$ 79	$ 7,683
Recorded Investments in Loans Outstanding:												
Ending balance at September 30, 2017	$ 430,813	$ 574,643	$ 2,608,337	$ 355,729	$ 1,282,420	$ 8,105	$ -	$ -	$ 11,393,967	$ 35,695	$ 18,047	$16,707,756
Individually evaluated for impairment	$ 3,759	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,393,967	$ -	$ 4,203	$11,401,929
Collectively evaluated for impairment	$ 427,054	$ 574,643	$ 2,608,337	$ 355,729	$ 1,282,420	$ 8,105	$ -	$ -	$ -	$ 35,695	$ 13,844	$ 5,305,827
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at September 30, 2016	$ 409,411	$ 452,288	$ 2,593,863	$ 321,432	$ 1,407,107	$ -	$ 12	$ -	$ 10,482,101	$ 42,146	$ 18,481	$15,726,841
Individually evaluated for impairment	$ 6,959	$ 8,172	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,482,101	$ -	$ 4,637	$10,501,869
Collectively evaluated for impairment	$ 402,452	$ 444,116	$ 2,593,863	$ 321,432	$ 1,407,107	$ -	$ 12	$ -	$ -	$ 42,146	$ 13,844	$ 5,224,972
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 September 30, 2017, the total recorded investment in TDR loans was $7,962, including $1,554 classified as nonaccrual and $6,408 classified as accrual, with specific allowance for loan losses of $79. Additional commitments to lend to borrowers whose loans have been modified in TDRs totaled $52 at September 30, 2017 and $57 at December 31, 2016.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	September 30, 2017	December 31, 2016	**September 30, 2017**	December 31, 2016
Real estate mortgage	**$ 4,203**	$ 3,818	**$ -**	$ -
Mission-related	**3,759**	4,572	**1,554**	1,895
Total	**$ 7,962**	$ 8,390	**$ 1,554**	$ 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 September 30, 2017, were approximately $257.85 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 September 30, 2017, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at September 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	**$ 228,112**	$ -	$ 228,112	$ -
Investments available for sale:				
Agency-guaranteed debt	**204,271**	-	204,271	-
Corporate debt	**247,770**	-	247,770	-
Mortgage-backed securities	**4,258,143**	-	4,229,417	28,726
U.S. Treasury securities	**249,119**	-	249,119	-
Asset-backed securities	**79,833**	-	79,833	-
Mission-related and other available-for-sale investments	**46,161**	-	-	46,161
Loans valued under the fair value option	**10,092**	-	10,092	-
Derivative assets	**7,273**	-	7,273	-
Assets held in nonqualified benefit trusts	**522**	522	-	-
Total assets	**$ 5,331,296**	$ 522	$ 5,255,887	$ 74,887
Liabilities:				
Derivative liabilities	**$ 404**	$ -	$ 404	$ -
Standby letters of credit	**750**	-	-	750
Total liabilities	**$ 1,154**	$ -	$ 404	$ 750

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 $10,092 at September 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 June 30, 2017 to September 30, 2017:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Balance at June 30, 2017	$ 40,800	$ 47,661	$ 763	$ 87,698
Net losses included in other comprehensive income	(196)	(98)	-	(294)
Purchases, issuances and settlements	28,922	(1,402)	(13)	27,533
Transfers out of Level 3	(40,800)	-	-	(40,800)
Balance at September 30, 2017	$ 28,726	$ 46,161	$ 750	$ 74,137

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 September 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	(520)	212	-	(308)
Purchases, issuances and settlements	70,046	(7,386)	156	62,504
Transfers out of Level 3	(40,800)	-	-	(40,800)
Balance at September 30, 2017	$ 28,726	$ 46,161	$ 750	$ 74,137

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the nine months ended September 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 MBS) are included in Level 3 due to the fact that their valuation was based on Level 3 criteria (broker quotes). The liabilities 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 September 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	**$ 123**	$ -	$ -	$ 123	$ -
Total assets	**$ 123**	$ -	$ -	$ 123	$ -

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 June 30, 2016, to September 30, 2016:

	Assets	Liabilities	
	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Balance at June 30, 2016	$ 59,674	$ 1,016	$ 58,658
Net gains included in other comprehensive income	(160)	-	(160)
Purchases, issuances and settlements	(3,880)	(240)	(3,640)
Balance at September 30, 2016	$ 55,634	$ 776	$ 54,858

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2016, to September 30, 2016:

	Assets			Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Loan Held For Sale	Standby Letters of Credit	Net
Balance at January 1, 2016	$ 50,250	$ 65,650	$ 4,850	$ 807	$ 119,943
Net gains included in other comprehensive income	-	(94)	-	-	(94)
Purchases, issuances and settlements	-	(9,922)	(4,850)	(31)	(14,741)
Transfers out of Level 3	(50,250)	-	-	-	(50,250)
Balance at September 30, 2016	$ -	$ 55,634	$ -	$ 776	$ 54,858

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the nine months ended September 30, 2016. At December 31, 2015, Level 3 investments included one agency MBS and one loan held for sale due to the fact that their valuations were based on Level 3 criteria (broker quotes). In the 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 (Losses)**
Assets:					
Loans	$ 132	$ -	$ -	$ 132	$ -
Other property owned	-	-	-	-	(438)
Total assets	$ 132	$ -	$ -	$ 132	$ (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.

September 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	**$ 40,763**	$ 40,763	$ -	$ -	$ 40,763
Net loans	**16,648,027**	-	-	16,678,659	16,678,659
Total assets	**$ 16,688,790**	$ 40,763	$ -	$ 16,678,659	$ 16,719,422
Liabilities:					
Systemwide debt securities	**$ 20,401,672**	$ -	$ -	$ 20,435,982	$ 20,435,982
Total liabilities	**$ 20,401,672**	$ -	$ -	$ 20,435,982	$ 20,435,982

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 September 30, 2017, there was one agency MBS investment in Level 3. Level 3 assets at September 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 Instruments 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 nine months ended September 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	-	(50,000)	(50,000)
Balance at September 30, 2017	**$ 225,000**	**$ 195,000**	**$ 420,000**

To minimize the risk of credit losses, the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. In addition, substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to another are reached, which thresholds may vary, depending on the counterparty's credit rating. The bank does not anticipate nonperformance by any of these counterparties. However, derivative contracts are reflected in the financial statements on a gross basis regardless of the netting agreement. At September 30, 2017, and December 31, 2016, the bank's credit exposure to counterparties was $6,869 and $8,074, respectively. At September 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 September 30, 2017:

	Remaining Years to Maturity			Maturity Distribution Netting	Exposure	Exposure Collateral Held	Net of Collateral
	One to Five Years	More Than Five Years	Total				
Moody's Credit Rating							
A1	$ -	$ 449	$ 449	$ -	$ 449	$ -	$ 449
A1	-	43	43	-	43	-	43
Aa3	-	2,188	2,188	-	2,188	-	2,188
Aa3	11	4,178	4,189	-	4,189	-	4,189
Aa2	-	-	-	-	-	-	-
Total	$ 11	$ 6,858	$ 6,869	$ -	$ 6,869	$ -	$ 6,869

Cash Flow Hedges

The bank's derivative instruments at September 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 September 30, 2017	Fair Value December 31, 2016	Balance Sheet Location	Fair Value September 30, 2017	Fair Value December 31, 2016
Interest rate caps	Other assets	$ 581	$ 414	Other liabilities	$ -	$ -
Pay fixed swaps	Other assets	6,692	7,660	Other liabilities	(404)	-

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) at September 30, 2017	2016		Amount of (Gain) Loss Reclassified From AOCI Into Income (Effective Portion) at September 30, 2017	2016
Interest rate caps	$ 368	$ (343)	Interest expense	$ (168)	$ 665
Pay fixed swaps	2,018	3,484	Interest expense	(668)	714

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 September 30, 2017
Common equity tier 1 ratio	4.5%	2.5% *	7.0%	10.36%
Tier 1 capital ratio	6.0%	2.5% *	8.5%	16.51%
Total capital ratio	8.0%	2.5% *	10.5%	16.61%
Permanent capital ratio	7.0%	0.0%	7.0%	16.53%
Non-risk-adjusted				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	7.33%
UREE leverage ratio	1.5%	0.0%	1.5%	3.00%

*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 officers 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 September 30, 2017:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 820,714	$ 820,714	$ 820,714	$ 820,714
Common Cooperative Equities:				
Purchased other required stock ≥7 years	248,111	248,111	248,111	248,111
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	(127,533)	(127,533)	(127,533)	(127,533)
Other regulatory required deductions	(265)	(265)	(265)	(265)
Total	$ 1,010,240	$ 1,610,240	$ 1,619,909	$ 1,610,240
Denominator:				
Risk-adjusted assets excluding allowance	$ 9,750,408	$ 9,750,408	$ 9,750,408	$ 9,750,408
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	(8,303)
Total	$ 9,750,408	$ 9,750,408	$ 9,750,408	$ 9,742,105

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

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 820,714	$ 820,714
Common Cooperative Equities:		
Purchased other required stock ≥7 years	248,111	-
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	(127,533)	(127,533)
Amount of allocated equities in other System institutions	-	(33,171)
Other regulatory required deductions	(265)	-
Total	$ 1,610,240	$ 660,010
Denominator:		
Total Assets	$ 22,107,465	$ 22,107,465
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(127,798)	(127,798)
Total	$ 21,979,667	$ 21,979,667

During the third quarter, the Association Class A Common Stockholders approved an amendment to the Bank's Capitalization Bylaws. The amended bylaws became effective September 15, 2017, and were made to conform to the FCA's updated capital adequacy regulations, which were effective January 1, 2017. The amendment included the following updates:

- The bank's board of directors must adopt an annual capital resolution and obtain prior approval by the FCA prior to a distribution of allocated surplus. The distribution of allocated surplus must also meet the minimum permanent capital adequacy standards of the FCA capital adequacy regulation.
- A distribution of unallocated surplus must obtain prior approval by the FCA.
- Preferred stock dividends would be declared in accordance with the applicable provisions of the FCA's capital adequacy regulations.
- The retirement of Class A voting common stock shall be made in accordance with the minimum holding periods set forth in the bank's board of director's annual capital resolution and with prior approval by the FCA.
- The definition of patrons has been added to include Associations, OFIs and other System institutions doing business with the bank on a patronage basis.
- No patronage distributions will be paid to any patrons if any stock is in violation of the annual resolution adopted by the board or FCA's capital adequacy regulations.

The amendments did not result in significant changes to the regulatory capital requirements as of September 30, 2017.

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 nine months ended September 30:

	Other Postretirement Benefits	
	2017	2016
Service Cost	**$ 182**	$ 177
Interest Cost	**372**	363
Amortization of prior service cost	**(139)**	(139)
Net periodic benefit cost	**$ 415**	$ 401

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 nine months ended September 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	4,315	4,315		
Net change in unrealized gains on securities	4,315	4,315		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(139)		(139)	
Net change in postretirement benefit plans	(139)		(139)	
Change in cash flow derivative instruments				
Unrealized loss on cash flow derivative instruments	(2,386)			(2,386)
Reclassification of amount recognized in interest expense	836			836
Net change in cash flow derivative instruments	(1,550)			(1,550)
Total other comprehensive income (loss)	**2,626**	**4,315**	**(139)**	**(1,550)**
Balance, September 30, 2017	**$ (29,953)**	**$ (34,214)**	**$ (610)**	**$ 4,871**

The following table summarizes the changes in the balance of the components of AOCI for the nine months ended September 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	32,487	32,487		
Net change in unrealized gains on securities	32,487	32,487		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(139)		(139)	
Net change in postretirement benefit plans	(139)		(139)	
Change in cash flow derivative instruments				
Unrealized losses on cash flow derivative instruments	(3,827)			(3,827)
Reclassification of amount recognized in interest expense	1,379			1,379
Net change in cash flow derivative instruments	(2,448)			(2,448)
Total other comprehensive income (loss)	29,900	32,487	(139)	(2,448)
Balance, September 30, 2016	$ 2,569	$ 7,211	$ (287)	$ (4,355)

The following table summarizes reclassifications from AOCI to the Statements of Comprehensive Income for the nine months ended September 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	**$ (139)**	$ (139)	Salaries and employee benefits
Amortization on cash flow hedges	**836**	1,379	Interest expense
Total reclassifications	**$ 697**	$ 1,240	

NOTE 10 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through November 9, 2017, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of November 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	September 30, 2017	December 31, 2016
Cash	$ 8,197	$ 11,750
Investment securities	19,795	25,693
Loans	17,951,267	17,098,664
Less allowance for loan losses	93,984	74,087
Net loans	17,857,283	17,024,577
Accrued interest receivable	191,163	152,749
Other property owned	15,447	19,354
Other assets	472,544	448,656
Total assets	$ 18,564,429	$ 17,682,779
Notes payable	$ 15,219,429	$ 14,427,545
Other liabilities	236,374	361,535
Total liabilities	15,455,803	14,789,080
Capital stock and participation certificates	84,742	63,277
Additional paid-in-capital	224,625	224,625
Retained earnings	2,804,119	2,610,251
Accumulated other comprehensive loss	(4,860)	(4,454)
Total shareholder's equity	3,108,626	2,893,699
Total liabilities and shareholder's equity	$ 18,564,429	$ 17,682,779

	Nine Months Ended September 30,	
Statement of income data	**2017**	2016
Interest income	$ 633,351	$ 575,517
Interest expense	245,403	209,201
Net interest income	387,948	366,316
Provision for loan losses	23,530	9,776
Net interest income after provision for loan losses	364,418	356,540
Noninterest income	70,157	60,980
Noninterest expense	192,791	180,198
(Benefit from) provision for income taxes	(183)	231
Net income	241,967	237,091
Other comprehensive loss:		
Change in postretirement benefit plans	(406)	(421)
Total other comprehensive loss	(406)	(421)
Comprehensive income	$ 241,561	$ 236,670

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 third quarter of 2017, the qualitative disclosures for the third 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 September 30, 2017:

(dollars in thousands)	Month End Balance	Three Month Average Daily Balance
Common equity tier 1 capital (CET1)		
Common cooperative equities:		
Purchased other required stock ≥7 years	$ 248,191	$ 248,111
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	835,037	820,714
Paid-in capital	-	-
Regulatory adjustments and deductions made to CET1	(127,798)	(127,798)
Total CET1	$ 1,024,643	$ 1,010,240
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	$ 1,624,643	$ 1,610,240
Total capital		
Common cooperative equities not included in CET1	$ -	$ -
Tier 2 capital elements (subordinated debt, allowance for loan losses)	9,657	9,669
Regulatory adjustments and deductions made to total capital	-	-
Total tier 2 capital	9,657	9,669
Total capital	$ 1,634,300	$ 1,619,909

During the third quarter, the Association Class A Common Stockholders approved an amendment to the Bank's Capitalization Bylaws. The amended bylaws became effective September 15, 2017, and were made to conform to the FCA's updated capital adequacy regulations, which were effective January 1, 2017. The amendment included the following updates:

- The bank's board of directors must adopt an annual capital resolution and obtain prior approval by the FCA prior to a distribution of allocated surplus. The distribution of allocated surplus must also meet the minimum permanent capital adequacy standards of the FCA capital adequacy regulation.
- A distribution of unallocated surplus must obtain prior approval by the FCA.
- Preferred stock dividends would be declared in accordance with the applicable provisions of the FCA's capital adequacy regulations.
- The retirement of Class A voting common stock shall be made in accordance with the minimum holding periods set forth in the bank's board of director's annual capital resolution and with prior approval by the FCA.
- The definition of patrons has been added to include Associations, OFIs and other System institutions doing business with the bank on a patronage basis.
- No patronage distributions will be paid to any patrons if any stock is in violation of the annual resolution adopted by the board or FCA's capital adequacy regulations.

The amendments did not result in significant changes to the regulatory capital requirements as of September 30, 2017.

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 September 30, 2017:

(dollars in thousands)	Month End Balance	Three Month Average Daily Balance	Risk-Weighted Exposures
Exposures to:			
Sovereign entities	$ -	$ -	$ -
Supranational entities and MDBs	-	-	-
Government-sponsored entities	**14,420,832**	**14,386,053**	**2,383,819**
Depository institutions, foreign banks and credit unions*	**268,882**	**204,715**	**26,457**
Public sector entities	-	-	-
Corporate exposures, including borrower loans and leases	**5,304,141**	**5,305,498**	**5,037,074**
Residential mortgage loans	**6**	**6**	**3**
Past due and nonaccrual loans	**3,204**	**2,970**	**4,455**
Cleared transactions	-	-	-
Unsettled transactions	-	-	-
Securitizations	**79,859**	**90,753**	**119,788**
Equity investments	**127,798**	**127,798**	**127,798**
Other assets	**7,974,453**	**7,921,854**	**2,178,812**
Deductions:			
Regulatory adjustments and deductions made to CET1	-	-	**(127,798)**
Regulatory adjustments and deductions made to AT1	-	-	-
Regulatory adjustments and deductions made to T2	-	-	-
Total standardized risk-weighted assets	**$ 28,179,175**	**$ 28,039,647**	**$ 9,750,408**

*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 September 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 5.86 percent. The bank's leverage buffer of 3.33 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 September 30, 2017.

	Regulatory Minimums	Required Buffer	Ratios as of September	Calculated Buffer
Common equity tier 1 capital ratio*	4.5%	2.5%	10.36%	5.86%
Tier 1 capital ratio*	6.0%	2.5%	16.51%	10.51%
Total capital ratio*	8.0%	2.5%	16.61%	8.61%
Capital conservation buffer				5.86%
Tier 1 leverage ratio	4.0%	1.0%	7.33%	3.33%
Leverage buffer				3.33%

*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 September 30, 2017.

Refer to the Risk-Adjusted Asset table on page 49 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 September 30, 2017:

(dollars in thousands)	Due in one year or less	Due after one year through five years	Due after five years	Total
Loans	$ 4,208,781	$ 7,860,508	$ 4,586,838	$ 16,656,127
Off-Balance Sheet Commitments				
Financial letters of credit	13,800	40,420	10,032	64,252
Performance letters of credit	127	5,341	-	5,468
Commercial letters of credit	3,996	-	-	3,996
Unfunded commitments	3,116,104	1,134,622	1,546,480	5,797,206
Investments	345,214	264,463	4,429,459	5,039,136
OTC Derivatives				
Interest rate caps	-	11	570	581
Pay fixed swaps	-	-	6,288	6,288
Total	$ 7,688,022	$ 9,305,365	$ 10,579,667	$ 27,573,054

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

	September 30, 2017	December 31, 2016	December 31, 2015
Texas	**16 %**	15 %	12 %
Illinois	**7**	7	9
Georgia	**6**	7	6
Minnesota	**5**	5	4
California	**5**	4	3
All other States	**61**	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 days 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 September 30, 2017.

Government Guaranteed Asset Type	90 Day Average (dollars in 000s)	Risk Weighting	Risk-Weighted Amount
Investments	$ 2,308,093	0%	$ -
Loans	2,380,000	0%	-
Total	$ 4,688,093		$ -

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 September 30, 2017, nor does it have any outstanding exposures that it intends to be securitized as of September 30, 2017. The bank did not recognize any gain or loss on securitized assets for the three months ended September 30, 2017. As of September 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 September 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	$1,888,148	0%
FNMA and FHLMC	Standardized Risk Weight	2,399,899	20%
Asset-backed securities	Gross-up	79,812	137%

As of September 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. Below is an overview of the RBIC balances as of September 30, 2017:

(dollars in thousands)	Disclosed in Other Assets	Life-to-Date Gains (Losses) Recognized in Retained Earnings*
RBICs	$11,077	$47

*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 September 30, 2017, based on the bank's interest-earning assets and interest-bearing liabilities at September 30, 2017:

Net Interest Income

	Basis Point Interest Rate Change		
As of September 30, 2017	Down 51*	Up 100	Up 200
Immediate Change (Shock):			
Net Interest Income	3.76%	1.43%	2.15%

Market Value of Equity Sensitivity Analysis

	Basis Point Interest Rate Change		
As of September 30, 2017	Down 51*	Up 100	Up 200
Immediate Change (Shock):			
MVE Sensitivity	5.96%	(8.02%)	(16.29%)

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.