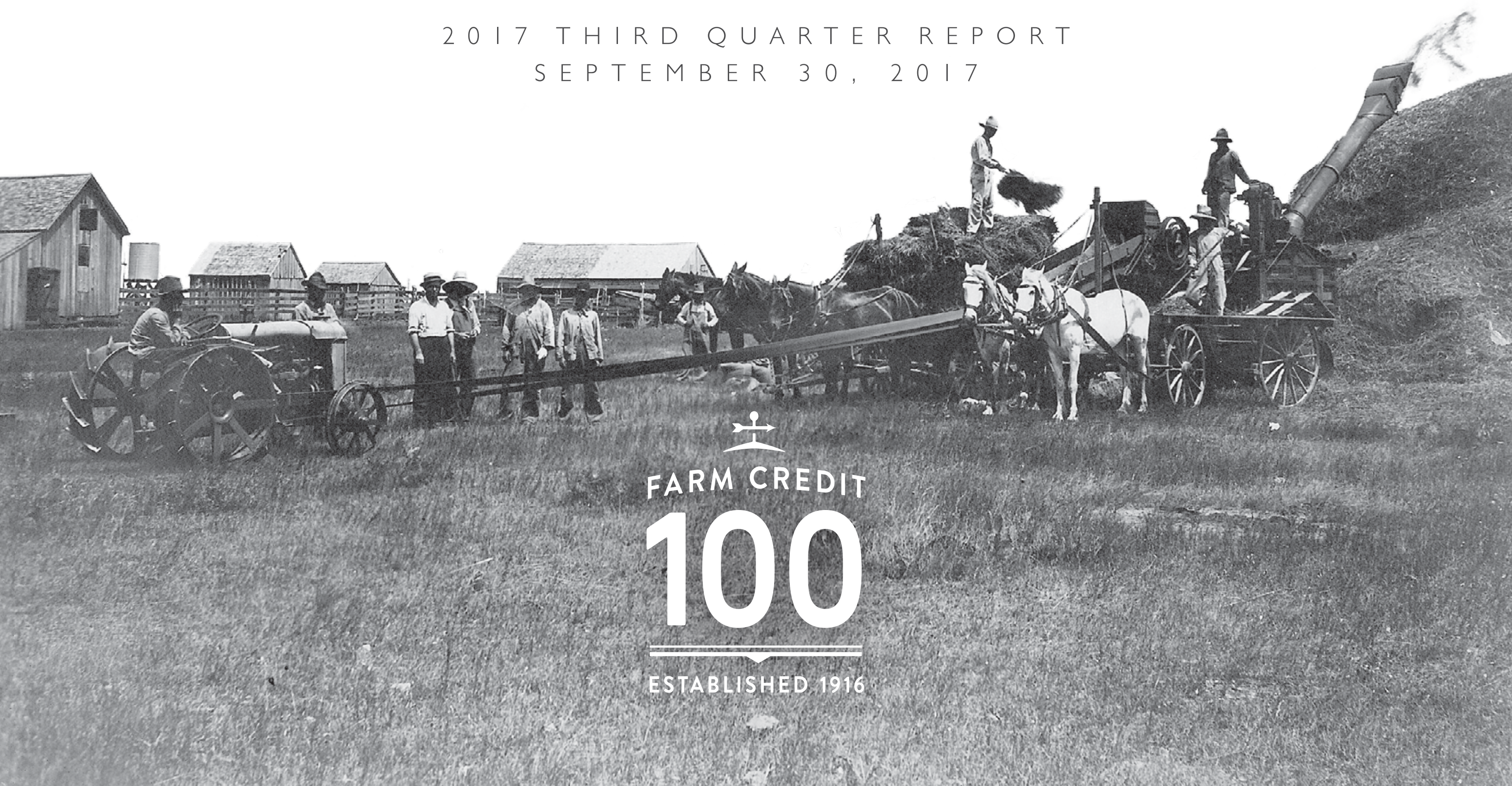
TEXAS FARM CREDIT DISTRICT

2017 THIRD QUARTER REPORT
SEPTEMBER 30, 2017



THIRD QUARTER 2017

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of the Farm Credit Bank of Texas (bank), its affiliated Federal Land Credit Association (FLCA) and affiliated Agricultural Credit Associations (ACAs) for the nine months ended September 30, 2017. The FLCA and ACAs are collectively referred to as associations, and the bank and its affiliated associations are collectively referred to as the district. These comments should be read in conjunction with the accompanying combined financial statements and footnotes, along with the 2016 Annual Report to stockholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

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 $115,467, an increase of $11,348, or 10.9 percent, over the same period of 2016. The increase in net income consisted primarily of a $13,372 increase in net interest income, and an $11,142 increase in noninterest income, offset by a $10,186 increase in noninterest expense and a $3,027 increase in provision for credit losses.

Net income for the nine months ended September 30, 2017, was $326,578, an increase of $12,399, or 4.0 percent, over the same period of 2016. The increase in net income consisted primarily of a $36,208 increase in net interest income, and an $8,439 increase in noninterest income, offset by a $20,384 increase in noninterest expense and a $12,278 increase in provision for credit losses.

Net Interest Income

Net interest income for the three months ended September 30, 2017, was $195,485, an increase of $13,372, or 7.3 percent, over the same period of 2016. The increase was primarily the result of a $1.25 billion increase in combined district average earning assets. The increase in earning assets was due to increases in association average loan volume, the bank's capital markets loan portfolio and the bank's investment portfolio. The net interest rate spread of 250 basis points remained the same compared to the same period of 2016, with a 32 basis point increase in the yield of average interest earning assets offset by a 32 basis point increase in the cost in average interest-bearing liabilities. The district associations had an increase in average loan volume of $1.00 billion compared to the same period of 2016, due mainly to improved general economic conditions. 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 $574,963, an increase of $36,208, or 6.7 percent, over the same period of 2016. The increase was primarily the result of a $1.43 billion increase in combined district average earning assets, partially offset by a 1 basis point decrease in the net interest rate spread to 253 basis points compared to the same period in 2016. The increase in earning assets was due to increases in association average loan volume, the bank's capital markets loan portfolio and the bank's investment portfolio. The district associations had an increase in average loan volume of $1.01 billion compared to the same period of 2016, due mainly to improved general economic conditions. 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 district's provision for credit losses on loans, standby letters of credit and unfunded commitments for the three months ended September 30, 2017, totaled $6,361, an increase of $3,027 from the $3,334 provision for the same period of 2016.

The provision for losses on loans, standby letters of credit and unfunded commitments for the nine months ended September 30, 2017, was $22,442, an increase of $12,278 from the $10,164 provision for the same period of 2016.

Included in the nine months ended September 30, 2017, a $14.0 million provision for loan losses was recorded by one association, with assets totaling $1.8 billion, related to its investigation of accounting irregularities within the association's loan portfolio. (See Note 1 to the accompanying combined financial statements for additional information.)

Noninterest Income

Noninterest income for the three months ended September 30, 2017, was $19,129, an increase of $7,986, or 71.7 percent, from the same period of 2016. The increase was due primarily to a $4,070 increase in fees for loan-related services and a $3,624 increase on a gain of a sale of a loan in 2017 for the bank.

Noninterest income for the nine months ended September 30, 2017, was $45,166, an increase of $5,283, or 13.2 percent, from the same period of 2016. The increase was due primarily to a $4,248 increase in fees for loan-related services, a $3,748 increase in other income, which includes a $1,795 increase in unrealized gains recognized on a Rural Business Investment Company (RBIC), and a $1,258 increase in other gains and losses mainly attributed to the associations, offset by a $2,534 decrease in patronage income for the bank.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2017, was $92,805, an increase of $7,030, or 8.2 percent, over the same period of 2016. The increase is primarily due to a $9,573 increase in other operating expenses primarily due to an increase in professional and contract services of $8,640, offset by a $1,725 increase in net gain on other property owned (OPO) and a $1,206 decrease in insurance fund premiums.

Noninterest expense for the nine months ended September 30, 2017, was $271,292, an increase of $17,228, or 6.8 percent, over the same period of 2016. The increase is primarily attributable to a $14,102 increase in other operating expenses primarily due to an increase in professional and contract services of $11,606 and an increase of travel expenses of $1,161, a $5,493 increase in salaries and benefits due to an increase in compensation and pension and retirement benefits, and a $1,395 increase in occupancy and equipment expense, offset with a $2,528 increase in net gain on OPO and a $1,234 decrease in insurance fund premiums.

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	**1.52%**	1.53%
Return on average members' equity	**10.16%**	10.22%
Net interest income as a percentage of average earning assets	**2.75%**	2.71%
Charge-offs, net of (recoveries), to average loans	**0.01%**	< (0.01)%
Operating expenses as a percentage of net interest income and noninterest income	**43.93%**	43.67%
Operating expenses as a percentage of average earning assets	**1.30%**	1.27%

Other Comprehensive Income

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

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

	Nine Months Ended September 30, **2017**	Nine Months Ended September 30, 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 pension and postretirement benefit plans		
Amortization of prior service credits	**(660)**	(695)
Amortization of net losses	**13,404**	13,231
Net change in pension and postretirement benefit plans	**12,744**	12,536
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	**$ 15,509**	$ 42,575

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2017, was $23.24 billion, an increase of $810.5 million, or 3.6 percent, from $22.43 billion at December 31, 2016. The increase in the loan portfolio during the first nine months of 2017 was due to an $852.6 million increase in the associations' loan portfolios offset by a $34.8 million decrease in the bank's capital market portfolio.

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

Loans classified under the Farm Credit Administration's (FCA's) Uniform Loan Classification System as "acceptable" or "special mention" as a percentage of total loans and accrued interest receivable were 98.4 percent at September 30, 2017, and 98.5 percent at December 31, 2016. Nonaccrual loans for the district were 0.5 percent of total loans at September 30, 2017 and 0.6 percent of total loans at December 31, 2016.

Total district high-risk asset volume decreased $23.2 million, or 11.4 percent, to $180.6 million at September 30, 2017.

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

		Increase (Decrease)		
	September 30, 2017	$	%	December 31, 2016
Nonaccrual loans	**$ 123.1**	$ (22.6)	(15.5) %	$ 145.7
Accruing formally restructured loans	**38.3**	6.0	18.6	32.3
Loans 90 days past due and still accruing interest	**3.8**	(2.6)	(40.6)	6.4
Total impaired loans	**165.2**	(19.2)	(10.4)	184.4
Other property owned	**15.4**	(4.0)	(20.6)	19.4
Total high-risk assets	**$ 180.6**	$ (23.2)	(11.4) %	$ 203.8

The $22.6 million decrease in nonaccrual loans from December 31, 2016, to September 30, 2017, is primarily the result of repayments of $76.0 million offset by $52.6 million in transfers to nonaccrual status. The decrease in other property owned (OPO) was primarily due to dispositions of $9.7 million at district associations offset by $5.6 million in additions to OPO at district associations. The increase in accrual TDRs is mainly due to the addition of four loans designated as TDRs due to an extension of terms.

At September 30, 2017, $64.7 million, or 52.6 percent, of the district's nonaccrual loans were considered current as to principal and interest. Continued satisfactory payment performance on these loans may indicate potential for a return to accrual status. At September 30, 2017, the district had $5.4 million in nonaccrual loans on which interest income is recognized upon cash receipts, compared to $7.9 million at December 31, 2016. Impaired loans, consisting of nonaccrual loans, accruing formally restructured loans and loans past due 90 days or more and still accruing interest, constituted 0.7 percent of total loans at September 30, 2017, and December 31, 2016.

The allowance for loan losses at September 30, 2017, totaled $102,084 and constituted 0.4 percent of total loans and was an increase of $20,347, or 24.9 percent, from the allowance for loan losses at December 31, 2016. The increase includes a $22.4 million provision and $2.9 million in recoveries, offset by $5.2 million in charge-offs.

Additional information about the allowance for loan losses is included in Note 3, “Loans and Reserves for Credit Losses.” The allowance for loan losses as a percentage of impaired loans was 61.8 percent as of September 30, 2017, as compared to 40.1 percent as of December 31, 2016. The nature of the security supporting many of the impaired loans (primarily first lien real estate) is considered in the determination of necessary allowances for loan losses. The district also had reserves for credit losses on letters of credit and unfunded commitments totaling $5.5 million at September 30, 2017.

Liquidity and Funding Sources

Cash and available-for-sale investment securities totaled $5.38 billion, or 18.5 percent, of total assets at September 30, 2017, compared to $5.09 billion, or 18.2 percent, at December 31, 2016, an increase of $295.0 million, or 5.8 percent. At September 30, 2017, the district’s cash balance was $49.0 million, a decrease of $158.3 million from the balance at 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 $26.2 million, compared to $158.6 million at December 31, 2016. The bank maintains levels of cash and other highly liquid assets to meet loan demand, maturing debt and other liquidity needs. At September 30, 2017, the bank had 208 days of liquidity to cover maturing debt obligations, as compared to 199 days at December 31, 2016. Interest-bearing liabilities, consisting of bonds and notes, increased by $1.01 billion, or 4.4 percent, from December 31, 2016, to September 30, 2017.

Investments

The district’s investments at September 30, 2017, included the bank’s available-for-sale portfolio with a fair value of $5.04 billion and the district associations’ held-to-maturity portfolio recorded at an amortized cost of $20.4 million. The available-for-sale investments included a liquidity portfolio and a portfolio of other investments. The bank’s available-for-sale liquidity portfolio consisted primarily of 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 available-for-sale portfolio of other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) held by the bank that had a fair value of $46.2 million. The district associations’ held-to-maturity portfolio consisted of Farmer Mac AMBS which had an amortized cost and fair value of $20.4 million.

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

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

	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 available-for-sale investments	**$ 5,071,420**	**$ 5,039,136**	$ 4,814,429	$ 4,778,040

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

Capital Resources

The district's combined capital at September 30, 2017, totaled $4.38 billion consisting of $600,000 of Class B noncumulative subordinated perpetual preferred stock related to the bank and $20,000 of fixed-to-floating rate perpetual cumulative preferred stock related to a district association, $65,900 of capital stock and participation certificates, $3.62 billion in retained earnings and $224,625 in additional paid-in capital, offset by $142,473 of accumulated other comprehensive loss. The district's capital reflected an increase of $285,597 or 7.0 percent, from December 31, 2016 to September 30, 2017, due to net income of $326,578, preferred stock issuance of $20,000, offset by allocated retained earnings retired of $36,785, patronage distributions of $10,847, preferred stock dividends of $30,188, other comprehensive income changes of $15,509, and the net of capital stock/participation certificates issued of $1,466.

During the first quarter of 2017 a district association issued $20 million shares of fixed-to-floating rate perpetual cumulative preferred stock with a par value of $1.00 per share. The preferred stock will have a fixed rate dividend of 5 percent for 10 years, payable semi-annually. After 10 years, the dividend rate becomes a floating rate of 5 percent above 6-month LIBOR. On or after five years, the association may, at its option, redeem all or part of the preferred stock. The district association recognized $136 in issuance costs as a reduction of retained earnings during the first quarter of 2017.

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

Key financial condition comparisons:

	September 30, 2017	December 31, 2016
Members' equity to assets	**15.07%**	14.66%
Total liabilities to members' equity	**5.64:1**	5.78:1
Allowance for loan losses to total loans	**0.44%**	0.36%

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

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

Larry R. Doyle
Chief Executive Officer

James F. Dodson
Chairman of the Board

Amie Pala
Chief Financial Officer

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

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

Larry R. Doyle	Amie Pala
Chief Executive Officer	Chief Financial Officer

November 9, 2017

Combined Balance Sheets

(Unaudited)

(dollars in thousands)	**September 30, 2017**	December 31, 2016
Assets		
Cash	**$ 48,960**	$ 207,229
Federal funds sold and overnight investments	**228,112**	22,901
Investment securities	**5,105,092**	4,857,068
Loans (includes $10,092 and $16,311 at fair value, held under fair value option)	**23,236,628**	22,426,117
Less allowance for loan losses	**102,084**	81,737
Net loans	**23,134,544**	22,344,380
Accrued interest receivable	**228,420**	182,012
Other property owned	**15,447**	19,354
Premises and equipment, net	**130,265**	122,645
Other assets	**211,355**	197,202
Total assets	**$ 29,102,195**	$ 27,952,791
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	**$ 24,251,672**	$ 23,240,663
Accrued interest payable	**67,002**	54,245
Patronage distributions payable	**38,482**	157,101
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**340,458**	381,798
Total liabilities	**24,717,677**	23,853,870
Commitments and contingencies (Note 4)		
Members' equity		
Preferred stock	**620,000**	600,000
Capital stock and participation certificates	**65,900**	64,434
Allocated retained earnings	**600,947**	631,647
Unallocated retained earnings	**3,015,519**	2,736,197
Additional paid-in-capital	**224,625**	224,625
Accumulated other comprehensive loss	**(142,473)**	(157,982)
Total members' equity	**4,384,518**	4,098,921
Total liabilities and members' equity	**$ 29,102,195**	$ 27,952,791

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended September 30, 2017	Quarter Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest Income				
Loans	**$ 269,065**	$ 237,242	**$ 775,355**	$ 700,079
Investment securities	**22,290**	18,574	**61,946**	52,361
Total interest income	**291,355**	255,816	**837,301**	752,440
Interest Expense				
Bonds, notes and subordinated debt	**77,504**	62,946	**214,028**	182,950
Notes payable and other	**18,366**	10,757	**48,310**	30,735
Total interest expense	**95,870**	73,703	**262,338**	213,685
Net interest income	**195,485**	182,113	**574,963**	538,755
Provision for credit losses	**6,361**	3,334	**22,442**	10,164
Net interest income after provision for credit losses	**189,124**	178,779	**552,521**	528,591
Noninterest Income				
Patronage income	**4,573**	4,582	**14,542**	17,076
Fees for loan-related services	**10,233**	6,163	**20,783**	16,535
Loss on loans held under fair value option	**(47)**	(92)	**(193)**	(14)
Other income, net	**4,370**	490	**10,034**	6,286
Total noninterest income	**19,129**	11,143	**45,166**	39,883
Noninterest Expense				
Salaries and employee benefits	**49,051**	49,261	**151,622**	146,129
Occupancy and equipment expense	**7,695**	7,097	**23,917**	22,522
Insurance Fund premiums	**8,027**	9,233	**23,554**	24,788
(Gain) loss on other property owned, net	**(553)**	1,172	**(1,136)**	1,392
Other operating expenses	**28,585**	19,012	**73,335**	59,233
Total noninterest expense	**92,805**	85,775	**271,292**	254,064
Income before provision for income taxes	**115,448**	104,147	**326,395**	314,410
(Benefit from) provision for income taxes	**(19)**	28	**(183)**	231
Net Income	**115,467**	104,119	**326,578**	314,179
Other comprehensive income (loss)				
Change in unrealized (loss) gain on investments	**(1,909)**	(11,688)	**4,315**	32,487
Change in pension and postretirement benefit plans	**4,235**	4,179	**12,744**	12,536
Change in cash flow derivative instruments	**(204)**	1,462	**(1,550)**	(2,448)
Total other comprehensive income (loss)	**2,122**	(6,047)	**15,509**	42,575
Comprehensive Income	**$ 117,589**	$ 98,072	**$ 342,087**	$ 356,754

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

Combined Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Additional Paid-in-Capital	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2015	$ 600,000	$ 62,456	$ 588,262	$ 2,610,227	$ 224,625	$ (156,944)	$ 3,928,626
Net income	-	-	-	314,179	-	-	314,179
Other comprehensive gain	-	-	-	-	-	42,575	42,575
Capital stock/participation certificates issued	-	7,383	-	-	-	-	7,383
Capital stock/participation certificates and allocated retained earnings retired	-	(5,937)	(36,783)	-	-	-	(42,720)
Preferred stock dividends	-	-	-	(30,188)	-	-	(30,188)
Patronage distributions							
Cash	-	-	-	(13,615)	-	-	(13,615)
Members' equity	-	-	975	(974)	-	-	1
Balance at September 30, 2016	$ 600,000	$ 63,902	$ 552,454	$ 2,879,629	$ 224,625	$ (114,369)	$ 4,206,241
Balance at December 31, 2016	$ 600,000	$ 64,434	$ 631,647	$ 2,736,197	$ 224,625	$ (157,982)	$ 4,098,921
Net income	-	-	-	326,578	-	-	326,578
Other comprehensive gain	-	-	-	-	-	15,509	15,509
Capital stock/participation certificates issued	-	7,491	-	-	-	-	7,491
Capital stock/participation certificates and allocated retained earnings retired	-	(6,025)	(36,785)	-	-	-	(42,810)
Preferred stock issued	20,000	-	-	-	-	-	20,000
Issuance costs on preferred stock	-	-	-	(136)	-	-	(136)
Preferred stock dividends	-	-	-	(30,188)	-	-	(30,188)
Patronage distributions							
Cash	-	-	-	(10,847)	-	-	(10,847)
Members' equity	-	-	6,085	(6,085)	-	-	-
Balance at September 30, 2017	**$ 620,000**	**$ 65,900**	**$ 600,947**	**$ 3,015,519**	**$ 224,625**	**$ (142,473)**	**$ 4,384,518**

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

Combined Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30,	
(dollars in thousands)	**2017**	2016
Operating activities		
Net income	**$ 326,578**	$314,179
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**22,442**	10,164
Carrying value adjustment on other property owned	**135**	303
Depreciation and amortization on premises and equipment	**12,214**	11,053
Accretion of net premium on loans	**4,543**	7,292
Amortization and accretion on debt instruments	**19,904**	21,950
Accretion of yield related to loans and notes payable acquired in merger	**(866)**	(1,432)
Accretion of net premium on investments	**4,039**	2,586
Gain on loans under fair value option	**193**	14
(Gain) loss from sales of other property owned	**(1,200)**	763
Gain on sale of loans	**(3,624)**	(3,603)
Gain on loan held for sale	**-**	(75)
(Gain) loss on other earning assets	**(1,498)**	297
Loss from sales of premises and equipment	**2,193**	1,972
Allocated equity patronage from System bank	**(14,588)**	(13,852)
Increase in accrued interest receivable	**(46,408)**	(40,057)
Decrease in other assets, net	**8,518**	5,722
Increase in accrued interest payable	**12,757**	1,792
Decrease in other liabilities, net	**(32,149)**	(19,329)
Net cash provided by operating activities	**313,183**	299,739
Investing activities		
Net (increase) decrease in federal funds sold	**(205,211)**	382
Investment securities		
Purchases	**(1,119,911)**	(1,258,632)
Proceeds from maturities, calls and prepayments	**872,164**	838,430
Increase in loans, net	**(840,892)**	(1,022,248)
Proceeds from sale of loans	**23,658**	76,460
Proceeds from sales of other property owned	**9,147**	5,655
Proceeds from sales of premises and equipment	**1,709**	2,737
Expenditures for premises and equipment	**(23,736)**	(28,864)
Investment in other earning assets	**(6,987)**	(2,485)
Net cash used in investing activities	**(1,290,059)**	(1,388,565)
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)
Increase in guaranteed obligations to government entities	**3,209**	2,547
Decrease in advanced conditional payments	**(277)**	(1,383)
Preferred stock issued	**20,000**	-
Issuance costs in preferred stock	**(136)**	-
Repayments on capital lease obligation	**(321)**	(326)
Capital stock and participation certificates issued	**7,491**	7,383
Capital stock and participation certificates retired	**(6,025)**	(5,937)
Cash dividends on preferred stock	**(30,188)**	(30,187)
Cash patronage distributions paid	**(166,252)**	(153,533)
Net cash provided by financing activities	**818,607**	1,046,916
Net decrease in cash	**(158,269)**	(41,910)
Cash at beginning of year	**207,229**	550,852
Cash at end of quarter	**$ 48,960**	$ 508,942
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 345**	$ 266
Loan assets transferred to other property owned	**4,557**	10,636
Net increase in unrealized gains on investment securities	**4,315**	32,487
Cash dividends or patronage distributions payable	**38,482**	38,742
Preferred stock dividend payable	**20,063**	20,063
Capital lease obligation	**764**	1,199
Supplemental information		
Cash paid for:		
Interest	**$ 249,581**	$ 211,893
Income taxes	**-**	2

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

Notes to Combined Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The district revised its cash flow statement for the nine months ended September 30, 2016 between the net cash provided by operating activities, net cash provided by investing activities, and net cash provided by financing activities to correctly present the accretion on net premium on loans, the issuance of new debt concession costs, and the amortization and accretion on debt instruments. The revision resulted in an increase to net cash provided by operating activities of $8.5 million, an increase in net cash provided by investing activities of $1.0 million, and a decrease in net cash provided by financing activities of $9.6 million for the nine months ended September 30, 2016.

The district 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 $148,782 on the 2016 Annual Report and has been revised to $24,099 for December 31, 2016 disclosures.

During the second quarter of 2017, one association, which had assets totaling $1.8 billion as of September 30, 2017, noted accounting irregularities on several loans within the association's loan portfolio. An in-depth investigation is currently being conducted by the association regarding the accounting irregularities. The district's combined financial statements for the nine months ended September 30, 2017 include a provision for loan losses of $14.0 million, which represents an estimate based on information known to date; however, upon completion of the investigation, the losses could increase or decrease.

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

In 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 and associations are evaluating the impact of adoption on their financial condition and 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 district'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 district's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

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

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

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

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

NOTE 2 — INVESTMENTS

Investments Available-for-Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The majority of the liquidity portfolio's mortgage-backed securities were federal agency-guaranteed collateralized mortgage-backed securities, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities available-for-sale, at September 30, 2017, and December 31, 2016, is as follows:

Investments in the bank's 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-guaranteed 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 bank's 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 bank's available-for-sale liquidity portfolio at December 31, 2016:

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

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

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

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

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

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

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 4,263	$ 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 the bank's available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time, for the securities that have been in a continuous unrealized loss position at 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 district evaluates investment securities for other-than-temporary impairment (OTTI) on a quarterly basis. Impairment is considered to be other than temporary if an entity (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its cost or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell).

In the event of an investment being designated OTTI, to measure the amount related to credit loss in the determination of OTTI, the bank utilizes a third-party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan-level data. Loan-level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan-level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses. For the nine months ended September 30, 2017, the district did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at September 30, 2017 and December 31, 2016.

Held-to-Maturity Investments

The district's held-to-maturity investments consist of Farmer Mac guaranteed agricultural mortgage-backed securities and are held by district associations. A summary of the amortized cost and fair value of held-to-maturity investment securities at September 30, 2017, is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 19,795	$ 80	$ (158)	$ 19,717	4.85%

The following table summarizes the contractual maturity, fair value, amortized cost and weighted average yield of the district's held-to-maturity investments at September 30, 2017:

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 13,079	$ 6,638	$ 19,717
Total amortized cost	**$ 13,044**	**$ 6,751**	**$ 19,795**
Weighted average yield	**5.26%**	**4.34%**	**4.85%**

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

A summary of the district's loans are as follows:

	September 30, 2017	December 31, 2016
Real estate mortgage	**$ 14,115,192**	$ 13,462,730
Production and intermediate term	**2,946,028**	2,736,456
Agribusiness		
Loans to cooperatives	**414,104**	390,798
Processing and marketing	**3,232,309**	3,146,124
Farm-related business	**189,886**	258,477
Communication	**485,512**	465,257
Energy (rural utilities)	**1,326,312**	1,433,870
Water and waste disposal	**128,220**	141,587
Rural residential real estate	**230,594**	216,398
Lease receivables	**17,334**	6,169
Loans to other financing institutions	**35,625**	42,078
Mission-related	**115,512**	126,173
	$ 23,236,628	$ 22,426,117

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank seeks the purchase of participations and syndications originated outside of the district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or sub-participated to the associations or to other System entities. The bank and associations purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration (FCA) regulations.

The following table presents information regarding the district's balances of participations purchased and sold, excluding syndications, at September 30, 2017:

	Other Farm Credit Institutions (Outside of the Texas District)		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 158,546	$ 339,140	$ 300,113	$ 5,670	$ 458,659	$ 344,810
Production and intermediate term	568,697	668,219	13,865	59,337	582,562	727,556
Agribusiness	1,934,674	47,176	4,631	3,042	1,939,305	50,218
Communication	486,245	-	-	-	486,245	-
Energy (rural utilities)	1,326,753	-	-	-	1,326,753	-
Water and waste disposal	128,574	-	-	-	128,574	-
Lease receivables	17,088	-	-	-	17,088	-
Mission related	4,704	-	4,191	-	8,895	-
Loans to other financing institutions	-	8,814	-	-	-	8,814
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 4,625,281**	**$ 4,913,349**	**$ 322,800**	**$ 68,049**	**$ 4,948,081**	**$ 4,981,398**

The bank and associations are authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. At September 30, 2017, ACPs netted against borrowers' related loan balances totaled $207,729 and ACPs included in other liabilities totaled $16,283, compared to $177,675 and $16,560, respectively, at December 31, 2016.

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $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	**$ 82,000**	$ 91,651
Production and intermediate term	**31,106**	42,225
Agribusiness	**3,530**	4,283
Rural residential real estate	**1,928**	2,103
Lease receivables	**81**	91
Mission-related	**4,416**	5,355
Total nonaccrual loans	**123,061**	145,708
Accruing restructured loans:		
Real estate mortgage	**26,223**	24,569
Production and intermediate term	**6,236**	1,816
Rural residential real estate	**162**	169
Mission-related	**5,731**	5,794
Total accruing restructured loans	**38,352**	32,348
Accruing loans 90 days or more past due:		
Real estate mortgage	**3,632**	3,014
Production and intermediate term	**121**	3,416
Total accruing loans 90 days or more past due	**3,753**	6,430
Total nonperforming loans	**165,166**	184,486
Other property owned	**15,447**	19,354
Total nonperforming assets	**$ 180,613**	$ 203,840

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

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

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

	September 30, 2017		December 31, 2016	
Real estate mortgage:				
Acceptable	**96.4**	**%**	97.2	%
OAEM	**2.1**		1.5	
Substandard/Doubtful	**1.5**		1.3	
	100.0	**%**	100.0	%
Production and intermediate term:				
Acceptable	**91.3**	**%**	93.0	%
OAEM	**5.0**		3.1	
Substandard/Doubtful	**3.7**		3.9	
	100.0	**%**	100.0	%
Agribusiness:				
Acceptable	**98.8**	**%**	98.6	%
OAEM	**0.4**		0.5	
Substandard/Doubtful	**0.8**		0.9	
	100.0	**%**	100.0	%
Energy and water/waste disposal:				
Acceptable	**93.7**	**%**	93.9	%
OAEM	**5.2**		6.1	
Substandard/Doubtful	**1.1**		-	
	100.0	**%**	100.0	%
Communication:				
Acceptable	**100.0**	**%**	99.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		1.0	
	100.0	**%**	100.0	%
Rural residential real estate:				
Acceptable	**97.9**	**%**	97.8	%
OAEM	**0.8**		0.8	
Substandard/Doubtful	**1.3**		1.4	
	100.0	**%**	100.0	%
Lease receivables:				
Acceptable	**99.3**	**%**	97.2	%
OAEM	**0.2**		1.3	
Substandard/Doubtful	**0.5**		1.5	
	100.0	**%**	100.0	%
Loans to other financing institutions:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Mission-related:				
Acceptable	**96.2**	**%**	95.8	%
OAEM	**-**		-	
Substandard/Doubtful	**3.8**		4.2	
	100.0	**%**	100.0	%
Total loans:				
Acceptable	**96.1**	**%**	96.7	%
OAEM	**2.3**		1.8	
Substandard/Doubtful	**1.6**		1.5	
	100.0	**%**	100.0	%

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

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	**$ 71,176**	**$ 32,023**	**$ 103,199**	**$14,162,321**	**$14,265,520**	**$ 3,632**
Production and intermediate term	**26,851**	**11,509**	**38,360**	**2,948,345**	**2,986,705**	**121**
Agribusiness	**2,852**	**-**	**2,852**	**3,850,944**	**3,853,796**	**-**
Communication	**-**	**-**	**-**	**486,004**	**486,004**	**-**
Energy and water/waste disposal	**-**	**-**	**-**	**1,463,224**	**1,463,224**	**-**
Rural residential real estate	**1,752**	**906**	**2,658**	**228,694**	**231,352**	**-**
Lease receivables	**-**	**81**	**81**	**17,397**	**17,478**	**-**
Loans to other financing institutions	**-**	**-**	**-**	**35,695**	**35,695**	**-**
Mission-related	**-**	**4,416**	**4,416**	**111,985**	**116,401**	**-**
Total	**$ 102,631**	**$ 48,935**	**$ 151,566**	**$23,304,609**	**$23,456,175**	**$ 3,753**

December 31, 2016:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 47,594	$ 30,084	$ 77,678	$ 13,506,745	$ 13,584,423	$ 3,014
Production and intermediate term	36,716	13,119	49,835	2,716,403	2,766,238	3,416
Agribusiness	5,078	-	5,078	3,803,833	3,808,911	-
Communication	-	-	-	465,502	465,502	-
Energy and water/waste disposal	14,590	-	14,590	1,568,854	1,583,444	-
Rural residential real estate	1,495	1,028	2,523	214,521	217,044	-
Lease receivables	-	-	-	6,248	6,248	-
Loans to other financing institutions	-	-	-	42,143	42,143	-
Mission-related	491	-	491	126,539	127,030	-
Total	$ 105,964	$ 44,231	$ 150,195	$ 22,450,788	$ 22,600,983	$ 6,430

Additional impaired loan information is as follows:

	At September 30, 2017			At December 31, 2016		
Impaired loans with a related allowance for loan losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Real estate mortgage	**$ 5,976**	**$ 6,036**	**$ 925**	$ 7,475	$ 7,646	$ 1,032
Production and intermediate term	**9,338**	**12,337**	**3,154**	15,534	16,139	3,959
Processing and marketing	**2,806**	**2,806**	**368**	2,868	2,868	368
Farm-related business	**413**	**4,337**	**111**	812	4,736	111
Rural residential real estate	**576**	**576**	**71**	125	129	22
Mission-related	**432**	**432**	**194**	2,484	2,484	190
Total	**$ 19,541**	**$ 26,524**	**$ 4,823**	$ 29,298	$ 34,002	$ 5,682
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	**$ 105,879**	**$ 109,320**	**$ -**	$ 111,759	$ 117,599	$ -
Production and intermediate term	**28,125**	**39,148**	**-**	31,923	45,813	-
Processing and marketing	**311**	**10,823**	**-**	603	21,065	-
Farm-related business	**-**	**106**	**-**	-	147	-
Energy and water/waste disposal	**-**	**7,623**	**-**	-	9,043	-
Rural residential real estate	**1,514**	**1,795**	**-**	2,148	2,290	-
Lease receivables	**81**	**81**	**-**	91	92	-
Mission-related	**9,715**	**9,715**	**-**	8,664	8,664	-
Total	**$ 145,625**	**$ 178,611**	**$ -**	$ 155,188	$ 204,713	$ -
Total impaired loans:						
Real estate mortgage	**$ 111,855**	**$ 115,356**	**$ 925**	$ 119,234	$ 125,245	$ 1,032
Production and intermediate term	**37,463**	**51,485**	**3,154**	47,457	61,952	3,959
Processing and marketing	**3,117**	**13,629**	**368**	3,471	23,933	368
Farm-related business	**413**	**4,443**	**111**	812	4,883	111
Energy and water/waste disposal	**-**	**7,623**	**-**	-	9,043	-
Rural residential real estate	**2,090**	**2,371**	**71**	2,273	2,419	22
Lease receivables	**81**	**81**	**-**	91	92	-
Mission-related	**10,147**	**10,147**	**194**	11,148	11,148	190
Total	**$ 165,166**	**$ 205,135**	**$ 4,823**	$ 184,486	$ 238,715	$ 5,682

	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 loan 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
Real estate mortgage	$ 5,995	$ 59	$ 10,216	$ 49	$ 8,246	$ 166	$ 10,720	$ 218
Production and intermediate term	13,285	18	15,896	44	11,994	42	11,842	347
Processing and marketing	2,814	109	743	1	2,834	235	258	13
Farm-related business	470	-	824	-	653	-	847	-
Mission-related	434	44	2,489	48	1,778	151	2,515	164
Rural residential real estate	547	2	32	-	242	4	180	4
Total	$ 23,545	$ 232	$ 30,200	$ 142	$ 25,747	$ 598	$ 26,362	$ 746
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	$ 105,532	$ 3,294	$ 123,057	$ 965	$ 108,522	$ 8,311	$ 115,618	$ 4,130
Production and intermediate term	24,044	432	31,725	331	28,155	958	28,742	1,284
Loans to cooperatives	-	8	-	-	510	29	-	-
Processing and marketing	561	-	906	-	589	-	907	-
Farm-related business	-	25	-	5	-	38	1	8
Energy and water/waste disposal	-	-	-	-	-	-	-	4
Rural residential real estate	1,546	6	2,290	7	1,942	17	1,649	23
Lease receivables	81	3	7	-	85	11	11	-
Mission-related	10,192	107	8,675	54	9,099	219	9,026	180
Total	$ 141,956	$ 3,875	$ 166,660	$ 1,362	$ 148,902	$ 9,583	$ 155,954	$ 5,629
Total impaired loans:								
Real estate mortgage	$ 111,527	$ 3,353	$ 133,273	$ 1,014	$ 116,768	$ 8,477	$ 126,338	$ 4,348
Production and intermediate term	37,329	450	47,621	375	40,149	1,000	40,584	1,631
Loans to cooperatives	-	8	-	-	510	29	-	-
Processing and marketing	3,375	109	1,649	1	3,423	235	1,165	13
Farm-related business	470	25	824	5	653	38	848	8
Energy and water/waste disposal	-	-	-	-	-	-	-	4
Rural residential real estate	2,093	8	2,322	7	2,184	21	1,829	27
Lease receivables	81	3	7	-	85	11	11	-
Mission-related	10,626	151	11,164	102	10,877	370	11,541	344
Total	$ 165,501	$ 4,107	$ 196,860	$ 1,504	$ 174,649	$ 10,181	$ 182,316	$ 6,375

At September 30, 2017, impaired loans of $19.5 million had a related specific allowance of $4.8 million, while the remaining $145.6 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 $165.5 million. The district recognized interest income of $4.1 million 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 $174.6 million. The district recognized interest income of $10.2 million 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	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses											
Balance at June 30, 2017	$ 53,700	$ 24,520	$ 11,274	$ 887	$ 7,033	$ 540	$ -	$ 22	$ -	$ 204	$ 98,180
Charge-offs	(10)	(3,219)	-	-	-	(26)	-	-	-	-	(3,255)
Recoveries	256	52	166	-	-	9	-	-	-	13	496
Provision for credit losses (loan loss reversal)	3,321	4,236	(864)	(56)	(224)	(52)	-	4	-	(4)	6,361
Other*	(145)	594	(146)	5	1	2	-	-	-	(9)	302
Balance at September 30, 2017	$ 57,122	$ 26,183	$ 10,430	$ 836	$ 6,810	$ 473	$ -	$ 26	$ -	$ 204	$ 102,084
Balance at December 31, 2016	$ 35,559	$ 25,341	$ 13,036	$ 1,393	$ 5,686	$ 479	$ -	$ 42	$ -	$ 201	$ 81,737
Charge-offs	(193)	(4,961)	-	-	-	(32)	-	-	-	-	(5,186)
Recoveries	745	253	458	-	1,420	11	-	-	-	13	2,900
Provision for credit losses (loan loss reversal)	19,986	4,826	(1,731)	(220)	(361)	(62)	-	5	-	(1)	22,442
Other *	1,025	724	(1,333)	(337)	65	77	-	(21)	-	(9)	191
Balance at September 30, 2017	$ 57,122	$ 26,183	$ 10,430	$ 836	$ 6,810	$ 473	$ -	$ 26	$ -	$ 204	$ 102,084
Individually evaluated for impairment	$ 1,274	$ 3,355	$ 565	$ -	$ -	$ 93	$ -	$ -	$ -	$ 194	$ 5,481
Collectively evaluated for impairment	55,848	22,828	9,865	836	6,810	380	-	26	-	10	96,603
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2017	$ 57,122	$ 26,183	$ 10,430	$ 836	$ 6,810	$ 473	$ -	$ 26	$ -	$ 204	$ 102,084
Balance at June 30, 2016	$ 37,807	$ 20,385	$ 10,856	$ 1,051	$ 5,665	$ 635	$ -	$ 45	$ -	$ 230	$ 76,674
Charge-offs	(14)	(1,068)	-	-	-	(4)	-	-	-	-	(1,086)
Recoveries	424	66	134	1,764	-	1	-	-	-	-	2,389
Provision for credit losses (loan loss reversal)	(1,519)	5,481	989	(1,488)	(26)	(78)	-	(1)	-	(24)	3,334
Other*	(126)	(341)	(305)	(1)	(8)	1	-	-	-	-	(780)
Balance at September 30, 2016	$ 36,572	$ 24,523	$ 11,674	$ 1,326	$ 5,631	$ 555	$ -	$ 44	$ -	$ 206	$ 80,531
Balance at December 31, 2015	$ 39,195	$ 17,461	$ 8,262	$ 1,087	$ 3,442	$ 620	$ 3	$ 43	$ -	$ 237	70,350
Charge-offs	(1,208)	(1,872)	(73)	-	-	(4)	-	-	-	-	(3,157)
Recoveries	1,409	279	1,292	1,832	-	6	-	-	-	-	4,818
Provision for credit losses (loan loss reversal)	(2,723)	9,862	2,568	(1,586)	2,146	(70)	(3)	1	-	(31)	10,164
Other*	(101)	(1,207)	(375)	(7)	43	3	-	-	-	-	(1,644)
Balance at September 30, 2016	$ 36,572	$ 24,523	$ 11,674	$ 1,326	$ 5,631	$ 555	$ -	$ 44	$ -	$ 206	$ 80,531
Individually evaluated for impairment	$ 1,810	$ 3,244	$ 226	$ -	$ -	$ 22	$ -	$ -	$ -	$ 186	$ 5,488
Collectively evaluated for impairment	34,762	21,279	11,448	1,326	5,631	533	-	44	-	20	75,043
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2016	$ 36,572	$ 24,523	$ 11,674	$ 1,326	$ 5,631	$ 555	$ -	$ 44	$ -	$ 206	$ 80,531
Recorded Investments in Loans Outstanding:											
Ending balance at September 30, 2017	$14,265,520	$ 2,986,705	$ 3,853,796	$ 486,004	$ 1,463,224	$ 231,352	$ -	$ 17,478	$ 35,695	$ 116,401	$23,456,175
Individually evaluated for impairment	$ 114,656	$ 37,387	$ 3,530	$ -	$ -	$ 2,136	$ 81	$ -	$ -	$ 10,070	$ 167,860
Collectively evaluated for impairment	$14,150,864	$ 2,949,318	$ 3,850,266	$ 486,004	$ 1,463,224	$ 229,216	$ (81)	$ 17,478	$ 35,695	$ 106,331	$23,288,315
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance at September 30, 2016	$13,175,457	$ 2,678,570	$ 3,890,302	$ 436,823	$ 1,621,127	$ 337,309	$ -	$ 6,577	$ 44,146	$ 130,849	$22,321,160
Individually evaluated for impairment	$ 134,898	$ 49,106	$ 2,463	$ -	$ -	$ 2,595	$ -	$ 4	$ -	$ 11,205	$ 200,271
Collectively evaluated for impairment	$13,039,999	$ 2,629,436	$ 3,887,839	$ 436,823	$ 1,621,127	$ 334,714	$ -	$ 6,573	$ 44,146	$ 119,644	$22,120,301
Loans acquired with deteriorated credit quality	$ 560	$ 28	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 588

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

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

As of September 30, 2017, the total recorded investment of TDR loans was $50,509, including $12,157 classified as nonaccrual and $38,352 classified as accrual, with specific allowance for loan losses of $895. Additional commitments to lend to borrowers whose loan terms have been modified in TDRs were $358 at September 30, 2017, and $306 at December 31, 2016.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	September 30, 2017	December 31, 2016	**September 30, 2017**	December 31, 2016
Real estate mortgage	**$ 31,902**	$ 31,846	**$ 5,679**	$ 7,277
Production and intermediate term	**7,307**	2,906	**1,071**	1,090
Agribusiness	**691**	1,373	**691**	1,373
Rural residential real estate	**462**	498	**300**	329
Mission-related	**10,147**	11,149	**4,416**	5,355
Total	**$ 50,509**	$ 47,772	**$ 12,157**	$ 15,424

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three and nine months ended September 30, 2017, and September 30, 2016. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring.

For the three months ended September 30, 2017:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 603	$ 606
Production and intermediate term	2,519	2,366
Total	$ 3,122	$ 2,972

For the three months ended September 30, 2016:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,447	$ 1,466
Production and intermediate term	346	348
Mission-related	3,515	3,481
Total	$ 5,308	$ 5,295

For the nine months ended September 30, 2017:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 3,426	$ 3,368
Production and intermediate term	8,169	7,589
Total	$ 11,595	$ 10,957

For the nine months ended September 30, 2016:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 2,037	$ 2,043
Production and intermediate term	825	827
Mission-related	5,581	5,462
Total	$ 8,443	$ 8,332

The predominant form of concession granted for troubled debt restructuring includes extension of the term and delayed payments.

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

	Recorded Investment at September 30, 2017	Recorded Investment at September 30, 2016
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage	**$ -**	$ 146
Total	**$ -**	$ 146

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

NOTE 5 — FAIR VALUE MEASUREMENTS

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

Assets and liabilities recorded at fair value on a recurring basis at 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	**7,669**	7,669	-	-
Total assets	**$ 5,338,443**	$ 7,669	$ 5,255,887	$ 74,887
Liabilities:				
Derivative liabilities	**$ 404**	$ -	$ 404	$ -
Standby letters of credit	**929**	-	-	929
Total liabilities	**$ 1,333**	$ -	$ 404	$ 929

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	$ 971	$ 87,490
Net losses included in other comprehensive income	(196)	(98)	-	(294)
Purchases, issuances and settlements	28,922	(1,402)	(42)	27,562
Transfers out of Level 3	(40,800)	-	-	(40,800)
Balance at September 30, 2017	$ 28,726	$ 46,161	$ 929	$ 73,958

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	$ 711	$ 52,624
Net (losses) gains included in other comprehensive income	(520)	212	-	(308)
Purchases, issuances and settlements	70,046	(7,386)	218	62,442
Transfers out of Level 3	(40,800)	-	-	(40,800)
Balance at September 30, 2017	$ 28,726	$ 46,161	$ 929	$ 73,958

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 MSB) are included in Level 3 due to the fact that their valuation was based on Level 3 criteria (broker quotes). The liability for standby letters of credit 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 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	**$ 15,111**	$ -	$ -	$ 15,111	**$ (5,376)**
Other property owned	**17,164**	-	-	17,164	**1,136**
Total assets	**$ 32,275**	$ -	$ -	$ 32,275	**$ (4,240)**

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

	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	$ 22,901	$ -	$ 22,901	$ -
Investments available for sale:				
Agency-guaranteed debt	222,374	-	222,374	-
Corporate debt	202,403	-	202,403	-
U.S. Treasury securities	249,006	-	249,006	-
Mortgage-backed securities	3,973,578	-	3,973,578	-
Asset-backed securities	130,679	-	130,679	-
Mission-related and other available-for-sale investments	53,335	-	-	53,335
Loans valued under the fair value option	16,311	-	16,311	-
Derivative assets	8,074	-	8,074	-
Assets held in nonqualified benefit trusts	7,003	7,003	-	-
Total assets	$ 4,885,664	$ 7,003	$ 4,825,326	$ 53,335
Liabilities:				
Standby letters of credit	$ 711	$ -	$ -	$ 711
Total liabilities	$ 711	$ -	$ -	$ 711

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

	Assets: Agricultural Mortgage-Backed Securities	Liabilities: Standby Letters of Credit	Net
Balance at June 30, 2016	$ 59,674	$ 1,136	$ 58,538
Net gains included in other comprehensive income	(160)	-	(160)
Purchases, issuances and settlements	(3,880)	(285)	(3,595)
Balance at September 30, 2016	$ 55,634	$ 851	$ 54,783

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	$ 967	119,783
Net gains included in other comprehensive income	-	(94)	-	-	(94)
Purchases, issuances and settlements	-	(9,922)	(4,850)	(116)	(14,656)
Transfers out of Level 3	(50,250)	-	-	-	(50,250)
Balance at September 30, 2016	$ -	$ 55,634	$ -	$ 851	$ 54,783

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 nine months ended September 30, 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 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	$ 24,099	$ -	$ -	$ 24,099	$ (3,624)
Other property owned	21,504	-	-	21,504	(2,179)
Total assets	$ 45,603	$ -	$ -	$ 45,603	$ (5,803)

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

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	**$ 48,960**	$ 48,960	$ -	$ -	$ 48,960
Mission-related and other held-to-maturity investments	**19,795**	-	-	19,717	19,717
Net loans	**23,134,544**	-	-	23,046,741	23,046,741
Total assets	**$ 23,203,299**	$ 48,960	$ -	$ 23,066,458	$ 23,115,418
Liabilities:					
Systemwide debt securities and other notes	**$ 24,251,672**	$ -	$ -	$ 24,280,219	$ 24,280,219
	$ 24,251,672	$ -	$ -	$ 24,280,219	$ 24,280,219

December 31, 2016:

	Total Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Cash	$ 207,229	$ 207,229	$ -	$ -	$ 207,229
Mission-related and other held-to-maturity investments	25,693	-	-	25,652	25,652
Net loans	22,179,287	-	-	21,981,996	21,981,996
Total assets	$ 22,412,209	$ 207,229	$ -	$ 22,007,648	$ 22,214,877
Liabilities:					
Systemwide debt securities and other notes	$ 23,240,663	$ -	$ -	$ 23,234,907	$ 23,234,907
	$ 23,240,663	$ -	$ -	$ 23,234,907	$ 23,234,907

Valuation Techniques

As more fully discussed in Note 1, "Organization and Significant Accounting Policies," authoritative accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used by the bank and associations for assets and liabilities:

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

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

Assets Held in Nonqualified Benefits Trusts

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

Derivatives

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

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

Standby Letters of Credit

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

Loans

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.

For other notes, fair value is estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the current loan origination rates as well as 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.

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 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 to which the bank has credit exposure at September 30, 2017:

	Remaining Years to Maturity			Maturity		Exposure	
	One to Five Years	More Than Five Years	Total	Distribution Netting	Exposure	Collateral Held	Net of Collateral
Moody's Credit Rating							
A1	$ -	$ 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/OCL on (Effective Portion) at September 30,			Amount of (Loss) Gain Reclassified From AOCI/AOCL Into Income (Effective Portion) at September 30,	
	2017	2016		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

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

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

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

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

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior 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

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

The following table summarizes the components of net periodic benefit costs for the district's defined benefit pension plan and for other postretirement benefit costs for the nine months ended September 30:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2017	2016	**2017**	2016
Service Cost	**$ 3,034**	$ 3,519	**$ 965**	$ 961
Interest Cost	**12,224**	12,626	**2,303**	2,257
Expected return on plan assets	**(11,904)**	(13,234)	**-**	-
Amortization of prior service cost	**-**	-	**(660)**	(695)
Amortization of net loss	**13,289**	13,096	**106**	135
Net periodic benefit cost	**$ 16,643**	$ 16,007	**$ 2,714**	$ 2,658

As of September 30, 2017, contributions of $11.6 million have been made to the defined benefit pension plan. The district presently anticipates no additional contributions to fund its pension plan in 2017.

NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

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

	Total	Unrealized Gain (Loss) on Securities	Pension and Other Post-Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2017	$ (157,982)	$ (38,529)	$ (125,874)	$ 6,421
Change in unrealized gains on available-for-sale securities				
Change in unrealized gains on investment securities	4,315	4,315		
Net change in unrealized gains on securities	4,315	4,315		
Change in pension and postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(660)		(660)	
Amortization of net losses	13,404		13,404	
Net change in pension and postretirement benefit plans	12,744		12,744	
Change in cash flow derivative instruments				
Unrealized losses on cash flow derivative instruments	(2,386)			(2,386)
Reclassification of loss recognized in interest expense	836			836
Net change in cash flow derivative instruments	(1,550)			(1,550)
Total other comprehensive income (loss)	**15,509**	**4,315**	**12,744**	**(1,550)**
Balance, September 30, 2017	**$ (142,473)**	**$ (34,214)**	**$ (113,130)**	**$ 4,871**

The following table summarizes the changes in the balance of the components of AOCL for the nine months ended September 30, 2016:

	Total	Unrealized Gain (Loss) on Securities	Pension and Other Post-Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2016	$ (156,944)	$ (25,276)	$ (129,761)	$ (1,907)
Change in unrealized gains on available-for-sale securities				
Change in unrealized gains on investment securities	32,487	32,487		
Net change in unrealized gains on securities	32,487	32,487		
Change in pension and postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(695)		(695)	
Amortization of net losses	13,231		13,231	
Net change in pension and postretirement benefit plans	12,536		12,536	
Change in cash flow derivative instruments				
Unrealized losses on cash flow derivative instruments	(3,827)			(3,827)
Reclassification of loss recognized in interest expense	1,379			1,379
Net change in cash flow derivative instruments	(2,448)			(2,448)
Total other comprehensive income (loss)	42,575	32,487	12,536	(2,448)
Balance, September 30, 2016	$ (114,369)	$ 7,211	$ (117,225)	$ (4,355)

The following table summarizes reclassifications from AOCL to the Combined Statements of Comprehensive Income for the nine months ended September 30:

Component of AOCL	**Amount Reclassified from AOCL**		**Affected Line in the Statement of Comprehensive Income**
	2017	2016	
Amortization of net charges on pension and postretirement benefit plans	**$ 12,744**	$ 12,536	Salaries and employee benefits
Amortization on cash flow hedges	**836**	1,379	Interest expense
Total reclassifications	**$ 13,580**	$ 13,915	

NOTE 10 — INCOME TAXES

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

NOTE 11 — SUBSEQUENT EVENTS

The district has evaluated subsequent events through 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 12 — BANK-ONLY FINANCIAL DATA

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

Balance sheet data	**September 30, 2017**	December 31, 2016
Cash	**$ 40,763**	$ 195,479
Federal funds sold and overnight investments	**228,112**	22,901
Investment securities	**5,085,297**	4,831,375
Loans	**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
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
Preferred stock	**600,000**	600,000
Capital stock	**284,233**	284,038
Retained earnings	**881,280**	770,793
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

	Nine Months Ended September 30,	
Statement of income data	**2017**	2016
Interest income	**$ 401,965**	$ 357,605
Interest expense	**214,028**	182,950
Net interest income	**187,937**	174,655
(Negative provision) provision for credit losses	**(1,088)**	388
Net interest income after (negative provision) provision for credit losses	**189,025**	174,267
Noninterest income	**29,864**	28,075
Noninterest expense	**73,697**	69,947
Net income	**145,192**	132,395
Other comprehensive income:		
Change in fair value of investments	**4,315**	32,487
Change in postretirement benefit plans	**(139)**	(139)
Change in cash flow derivative instruments	**(1,550)**	(2,448)
Total other comprehensive income	**2,626**	29,900
Comprehensive income	**$ 147,818**	$ 162,295