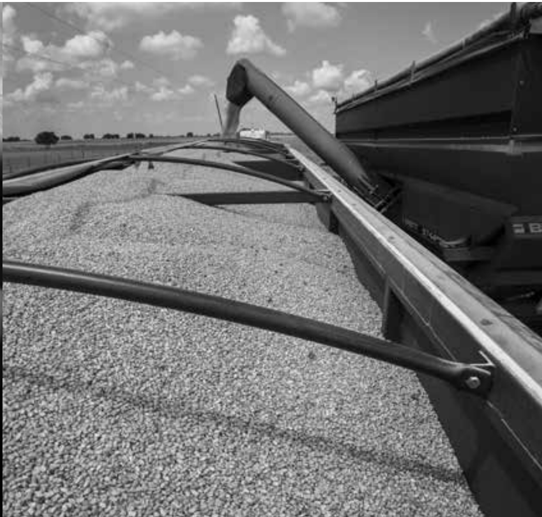
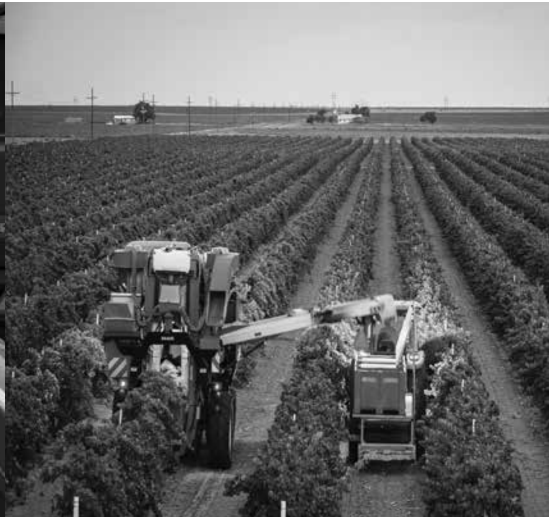
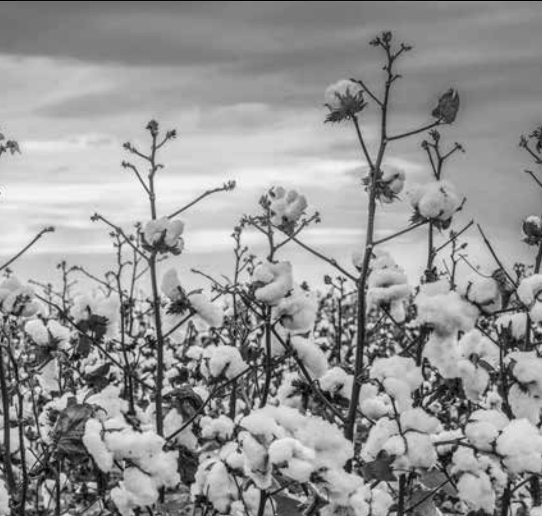

FARM CREDIT BANK OF TEXAS

2018 FIRST QUARTER REPORT

MARCH 31, 2018

FIRST QUARTER 2018

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

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the three months ended March 31, 2018. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2017 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

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

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

The bank and its affiliated associations collectively are referred to as the "district." At March 31, 2018, the bank provided financing to 14 district associations and certain OFIs.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2018, was $44,612, a decrease of $2,160, or 4.6 percent, over the same period of 2017. The decrease in net income consisted of a $5,801 increase in provision for credit losses, a $1,938 increase in noninterest expense and a $523 decrease in net interest income offset by a $6,102 increase in noninterest income.

Net Interest Income

Net interest income for the three months ended March 31, 2018, was $61,214, a decrease of $523, or 0.9 percent, from the three months ended March 31, 2017. The decrease in net interest income was attributable to a 13 basis point decrease in the net interest rate spread from 111 to 98 basis points, offset by a $1.5 billion increase in the bank's average earning assets. Effective interest rates on earning assets increased 31 basis points from the first quarter of 2017 to the first quarter of 2018, while the effective rates on interest-bearing liabilities increased 44 basis points. The increase in the bank's average earning assets included growth in its direct notes from associations, investment portfolio and capital markets loan portfolio.

Provision for Credit Losses

The bank's provision for credit losses for the three months ended March 31, 2018, totaled $4,857, an increase of $5,801 from the $944 negative provision for credit losses from the same period of 2017. The $4,857 provision for the three months ended March 31, 2018, included a $7,412 increase in required allowances related to loans individually evaluated for impairment offset by a $2,435 decrease in general reserves.

Noninterest Income

Noninterest income for the three months ended March 31, 2018, was $15,009, an increase of $6,102, or 68.5 percent, over the same period of 2017. The increase was due mainly to an $8,310 increase in income related to refund distributions from the Farm Credit System Insurance Corporation (FCSIC), offset by a $1,245 increase on losses on Rural Business Investment Companies (RBICs).

Noninterest Expense

Noninterest expense for the three months ended March 31, 2018, was $26,754, an increase of $1,938, or 7.8 percent, over the same period of 2017. The increase was attributable to a $1,411 increase in professional and contract service fees included in other operating expenses and an $874 increase in compensation, offset by a $1,140 decrease in insurance fund premiums. Insurance fund premiums decreased due to a rate decrease on outstanding debt from 15 basis points in 2017 to 9 basis points in 2018.

Key results of operations comparisons:

	Annualized for the Three Months Ended March 31, 2018	Annualized for the Three Months Ended March 31, 2017
Return on average assets	**0.77%**	0.88%
Return on average shareholders' equity	**10.57%**	11.51%
Net interest income as a percentage of average earning assets	**1.10%**	1.19%
(Recoveries), net of charge-offs to average loans	**< (0.01)%**	< (0.01)%
Operating expenses as a percentage of net interest income and noninterest income	**35.10%**	35.13%
Operating expenses as a percentage of average earning assets	**0.48%**	0.48%

Other Comprehensive (Loss) Income

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

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

	Three Months Ended March 31,	
	2018	2017
Change in unrealized losses on available-for-sale securities		
Net increase in unrealized losses on investment securities	**$ (29,374)**	$ (1,511)
Net change in unrealized losses on securities	**(29,374)**	(1,511)
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(12)**	(47)
Net change in postretirement benefit plans	**(12)**	(47)
Change in cash flow derivative instruments		
Unrealized gain on cash flow derivative instruments	**5,072**	180
Reclassification of loss recognized in interest expense	**2**	72
Net change in cash flow derivative instruments	**5,074**	252
Other comprehensive loss	**$ (24,312)**	$ (1,306)

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2018, was $17.37 billion, an increase of $288.7 million, or 1.7 percent, compared to $17.09 billion at December 31, 2017. The increase in the loan portfolio is attributable to growth in the bank's capital markets loan 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.

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. There were no CPP loan purchases for the three months ended March 31, 2018. CPP loans held at March 31, 2018, totaled $32,459 and were included in "Loans" on the balance sheets. The balance of the AMBS CPP was $41,151 at March 31, 2018, and is included in "Investment securities" on the balance sheets.

The bank may also purchase loans from district associations in Non-Capitalized Participation Pool (NCPP) transactions. The loans purchased in these transactions represent up to 90.0 percent of the outstanding balances, all of which had credit quality ratings of 8 or better (acceptable classification) and are included in the capital markets' portfolio. As a condition of these transactions, the bank redeems common stock in the amount of 2.0 percent of the par value of the loans purchased. NCPP purchases result in pay downs on the associations' direct notes at the time of purchase. On February 15, 2018, the bank purchased $98.7 million in loan participations from a district association in NCPP transactions

which resulted in a net stock retirement of $2.2 million. The NCPP loans have been classified as acceptable as of March 31, 2018, and the balance was $98.1 million at March 31, 2018.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 99.9 percent of total loans and accrued interest at March 31, 2018, and 99.7 percent at December 31, 2017.

During the second quarter of 2017, the bank downgraded the direct loan to one of our affiliated associations to the special mention credit quality classification. As of March 31, 2018, the direct note totaled $880.7 million. The bank's loans to our affiliated associations are collateralized by substantially all of the association assets, and the earnings, capital and loan loss reserves of the association provide a buffer against losses in their retail portfolio. While the downgrade reflects control weaknesses at the affiliated association, the bank has not made any provision for loan loss or recorded any allowance for credit loss related to our direct note to that affiliated association because of the collateralization of the direct loan and other mitigating factors.

The table below summarizes the balances of the bank's high-risk assets at March 31, 2018, compared to the balances at December 31, 2017:

		Increase		
	March 31, 2018	$	%	December 31, 2017
Nonaccrual loans	**$ 21,993**	$ 18,600	548.19 %	$ 3,393
Accruing formally restructured loans	**2,646**	39	1.50	2,607
Total high-risk assets	**$ 24,639**	$ 18,639	310.65 %	$ 6,000

The increase in nonaccrual loans was primarily related to credit deterioration of two loans in the energy and agribusiness sectors that moved to nonaccrual during March 2018. At March 31, 2018, and December 31, 2017, the bank did not have any nonaccrual loans on which cash payments are recognized as interest income and did not have any other property owned (OPO).

Impaired loans, consisting of nonaccrual loans and accruing formally restructured loans, and loans 90 days past due and still accruing interest, constituted 0.1 percent of gross loans at March 31, 2018, and December 31, 2017.

At March 31, 2018, the bank had reserves for credit losses totaling $14,049, including an allowance for loan losses of $11,880 and a reserve for credit losses on unfunded commitments of $2,169 related to the bank's capital markets loan portfolio. The allowance for loan losses of $11,880 equated to 0.1 percent of total loans outstanding and 0.2 percent of capital market loans outstanding. The $2,169 reserve for losses on unfunded commitments predominantly included a general reserve for losses on unused loan commitments and for losses on letters of credit, representing management's estimate of probable credit losses related to unfunded commitments. Analysis indicates that an allowance on the association direct notes is not warranted, therefore the entire balance of the allowance and reserve for credit losses reflects reserves for risks identified in the bank's participation loans.

The allowance for loan losses as a percentage of impaired loans was 48.2 percent as of March 31, 2018, as compared to 127.3 percent as of December 31, 2017. The sufficiency of the collateral supporting many of the impaired loans (primarily first lien real estate) is considered in the determination of necessary allowances for loan losses.

Liquidity and Funding Sources

Cash and investment securities totaled $5.42 billion, or 23.5 percent, of total assets at March 31, 2018, compared to $5.45 billion, or 23.9 percent, at December 31, 2017, a decrease of $31,871, or 0.6 percent. At March 31, 2018, the bank's cash balance was $9,213, a $46,970 decrease from December 31, 2017. Starting in the second quarter of 2017, the bank reduced the cash balance and increased investments in federal funds sold in order to enhance liquidity management. Cash held at the Federal Reserve Bank at March 31, 2018, totaled $5,436, compared to $25,766 at December 31, 2017. Levels of cash and other highly liquid assets are maintained to meet loan demand, debt servicing and other liquidity needs. At March 31, 2018, the bank had 222 days of liquidity to cover maturing debt obligations. Interest-bearing liabilities, consisting of bonds and notes, increased by $307.8 million, or 1.5 percent, from December 31, 2017, to March 31, 2018.

Investments

The bank's investments are all considered available for sale, and include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio had a fair value of $5.19 billion at March 31, 2018, and consisted primarily of federal agency-guaranteed collateralized mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt, U.S. Treasury securities and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS includes Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments had a fair value of $41,151 at March 31, 2018 and consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), purchased from district associations. The Farmer Mac securities are backed by loans originated by the associations.

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

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

	March 31, 2018		December 31, 2017	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 192,725**	**$ 189,001**	$ 198,246	$ 195,248
Corporate debt	**261,446**	**260,854**	252,482	252,609
Federal agency collateralized mortgage-backed securities				
GNMA	**2,168,179**	**2,124,097**	2,012,484	1,984,662
FNMA and FHLMC	**2,272,949**	**2,238,019**	2,395,248	2,372,053
U.S. Treasury securities	**324,486**	**324,062**	249,860	249,207
Asset-backed securities	**56,441**	**56,353**	47,914	47,889
Total liquidity investments	**$ 5,276,226**	**$ 5,192,386**	$ 5,156,234	$ 5,101,668

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

	March 31, 2018		December 31, 2017	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 43,498**	**$ 41,151**	$ 45,564	$ 43,317

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

At March 31, 2018, the bank did not hold any investments that were ineligible for liquidity purposes by FCA regulations due to credit ratings by all NRSROs.

Capital Resources

At March 31, 2018, the bank's capital totaled $1,679,158, and consisted of $600,000 of Class B noncumulative subordinated perpetual preferred stock, $299,046 of capital stock, $856,326 in retained earnings and $76,214 in accumulated other comprehensive loss. The balance in capital reflected an increase of $11,274 from December 31, 2017, due primarily to net income of $44,612, offset by a $24,312 increase in other comprehensive losses, $5,062 in preferred stock dividends declared, $2,193 in capital stock retired and $1,771 in patronage distributions. The balance in accumulated other comprehensive loss of $76,214 resulted from unrealized losses on investments of $89,187 and $1,827 in accumulated amortization of other postretirement benefits, offset by $11,800 in unrealized gains on cash flow derivative instruments.

FCA regulations require the bank to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2018, the bank exceeded all regulatory capital requirements.

The following table reflects the bank's capital ratios as of:

	March 31, 2018	December 31, 2017	Total Regulatory Requirement
Common equity tier 1 ratio	**9.82%**	10.52%	7.00%
Tier 1 capital ratio	**15.77**	16.59	8.50
Total capital ratio	**15.86**	16.68	10.50
Permanent capital ratio	**15.78**	16.60	7.00
Tier 1 leverage ratio	**7.00**	7.33	5.00
UREE leverage ratio	**2.69**	3.08	1.50

OTHER

CONDITIONS IN THE DISTRICT

The district's non-farm economy remains strong. Increased oil prices have spurred additional activity in the Permian Basin of Texas and supported economic conditions in the largely rural areas of West Texas and southeastern New Mexico. According to the Federal Reserve Bank of Dallas, job growth in Texas will reach 3.4 percent in 2018, the highest rate in four years.

During 2017, beef production in the U.S. exceeded 26 billion pounds for the first time since 2011, and pork and chicken output both reached record highs. After earning relatively high returns in 2017, cattle feedlots have generally been operating at around breakeven through the first few months of 2018. The profitability of cattle ranchers is expected to decline marginally this year but should remain positive. Supported by continued increases in the size of the U.S. cattle herd, beef processors have fared well in recent quarters. Although the rate of expansion of the U.S. cattle herd slowed in 2017, beef production is expected to rise by about five percent this year. Absent a significant increase in export demand, the potential for cattle and beef prices to move higher during 2018 is likely to be limited. Commercial poultry producers have recently been earning net margins that are near the medium-term average. Producers in the U.S. are on high alert for potential avian influenza cases, as migratory birds travel northward across the country through early summer. Hog prices, which were relatively strong in the latter half of 2017, declined during the first quarter of 2018. The reduction in hog prices, which may lead to marginal losses for producers this year, was primarily due to instability in export markets and increased competition among processors. Prices for dairy products have trended lower during 2018, as seasonal factors and rising global production pressured markets. Feed prices remain at low to moderate levels, which has been supportive of profitability in many livestock-related industries despite lower revenues.

Worsening drought conditions across the Southwest, including throughout New Mexico and in much of Texas, have stressed pasture and row crop conditions. According to the U.S. Climate Prediction Center, dry weather is likely to continue in the affected areas through at least June 2018. If the drought intensifies, it could impact farmers' ability to plant spring crops in a timely fashion, reduce yield potential and cause premature liquidation of livestock. However, given the propensity for drought in the district, farmers in the region are adept at managing crop and livestock production with limited precipitation. Additionally, the U.S. Department of Agriculture estimates that there are over 4 million acres of irrigated farmland in Texas, which helps to mitigate the impact of reduced moisture on the state's agricultural sector.

In the district, planting season for most field crops is underway, with crop progress generally in line with the average pace observed during the most recent five years. According to the U.S. Department of Agriculture's Prospective Plantings Report, U.S. farmers are expected to increase farmland dedicated to cotton and wheat production in 2018, while decreasing cropland allocated to corn and soybeans. For the second consecutive year, cotton plantings are likely to increase significantly, as U.S. farmers look to take advantage of the crop's favorable pricing relative to alternatives and its yield potential in drier conditions. Texas cotton farmers are projected to plant about 7.3 million acres of cotton in 2018, the second-highest level observed since 1981. The district is a crucial driver of global cotton production, as it accounts for about two-thirds of all U.S. farmland dedicated to the crop. For the first time in U.S. history, farmers are expected to allocate more acreage to soybeans than corn in 2018. Increasing global demand for soybeans, which are used as a source of protein in many livestock feeds, is driving acreage higher. Stocks of most field crops remain historically high following several consecutive years of above average U.S. and global output. Barring a substantial yield-reducing event in one of the world's major growing regions, field crop prices are likely to be stable to declining in 2018. Farmers in the district continue to utilize risk management tools, such as Federally-sponsored crop insurance programs and forward, futures and options contracts, to mitigate risk and enhance margins.

According to the U.S. Department of Agriculture, the U.S. has had surpluses in agricultural trade for more than 60 years. Because about 20 percent of all U.S. agricultural production is exported, the prices of certain agricultural commodities might be susceptible to declines if export demand falls. Due to the geography of agricultural production and several other factors, the industry might also be selectively targeted by other countries during trade disputes. Commodities that are reliant on export markets for a relatively large share of total demand, such as tree nuts, cotton, soybeans, pork and dairy, may be particularly vulnerable. It should be noted, however, that exports have been strong year-to-date for many agricultural commodities, and the U.S. Department of Agriculture forecasted in February that the value of U.S. agricultural exports would be essentially unchanged in the 2018 fiscal year. Additionally, many of the district's borrowers employ hedging programs to protect against price volatility and secure profitability.

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 6, 2018, 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 November 17, 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 "a1" BCA incorporates its solid capital levels, adequate risk-adjusted profitability and liquidity, as well as the benefits associated with its lending to related associations and their strong capital levels. The "a1" BCA is one of Moody's highest assessments of any financial institution, both domestically and globally.

REGULATORY MATTERS

At March 31, 2018, 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 rule were as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill their mission as government-sponsored enterprises,
- 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 is in compliance with the required minimum capital standards and met the conservation buffers as of March 31, 2018.

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 second quarter of 2018.

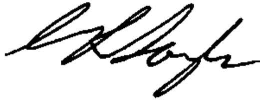
OTHER

New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Acts of 2017 (TCJA) were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent. The bank is exempt from federal and certain other income taxes as provided by the Farm Credit Act. Thus, the new laws had no impact on the bank’s financial results.

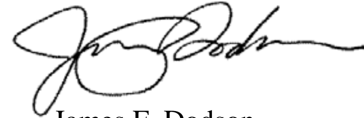
While the full impact of the TCJA is difficult to predict and may not be fully known for several years, changes that could affect the bank’s business and customers include, but are not limited to, modifications to deductions surrounding interest expense and equipment purchases, tax incentives related to renewable energy initiatives, deductions impacting agricultural producers who sell their products to cooperatives and the overall changes in the competitive environment impacting financial institutions.

Report of Management

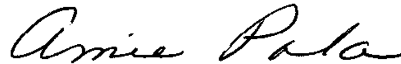
The undersigned certify that we have reviewed the March 31, 2018, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information included herein is true, accurate and complete to the best of our knowledge and belief.



Larry R. Doyle
Chief Executive Officer



James F. Dodson
Chairman of the Board



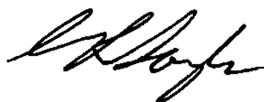
Amie Pala
Chief Financial Officer

May 10, 2018

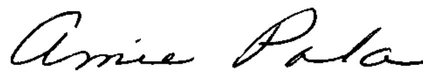
Controls and Procedures

As of March 31, 2018, management of the Farm Credit Bank of Texas (bank) carried out an evaluation with the participation of the bank's management, including the chief executive officer (CEO) and chief financial officer (CFO), of the effectiveness of the design and operation of the their respective disclosure controls and procedures(1) with respect to this quarterly report. This evaluation is based on testing of the design and effectiveness of key internal controls, certifications and other information furnished by the principal executive officer and principal financial officer of the bank, as well as incremental procedures performed by the bank. Based upon and as of the date of the bank's evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the bank that is required to be disclosed by the bank in the annual and quarterly information statements it files or submits to the Farm Credit Administration.

There have been no significant changes in the bank's internal control over financial reporting(2) that occurred during the quarter ended March 31, 2018, that have materially affected, or are reasonably likely to materially affect, the bank's internal control over financial reporting.



Larry R. Doyle
Chief Executive Officer



Amie Pala
Chief Financial Officer

May 10, 2018

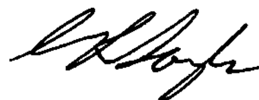
(1) For purposes of this discussion, ''disclosure controls and procedures'' are defined as controls and procedures of the bank that are designed to ensure that the financial information required to be disclosed by the bank in this annual information statement is recorded, processed, summarized and reported within the time periods specified under the rules and regulations of the Farm Credit Administration.

(2) For purposes of this discussion, ''internal control over financial reporting'' is defined as a process designed by, or under the supervision of, the bank's principal executive officers and principal financial officers, or persons performing similar functions, and effected by the bank's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the bank's combined financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the bank's combined financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with authorizations of managements and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the bank's assets that could have a material effect on the bank's financial statements.

CERTIFICATION

I, Larry R. Doyle, chief executive officer of Farm Credit Bank of Texas (bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

1. I have reviewed this quarterly report of the bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the bank as of, and for, the periods presented in this report;
4. The bank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the bank and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the bank's internal control over financial reporting that occurred during the bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the bank's internal control over financial reporting; and
5. The bank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the bank's auditors and the audit committee of the bank's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the bank's ability to record, process, summarize, and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the bank's internal control over financial reporting.



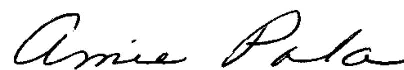
Larry R. Doyle
Chief Executive Officer

May 10, 2018

CERTIFICATION

I, Amie Pala, chief financial officer of Farm Credit Bank of Texas (bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

1. I have reviewed this quarterly report of the bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the bank as of, and for, the periods presented in this report;
4. The bank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the bank and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the bank's internal control over financial reporting that occurred during the bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the bank's internal control over financial reporting; and
5. The bank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the bank's auditors and the audit committee of the bank's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the bank's ability to record, process, summarize, and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the bank's internal control over financial reporting.



Amie Pala
Chief Financial Officer

May 10, 2018

Balance Sheets

(dollars in thousands)	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Cash	**$ 9,213**	$ 56,183
Federal funds sold and overnight investments	**173,435**	246,888
Investment securities	**5,233,537**	5,144,985
Loans (includes $9,723 and $9,908 at fair value held under fair value option)	**17,373,900**	17,085,177
Less allowance for loan losses	**11,880**	7,639
Net loans	**17,362,020**	17,077,538
Accrued interest receivable	**65,988**	58,330
Premises and equipment, net	**53,750**	49,405
Other assets	**186,148**	203,276
Total assets	**$ 23,084,091**	$ 22,836,605
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 21,259,001**	$ 20,951,223
Accrued interest payable	**71,474**	63,809
Reserve for credit losses	**2,169**	1,433
Preferred stock dividends payable	**20,063**	20,063
Patronage payable	**-**	31,418
Other liabilities	**52,226**	100,775
Total liabilities	**21,404,933**	21,168,721
Commitments and contingencies (Note 4)		
Shareholders' equity		
Preferred stock	**600,000**	600,000
Capital stock	**299,046**	301,239
Allocated retained earnings	**39,144**	39,144
Unallocated retained earnings	**817,182**	779,403
Accumulated other comprehensive loss	**(76,214)**	(51,902)
Total shareholders' equity	**1,679,158**	1,667,884
Total liabilities and shareholders' equity	**$ 23,084,091**	$ 22,836,605

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2018	2017
Interest Income		
Loans	**$ 126,701**	$ 107,615
Investment securities	**26,064**	18,754
Total interest income	**152,765**	126,369
Interest Expense		
Bonds and notes	**91,551**	64,632
Net interest income	**61,214**	61,737
Provision for credit losses		
Provision (negative provision) for credit losses	**4,857**	(944)
Net interest income after provision (negative provision) for credit losses	**56,357**	62,681
Noninterest Income		
Patronage income	**4,201**	4,792
Fees for services to associations	**1,208**	1,356
Fees for loan-related services	**1,525**	1,618
Refunds from Farm Credit System Insurance Corporation	**8,397**	-
Loss on loans held under fair value option	**(110)**	(100)
Other (loss) income, net	**(212)**	1,241
Total noninterest income	**15,009**	8,907
Noninterest Expenses		
Salaries and employee benefits	**10,711**	9,727
Occupancy and equipment	**5,150**	4,985
Insurance Fund premiums	**1,569**	2,709
Other components of net periodic postretirement benefit cost	**111**	77
Other operating expenses	**9,213**	7,318
Total noninterest expense	**26,754**	24,816
Net Income	**44,612**	46,772
Other comprehensive loss		
Change in unrealized loss on investments	**(29,374)**	(1,511)
Change in postretirement benefit plans	**(12)**	(47)
Change in cash flow derivative instruments	**5,074**	252
Total other comprehensive loss	**(24,312)**	(1,306)
Comprehensive Income	**$ 20,300**	$ 45,466

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

Statement of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2016	$ 600,000	$ 284,038	$ 33,171	$ 737,622	$ (32,579)	$ 1,622,252
Net income	-	-	-	46,772	-	46,772
Other comprehensive loss	-	-	-	-	(1,306)	(1,306)
Preferred stock dividends	-	-	-	(5,062)	-	(5,062)
Patronage distributions						
Cash	-	-	-	(1,412)	-	(1,412)
Balance at March 31, 2017	$ 600,000	$ 284,038	$ 33,171	$ 777,920	$ (33,885)	$ 1,661,244
Balance at December 31, 2017	**$ 600,000**	**$ 301,239**	**$ 39,144**	**$ 779,403**	**$ (51,902)**	**$ 1,667,884**
Net income	**-**	**-**	**-**	**44,612**	**-**	**44,612**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(24,312)**	**(24,312)**
Capital stock and allocated retained earnings retired	**-**	**(2,193)**	**-**	**-**	**-**	**(2,193)**
Preferred stock dividends	**-**	**-**	**-**	**(5,062)**	**-**	**(5,062)**
Patronage distributions						
Cash	**-**	**-**	**-**	**(1,771)**	**-**	**(1,771)**
Balance at March 31, 2018	**$ 600,000**	**$ 299,046**	**$ 39,144**	**$ 817,182**	**$ (76,214)**	**$ 1,679,158**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2018	2017
Operating activities		
Net income	**$ 44,612**	$ 46,772
Reconciliation of net income to net cash provided by operating activities		
Provision (negative provision) for credit losses	**4,857**	(944)
Depreciation and amortization on premises and equipment	**1,806**	1,688
Accretion of net premium on loans	**268**	1,025
Amortization and accretion on debt instruments	**8,713**	5,471
Amortization of net premium on investments	**1,071**	1,265
Decrease in fair value on loans under fair value option	**110**	100
Loss on sale of loans	**110**	-
Loss (gain) on other earning assets	**255**	(990)
Distributions less than cumulative equity earnings	**-**	57
(Gain) on sales of premises and equipment	**(29)**	(28)
Allocated equity patronage from System bank	**(14,789)**	(14,583)
(Increase) in accrued interest receivable	**(7,658)**	(8,212)
Decrease in other assets, net	**37,264**	32,875
Increase in accrued interest payable	**7,664**	3,758
Decrease in other liabilities, net	**(33,099)**	(34,395)
Net cash provided by operating activities	**51,155**	33,859
Investing activities		
Net increase in federal funds sold	**73,453**	812
Investment securities		
Purchases	**(401,569)**	(400,460)
Proceeds from maturities, calls and prepayments	**282,572**	285,373
Decrease in loans, net	**(352,855)**	(437,214)
Proceeds from sales of loans	**48,373**	-
Proceeds from sales of premises and equipment	**71**	62
Expenditures for premises and equipment	**(6,193)**	(3,711)
Distributions in excess of cumulative equity earnings	**41**	-
Investment in other earning assets	**(546)**	(802)
Net cash used in investing activities	**(356,653)**	(555,940)
Financing activities		
Bonds and notes issued	**2,517,065**	2,973,223
Bonds and notes retired	**(2,218,000)**	(2,393,050)
Prepayments on debt extinguishment costs	**-**	28
Repayments on capital lease obligations	**(94)**	(94)
Capital stock retired and allocated retained earnings distributed	**(2,193)**	-
Cash dividends on preferred stock	**(5,062)**	(5,062)
Cash patronage distributions paid	**(33,188)**	(30,810)
Net cash provided by financing activities	**258,528**	544,235
Net (decrease) increase in cash	**(46,970)**	22,154
Cash at beginning of year	**56,183**	195,479
Cash at end of quarter	**$ 9,213**	$ 217,633
Supplemental schedule of noncash investing and financing activities		
Net increase in unrealized losses on investment securities	**$ (29,375)**	$ (1,511)
Preferred stock dividend payable	**20,063**	20,063
Capital lease obligation	**187**	561
Supplemental information		
Interest paid	**$ 83,886**	$ 60,874

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

Notes to Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the Farm Credit Bank of Texas (bank). The significant accounting policies followed and the financial condition and results of operations of the bank as of and for the year ended December 31, 2017, are contained in the 2017 Annual Report to shareholders (Annual Report). These unaudited first quarter 2018 financial statements should be read in conjunction with the Annual Report.

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

The bank and its affiliated associations (district) are part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-members. At March 31, 2018, the bank provided financing to 14 district associations and certain other financing institutions.

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA), that lowered the federal corporate tax rate from 35 percent to 21 percent. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The bank is exempt from federal and certain other income taxes as provided by the Farm Credit Act of 1971. Thus, the new standard will have no impact on the bank's financial results.

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

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered

by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the bank's financial condition but did 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 did not impact the bank's financial condition or its results of operations but did change the classification of certain items in the statement of cash flows.

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

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

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. The guidance sets forth the requirement for new and enhanced disclosures. The bank adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the bank's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity or cash flows.

NOTE 2 — INVESTMENTS

Investments Available-for-Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt, U.S Treasury securities and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations. A summary of the amortized cost and fair value of investment securities available-for-sale at March 31, 2018, and December 31, 2017, is included in the following tables.

Investments in the available-for-sale liquidity portfolio at March 31, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	**$ 192,725**	**$ 69**	**$ (3,793)**	**$ 189,001**	**2.06** %
Corporate debt	**261,446**	**504**	**(1,096)**	**260,854**	**2.22**
Federal agency collateralized mortgage-backed securities					
GNMA	**2,168,179**	**589**	**(44,671)**	**2,124,097**	**2.19**
FNMA and FHLMC	**2,272,949**	**1,792**	**(36,722)**	**2,238,019**	**2.08**
U.S. Treasury securities	**324,486**	**-**	**(424)**	**324,062**	**1.14**
Asset-backed securities	**56,441**	**15**	**(103)**	**56,353**	**2.01**
Total available-for-sale liquidity investments	**$ 5,276,226**	**$ 2,969**	**$ (86,809)**	**$ 5,192,386**	**2.07** %

Investments in the available-for-sale other investments portfolio at March 31, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	**$ 43,498**	**$ -**	**$ (2,347)**	**$ 41,151**	**4.55 %**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 198,246	$ 30	$ (3,028)	$ 195,248	1.94 %
Corporate debt	252,482	556	(429)	252,609	1.84
Federal agency collateralized mortgage-backed securities					
GNMA	2,012,484	706	(28,528)	1,984,662	1.99
FNMA and FHLMC	2,395,248	2,061	(25,256)	2,372,053	1.91
U.S. Treasury securities	249,860	-	(653)	249,207	0.90
Asset-backed securities	47,914	18	(43)	47,889	1.61
Total available-for-sale liquidity investments	$ 5,156,234	$ 3,371	$ (57,937)	$ 5,101,668	1.88 %

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 45,564	$ -	$ (2,247)	$ 43,317	4.46 %

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at March 31, 2018:

Investments in the available-for-sale liquidity portfolio:

	Due in one year or less	**Due after one year through five years**	**Due after five years through 10 years**	**Due after 10 years**	**Total**
Agency-guaranteed debt	**$ -**	**$ 18,432**	**$ 170,569**	**$ -**	**$ 189,001**
Corporate debt	**35,065**	**225,789**	**-**	**-**	**260,854**
Federal agency collateralized mortgage-backed securities					
GNMA	**47**	**-**	**75,419**	**2,048,631**	**2,124,097**
FNMA and FHLMC	**708**	**105,361**	**396,064**	**1,735,886**	**2,238,019**
U.S. Treasury securities	**299,304**	**24,758**	**-**	**-**	**324,062**
Asset-backed securities	**-**	**54,170**	**2,183**	**-**	**56,353**
Total fair value	**$ 335,124**	**$ 428,510**	**$ 644,235**	**$ 3,784,517**	**$ 5,192,386**
Total amortized cost	**$ 335,471**	**$ 431,355**	**$ 657,669**	**$ 3,851,731**	**$ 5,276,226**
Weighted average yield	**1.18%**	**2.05%**	**2.01%**	**2.16%**	**2.07%**

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

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	**$ 12,663**	**$ 28,488**	**$ 41,151**
Total amortized cost	**$ 13,011**	**$ 30,487**	**$ 43,498**
Weighted average yield	**4.46%**	**4.59%**	**4.55%**

Other-Than-Temporarily Impaired Investments Evaluation

The following table shows available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time, for securities that have been in a continuous unrealized loss position at March 31, 2018. 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	**$ 79,494**	**$ (995)**	**$ 91,314**	**$ (2,797)**	**$ 170,808**	**$ (3,792)**
Corporate debt	**117,946**	**(1,096)**	**-**	**-**	**117,946**	**(1,096)**
Federal agency collateralized mortgage-backed securities						
GNMA	**873,222**	**(15,489)**	**980,304**	**(29,183)**	**1,853,526**	**(44,672)**
FNMA and FHLMC	**698,256**	**(10,922)**	**981,286**	**(25,800)**	**1,679,542**	**(36,722)**
U.S. Treasury securities	**74,483**	**(52)**	**249,578**	**(372)**	**324,061**	**(424)**
Asset-backed securities	**42,808**	**(95)**	**4,044**	**(8)**	**46,852**	**(103)**
Total	**$ 1,886,209**	**$ (28,649)**	**$ 2,306,526**	**$ (58,160)**	**$ 4,192,735**	**$ (86,809)**

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

In the event of an investment being designated OTTI, to measure the amount related to credit loss in the determination of OTTI, the bank utilizes a third-party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan-level data. Loan-level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan-level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses. For the three months ended March 31, 2018 and 2017, the bank did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at March 31, 2018 and 2017.

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

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

	March 31, 2018	December 31, 2017
Direct notes receivable from district associations and OFIs	$ 11,520,323	$ 11,584,236
Participations purchased	5,853,325	5,500,659
Other bank-owned loans	252	282
Total	$ 17,373,900	$ 17,085,177

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

	March 31, 2018	December 31, 2017
Direct notes receivable from district associations	$ 11,478,449	$ 11,544,129
Real estate mortgage	509,304	445,116
Production and intermediate term	631,748	631,148
Agribusiness		
Loans to cooperatives	450,831	332,664
Processing and marketing	2,456,545	2,361,426
Farm-related business	87,017	79,879
Communication	362,082	326,297
Energy (rural utilities)	1,214,216	1,188,465
Water and waste disposal	111,120	104,920
Lease receivables	14,365	14,675
Loans to other financing institutions	41,874	40,107
Mission-related	16,349	16,351
Total	$ 17,373,900	$ 17,085,177

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

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

The following table presents information regarding the balances of participations purchased and sold, excluding syndications, at March 31, 2018.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	**Participations Sold**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**
Real estate mortgage	$ 803,712	$ 331,242	$ -	$ 2,569	$ 803,712	$ 333,811
Production and intermediate term	1,459,728	819,105	17,226	59,481	1,476,954	878,586
Agribusiness	2,223,092	919,863	-	-	2,223,092	919,863
Communication	477,609	114,983	-	-	477,609	114,983
Energy (rural utilities)	1,376,246	161,837	-	-	1,376,246	161,837
Water and waste disposal	123,301	11,937	-	-	123,301	11,937
Lease receivables	16,276	1,927	-	-	16,276	1,927
Mission-related	2,554	-	-	-	2,554	-
Loans to other financing institutions	-	1,500	-	-	-	1,500
Direct note receivable from district associations		3,850,000	-	-	-	3,850,000
Total	**$ 6,482,518**	**$ 6,212,394**	**$ 17,226**	**$ 62,050**	**$ 6,499,744**	**$ 6,274,444**

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. There were no CPP loan purchases for the three months ended March 31, 2018. CPP loans held at March 31, 2018, totaled $32,459 and were included in "Loans" on the balance sheets. The balance of the AMBS CPP was $41,152 at March 31, 2018, and is included in "Investment securities" on the balance sheets.

The bank may purchase loans from district associations in Non-Capitalized Participation Pool (NCPP) transactions. The loans purchased in these transactions represent up to 90.0 percent of the outstanding balances, all of which had credit quality ratings of 8 or better (acceptable classification) and are included in the capital markets' portfolio. As a condition of these transactions, the bank redeems common stock in the amount of 2.0 percent of the par value of the loans purchased. NCPP purchases result in pay downs on the associations' direct notes at the time of purchase. On February 15, 2018, the bank purchased $98.7 million in loan participations from a district association in NCPP transactions which resulted in a net stock retirement of $2.2 million. The NCPP loans have been classified as acceptable as of March 31, 2018, and the balance was $98.1 million at March 31, 2018.

The bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the bank on such balances. There were no significant balances of ACPs at March 31, 2018, or December 31, 2017.

During 2012, the bank elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $9,723 at March 31, 2018. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in "Noninterest Income" on the statements of comprehensive income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis.

The following is a summary of the transactions on loans for which the fair value option has been elected for the three months ended March 31, 2018:

Balance at January 1, 2018	**$ 9,908**
Net loss on financial instruments under fair value option	**(110)**
Premium amortization	**(75)**
Balance at March 31, 2018	**$ 9,723**

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

	March 31, 2018	December 31, 2017
Nonaccrual loans:		
Energy & water/waste disposal	**$ 11,250**	$ -
Agribusiness	**7,739**	-
Real estate mortgage	**3,004**	3,393
Total nonaccrual loans	**21,993**	3,393
Accruing restructured loans:		
Mission-related	**2,646**	2,607
Total accruing restructured loans	**2,646**	2,607
Total high-risk assets	**$ 24,639**	$ 6,000

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

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

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

	March 31, 2018	December 31, 2017
Real estate mortgage:		
Acceptable	**96.6 %**	94.2 %
OAEM	**2.8**	3.0
Substandard/Doubtful	**0.6**	2.8
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**96.3 %**	93.4 %
OAEM	**3.7**	5.7
Substandard/Doubtful	**-**	0.9
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**99.6 %**	99.5 %
OAEM	**-**	-
Substandard/Doubtful	**0.4**	0.5
	100.0 %	100.0 %
Energy & water/waste disposal:		
Acceptable	**98.7 %**	98.6 %
OAEM	**0.5**	0.5
Substandard/Doubtful	**0.8**	0.9
	100.0 %	100.0 %
Communication:		
Acceptable	**93.7 %**	100.0 %
OAEM	**6.3**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Direct notes to associations:		
Acceptable	**92.3 %**	92.3 %
OAEM	**7.7**	7.7
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Loans to other financing institutions:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Mission-related:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Lease receivables:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Total loans:		
Acceptable	**94.4 %**	94.2 %
OAEM	**5.5**	5.5
Substandard/Doubtful	**0.1**	0.3
	100.0 %	100.0 %

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

March 31, 2018:	**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	**$ -**	**$ 3,004**	**$ 3,004**	**$ 510,687**	**$ 513,691**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**635,416**	**635,416**	**-**
Agribusiness	**-**	**-**	**-**	**3,008,745**	**3,008,745**	**-**
Energy & water/waste disposal	**-**	**-**	**-**	**1,333,263**	**1,333,263**	**-**
Communication	**-**	**-**	**-**	**362,497**	**362,497**	**-**
Lease receivables	**-**	**-**	**-**	**14,408**	**14,408**	**-**
Direct notes to associations	**-**	**-**	**-**	**11,503,797**	**11,503,797**	**-**
Loans to OFIs	**-**	**-**	**-**	**41,964**	**41,964**	**-**
Mission-related	**-**	**-**	**-**	**16,490**	**16,490**	**-**
Total	**$ -**	**$ 3,004**	**$ 3,004**	**$ 17,427,267**	**$ 17,430,271**	**$ -**

December 31, 2017:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ -	$ 3,393	$ 3,393	$ 445,621	$ 449,014	$ -
Production and intermediate term	-	-	-	633,330	633,330	-
Agribusiness	-	-	-	2,785,593	2,785,593	-
Energy & water/waste disposal	-	-	-	1,300,418	1,300,418	-
Lease receivables				14,717	14,717	-
Communication	-	-	-	326,705	326,705	-
Direct notes to associations	-	-	-	11,568,693	11,568,693	-
Loans to OFIs	-	-	-	40,187	40,187	-
Mission-related	-	-	-	16,596	16,596	-
Total	$ -	$ 3,393	$ 3,393	$ 17,131,860	$ 17,135,253	$ -

Additional impaired loan information is as follows:

	At March 31, 2018			At December 31, 2017		
Impaired loans with a related allowance for credit losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Energy & water/waste disposal	**$ 11,138**	**$ 11,138**	**$ 2,791**	$ -	$ -	$ -
Agribusiness	**7,739**	**7,739**	**3,412**	-	-	-
Mission-related	**206**	**199**	**73**	200	200	82
Total	**$ 19,083**	**$ 19,076**	**$ 6,276**	$ 200	$ 200	$ 82
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,004**	**$ 3,004**	**$ -**	$ 3,393	$ 3,393	$ -
Production and intermediate term	**-**	**3,035**	**-**	-	3,035	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**112**	**7,735**	**-**	-	7,623	-
Mission-related	**2,440**	**2,380**	**-**	2,407	2,407	-
Total	**$ 5,556**	**$ 17,346**	**$ -**	$ 5,800	$ 17,650	$ -
Total impaired loans:						
Real estate mortgage	**$ 3,004**	**$ 3,004**	**$ -**	$ 3,393	$ 3,393	$ -
Production and intermediate term	**-**	**3,035**	**-**	-	3,035	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**11,250**	**18,873**	**2,791**	-	7,623	-
Agribusiness	**7,739**	**7,739**	**3,412**	-	-	-
Mission-related	**2,646**	**2,579**	**73**	2,607	2,607	82
Total	**$ 24,639**	**$ 36,422**	**$ 6,276**	$ 6,000	$ 17,850	$ 82

	For the Three Months Ended			
	March 31, 2018		March 31, 2017	
Impaired loans with a related allowance for credit losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Energy & water/waste disposal	**$ 243**	**$ -**	$ -	$ -
Agribusiness	**172**	**-**	-	-
Mission-related	**200**	**4**	209	4
Total	**$ 615**	**$ 4**	$ 209	$ 4
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 3,323**	**$ -**	$ 4,769	$ -
Energy & water/waste disposal	**7**	**-**	-	-
Mission-related	**2,380**	**36**	4,324	37
Total	**$ 5,710**	**$ 36**	$ 9,093	$ 37
Total impaired loans:				
Real estate mortgage	**$ 3,323**	**$ -**	$ 4,769	$ -
Energy & water/waste disposal	**250**	**-**	-	-
Agribusiness	**172**	**-**	-	-
Mission-related	**2,580**	**40**	4,533	41
Total	**$ 6,325**	**$ 40**	$ 9,302	$ 41

At March 31, 2018, impaired loans of $19.1 million had a related specific allowance of $6.3 million, while the remaining $5.6 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 March 31, 2018, was $6.3 million. The bank recognized interest income of $40 on impaired loans during the three months ended March 31, 2018.

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	Communications	Energy and Water/Waste Disposal	Lease Receivables	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses										
Balance at December 31, 2017	$ 117	$ 954	$ 2,679	$ 364	$ 3,439	$ -	$ -	$ -	$ 86	$ 7,639
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	120	-	-	-	-	-	120
Provision for credit losses (loan loss reversal)	(18)	(54)	3,381	(94)	1,570	83	-	-	(11)	4,857
Other *	3	(24)	(489)	3	(237)	-	-	-	8	(736)
Balance at March 31, 2018	$ 102	$ 876	$ 5,571	$ 393	$ 4,772	$ 83	$ -	$ -	$ 83	$ 11,880
Individually evaluated for impairment	$ -	$ -	$ 3,412	$ -	$ 2,791	$ -	$ -	$ -	$ 73	$ 6,276
Collectively evaluated for impairment	102	876	2,159	393	1,981	83	-	-	10	5,604
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2018	$ 102	$ 876	$ 5,571	$ 393	$ 4,772	$ 83	$ -	$ -	$ 83	$ 11,880
Balance at December 31, 2016	$ 74	$ 712	$ 2,259	$ 526	$ 3,997	$ -	$ -	$ -	$ 82	$ 7,650
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	5	-	1,380	-	-	-	-	1,385
Provision for credit losses (loan loss reversal)	57	(101)	43	(98)	(846)	-	-	-	1	(944)
Other *	1	44	171	11	76	-	-	-	-	303
Balance at March 31, 2017	$ 132	$ 655	$ 2,478	$ 439	$ 4,607	$ -	$ -	$ -	$ 83	$ 8,394
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 79	$ 79
Collectively evaluated for impairment	132	655	2,478	439	4,607	-	-	-	4	8,315
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2017	$ 132	$ 655	$ 2,478	$ 439	$ 4,607	$ -	$ -	$ -	$ 83	$ 8,394
Recorded Investments in Loans Outstanding:										
Ending balance at March 31, 2018	$ 513,691	$ 635,416	$ 3,008,745	$ 362,497	$ 1,333,263	$ 14,408	$ 11,503,797	$ 41,964	$ 16,490	$ 17,430,271
Individually evaluated for impairment	$ 3,004	$ -	$ 7,739	$ -	$ 11,250	$ -	$ 11,503,797	$ -	$ 2,646	$ 11,528,436
Collectively evaluated for impairment	$ 510,687	$ 635,416	$ 3,001,006	$ 362,497	$ 1,322,013	$ 14,408	$ -	$ 41,964	$ 13,844	$ 5,901,835
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at March 31, 2017	$ 473,789	$ 567,375	$ 2,860,873	$ 344,544	$ 1,366,940	$ -	$ 10,710,980	$ 40,822	$ 18,434	$ 16,383,757
Individually evaluated for impairment	$ 4,742	$ -	$ -	$ -	$ -	$ -	$ 10,710,980	$ -	$ 4,590	$ 10,720,312
Collectively evaluated for impairment	$ 469,047	$ 567,375	$ 2,860,873	$ 344,544	$ 1,366,940	$ -	$ -	$ 40,822	$ 13,844	$ 5,663,445
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

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

As of March 31, 2018, the total recorded investment in TDR loans was $5,650, including $3,004 classified as nonaccrual and $2,646 classified as accrual, with specific allowance for loan losses of $73. Additional commitments to lend to borrowers whose loans have been modified in TDRs were $33 at March 31, 2018 and there were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2017.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	March 31, 2018	December 31, 2017	**March 31, 2018**	December 31, 2017
Real estate mortgage	**$ 3,004**	$ 3,393	**$ 3,004**	$ 3,393
Mission-related	**2,646**	2,607	**-**	-
Total	**$ 5,650**	$ 6,000	**$ 3,004**	$ 3,393

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

NOTE 4 — COMMITMENTS AND CONTINGENCIES

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated bank and Systemwide obligations of the System at March 31, 2018, were approximately $269.40 billion.

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

NOTE 5 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," of the 2017 Annual Report for a more complete description.

Assets and liabilities recorded at fair value on a recurring basis at March 31, 2018, 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	**$ 173,435**	$ -	$ 173,435	$ -
Investments available for sale:				
Agency-guaranteed debt	**189,001**	-	189,001	-
Corporate debt	**260,854**	-	260,854	-
Mortgage-backed securities	**4,362,116**	-	4,270,460	91,656
U.S. Treasury securities	**324,062**	-	324,062	-
Asset-backed securities	**56,353**	-	56,353	-
Mission-related and other available-for-sale investments	**41,151**	-	-	41,151
Loans valued under the fair value option	**9,723**	-	9,723	-
Derivative assets	**13,883**	-	13,883	-
Assets held in nonqualified benefit trusts	**700**	700	-	-
Total assets	**$ 5,431,278**	$ 700	$ 5,297,771	$ 132,807
Liabilities:				
Derivative liabilities	**$ 121**	$ -	$ 121	$ -
Letters of credit	**902**	-	-	902
Total liabilities	**$ 1,023**	$ -	$ 121	$ 902

Loans With Fair Value Option

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the statements of comprehensive income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in "Noninterest Income" on the statements of comprehensive income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis. The fair value of loans held under the fair value option totaled $9,723 at March 31, 2018.

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, 2018, to March 31, 2018.

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Letters of Credit	Net
Balance at January 1, 2018	$ -	$ 43,317	$ 846	$ 42,471
Net gains (losses) included in earnings	95	(101)	-	(6)
Purchases, issuances and settlements	91,561	(2,065)	56	89,440
Balance at March 31, 2018	$ 91,656	$ 41,151	$ 902	$ 131,905

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the three months ended March 31, 2018. Agricultural mortgage-backed securities (AMBS) are included in Level 3 due to limited activity or less transparency around inputs to their valuation. Mortgage-backed securities (or MBS) are included in Level 3 due to the fact that their valuation was based on Level 3 criteria (broker quotes). The liability for letters of credit are included in Level 3 as their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2018, 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:				
Loans	$ 12,165	$ -	$ -	$ 12,165
Total assets	$ 12,165	$ -	$ -	$ 12,165

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

		Fair Value Measurements		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	$ 246,888	$ -	$ 246,888	$ -
Investments available for sale:				
Agency-guaranteed debt	195,248	-	195,248	-
Corporate debt	252,609	-	252,609	-
Mortgage-backed securities	4,356,715	-	4,356,715	-
U.S. Treasury securities	249,207	-	249,207	-
Asset-backed securities	47,889	-	47,889	-
Mission-related and other available-for-sale investments	43,317	-	-	43,317
Loans valued under the fair value option	9,908	-	9,908	-
Derivative assets	8,932	-	8,932	-
Assets held in nonqualified benefit trusts	551	551	-	-
Total assets	$ 5,411,264	$ 551	$ 5,367,396	$ 43,317
Liabilities:				
Derivative liabilities	$ 248	$ -	$ 248	$ -
Letters of credit	846	-	-	846
Total liabilities	$ 1,094	$ -	$ 248	$ 846

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

	Assets	Liabilities	
	Agricultural Mortgage-Backed Securities	Letters of Credit	Net
Balance at January 1, 2017	$ 53,335	$ 594	$ 52,741
Net gains included in earnings	2	-	2
Purchases, issuances and settlements	(3,387)	(106)	(3,281)
Balance at March 31, 2017	$ 49,950	$ 488	$ 49,462

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

	Fair Value Measurement			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans	$ 119	$ -	$ -	$ 119
Total assets	$ 119	$ -	$ -	$ 119

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

March 31, 2018:		**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	**$ 9,213**	**$ 9,213**	**$ -**	**$ -**	**$ 9,213**
Net loans	**17,362,020**	**-**	**-**	**16,956,376**	**16,956,376**
Total assets	**$ 17,371,233**	**$ 9,213**	**$ -**	**$ 16,956,376**	**$ 16,965,589**
Liabilities:					
Systemwide debt securities	**$ 21,259,001**	**$ -**	**$ -**	**$ 21,085,031**	**$ 21,085,031**
Total liabilities	**$ 21,259,001**	**$ -**	**$ -**	**$ 21,085,031**	**$ 21,085,031**

December 31, 2017:		Fair Value Measurements Using			
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Cash	$ 56,183	$ 56,183	$ -	$ -	$ 56,183
Net loans	17,077,538	-	-	16,994,401	16,994,401
Total assets	$ 17,133,721	$ 56,183	$ -	$ 16,994,401	$ 17,050,584
Liabilities:					
Systemwide debt securities	$ 20,951,223	$ -	$ -	$ 20,902,279	$ 20,902,279
Total liabilities	$ 20,951,223	$ -	$ -	$ 20,902,279	$ 20,902,279

Valuation Techniques

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

Cash

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

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. At March 31, 2018, there was one agency MBS investment in Level 3. Level 3 assets at March 31, 2018, also included the bank's AMBS portfolio, which is valued by the bank using a model that incorporates underlying rates and current yield curves.

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

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

Assets Held in Nonqualified Benefits Trusts

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

Derivatives

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

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

Letters of Credit

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

Loans

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

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

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

Loans Evaluated for Impairment

For certain loans evaluated for impairment under accounting impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. The fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Accordingly, these assets are classified within Level 2.

Bonds and Notes

Systemwide debt securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury securities. We estimate an appropriate yield-spread taking into consideration selling group member (banks and securities dealers) yield indications, observed new government-sponsored enterprise debt security pricing and pricing levels in the related U.S. dollar interest rate swap market.

Other Property Owned

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

Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobservable Input	Range of Inputs
Mortgage-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity	-
Mission-related investments	Discounted cash flow	Prepayment rates	2.1%-41.6%

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

NOTE 6 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

The primary types of derivative instruments used and the amount of activity (notional amounts derivatives) during the three months ended March 31, 2018, are summarized in the following table:

	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2018	$ 250,000	$ 195,000	$ 445,000
Additions	25,000	-	25,000
Maturities/Amortizations	-	-	-
Balance at March 31, 2018	**$ 275,000**	**$ 195,000**	**$ 470,000**

To minimize the risk of credit losses, the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. In addition, substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to another are reached, which thresholds may vary, depending on the counterparty's credit rating. The bank does not anticipate nonperformance by any of these counterparties. However, derivative contracts are reflected in the financial statements on a gross basis regardless of the netting agreement. At March 31, 2018, and December 31, 2017, the bank's credit exposure to counterparties was $13,762 and $8,684, respectively. At March 31, 2018, and December 31, 2017, the bank had posted no securities as collateral, nor had any counterparty been required to post collateral.

Derivative – Counterparty Exposure

The following table represents the credit ratings of counterparties the bank has credit exposure with at March 31, 2018:

	Remaining Years to Maturity						
	Less than One to Five Years	**More Than Five Years**	**Total**	**Maturity Distribution Netting**	**Exposure**	**Collateral Held**	**Exposure Net of Collateral**
Moody's Credit Rating							
A1	$ -	$ 43	$ 43	$ -	$ 43	$ -	$ 43
Aa3	-	385	385	-	385	-	385
Aa3	4,662	3,808	8,470	-	8,470	-	8,470
Aa3	-	4,985	4,985	-	4,985	-	4,985
Total	**$ 4,662**	**$ 9,221**	**$ 13,883**	**$ -**	**$ 13,883**	**$ -**	**$ 13,883**

Cash Flow Hedges

The bank's derivative instruments at March 31, 2018, and December 31, 2017, which are designated and qualify as a cash flow hedge, all meet the standards for accounting treatment that presume full effectiveness. Thus, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income.

	Balance Sheet Location	**Fair Value March 31, 2018**	Fair Value December 31, 2017	**Balance Sheet Location**	**Fair Value March 31, 2018**	Fair Value December 31, 2017
Interest rate caps	Other assets	**$ 517**	$ 396	Other liabilities	**$ -**	$ -
Pay fixed swaps	Other assets	**13,366**	8,536	Other liabilities	**(121)**	(248)

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) at March 31,			**Amount of Gain (Loss) Reclassified From AOCI Into Income (Effective Portion) at March 31,**	
	2018	2017		**2018**	2017
Interest rate caps	**$ 121**	$ (82)	Interest expense	**$ (30)**	$ 72
Pay fixed swaps	**4,951**	(66)	Interest income	**28**	327

NOTE 7 — CAPITAL

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

The bank's ratios were as follows:

Risk-adjusted	Regulatory Minimums	Conservation Buffers*	Total Regulatory Requirement	As of March 31, 2018	As of December 31, 2017
Common equity tier 1 ratio	4.5%	2.5% *	7.0%	**9.82%**	10.52%
Tier 1 capital ratio	6.0%	2.5% *	8.5%	**15.77%**	16.59%
Total capital ratio	8.0%	2.5% *	10.5%	**15.86%**	16.68%
Permanent capital ratio	7.0%	0.0%	7.0%	**15.78%**	16.60%
Non-risk-adjusted					
Tier 1 leverage ratio	4.0%	1.0%	5.0%	**7.00%**	7.33%
UREE leverage ratio	1.5%	0.0%	1.5%	**2.69%**	3.08%

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

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

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

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

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

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

The components of the bank's risk-adjusted capital, based on 90-day average balances, were as follows at March 31, 2018:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 781,008	$ 781,008	$ 781,008	$ 781,008
Common Cooperative Equities:				
Purchased other required stock ≥7 years	264,101	264,101	264,101	264,101
Allocated stock ≥7 years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held ≥7 years	39,144	39,144	39,144	39,144
Noncumulative perpetual preferred stock	-	600,000	600,000	600,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	9,127	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(130,326)	(130,326)	(130,326)	(130,326)
Other regulatory required deductions	(266)	(266)	(266)	(266)
Total	**$ 989,703**	**$ 1,589,703**	**$ 1,598,830**	**$ 1,589,703**
Denominator:				
Risk-adjusted assets excluding allowance	$ 10,080,074	$ 10,080,074	$ 10,080,074	$ 10,080,074
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	(7,686)
Total	**$ 10,080,074**	**$ 10,080,074**	**$ 10,080,074**	**$ 10,072,388**

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

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 851,333	$ 851,333	$ 851,333	$ 851,333
Common Cooperative Equities:				
Purchased other required stock ≥7 years	248,931	248,931	248,931	248,931
Allocated stock ≥7 years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held ≥7 years	33,365	33,365	33,365	33,365
Noncumulative perpetual preferred stock	-	600,000	600,000	600,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	9,638	-
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	$ 1,041,873	$ 1,641,873	$ 1,651,511	$ 1,641,873
Denominator:				
Risk-adjusted assets excluding allowance	$ 9,899,452	$ 9,899,452	$ 9,899,452	$ 9,899,452
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	(8,085)
Total	$ 9,899,452	$ 9,899,452	$ 9,899,452	$ 9,891,367

The components of the bank's non-risk-adjusted capital, based on 90-day average balances, were as follows at March 31, 2018:

(dollars in thousands)	**Tier 1 leverage ratio**	**UREE leverage ratio**
Numerator:		
Unallocated retained earnings	$ 781,008	$ 781,008
Common Cooperative Equities:		
Purchased other required stock ≥7 years	264,101	-
Allocated stock ≥7 years	36,042	-
Allocated equities:		
Allocated equities held ≥ 7 years	39,144	-
Noncumulative perpetual preferred stock	600,000	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(130,326)	(130,326)
Amount of allocated equities in other System institutions	-	(39,144)
Other regulatory required deductions	(266)	-
Total	**$ 1,589,703**	**$ 611,538**
Denominator:		
Total Assets	$ 22,875,984	$ 22,875,984
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(152,680)	(152,680)
Total	**$ 22,723,304**	**$ 22,723,304**

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

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 851,333	$ 851,333
Common Cooperative Equities:		
Purchased other required stock ≥7 years	248,931	-
Allocated stock ≥7 years	36,042	-
Allocated equities:		
Allocated equities held ≥ 7 years	33,365	-
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	-	(33,365)
Other regulatory required deductions	(265)	-
Total	$ 1,641,873	$ 690,435
Denominator:		
Total Assets	$ 22,554,092	$ 22,554,092
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(142,802)	(142,802)
Total	$ 22,411,290	$ 22,411,290

During the third quarter of 2017, 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 attributed 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 directors' 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 March 31, 2018.

NOTE 8 — EMPLOYEE BENEFIT PLANS

In addition to pension benefits, the bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses at their expense but will be responsible for 100 percent of the related premiums. The following table summarizes the components of net periodic benefit costs for the bank's other postretirement benefit costs for the three months ended March 31, 2018:

	Other Postretirement Benefits	
	2018	2017
Service Cost	**$ 68**	$ 61
Interest Cost	**123**	124
Amortization of prior service cost	**(35)**	(47)
Amortization of net actuarial loss	**23**	-
	$ 179	$ 138

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.
The structure of the district's defined benefit pension plan is characterized as multiemployer, since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations).

NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive 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 bank, these elements include unrealized gains or losses on the bank's available-for-sale investment portfolio, amortization of retirement benefit elements and changes in the value of cash flow derivative instruments.

The following table summarizes the changes in the balance of the components of AOCL for the three months ended March 31, 2018:

	Total	Unrealized Loss on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2018	$ (51,902)	$ (56,813)	$ (1,815)	$ 6,726
Change in unrealized losses on available-for-sale securities				
Net change in unrealized losses on investment securities	(29,374)	(29,374)		
Net change in unrealized losses on securities	(29,374)	(29,374)		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(12)		(12)	
Net change in postretirement benefit plans	(12)		(12)	
Change in cash flow derivative instruments				
Unrealized gain on cash flow derivative instruments	5,072			5,072
Reclassification of amount recognized in interest expense	2			2
Net change in cash flow derivative instruments	5,074			5,074
Total other comprehensive (loss) income	**(24,312)**	**(29,374)**	**(12)**	**5,074**
Balance, March 31, 2018	**$ (76,214)**	**$ (86,187)**	**$ (1,827)**	**$ 11,800**

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

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

The following table summarizes reclassifications from AOCI to the statements of comprehensive income for the three months ended March 31, 2018:

Component of AOCI	**Amount Reclassified from AOCI**		**Affected Line in the Statement of Comprehensive Income**
	2018	2017	
Amortization of net credits on post-retirement benefit plan	**$ (12)**	$ (47)	Salaries and employee benefits
Amortization on cash flow hedges	**2**	72	Interest expense
Total reclassifications	**$ (10)**	$ 25	

NOTE 10 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through May 10, 2018, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of May 10, 2018.

NOTE 11 — COMBINED ASSOCIATION FINANCIAL DATA

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

Balance sheet data	**March 31, 2018**	December 31, 2017
Cash	**$ 3,949**	$ 10,829
Investment securities	**17,394**	18,827
Loans	**18,150,241**	18,203,989
Less allowance for loan losses	**72,936**	75,252
Net loans	**18,077,305**	18,128,737
Accrued interest receivable	**166,875**	169,193
Other property owned	**13,874**	15,569
Other assets	**455,834**	467,226
Total assets	**$ 18,735,231**	$ 18,810,381
Notes payable	**$ 15,311,991**	$ 15,389,216
Other liabilities	**290,468**	384,826
Total liabilities	**15,602,459**	15,774,042
Preferred stock	**20,000**	20,000
Capital stock and participation certificates	**64,956**	65,004
Additional paid-in-capital	**224,625**	224,625
Retained earnings	**2,833,709**	2,737,249
Accumulated other comprehensive loss	**(10,518)**	(10,539)
Total shareholder's equity	**3,132,772**	3,036,339
Total liabilities and shareholder's equity	**$ 18,735,231**	$ 18,810,381

	Three Months Ended March 31,	
Statement of income data	**2018**	2017
Interest income	**$ 226,839**	$ 200,934
Interest expense	**93,650**	75,422
Net interest income	**133,189**	125,512
Provision for loan losses	**(1,813)**	965
Net interest income after provision for loan losses	**135,002**	124,547
Noninterest income	**36,804**	24,288
Noninterest expense	**66,979**	64,212
Benefit from income taxes	**(76)**	(224)
Net income	**104,903**	84,847
Other comprehensive loss:		
Change in postretirement benefit plans	**21**	(129)
Total other comprehensive loss	**21**	(129)
Comprehensive income	**$ 104,924**	$ 84,718

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

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

FCA Regulation Section 628.62(a) requires each System bank to provide timely public disclosures at the end of each calendar quarter. Qualitative disclosures that typically do not change each quarter may be disclosed annually after the end of the fourth calendar quarter, provided that any significant changes are disclosed in the interim. FCA provided additional guidance that System banks must provide their first qualitative disclosures as of March 31, 2017, and again at the end of December 31, 2017, provided that any significant changes be disclosed in the interim. After that time, System banks may provide qualitative disclosures annually, as long as any significant changes are disclosed in the interim. Thus, given no significant changes for the first quarter of 2018, the qualitative disclosures for the first quarter are not included within this disclosure as compared to the disclosures as of March 31, 2017.

Capital Structure

The following table provides a summary of the bank's capital structure at March 31, 2018:

(dollars in thousands)	Month End Balance	Three Month Average Daily Balance
Common equity tier 1 capital (CET1)		
Common cooperative equities:		
Purchased other required stock ≥7 years	$ 263,005	$ 264,101
Allocated stock ≥7 years	36,042	36,042
Other required member purchased stock	-	-
Allocated equities:		
Qualified allocated equities subject to retirement	39,144	39,144
Nonqualified allocated equities subject to retirement	-	-
Nonqualified allocated equities not subject to retirement	-	-
Unallocated retained earnings	813,424	781,008
Paid-in capital	-	-
Regulatory adjustments and deductions made to CET1	(142,578)	(130,592)
Total CET1	$ 1,009,037	$ 989,703
Tier 1 capital		
Non-cumulative perpetual preferred stock	$ 600,000	$ 600,000
Regulatory adjustments and deductions made to tier 1 capital	-	-
Total additional tier 1 capital	600,000	600,000
Total tier 1 capital	$ 1,609,037	$ 1,589,703
Total capital		
Common cooperative equities not included in CET1	$ -	$ -
Tier 2 capital elements (subordinated debt, allowance for loan losses)	14,050	9,127
Regulatory adjustments and deductions made to total capital	-	-
Total tier 2 capital	14,050	9,127
Total capital	$ 1,623,087	$ 1,598,830

During the third quarter of 2017, 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 attributed 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 directors' 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 March 31, 2018.

Capital Adequacy and Capital Buffers

The bank's risk-adjusted regulatory capital ratios are calculated by dividing the relevant total capital elements by risk-weighted assets. The following table provides the bank's risk-weighted assets at March 31, 2018:

(dollars in thousands)	Month End Balance	Three Month Average Daily Balance	Risk-Weighted Exposures
Exposures to:			
Government-sponsored entities	**$ 14,986,295**	**$ 14,972,519**	**$ 2,461,454**
Depository institutions, foreign banks and credit unions*	**9,213**	**35,702**	**3,137**
Corporate exposures, including borrower loans and leases	**5,878,217**	**5,732,566**	**5,488,400**
Past due and nonaccrual loans	**21,993**	**3,825**	**5,738**
Securitizations	**41,233**	**285,004**	**269,820**
Equity investments	**142,578**	**130,591**	**130,591**
Other assets	**8,200,243**	**7,878,304**	**1,851,525**
Deductions:			
Regulatory adjustments and deductions made to CET1	**-**	**-**	**(130,591)**
Regulatory adjustments and deductions made to AT1	**-**	**-**	**-**
Regulatory adjustments and deductions made to T2	**-**	**-**	**-**
Total standardized risk-weighted assets	**$ 29,279,772**	**$ 29,038,511**	**$ 10,080,074**

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

Capital Conservation and Leverage Buffers

As of March 31, 2018, the bank was well-capitalized and exceeded all capital requirements to which it was subject, including applicable capital buffers. The bank's capital conservation buffer is the lowest of the calculated buffer listed in the table below at 5.32 percent. The bank's leverage buffer of 3.00 percent is equal to the tier 1 leverage ratio minus the minimum tier 1 leverage ratio requirement. Because the bank's conservation and leverage buffers exceed the minimum buffer requirements of 2.5 percent and 1 percent, respectively, the bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $45,235 as of March 31, 2018.

	Regulatory Minimums	Required Buffer	Ratios as of March 31, 2018	Calculated Buffer
Common equity tier 1 capital ratio*	4.5%	2.5%	**9.82%**	5.32%
Tier 1 capital ratio*	6.0%	2.5%	**15.77%**	9.77%
Total capital ratio*	8.0%	2.5%	**15.86%**	7.86%
Capital conservation buffer				5.32%
Tier 1 leverage ratio	4.0%	1.0%	**7.00%**	3.00%
Leverage buffer				3.00%

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

Credit Risk

System entities have specific lending authorities within their chartered territories. The bank is chartered to serve its associations in Texas, Alabama, Mississippi, Louisiana and most of New Mexico. Our chartered territory is referred to as the district. FCBT serves its chartered territory by lending to the district's Federal Land Credit Association (FLCA) and Agricultural Credit Associations (ACAs). The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD) as is further discussed in the section "Allowance for Loan Losses and Reserve for Unfunded Commitments." Allowance needs by geographic region are only considered in circumstances that may not otherwise be reflected in the PD and LGD such as flooding or drought. There was no allowance attributed to a geographic area as of March 31, 2018.

Refer to the Risk-Adjusted Asset table on page 50 for the bank's total and average loans, investment securities, off -balance-sheet commitments and OTC derivatives. The bank's total loans by type can be found in Note 3.

The following table provides an overview of the remaining contractual maturity of the bank's credit risk portfolio categorized by exposure at March 31, 2018:

(dollars in thousands)	Due in one year or less	Due after one year through five years	Due after five years	Total
Loans	$ 4,297,249	$ 8,221,854	$ 4,854,797	$ 17,373,900
Off-Balance-Sheet Commitments				
Financial letters of credit	9	21,466	47,451	68,926
Performance letters of credit	208	-	5,337	5,545
Commercial letters of credit	-	2	4,683	4,685
Unfunded commitments	4,124,392	1,799,764	109,482	6,033,638
Investments	335,124	428,510	4,428,752	5,192,386
OTC Derivatives				
Interest rate caps	-	10	507	517
Pay fixed swaps	-	4,653	8,592	13,245
Total	**$ 8,756,982**	**$ 10,476,259**	**$ 9,459,601**	**$ 28,692,842**

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

	March 31,	December 31,	
	2018	2017	2016
Texas	**17 %**	15 %	15 %
Illinois	**5**	6	7
Georgia	**5**	6	7
Minnesota	**5**	4	5
California	**5**	5	4
All other States	**63**	64	62
	100 %	100 %	100 %

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

Counterparty Credit Risk and Credit Risk Mitigation

The following table provides the total exposure covered by guarantees/credit derivatives for each separately disclosed credit risk portfolio and the risk-weighted asset amount associated with that exposure. The bank did not hold eligible financial collateral for its loan, investment and derivative portfolios at March 31, 2018.

Government Guaranteed Asset Type (dollars in thousands)	90-Day Average Balance	Risk Weighting	Risk-Weighted Amount
Investments	$ 2,588,034	0%	$ -
Loans	2,380	0%	-
Total	**$ 2,590,414**		**$ -**

Securitization

The bank currently only participates in credit-related securitizations as investors through the purchase of highly rated asset-backed securities (ABS) as included in its investment portfolio. The bank also holds securitization exposures through the purchase of U.S. government and agency guaranteed securities. The bank has not transferred any exposures that it has originated or purchased from a third party in connection with a securitization of assets as of March 31, 2018, nor does it have any outstanding exposures that it intends to be securitized as of March 31, 2018. The bank did not recognize any gain or loss on securitized assets for the three months ended March 31, 2018. As of March 31, 2018, the bank did not retain any credit-related re-securitization exposures.

Below is an overview of our purchased securitization exposures held as of March 31, 2018, by exposure type and categorized by risk-weighting band and risk-based capital approach:

As of March 31, 2018, the bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

Description of Securitization	Risk-Based Capital Approach	Exposure Amount (dollars in thousands)	Risk Weighted
Agency MBS:			
GNMA	Standardized Risk Weight	$ 2,168,179	0%
FNMA and FHLMC	Standardized Risk Weight	2,272,949	20%
Asset-backed securities	Gross-up	56,441	122%

Equities

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

As of March 31, 2018 (dollars in thousands)	Disclosed in Other Assets	Life-to-Date Losses Recognized in Retained Earnings*
RBICs	$ 12,040	$ (631)

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

Interest Rate Risk

The following tables set forth the bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of March 31, 2018, based on the bank's interest-earning assets and interest-bearing liabilities at March 31, 2018:

	Down 86*	Up 100	Up 200
Change in net interest income	(0.23%)	1.04%	1.97%
Change in market value of equity	9.27%	(8.90%)	(17.50%)

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

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