FARM CREDIT PROUD PARTNER SERVING AGRICULTURE

2015 FIRST QUARTER REPORT

MARCH 31, 2015

FARM CREDIT BANK OF TEXAS

FIRST QUARTER 2015

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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, 2015. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2014 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) making 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 limited 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, 2015, the bank provided financing to 14 district associations and certain other financing institutions.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2015, was $52,101, an increase of $7,295, or 16.3 percent, over the same period of 2014. The increase in net income for the three months ended March 31, 2015, consisted of a $4,760 increase in net interest income and a $3,779 increase in noninterest income, offset by an $874 increase in provision for credit losses and a $370 increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended March 31, 2015, was $56,701, an increase of $4,760, or 9.2 percent, over the same period of 2014. The increase in net interest income was attributable to a volume increase of $1.8 billion in the bank's average earning assets and a 3-basis-point decrease in the bank's interest rate spread to 124 basis points. The interest rate spread decrease included a 3-basis-point decrease in the effective rate on average earning assets and no change in the effective rate on average interest-bearing liabilities for the three months ended March 31, 2015, compared to the three months ended March 31, 2014. The increase in the bank's average earning assets included growth in its direct notes from associations, capital market loans and investment portfolio. The bank called $925.9 million in debt in the three months ended March 31, 2015, as compared to $890.0 million in the first three months of 2014.

Provision for Credit Losses

The bank's provision for credit losses for the three months ended March 31, 2015, totaled $871, an increase of $874 over the $3 negative provision for credit losses for the first three months of 2014. The $871 provision included an $898 specific provision on an unfunded letter of credit due to a credit downgrade, offset by a $27 reduction in other general reserves for credit losses.

Noninterest Income

Noninterest income for the three months ended March 31, 2015, was $14,394, an increase of $3,779, or 35.6 percent, over the same period of 2014. The increase included a $5,779 dividend received with the disposition of the preferred stock of an ethanol facility in other property owned (OPO), and a $1,826 increase in loan-related fee income. Offsetting these increases were a $3,133 loss due to the write-off of loan accounting software no longer deemed a useable asset and a $654 decrease in fair value on loans previously purchased in the secondary market. The increase in loan-related fees included a $2,426 nonrecurring prepayment fee. The bank has elected a fair value option for financial presentation purposes on certain 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 instruments. As discussed in the "Investments" section of this Management's Discussion and Analysis, the bank performs other-than-temporary impairment (OTTI) assessments on investment securities based on evaluations of both current and future market and credit conditions at each quarter end. The bank recorded no credit losses for OTTI investment securities during the first quarter of 2014 or 2015.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2015, was $18,123, an increase of $370, or 2.1 percent, over the same period of 2014. The increase was attributable to a $1,349 increase in salaries and employee benefits, a $731 increase in occupancy and equipment expenses, a $534 increase in other operating expenses and a $345 increase in premiums assessed by the Farm Credit System Insurance Corporation (FCSIC), offset by a $2,589 increase in gains on OPO. The $731 increase in occupancy and equipment included a $695 increase in computer expenses. Premiums assessed by the FCSIC increased due to a rate increase on outstanding debt from 12 basis points in 2014 to 13 basis points in 2015, and to an increase in debt required to fund earning assets. The increase in gains on OPO included a $2,675 increase in net gains on disposition of the preferred stock of an ethanol facility, offset by an $81 increase in carrying value adjustments on the underlying collateral and a $5 increase in net expenses on OPO.

Key results of operations comparisons:

	Annualized for the Three Months Ended 3/31/2015	Annualized for the Three Months Ended 3/31/2014
Return on average assets	**1.02%**	1.12%
Return on average shareholders' equity	**12.14%**	12.75%
Net interest income as a percentage of average earning assets	**1.32%**	1.34%
Charge-offs, net of recoveries, to average loans	**0.00%**	0.01%
Operating expenses as a percentage of net interest income and noninterest income	**29.84%**	29.18%
Operating expenses as a percentage of average earning assets	**0.49%**	0.47%

Other Comprehensive Income

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

The table below summarizes the changes in elements included in other comprehensive income for the three months ended March 31:

	2015	2014
Change in unrealized losses on available-for-sale securities		
Net decrease in unrealized losses on investment securities	**$ 23,536**	$ 6,979
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	**-**	9
Net change in unrealized losses on securities	**23,536**	6,988
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(46)**	(48)
Amortization of net losses	**17**	-
Net change in postretirement benefit plans	**(29)**	(48)
Change in cash flow derivative instruments		
Unrealized losses on interest rate caps	**(172)**	(288)
Reclassification of loss recognized in interest expense	**482**	570
Net change in cash flow derivative instruments	**310**	282
Other comprehensive income	**$ 23,817**	$ 7,222

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2015, was $13,611,602, an increase of $351,765, or 2.7 percent, compared to $13,259,837 at December 31, 2014. The increase in the loan portfolio is attributable to growth in the bank's direct loans to associations and an increase 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 actively pursues 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. CPP loans held at March 31, 2015, totaled $32,988. The balance of the AMBS CPP was $77,619 at March 31, 2015.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 98.9 percent of total loans and accrued interest at March 31, 2015, compared to 98.8 percent at December 31, 2014.

The table below summarizes the balances of the bank's high-risk assets at March 31, 2015, compared to the balances at December 31, 2014:

		Increase (Decrease)		
	March 31, 2015	$	%	December 31, 2014
Nonaccrual loans	**$ 10,233**	$ (335)	(3.17) %	$ 10,568
Formally restructured loans	**16,357**	(124)	(0.75)	16,481
Loans 90 days past due and still accruing interest	**-**	-	-	-
Total impaired loans	**26,590**	(459)	(1.70)	27,049
Other property owned, net	**438**	(9,872)	(95.75)	10,310
Total high-risk assets	**$ 27,028**	$ (10,331)	(27.65) %	$ 37,359

The decrease in nonaccrual loans was due mainly to repayments of $307. At March 31, 2015, $2.6 million, or 25.2 percent, of the bank's nonaccrual loans were considered current as to principal and interest. Continued satisfactory payment performance on these loans may indicate potential for a return to accrual status. At March 31, 2014 and 2015, the bank did not have any nonaccrual loans on which cash payments are recognized as interest income. The decrease in OPO included a $9,872 disposition of preferred stock of an ethanol facility. The disposition resulted in a gain of $3,090.

Impaired loans, consisting of nonaccrual loans and formally restructured loans, and loans 90 days past due and still accruing interest, constituted 0.2 percent of gross loans at March 31, 2015, and 0.2 percent of gross loans at December 31, 2014.

At March 31, 2015, the bank had reserves for credit losses totaling $12,325, including an allowance for loan losses of $10,247 and a reserve for losses on unfunded commitments of $2,078 related to the bank's capital markets loan portfolio. The allowance for loan losses of $10,247 equated to 0.08 percent of total loans outstanding and 0.2 percent of capital market loans outstanding. The $2,078 reserve for losses included a general reserve for losses on unused loan commitments, a general reserve for losses on letters of credit and a specific reserve related to two letters of credit, representing management's estimate of probable credit losses related to letters of credit.

The allowance for loan losses as a percentage of impaired loans was 38.5 percent as of March 31, 2015, as compared to 37.4 percent as of December 31, 2014. The nature 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 $4,496,189, or 24.6 percent, of total assets at March 31, 2015, compared to $4,536,838, or 25.2 percent, at December 31, 2014, a decrease of $40,649, or 0.9 percent. At March 31, 2015, the bank's cash balance was $322,690, a $105,671 decrease from December 31, 2014. Cash held at the Federal Reserve Bank at March 31, 2015, totaled $309,969, compared to $402,409 at December 31, 2014. Levels of cash and other highly liquid assets are maintained to meet loan demand, debt servicing and other liquidity needs. At March 31, 2015, the bank had 219 days of liquidity to cover maturing debt obligations. Interest-bearing liabilities, consisting of bonds, notes and subordinated debt, increased by $247,014, or 1.5 percent, from December 31, 2014, to March 31, 2015.

Investments

The bank's investments are all considered available for sale, and include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio had a fair value of $4.08 billion at March 31, 2015, and consisted primarily of federal agency-guaranteed collateralized mortgage-backed securities [including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities], corporate debt, agency-guaranteed debt, asset-backed securities and other collateralized mortgage-backed securities. The bank's other investments, totaling $77.6 million, consisted of AMBS purchased from district associations. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitment to purchase agreements.

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

The following table summarizes the bank's liquidity portfolio holdings:

	March 31, 2015		December 31, 2014	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 156,326**	**$ 155,341**	$ 159,334	$ 155,190
Corporate debt	**271,510**	**271,885**	241,516	241,530
Federal agency-guaranteed collateralized mortgage-backed securities:				
GNMA	**1,611,234**	**1,615,117**	1,708,215	1,701,417
FNMA and FHLMC	**1,943,535**	**1,949,312**	1,829,075	1,825,894
Other collateralized mortgage-backed securities	**4**	**4**	7	7
Asset-backed securities	**83,372**	**83,346**	81,806	81,770
Total available-for-sale investments	**$ 4,065,981**	**$ 4,075,005**	$ 4,019,953	$ 4,005,808

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

	March 31, 2015		December 31, 2014	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 79,208**	**$ 77,619**	$ 82,539	$ 80,583

During the three months ended March 31, 2015, there was a decrease in unrealized losses on investments totaling $23,536, due primarily to the effect of a decline in interest rates on the bank's fixed rate mortgage-backed securities as rates for longer maturities have dropped, and to continued demand for high-quality agency mortgage-backed securities.

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 (except mortgage 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. Under the regulations, these investments have no final maturity limit, no credit rating requirement by NRSROs, no investment portfolio limit or other requirements. If an investment no longer meets the credit rating criteria, the investment becomes ineligible. To date, the FCA has not required disposition of any of these securities. While these investments do not meet the FCA's standards for liquidity, they are included in the net collateral calculation at the lower of market or book value.

At March 31, 2015, the bank held one investment that was ineligible for liquidity purposes by FCA regulations due to credit ratings that were below AAA rating by all NRSROs. That ineligible security had an amortized cost basis and a fair value of $4 at March 31, 2015.

The following table sets forth the bank's portfolio of liquidity investments at fair value by credit rating:

	Eligible			Ineligible				
March 31, 2015	AAA/Aaa	AA/Aa	Split Rated*	AA/Aa	A/A	BBB/Baa	CCC/Caa	Total
Agency-guaranteed debt**	$ -	$ -	$ 155,341	$ -	$ -	$ -	$ -	$ 155,341
Corporate debt	-	127,563	144,322	-		-	-	271,885
Federal agency collateralized mortgage-backed securities**								
GNMA	-	-	1,615,117	-	-	-	-	1,615,117
FNMA and FHLMC	-	-	1,949,312	-	-	-	-	1,949,312
Other collateralized mortgage-backed securities	-	-	-	4	-	-	-	4
Asset-backed securities	83,346	-	-	-	-	-	-	83,346
Total	$ 83,346	$127,563	$ 3,864,092	$ 4	$ -	$ -	$ -	$ 4,075,005

	Eligible			Ineligible				
December 31, 2014	AAA/Aaa	AA/Aa	Split Rated*	AA/Aa	A/A	BBB/Baa	CCC/Caa	Total
Agency-guaranteed debt**	$ -	$ -	$ 155,190	$ -	$ -	$ -	$ -	$ 155,190
Corporate debt	-	97,475	144,055	-		-	-	241,530
Federal agency collateralized mortgage-backed securities**								
GNMA	-	-	1,701,417	-	-	-	-	1,701,417
FNMA and FHLMC	-	-	1,825,894	-	-	-	-	1,825,894
Other collateralized mortgage-backed securities	-	-	-	7	-	-	-	7
Asset-backed securities	81,770	-	-	-	-	-	-	81,770
Total	$ 81,770	$ 97,475	$ 3,826,556	$ 7	$ -	$ -	$ -	$ 4,005,808

*Investments that received the highest credit rating from at least one NRSRO.

**At March 31, 2015, and December 31, 2014, due to credit ratings which remain "AA+" and related lowered long-term credit ratings of government-sponsored enterprises due to the potential reduction in the capacity of the U.S. government to support these securities, these investments were reported as eligible split-rated investments.

Capital Resources

At March 31, 2015, the bank's capital totaled $1,549,100, and consisted of $600,000 of Class B non-cumulative subordinated perpetual preferred stock, $233,468 of capital stock, $711,637 in retained earnings and $3,995 in accumulated other comprehensive income. The balance in equity reflected an increase of $69,879 from equity at December 31, 2014, due primarily to net income of $52,101 and a $23,817 increase in other comprehensive gains, offset by preferred stock dividends of $5,062 and $977 in patronage declared and paid.

As of March 31, 2015, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under FCA regulations. At March 31, 2015, the bank's permanent capital ratio was 17.33 percent, core surplus ratio was 9.29 percent, total surplus ratio was 14.65 percent and the net collateral ratio was 108.32 percent. The increase in accumulated other comprehensive income of $23,817 included a decrease in unrealized losses on investments of $23,536 and a $310 decrease in unrealized losses on cash flow derivative instruments, net of a $29 amortization of other postretirement benefits. The decrease in unrealized losses on investment securities was due primarily to the effect of a decline in interest rates related to the bank's fixed rate mortgage-backed securities as rates for longer maturities have dropped, and to continued demand for high-quality agency mortgage-backed securities.

Key financial condition comparisons:

	March 31, 2015	December 31, 2014
Permanent capital ratio	**17.33%**	18.33%
Net collateral ratio	**108.32%**	108.00%
Allowance and reserve for credit losses to total loans	**0.09%**	0.09%

OTHER

CONDITIONS IN THE TEXAS FARM CREDIT DISTRICT

Beneficial levels of winter precipitation fell across most parts of the Texas District during the first quarter of 2015; however, more rain is needed in parts of Texas and New Mexico to replenish ground moisture and stock tanks and lakes, as certain parts of these states remain under long-term drought conditions. Alabama, Mississippi and Louisiana, in general, have continued to experience plentiful levels of rainfall and soil moisture. Across the district, this has generally resulted in healthier pasture and range conditions, as well as sufficient moisture for the production of field crops. While the threat of drought remains, adequate topsoil and subsoil moisture levels across most parts of the district should continue to support pasture and range conditions, as well as promote optimism and planting activity during the planting season. Nevertheless, the current price environment for many principal crops could dampen total acres planted.

In the Texas District, planting season for most crops is now under way; however, crop progress for certain regions in the eastern states is behind the five-year average due to the wet conditions restricting field work. According to the U.S. Department of Agriculture's Prospective Plantings Report, farmers are expected to more heavily allocate acres to soybeans, sorghum and peanuts. The expected changes to the allocation of acres can primarily be attributed to changes in the price relationships for alternative crops, the related crop inputs and changes to the U.S. Farm Bill. Nevertheless, both cotton and corn acreage should continue to represent a relatively sizable portion of the total acres that will be allocated in the Texas District. Looking forward to the early summer months, the focus will be on growing conditions and the impact on harvested acres, yields and, ultimately, price. Farmers in the district continue to use risk management tools, such as programs under the U.S. Farm Bill, multi-peril crop insurance, and forward, futures and options contracts.

Across most of the district, reduced feed prices, coupled with the continuation of historically high protein prices, have had a positive impact on the livestock, poultry and dairy industries. The cattle industry continues to experience contracted herd levels, due to the previous prolonged drought conditions in the U.S. Plains states. However, cattle ranchers have begun the process of expanding their herds through increased cow and heifer retention. While cattle feedlots continue to manage through the effects of smaller herds, elevated beef prices and a strong corn crop have aided profitability. Most recently, dairy prices have softened; however, producers had most recently benefited from very strong milk prices, allowing many dairy producers to strengthen their balance sheet before moving into the next cycle of expansion. In addition, lower corn and hay costs remain supportive of dairymen profits. Given the limited supplies of meat, caused by the recent reduction in the cattle herd, the prior effects of the porcine virus on pork production and the continued decline in feed costs, poultry integrators were able to maintain strong margins. As livestock producers manage profitability, risk management of operations will continue to provide protection from commodity price volatility and the threat of rising production costs.

Labor markets are generally improving, and the housing and construction sector continues to recover. Global supply and demand dynamics remain supportive of the agricultural concentrations in the district loan portfolio, which is expected to contribute to the preservation of credit quality. As always, weather conditions, as well as other macro-economic forces, such as oil prices, unemployment and foreign demand, might impact portfolio profitability going forward. Moreover, job growth in certain areas of the

Texas District could be adversely impacted by lower oil prices, and, if such prices persist over the medium to long term, land values in those areas might decline. However, the district continues to be supported by strong credit quality, appropriate collateral positions, adequate levels of capital and well-balanced portfolio diversification.

ASSOCIATION MERGERS

In 2014, there were two mergers affecting four district associations. The mergers of Lone Star, ACA and Texas Land Bank, ACA, forming Lone Star, ACA, and of Texas AgFinance and AgriLand, Farm Credit Services, forming Texas Farm Credit Services, became effective January 1, 2014. The mergers were accounted for under the acquisition method of accounting under generally accepted accounting principles. As of January 1, 2014, the number of affiliated associations in the district decreased from 17 to 15, consisting of 14 Agricultural Credit Associations (ACAs) and one Federal Land Credit Association (FLCA).

During the first quarter of 2015, there was one merger affecting two district associations. The merger of AgTexas Farm Credit Services and Great Plains Ag Credit, ACA, forming AgTexas Farm Credit Services, became effective January 1, 2015. The merger was accounted for under the acquisition method of accounting under generally accepted accounting principles. As of January 1, 2015, the number of affiliated associations in the district decreased from 15 to 14, consisting of 13 ACAs and one FLCA.

RATING AGENCY ACTIONS

Fitch Ratings Actions

On April 21, 2015, 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 subordinated debt rating at “A+,” its noncumulative perpetual preferred stock rating at “BBB” and its support floor at “AA-.” Fitch also affirmed the Farm Credit System’s long-term and short-term issuer default ratings (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, and thus, 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 Investor Service Rating Actions

On April 30, 2015, Moody’s Investors Service affirmed the bank’s issuer rating at “Aa3,” its subordinated debt rating at “A2,” 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 subordinated debt and preferred stock ratings incorporate the bank’s BCA, very high cooperative support from the other Federal Farm Credit Banks and notching reflecting the debt’s relative positions in the bank’s capital structure. The bank’s BCA incorporates its solid capital levels, adequate risk-adjusted profitability and liquidity as well as the benefits associated with its lending to related associations and their strong capital levels. The “a1” BCA is one of Moody's highest assessments of any financial institution, both domestically and globally.

REGULATORY MATTERS

On January 20, 2015, FCA published a proposed rule amending existing regulations related to mergers and consolidations of System institutions that clarify the merger review and approval process, identify when the 60-day review period begins, require that only independent tabulators be authorized to validate ballots and tabulate stockholder votes on mergers and consolidations, require institutions to hold information meetings if circumstances warrant, explain the reconsideration petition process and specify the record date list to be provided to stockholders who wish to file a reconsideration petition. The period for submission of public comments expired on April 20, 2015.

On February 26, 2015, FCA published a final rule amending its regulations related to System bank and association disclosures to shareholders and investors. Under the proposed rule, there would be no reporting requirement for employees who are not senior officers and who would not otherwise be considered “highly compensated employees” except for payments related to the change(s) in value of the employee’s qualified pension plan, provided that the plans were available to all employees on the same basis at the time the employees joined the plans. The regulation became effective on April 29, 2015.

As of March 31, 2015, FCA had enforcement actions in place against one association in the district, which has not had, and is not expected to have, a significant impact on the bank.

The undersigned certify that we have reviewed the March 31, 2015, 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 8, 2015

Controls and Procedures

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

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

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

May 8, 2015

Balance Sheets

(dollars in thousands)	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Cash	**$ 322,690**	$ 428,361
Federal funds sold and overnight investments	**20,875**	22,086
Investment securities	**4,152,624**	4,086,391
Loans (includes $40,055 and $40,532 at fair value held under fair value option)	**13,611,602**	13,259,837
Less allowance for loan losses	**10,247**	10,112
Net loans	**13,601,355**	13,249,725
Accrued interest receivable	**47,303**	44,429
Other property owned	**438**	10,310
Premises and equipment, net	**21,986**	25,197
Other assets	**126,524**	147,051
Total assets	**$ 18,293,795**	$ 18,013,550
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 16,588,295**	$ 16,341,281
Subordinated debt	**50,000**	50,000
Accrued interest payable	**41,325**	38,122
Reserve for credit losses	**2,078**	1,342
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**42,934**	83,521
Total liabilities	**16,744,695**	16,534,329
Commitments and contingent liabilities (Note 4)		
Shareholders' equity		
Preferred stock	**600,000**	600,000
Capital stock	**233,468**	233,468
Allocated retained earnings	**22,508**	22,508
Unallocated retained earnings	**689,129**	643,067
Accumulated other comprehensive income (loss)	**3,995**	(19,822)
Total shareholders' equity	**1,549,100**	1,479,221
Total liabilities and shareholders' equity	**$ 18,293,795**	$ 18,013,550

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2015	2014
Interest Income		
Investment securities	**$ 14,808**	$12,117
Loans	**87,434**	80,753
Total interest income	**102,242**	92,870
Interest Expense		
Bonds, notes and subordinated debt	**45,541**	40,929
Total interest expense	**45,541**	40,929
Net interest income	**56,701**	51,941
Provision (negative provision) for credit losses	**871**	(3)
Net interest income after provision (negative provision) for credit losses	**55,830**	51,944
Noninterest Income		
Patronage income	**5,409**	5,364
Fees for services to associations	**1,467**	1,374
Loan-related fees	**4,894**	3,068
(Loss) gain on loans held under fair value option	**(90)**	564
Miscellaneous income, net	**2,714**	245
Total noninterest income	**14,394**	10,615
Noninterest Expense		
Salaries and employee benefits	**8,946**	7,597
Occupancy and equipment	**4,095**	3,364
Insurance Fund premiums	**2,104**	1,759
Gains on other property owned	**(3,090)**	(501)
Other operating expenses	**6,068**	5,534
Total noninterest expense	**18,123**	17,753
Net Income	**52,101**	44,806
Other comprehensive income		
Change in postretirement benefit plans	**(29)**	(48)
Change in unrealized gain on investments	**23,536**	6,988
Change in cash flow derivative instruments	**310**	282
Total other comprehensive income	**23,817**	7,222
Comprehensive Income	**$ 75,918**	$ 52,028

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2013	$ 600,000	$ 220,543	$ 20,314	$ 585,503	$ (33,113)	$ 1,393,247
Net income	-	-	-	44,806	-	44,806
Other comprehensive income	-	-	-	-	7,222	7,222
Preferred stock dividends accrued	-	-	-	(5,062)	-	(5,062)
Patronage distributions						
Cash	-	-	-	(941)	-	(941)
Shareholders' equity	-	-	(4)	4	-	-
Balance at March 31, 2014	$ 600,000	$ 220,543	$ 20,310	$ 624,310	$ (25,891)	$ 1,439,272
Balance at December 31, 2014	$ 600,000	$ 233,468	$ 22,508	$ 643,067	$ (19,822)	$ 1,479,221
Net income	-	-	-	52,101	-	52,101
Other comprehensive income	-	-	-	-	23,817	23,817
Preferred stock dividends accrued	-	-	-	(5,062)	-	(5,062)
Patronage distributions						
Cash	-	-	-	(977)	-	(977)
Balance at March 31, 2015	**$ 600,000**	**$ 233,468**	**$ 22,508**	**$ 689,129**	**$ 3,995**	**$ 1,549,100**

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

Statements of Cash Flows

(unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	**2015**	2014
Operating activities		
Net income	**$ 52,101**	$44,806
Reconciliation of net income to net cash provided by operating activities		
Provision (negative provision) for credit losses	**871**	(3)
Carrrying value adjustments on other property owned		(81)
Depreciation and amortization on premises and equipment	**1,323**	1,142
Accretion of net premium on loans	**2,041**	1,441
Amortization and accretion on debt instruments	**(845)**	(911)
Amortization of net premium (discount) on investment securities	**607**	(730)
(Decrease) increase in fair value on loans under fair value option	**90**	(564)
Gains from sales of other property owned, net	**(3,090)**	(414)
Losses (gains) from sales of premises and equipment	**3,133**	(16)
Allocated equity patronage from System bank	**(13,498)**	(13,083)
Increase in accrued interest receivable	**(2,874)**	(5,492)
Decrease in other assets	**34,336**	9,178
Increase in accrued interest payable	**3,203**	1,147
Decrease in other liabilities	**(8,067)**	(11,660)
Net cash provided by operating activities	**69,331**	24,760
Investing activities		
Net decrease in federal funds	**1,211**	597
Investment securities		
Purchases	**(258,515)**	(307,887)
Proceeds from maturities, calls and prepayments	**215,211**	198,233
Increase in loans, net	**(366,748)**	(281,676)
Proceeds from sales of other property owned	**12,962**	3,228
Proceeds from sales of premises and equipment	**24**	33
Expenditures for premises and equipment	**(1,269)**	(2,106)
Net cash used in investing activities	**(397,124)**	(389,578)
Financing activities		
Bonds and notes issued	**2,829,306**	2,643,463
Bonds and notes retired	**(2,581,447)**	(2,389,674)
Cash dividends on preferred stock	**(5,062)**	(5,062)
Cash patronage distributions paid	**(20,675)**	(17,803)
Net cash provided by financing activities	**222,122**	230,924
Net decrease in cash	**(105,671)**	(133,894)
Cash at beginning of year	**428,361**	602,452
Cash at end of quarter	**$ 322,690**	$ 468,558
Supplemental schedule of noncash investing and financing activities		
Net increase in unrealized gains on investment securities	**$ 23,536**	$ 6,988
Supplemental information		
Interest paid	**$ 42,338**	$ 39,782

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, 2014, are contained in the 2014 Annual Report to shareholders (Annual Report). These unaudited first quarter 2015 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-shareholders. At March 31, 2015, the bank provided financing to 14 district associations and certain other financing institutions.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled “Presentation of Financial Statements — Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The bank and associations are in the process of reviewing contracts to determine what effect, if any, this guidance will have on their financial condition or results of operations.

NOTE 2 — 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 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, 2015, and December 31, 2014, is included in the following tables.

Investments in the available-for-sale liquidity portfolio at March 31, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 156,326	$ 721	$ (1,706)	$ 155,341	1.45 %
Corporate debt	271,510	600	(225)	271,885	0.80
Federal agency collateralized mortgage-backed securities					
GNMA	1,611,234	10,654	(6,771)	1,615,117	1.54
FNMA and FHLMC	1,943,535	10,454	(4,677)	1,949,312	1.35
Other collateralized mortgage-backed securities	4	-	-	4	2.42
Asset-backed securities	83,372	6	(32)	83,346	0.61
Total available-for-sale investments	**$ 4,065,981**	**$ 22,435**	**$ (13,411)**	**$ 4,075,005**	**1.38** %

Investments in the available-for-sale other investments portfolio at March 31, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 79,208	$ -	$ (1,589)	$ 77,619	4.17 %

Investments in the available-for-sale liquidity portfolio at December 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 159,334	$ -	$ (4,144)	$ 155,190	1.45 %
Corporate debt	241,516	313	(299)	241,530	0.76
Federal agency collateralized mortgage-backed securities					
GNMA	1,708,215	6,212	(13,010)	1,701,417	1.54
FNMA and FHLMC	1,829,075	6,174	(9,355)	1,825,894	1.36
Other collateralized mortgage-backed securities	7	-	-	7	2.42
Asset-backed securities	81,806	10	(46)	81,770	0.59
Total available-for-sale investments	**$ 4,019,953**	**$ 12,709**	**$ (26,854)**	**$ 4,005,808**	**1.40** %

Investments in the available-for-sale other investments portfolio at December 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 82,539	$ -	$ (1,956)	$ 80,583	4.17 %

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at March 31, 2015:

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	$ -	$ -	$ 76,250	$ 79,091	$ 155,341
Corporate debt	110,101	161,784	-	-	271,885
Federal agency collateralized mortgage-backed securities					
GNMA	-	1,147	17,535	1,596,435	1,615,117
FNMA and FHLMC	-	25,181	191,415	1,732,716	1,949,312
Other collateralized mortgage-backed securities	-	-	-	4	4
Asset-backed securities	-	77,809	-	5,537	83,346
Total fair value	**$ 110,101**	**$ 265,921**	**$ 285,200**	**$ 3,413,783**	**$ 4,075,005**
Total amortized cost	**$ 109,998**	**$ 265,224**	**$ 284,583**	**$ 3,406,176**	**$ 4,065,981**
Weighted average yield	**0.59%**	**0.94%**	**1.75%**	**1.40%**	**1.38%**

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

	Due after one year through five years
Fair value of agricultural mortgage-backed securities	$ 77,619
Total amortized cost	$ 79,208
Weighted average yield	4.17%

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, 2015. 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	$ 13,384	$ (69)	$ 90,523	$ (1,637)	$ 103,907	$ (1,706)
Corporate debt	22,347	(219)	14,993	(6)	37,340	(225)
Federal agency collateralized mortgage-backed securities						
GNMA	58,101	(199)	408,914	(6,572)	467,015	(6,771)
FNMA and FHLMC	192,740	(680)	400,206	(3,997)	592,946	(4,677)
Other collateralized mortgage-backed securities	-	-	4	-	4	-
Asset-backed securities	55,546	(32)	-	-	55,546	(32)
Total	**$342,118**	**$ (1,199)**	**$914,640**	**$ (12,212)**	**$1,256,758**	**$ (13,411)**

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).

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. In the three months ended March 31, 2015, the bank did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at March 31, 2015.

The following is a rollforward of the amount related to credit losses recognized for the three months ended March 31:

	2015	2014
Credit loss component, beginning of period	**$ -**	$ 454
Additions	**-**	-
Reductions	**-**	-
Credit loss component, end of period	**$ -**	$ 454

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, 2015	December 31, 2014
Direct notes receivable from district associations and OFIs	**$ 8,597,123**	$ 8,504,806
Participations purchased	**5,014,056**	4,753,363
Other bank-owned loans	**423**	1,668
Total	**$ 13,611,602**	$ 13,259,837

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

	March 31, 2015	December 31, 2014
Direct notes receivable from district associations	**$ 8,554,884**	$ 8,465,887
Real estate mortgage	**344,218**	337,777
Production and intermediate term	**602,512**	567,721
Loans to cooperatives	**185,076**	141,478
Processing and marketing	**2,070,338**	1,951,908
Farm-related business	**232,232**	227,125
Communication	**316,260**	252,117
Energy (rural utilities)	**1,064,663**	1,109,552
Water and waste disposal	**134,795**	134,644
Rural residential real estate	**16**	16
Agricultural export finance	**31,817**	-
Loans to other financing institutions	**42,239**	38,919
Mission-related	**32,552**	32,693
Total	**$ 13,611,602**	$ 13,259,837

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 actively pursues 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, 2015.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 332,260	$ 246,947	$ -	$ -	$ 332,260	$ 246,947
Production and intermediate term	1,578,293	1,036,495	7,289	27,509	1,585,582	1,064,004
Agribusiness	1,456,573	538,804	39,241	-	1,495,814	538,804
Communication	429,708	112,973	-	-	429,708	112,973
Energy (rural utilities)	1,238,634	183,421	-	-	1,238,634	183,421
Water and waste disposal	134,529	18,518	-	-	134,529	18,518
Agricultural export finance	31,817	-	-	-	31,817	-
Mission-related	4,885	-	-	-	4,885	-
Loans to other financing institutions	-	15,943	-	-	-	15,943
Direct note receivable from district associations	-	3,650,000	-	-	-	3,650,000
Total	**$ 5,206,699**	**$ 5,803,101**	**$ 46,530**	**$ 27,509**	**$ 5,253,229**	**$ 5,830,610**

The bank has purchased loan participations and Farmer Mac guaranteed 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. CPP loans held at March 31, 2015, totaled $32,988. The balance of the AMBS CPP was $77,619 at March 31, 2015.

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, 2015, or December 31, 2014.

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 $40,055 at March 31, 2015. 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, 2015:

Balance at January 1, 2015	**$ 40,532**
Net losses on financial instruments under fair value option	**(90)**
Change in premium	**(387)**
Balance at March 31, 2015	**$ 40,055**

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

	March 31, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	**$ 3,295**	$ 3,545
Energy and water/waste disposal	**6,938**	7,023
Total nonaccrual loans	**10,233**	10,568
Accruing restructured loans:		
Real estate mortgage	**857**	870
Production and intermediate term	**12,652**	12,805
Mission-related	**2,848**	2,806
Total accruing restructured loans	**16,357**	16,481
Total nonperforming loans	**26,590**	27,049
Other property owned	**438**	10,310
Total nonperforming assets	**$ 27,028**	$ 37,359

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, 2015		December 31, 2014	
Real estate mortgage:				
Acceptable	**89.7**	**%**	89.5	%
OAEM	**9.1**		9.2	
Substandard/Doubtful	**1.2**		1.3	
	100.0	**%**	100.0	%
Production and intermediate term:				
Acceptable	**99.3**	**%**	99.2	%
OAEM	**0.7**		0.8	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Agribusiness:				
Acceptable	**99.2**	**%**	99.2	%
OAEM	**0.7**		0.8	
Substandard/Doubtful	**0.1**		-	
	100.0	**%**	100.0	%
Energy and water/waste disposal:				
Acceptable	**98.4**	**%**	98.5	%
OAEM	**1.0**		0.9	
Substandard/Doubtful	**0.6**		0.6	
	100.0	**%**	100.0	%
Communication:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Rural residential real estate:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Agricultural export finance:				
Acceptable	**100.0**	**%**	-	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	-	%
Direct notes to associations:				
Acceptable	**98.4**	**%**	98.2	%
OAEM	**-**		-	
Substandard/Doubtful	**1.6**		1.8	
	100.0	**%**	100.0	%
Loans to other financing institutions:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Mission-related:				
Acceptable	**93.4**	**%**	93.4	%
OAEM	**-**		-	
Substandard/Doubtful	**6.6**		6.6	
	100.0	**%**	100.0	%
Total loans:				
Acceptable	**98.4**	**%**	98.3	%
OAEM	**0.5**		0.5	
Substandard/Doubtful	**1.1**		1.2	
	100.0	**%**	100.0	%

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

March 31, 2015

	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	$ 729	$ 733	$ 1,462	$ 345,922	$ 347,384	$ -
Production and intermediate term	-	-	-	604,975	604,975	-
Agribusiness	-	-	-	2,500,892	2,500,892	-
Communication	-	-	-	316,503	316,503	-
Energy and water/waste disposal	-	6,918	6,918	1,197,479	1,204,397	-
Rural residential real estate	-	-	-	16	16	-
Agricultural export finance	-	-	-	31,800	31,800	-
Direct notes to associations	-	-	-	8,572,107	8,572,107	-
Loans to other financing institutions	-	-	-	42,288	42,288	-
Mission-related	-	-	-	32,716	32,716	-
Total	**$ 729**	**$ 7,651**	**$ 8,380**	**$13,644,698**	**$13,653,078**	**$ -**

December 31, 2014

	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	$ -	$ 3,574	$ 3,574	$ 337,316	$ 340,890	$ -
Production and intermediate term	-	-	-	569,642	569,642	-
Agribusiness	-	-	-	2,331,382	2,331,382	-
Communication	-	-	-	252,336	252,336	-
Energy and water/waste disposal	4,916	2,086	7,002	1,242,382	1,249,384	-
Rural residential real estate	-	-	-	16	16	-
Direct notes to associations	-	-	-	8,482,934	8,482,934	-
Loans to other financing institutions	-	-	-	38,966	38,966	-
Mission-related	-	-	-	32,960	32,960	-
Total	$ 4,916	$ 5,660	$ 10,576	$ 13,287,934	$ 13,298,510	$ -

Additional impaired loan information is as follows:

	At March 31, 2015			At December 31, 2014		
Impaired loans with a related allowance for credit losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Energy and water/waste disposal	**$ 6,938**	**$ 6,938**	**$ 5,500**	$ 7,023	$ 7,023	$ 5,500
Mission-related	**226**	**226**	**72**	228	228	72
Total	**$ 7,164**	**$ 7,164**	**$ 5,572**	$ 7,251	$ 7,251	$ 5,572
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 4,152**	**$ 10,822**	**$ -**	$ 4,415	$ 11,056	$ -
Production and intermediate term	**12,652**	**15,597**	**-**	12,805	15,597	-
Processing and marketing	**-**	**1,381**	**-**	-	1,381	-
Energy and water/waste disposal	**-**	**17,578**	**-**	-	17,578	-
Mission-related	**2,622**	**5,763**	**-**	2,578	5,763	-
Total	**$ 19,426**	**$ 51,141**	**$ -**	$ 19,798	$ 51,375	$ -
Total impaired loans:						
Real estate mortgage	**$ 4,152**	**$ 10,822**	**$ -**	$ 4,415	$ 11,056	$ -
Production and intermediate term	**12,652**	**15,597**	**-**	12,805	15,597	-
Processing and marketing	**-**	**1,381**	**-**	-	1,381	-
Energy and water/waste disposal	**6,938**	**24,516**	**5,500**	7,023	24,601	5,500
Mission-related	**2,848**	**5,989**	**72**	2,806	5,991	72
Total	**$ 26,590**	**$ 58,305**	**$ 5,572**	$ 27,049	$ 58,626	$ 5,572

	For the Three Months Ended			
	March 31, 2015		March 31, 2014	
Impaired loans with a related allowance for credit losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Real estate mortgage	**$ -**	**$ -**	$ 2,933	$ -
Production and intermediate term	**-**	**-**	14,509	-
Energy and water/waste disposal	**6,953**	**-**	2,018	-
Mission-related	**227**	**4**	203	4
Total	**$ 7,180**	**$ 4**	$ 19,663	$ 4
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 4,287**	**$ 37**	$ 4,149	$ 79
Production and intermediate term	**12,562**	**531**	11,281	381
Mission-related	**2,550**	**39**	2,600	40
Total	**$ 19,399**	**$ 607**	$ 18,030	$ 500
Total impaired loans:				
Real estate mortgage	**$ 4,287**	**$ 37**	$ 7,082	$ 79
Production and intermediate term	**12,562**	**531**	25,790	381
Energy and water/waste disposal	**6,953**	**-**	2,018	-
Mission-related	**2,777**	**43**	2,803	44
Total	**$ 26,579**	**$ 611**	$ 37,693	$ 504

The average recorded investment in impaired loans for the three months ended March 31, 2015, was $26.6 million. The bank recognized interest income of $611 on impaired loans during the three months ended March 31, 2015.

At March 31, 2015, impaired loans of $7.2 million had a related specific allowance of $5.6 million, while the remaining $19.4 million of impaired loans had no related specific allowance as a result of adequate collateralization.

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses											
Balance at December 31, 2014	$ 794	$ 304	$ 1,120	$ 200	$ 7,590	$ -	$ -	$ -	$ -	$ 104	$ 10,112
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-	-
Provision for credit losses	(26)	68	914	(9)	(104)	-	27	-	-	1	871
Other *	29	21	(836)	-	50	-	-	-	-	-	(736)
Balance at March 31, 2015	$ 797	$ 393	$ 1,198	$ 191	$ 7,536	$ -	$ 27	$ -	$ -	$ 105	$ 10,247
Individually evaluated for impairment	-	-	-	-	5,500	-	-	-	-	72	5,572
Collectively evaluated for impairment	797	393	1,198	191	2,036	-	27	-	-	33	4,675
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2015	$ 797	$ 393	$ 1,198	$ 191	$ 7,536	$ -	$ 27	$ -	$ -	$ 105	$ 10,247
Balance at December 31, 2013	$ 1,954	$ 5,075	$ 2,781	$ 215	$ 3,596	$ -	$ 7	$ -	$ -	$ 32	$ 13,660
Charge-offs	-	-	(290)	-	-	-	-	-	-	-	(290)
Recoveries	-	-	5	-	41	-	-	-	-	-	46
Provision for credit losses	468	189	(757)	-	-	-	-	-	-	97	(3)
Other *	1,004	-	-	-	-	-	-	-	-	(26)	978
Balance at March 31, 2014	$ 3,426	$ 5,264	$ 1,739	$ 215	$ 3,637	$ -	$ 7	$ -	$ -	$ 103	$ 14,391
Individually evaluated for impairment	2,072	4,811	-	-	2,149	-	-	-	-	70	9,102
Collectively evaluated for impairment	1,354	453	1,739	215	1,488	-	7	-	-	33	5,289
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2014	$ 3,426	$ 5,264	$ 1,739	$ 215	$ 3,637	$ -	$ 7	$ -	$ -	$ 103	$ 14,391
Recorded Investments in Loans Outstanding:											
Ending balance at March 31, 2015	$ 347,384	$ 604,975	$ 2,500,892	$ 316,503	$ 1,204,397	$ 16	$ 31,800	$ 8,572,107	$ 42,288	$ 32,716	$ 13,653,078
Individually evaluated for impairment	$ 4,152	$ 12,652	$ -	$ -	$ 6,939	$ -	$ -	$ -	$ -	$ 2,847	$ 26,590
Collectively evaluated for impairment	$ 343,232	$ 592,323	$ 2,500,892	$ 316,503	$ 1,197,458	$ 16	$ 31,800	$ 8,572,107	$ 42,288	$ 29,869	$ 13,626,488
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance at March 31, 2014	$ 382,709	$ 428,667	$ 2,162,788	$ 273,528	$ 1,272,962	$ 21	$ 19,415	$ 7,453,948	$ 37,556	$ 33,350	$ 12,064,944
Individually evaluated for impairment	$ 5,313	$ 24,689	$ -	$ -	$ 2,174	$ -	$ -	$ -	$ -	$ 2,875	$ 35,051
Collectively evaluated for impairment	$ 377,396	$ 403,978	$ 2,162,788	$ 273,528	$ 1,270,788	$ 21	$ 19,415	$ 7,453,948	$ 37,556	$ 30,475	$ 12,029,893
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

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

As of March 31, 2015, the total recorded investment of TDR loans was $17,090 including $733 classified as nonaccrual and $16,357 classified as accrual, with specific allowance for loan losses of $72. There were no additional commitments to lend to borrowers whose loan terms have been modified in TDRs at March 31, 2015, and December 31, 2014.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	March 31, 2015	December 31, 2014	**March 31, 2015**	December 31, 2014
Real estate mortgage	**$ 1,590**	$ 1,675	**$ 733**	$ 805
Production and intermediate term	**12,652**	12,805	**-**	-
Mission-related	**2,848**	2,806	**-**	-
Total	**$ 17,090**	$ 17,286	**$ 733**	$ 805

During the three months ended March 31, 2015, there were no restructured loans designated as TDR. 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 CONTINGENT LIABILITIES

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, 2015, were approximately $222.2 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 2014 Annual Report for a more complete description.

Assets and liabilities recorded at fair value on a recurring basis at March 31, 2015, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at March 31, 2015			
	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	**$ 20,875**	$ -	$ 20,875	$ -
Investments available for sale:				
Corporate debt	**271,885**	-	271,885	-
Agency-guaranteed debt	**155,341**	-	155,341	-
Mortgage-backed securities	**3,564,433**	-	3,564,429	4
Asset-backed securities	**83,346**	-	83,346	-
Mission-related and other available-for-sale investments	**77,619**	-	-	77,619
Loans valued under the fair value option	**40,055**	-	40,055	
Derivative assets	**575**	-	575	-
Assets held in nonqualified benefit trusts	**343**	343	-	-
Total assets	**$ 4,214,472**	$ 343	$ 4,136,506	$ 77,623
Liabilities:				
Standby letters of credit	**$ 1,443**	$ -	$ -	$ 1,443
Total liabilities	**$ 1,443**	$ -	$ -	$ 1,443

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 $40,055 at March 31, 2015.

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, 2015, to March 31, 2015:

	Assets					Liabilities	
	Corporate Debt	Agency-Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:							
Balance at January 1, 2015	$ -	$ -	$ 7	$ 80,583	$ -	$ 797	$ 79,793
Net gains included in other comprehensive loss	-	-	-	367	-	-	367
Net losses included in earnings	-	-	-	-	-	-	-
Purchases, issuances and settlements	-	-	(3)	(3,331)	-	646	(3,980)
Transfers into Level 3	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-
Balance at March 31, 2015	$ -	$ -	$ 4	$ 77,619	$ -	$ 1,443	$ 76,180
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2015	$ -	$ -	$ -	$ -	$ -	$ -	$ -

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the three months ended March 31, 2015. AMBS are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At March 31, 2015, Level 3 investments included one non-agency MBS. The liability for standby letters of credit is included in Level 3 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2015, for each of the fair value hierarchy levels are summarized below:

	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
Assets:					
Loans	**$ 4,662**	$ -	$ -	$ 4,662	**$ -**
Other property owned	**487**	-	-	487	**3,090**
Total assets	**$ 5,149**	$ -	$ -	$ 5,149	**$ 3,090**

Assets and liabilities measured at fair value on a recurring basis at December 31, 2014, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at December 31, 2014			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	$ 22,086	$ -	$ 22,086	$ -
Investments available for sale:				
Corporate debt	241,530	-	241,530	-
Agency-guaranteed debt	155,190	-	155,190	-
Mortgage-backed securities	3,527,318	-	3,527,311	7
Asset-backed securities	81,770	-	81,770	-
Mission-related and other available-for-sale investments	80,583	-	-	80,583
Loans valued under the fair value option	40,532	-	40,532	
Derivative assets	748	-	748	-
Assets held in nonqualified benefit trusts	298	298	-	-
Total assets	$ 4,150,055	$ 298	$ 4,069,167	$ 80,590
Liabilities:				
Standby letters of credit	$ 797	$ -	$ -	$ 797
Total liabilities	$ 797	$ -	$ -	$ 797

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, 2014, to March 31, 2014:

	Assets					Liabilities	
	Corporate Debt	Agency-Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Standby Letters of Credit	Net
Balance at January 1, 2014	$ 15,000	$ 26,949	$ 7,529	$ 97,423	$ 1,157	$ -	$ 148,058
Net gains (losses) included in other comprehensive loss	-	29	(175)	523	18	-	395
Purchases, issuances and settlements	-	(195)	98,896	(4,659)	(179)	-	93,863
Transfers into Level 3	-	-	-	-	-	832	(832)
Transfers out of Level 3	(15,000)	(17,582)	-	-	-	-	(32,582)
Balance at March 31, 2014	$ -	$ 9,201	$ 106,250	$ 93,287	$ 996	$ 832	$ 208,902
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2014	$ -	$ -	$ -	$ -	$ -	$ -	$ -

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the three months ended March 31, 2014. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At March 31, 2014, Level 3 investments included three agency MBS and one agency-guaranteed debt instrument due to the fact that their valuations were based on Level 3 criteria (broker quotes) and certain non-agency MBS and non-agency ABS backed by home equity. In the first three months of 2014, two agency-guaranteed debt instruments and one corporate debt instrument which had previously been included in Level 3 were valued using independent third-party valuation services using Level 2 criteria and were, accordingly, transferred from Level 3 to Level 2. The liability for standby letters of credit is included in Level 3 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market. For the three months ended March 31, 2014, all transfers into and out of Level 3 were related to sources of pricing information. Valuations subsequent to purchase which are obtained from independent third party services utilizing Level 2 criteria were the basis for transfers out of Level 3.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2014, for each of the fair value hierarchy levels are summarized below:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	$ 4,996	$ -	$ -	$ 4,996	$ (2,362)
Other property owned	11,456	-	-	11,456	314
Total assets	$ 16,452	$ -	$ -	$ 16,452	$ (2,048)

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, 2015					December 31, 2014				
		Fair Value Measurements Using					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	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	**$ 322,690**	$ 322,690	$ -	$ -	$ 322,690	$ 428,361	$ 428,361	$ -	$ -	$ 428,361
Net loans	**13,556,638**	-	-	13,553,272	13,553,272	13,204,197	-	-	13,182,903	13,182,903
Total assets	**$ 13,879,328**	$ 322,690	$ -	$ 13,553,272	$ 13,875,962	$ 13,632,558	$ 428,361	$ -	$ 13,182,903	$ 13,611,264
Liabilities:										
Systemwide debt securities	**$ 16,588,295**	$ -	$ -	$ 16,719,530	$ 16,719,530	$ 16,341,281	$ -	$ -	$ 16,406,719	$ 16,406,719
Subordinated debt	**50,000**	-	-	54,196	54,196	50,000	-	-	53,989	53,989
	$ 16,638,295	$ -	$ -	$ 16,773,726	$ 16,773,726	$ 16,391,281	$ -	$ -	$ 16,460,708	$ 16,460,708

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," of the Annual Report, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the bank's assets and liabilities:

Investments Available for Sale

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, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. To estimate the fair value of investments, the bank obtains prices from third-party pricing services. This would include certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Investments classified as Level 3 primarily consist of the certain non-agency mortgage-backed securities and asset-backed securities valued using independent third-party valuation services. Also included in the bank's Level 3 assets are the Farmer Mac AMBS.

Derivative Assets and Liabilities

The bank's 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 may include fair value interest rate swaps, interest rate caps and cash flow interest rate swaps. The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

Assets Held in Nonqualified Benefit 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.

Standby Letters of Credit

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

Loans

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

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

For loans which are valued at fair value under the fair value pricing option, if quoted prices are not available in an active market, the fair value is estimated using pricing models, quoted prices for similar instruments received from pricing services or discounted cash flows. Generally, these loans would be classified as Level 2. To estimate the fair value of these instruments, the bank obtains prices from third-party pricing services.

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans for which real estate is the collateral. These loans are generally classified as Level 3. 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.

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.

Subordinated Debt

The fair value of these obligations is determined by discounting expected future cash flows based on the Treasury yield curve.

Other Property Owned

Other property owned (OPO) 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. As a result, these fair value measurements fall within Level 3 of the hierarchy.

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.

Quantitative Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	**Unobservable Input**
Mortgage-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Asset-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Mission-related investments	Discounted cash flow	Prepayment rates

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	Price for similar asset
	Discounted cash flow	Constant prepayment rate
		Appropriate interest rate yield curve
Loans held under the fair value option	Quoted prices	Price for similar instruments
	Discounted cash flow	Constant prepayment rate
		Appropriate interest rate yield curve
Interest rate caps	Discounted cash flow	Appropriate interest rate yield curve
		Annualized volatility

Information About Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Actual balances
Loans	Discounted cash flow	Prepayment forecasts
		Appropriate interest rate yield curve
		Probability of default
		Loss severity
Systemwide debt securities and subordinated debt	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 products 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 movements in interest rates do not adversely affect the net interest margin. 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.

Although the bank held no interest rate swaps at March 31, 2015, it may enter into these 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 notional amounts of the interest rate caps held and the amount of activity during the period are summarized in the following table:

	Interest Rate Caps
Balance at January 1, 2015	$ 615,000
Additions	-
Maturities/Amortizations	(150,000)
Balance at March 31, 2015	**$ 465,000**

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 must be reflected in the financial statements on a gross basis regardless of the netting agreement. At March 31, 2015, and December 31, 2014, the bank's exposure to counterparties was $575 and $748, respectively. At March 31, 2015, and December 31, 2014, the bank had posted no securities as collateral, nor had any counterparty been required to post collateral.

Cash Flow Hedges

The bank's interest rate caps at March 31, 2015, and December 31, 2014, 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 loss.

Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value 3/31/2015	Fair Value 12/31/2014
Interest rate caps	Other assets	$ 575	$ 748

Derivatives designated as hedging instruments	Amount of Loss Recognized in OCL on Derivatives (Effective Portion)		Location of Gain Reclassification from AOCI into Income	Amount of Gain Reclassified from AOCL into Income (Effective Portion)	
	March 31,			March 31,	
	2015	2014		2015	2014
Interest rate caps	$ (172)	$ (288)	Interest expense	$ 482	$ 570

NOTE 7 — 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:

	Other Postretirement Benefits	
	2015	2014
Service cost	**$ 70**	$ 53
Interest cost	**124**	106
Amortization of prior service costs	**(46)**	(48)
Amortization of net loss	**17**	-
Net periodic benefit cost	**$ 165**	$ 111

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 8 — ACCUMULATED OTHER COMPREHENSIVE INCOME

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

The following table summarizes the changes in the balance of the components of AOCI for the three months ended March 31, 2015:

	Total	Unrealized (Loss) Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2015	$ (19,822)	$ (16,100)	$ (1,027)	$ (2,695)
Change in unrealized losses on available-for-sale securities				
Net decrease in unrealized losses on investment securities	23,536	23,536		
Net decrease in unrealized losses on securities	23,536	23,536		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(46)		(46)	
Amortization of net losses	17		17	
Net change in postretirement benefit plans	(29)		(29)	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(172)			(172)
Reclassification of amount recognized in interest expense	482			482
Net change in cash flow derivative instruments	310			310
Total other comprehensive income (loss)	**23,817**	**23,536**	**(29)**	**310**
Balance, March 31, 2015	**$ 3,995**	**$ 7,436**	**$ (1,056)**	**$ (2,385)**

The following table summarizes the changes in the balance of the components of accumulated other comprehensive loss (AOCL) for the three months ended March 31, 2014:

	Total	Unrealized (Loss) Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2014	$ (33,113)	$ (30,303)	$ 1,642	$ (4,452)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	6,979	6,979		
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	9	9		
Net increase in unrealized losses on securities	6,988	6,988		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(48)		(48)	
Net change in postretirement benefit plans	(48)		(48)	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(288)			(288)
Reclassification of loss recognized in interest expense	570			570
Net change in cash flow derivative instruments	282			282
Total other comprehensive income (loss)	7,222	6,988	(48)	282
Balance, March 31, 2014	$ (25,891)	$ (23,315)	$ 1,594	$ (4,170)

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

Component of AOCI	**Amount Reclassified from AOCI**		**Affected Line in the Statement of Comprehensive Income**
	2015	2014	
Amortization of net credits on post-retirement benefit plan	**(29)**	(48)	Salaries and employee benefits
Amortization on cash flow hedges	**482**	570	Interest expense
Total reclassifications	**$ 453**	$ 522	

NOTE 9 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through May 8, 2015, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of May 8, 2015.

NOTE 10 — 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, 2015**	December 31, 2014
Cash	**$ 4,751**	8,840
Investment securities	**35,507**	39,086
Loans	**14,604,205**	14,547,612
Less allowance for loan losses	**51,777**	54,245
Net loans	**14,552,428**	14,493,367
Accrued interest receivable	**122,827**	122,702
Other property owned	**20,682**	22,400
Other assets	**373,787**	372,360
Total assets	**$ 15,109,982**	$ 15,058,755
Notes payable	**$ 12,191,626**	$ 12,110,352
Other liabilities	**238,656**	327,132
Total liabilities	**12,430,282**	12,437,484
Capital stock and participation certificates	**283,991**	208,306
Retained earnings	**2,405,709**	2,422,878
Accumulated other comprehensive loss	**(10,000)**	(9,913)
Total members' equity	**2,679,700**	2,621,271
Total liabilities and members' equity	**$ 15,109,982**	$ 15,058,755

	Three Months Ended March 31,	
Statement of income data	**2015**	2014
Interest income	**$ 169,686**	$ 157,064
Interest expense	**56,133**	50,572
Net interest income	**113,553**	106,492
Provision for loan losses	**2,589**	(1,816)
Net interest income after provision for loan losses	**110,964**	108,308
Noninterest income	**18,835**	13,827
Other expense	**58,972**	49,616
Provision for income taxes	**136**	171
Net income	**70,691**	72,348
Other comprehensive loss:		
Change in postretirement benefit plans	**(88)**	(79)
Total other comprehensive loss	**(88)**	(79)
Comprehensive Income	**$ 70,603**	$ 72,269