FIRST QUARTER 2016

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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, 2016. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2015 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

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

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

The bank and its affiliated associations collectively are referred to as the "district." At March 31, 2016, the bank provided financing to 14 district associations and certain OFIs.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2016, was $42,110, a decrease of $9,991, or 19.2 percent, over the same period of 2015. The decrease in net income for the three months ended March 31, 2016, consisted of a $5,984 decrease in noninterest income and a $4,417 increase in noninterest expense, offset by $232 increase in net interest income and a $178 decrease in loan loss reversal.

Net Interest Income

Net interest income for the three months ended March 31, 2016, was $56,933, an increase of $232, or 0.41 percent, from the three months ended March 31, 2015. The increase in net interest income for the quarter ended March 31, 2016, was attributable to a volume increase of $1.89 billion in the bank's average earning assets, offset by a 13-basis-point decrease in the bank's interest rate spread to 111 basis points. Effective interest rates on earning assets increased 2 basis points from the first quarter of 2015 to the first quarter of 2016, while the effective rates on interest-bearing liabilities increased 15 basis points. The increase in the bank's average earning assets included growth in its direct notes from associations, investment portfolio and capital markets loan portfolio. Interest expense for the first quarter of 2016 reflected a $661 increase in concession expenses recognized on callable debt as a result of a $284.3 million increase in debt called in the quarter ended March 31, 2016, compared to the same period in 2015. The bank recognized $2.2 million in concession expenses on $1.21 billion of debt called in the three months ended March 31, 2016, as compared to $1.6 million on $925.9 million of debt called in the three months ended March 31, 2015.

Provision for Credit Losses

The bank's provision for credit losses for the three months ended March 31, 2016, totaled $693, a decrease of $178 from the $871 provision for credit losses recorded in the first three months of 2015. The $693 provision for the three months ended March 31, 2016, included an $808 increase in general provisions on loans, net of a $104 decrease in general reserves on unfunded commitments and letters of credit and an $11 recovery.

Noninterest Income

Noninterest income for the quarter ended March 31, 2016, was $8,410, a decrease of $5,984, or 41.6 percent, over the same period of 2015. The decrease for the first quarter of 2016 over the same period of 2015 was due mainly to nonrecurring transactions in the first quarter of 2015 totaling $5,072, including a $5,779 dividend received with the disposition of the preferred stock of an ethanol facility in other property owned (OPO) and a $2,426 prepayment fee on a capital markets loan, offset by a $3,133 loss due to the write-off of loan accounting software no longer deemed a useable asset.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2016, was $22,540, an increase of $4,417, or 24.4 percent, over the same period of 2015. The increase was attributable to a $3,090 decrease in gains on OPO, a $694 increase in premiums assessed by the FCSIC and a $564 increase in occupancy and equipment expenses. The decrease in gains on OPO was primarily due to the disposition of the preferred stock of an ethanol facility in the first quarter of 2015. Premiums assessed by the FCSIC increased due to a rate increase on outstanding debt from 13 basis points in 2015 to 16 basis points in 2016, and to an increase in debt required to fund earning assets.

Key results of operations comparisons:

	Annualized for the Three Months Ended March 31, 2016	Annualized for the Three Months Ended March 31, 2015
Return on average assets	**0.85%**	1.02%
Return on average shareholders' equity	**10.61%**	12.14%
Net interest income as a percentage of average earning assets	**1.18%**	1.32%
Charge-offs, net of recoveries, to average loans	**0.00%**	0.00%
Operating expenses as a percentage of net interest income and noninterest income	**34.50%**	29.84%
Operating expenses as a percentage of average earning assets	**0.47%**	0.49%

Other Comprehensive Income

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

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

	2016	2015
Change in unrealized losses on available-for-sale securities		
Net decrease in unrealized losses on investment securities	**$ 32,382**	$ 23,536
Net change in unrealized losses on securities	**32,382**	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
Net change in postretirement benefit plans	**(46)**	(29)
Change in cash flow derivative instruments		
Unrealized losses on interest rate caps	**(207)**	(172)
Reclassification of loss recognized in interest expense	**213**	482
Net change in cash flow derivative instruments	**6**	310
Other comprehensive income	**$ 32,342**	$ 23,817

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2016, was $15.26 billion, an increase of $485.0 million, or 3.3 percent, compared to $14.77 billion at December 31, 2015. The increase in the loan portfolio is attributable to growth in the bank's direct loans to associations and, to a lesser extent, growth in the bank's capital markets loan portfolio.

The 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 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, 2016, totaled $26,104 and were included in "Loans" on the Balance Sheets.
The balance of the AMBS CPP was $60,935 at March 31, 2016, and is included in "Investment securities" on the Balance Sheets.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 99.9 percent of total loans and accrued interest at March 31, 2016 and December 31, 2015.

The table below summarizes the balances of the bank's high-risk assets at March 31, 2016, compared to the balances at December 31, 2015:

	March 31, 2016	Increase (Decrease) $	Increase (Decrease) %	December 31, 2015
Nonaccrual loans	**$ 4,449**	$ (223)	(4.77) %	$ 4,672
Accruing formally restructured loans	**15,594**	(508)	(3.15)	16,102
Total impaired loans	**20,043**	(731)	(3.52)	20,774
Other property owned	**438**	-	-	438
Total high-risk assets	**$ 20,481**	$ (731)	(3.45) %	$ 21,212

The decrease in nonaccrual loans was due mainly to repayments of $236. At March 31, 2016 and 2015, the bank did not have any nonaccrual loans on which cash payments are recognized as interest income.

Impaired loans, consisting of nonaccrual loans and accruing formally restructured loans, and loans 90 days past due and still accruing interest, constituted 0.1 percent of gross loans at March 31, 2016 and December 31, 2015.

At March 31, 2016, the bank had reserves for credit losses totaling $7,880, including an allowance for loan losses of $6,642 and a reserve for credit losses on unfunded commitments of $1,238 related to the bank's capital markets loan portfolio. The allowance for loan losses of $6,642 equated to 0.04 percent of total loans outstanding and 0.1 percent of capital market loans outstanding. The $1,238 reserve for losses on unfunded commitments 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 one letter of credit, representing management's estimate of probable credit losses related to unfunded commitments.

The allowance for loan losses as a percentage of impaired loans was 33.1 percent as of March 31, 2016, as compared to 28.1 percent as of December 31, 2015. 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 $5.02 billion, or 24.5 percent, of total assets at March 31, 2016, compared to $5.01 billion, or 25.1 percent, at December 31, 2015, an increase of $12,258, or 0.2 percent. At March 31, 2016, the bank's cash balance was $518,471, a $26,619 decrease from December 31, 2015. Cash held at the Federal Reserve Bank at March 31, 2016, totaled $503,364, compared to $512,229 at December 31, 2015. Levels of cash and other highly liquid assets are maintained to meet loan demand, debt servicing and other liquidity needs. At March 31, 2016, the bank had 173 days of liquidity to cover maturing debt obligations. Interest-bearing liabilities, consisting of bonds, notes and subordinated debt, increased by $481.6 million, or 2.7 percent, from December 31, 2015, to March 31, 2016.

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 $4.42 billion at March 31, 2016, and consisted 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, totaling $60.9 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, 2016		December 31, 2015	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 247,033**	**$ 247,335**	$ 252,436	$ 248,355
Corporate debt	**236,340**	**235,805**	201,332	200,602
Federal agency-guaranteed collateralized mortgage-backed securities:				
GNMA	**1,711,748**	**1,716,361**	1,740,411	1,731,756
FNMA and FHLMC	**2,006,541**	**2,011,709**	2,008,449	1,998,669
Asset-backed securities	**213,718**	**213,373**	200,485	200,073
Total liquidity investments	**$ 4,415,380**	**$ 4,424,583**	$ 4,403,113	$ 4,379,455

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

	March 31, 2016		December 31, 2015	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 63,031**	**$ 60,935**	$ 67,268	$ 65,650

During the three months ended March 31, 2016, there was a decrease in unrealized losses on investments totaling $32,382, due primarily to the effect of changing interest rates on the bank's fixed rate MBS 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 and other obligations fully insured or guaranteed by the U.S. government, its agencies, instrumentalities and corporations are considered eligible investments under the FCA's regulations, even if downgraded. If an investment no longer meets the credit rating criteria, the investment becomes ineligible; however, FCA regulations do not require disposition of any of these securities. 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, 2016, the bank did not hold any investments that were ineligible for liquidity purposes by FCA regulations due to credit ratings by all NRSROs.

Capital Resources

At March 31, 2016, the bank's capital totaled $1,621,783, and consisted of $600,000 of Class B non-cumulative subordinated perpetual preferred stock, $255,823 of capital stock, $760,949 in retained earnings and $5,011 in accumulated other comprehensive income. The balance in equity reflected an increase of $68,205 from December 31, 2015, due primarily to net income of $42,110 and other comprehensive income of $32,342, offset by preferred stock dividends of $5,062 and $1,185 in patronage declared and paid. The balance in accumulated other comprehensive income of $5,011 resulted from other comprehensive income which resulted from a decrease in unrealized losses on investments of $32,382 and a $6 decrease in unrealized losses on cash flow derivative instruments, net of a $46 amortization of other postretirement benefits. The decrease in unrealized losses on investment securities was due primarily to the effect of changing interest rates on the bank's fixed rate MBS and to continued demand for high-quality agency mortgage-backed securities.

As of March 31, 2016, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under FCA regulations. At March 31, 2016, the bank's permanent capital ratio was 17.15 percent, core surplus ratio was 9.35 percent, total surplus ratio was 14.61 percent and the net collateral ratio was 107.70 percent. The expected decrease in the permanent capital ratio from December 31, 2015 to March 31, 2016, based on 90-day average balances, is related primarily to annual patronage distributions made at year-end 2015 and to asset growth at the bank during the three months ended March 31, 2016.

Key financial condition comparisons:

	March 31, 2016	December 31, 2015
Permanent capital ratio	**17.15%**	17.74%
Net collateral ratio	**107.70%**	107.70%
Allowance and reserve for credit losses to total loans	**0.05%**	0.05%

OTHER

CONDITIONS IN THE DISTRICT

After soil moisture conditions in the district improved substantially in 2015, abnormally dry conditions have returned in some areas of New Mexico and in the Texas Panhandle. Soil moisture remains adequate in Louisiana, Mississippi and Alabama. Despite the lack of soil moisture in certain regions, only seven percent of the land area in the Texas District is experiencing drought conditions. Comparatively, at the end of the first quarter of 2015, over one third of total land in the district was experiencing moderate drought conditions or worse. The improved soil moisture levels are resulting in higher pasture and range quality relative to the previous year. Additionally, more favorable planting conditions enhance the potential for early-season development of row crops.

In the Texas District, planting season for most crops is now underway, with crop progress at levels similar to those observed at the same time in 2015, but behind the five-year average. According to the U.S. Department of Agriculture's Prospective Plantings Report, U.S. farmers are expected to allocate increased acres to corn, while decreasing acreage dedicated to competing crops, such as grain sorghum and soybeans. The decision to shift acreage to corn in 2016 is driven by the crop's anticipated profitability relative to other grains. In addition to significantly increasing acreage dedicated to corn, farmers in the Texas District also expect to increase cotton acreage by over 10 percent in 2016. Texas is projected to remain the largest producer of cotton in the U.S., accounting for over 50 percent of all acreage dedicated to the crop nationwide. Weather conditions have generally been favorable for winter wheat yield across the country, including the Texas District. A declining trend in the cost of major inputs, such as fertilizer and chemicals, will assist row crop producers in maintaining profitability in the upcoming year. In addition, 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.

Reduced feed costs relative to recent years are supportive of profitability in most segments of the livestock sector. U.S. beef production is continuing on an upward trajectory, with gains in the size of the herd driven by increased retention by cow/calf producers. Income prospects for cattle ranchers in 2016 are lower year-over-year but remain elevated when compared to historical norms. The increased size of the herd will pressure cattle prices in mid-to-late 2016, a trend which is likely to continue for the next few years. The short-term profitability outlook for feedlots improved in early 2016 due to declining feeder cattle prices and reduced market volatility. If current pricing trends continue, feedlots are likely to experience margin compression late in the year. The majority of beef producers in the Texas District employ risk management plans in order to minimize market exposure.

Labor markets have generally improved in the U.S. compared to the previous year. Although unemployment rates have increased in oil-producing areas of the Texas District, the overall economy continues to perform relatively well. Despite the strong historic correlation between oil prices and land values in Texas, statewide declines in rural land values have not yet been observed. The conservative advance rates on real estate loans in the district would mitigate the impacts of potential land value declines. The Farm Credit Bank of Texas continues to monitor economic conditions and other factors influencing collateral values and credit quality in the Texas District.

RATING AGENCY ACTIONS

Fitch Ratings Actions

On April 13, 2016, 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.

REGULATORY MATTERS

At March 31, 2016, there were no district associations under written agreements with the Farm Credit Administration.

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

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

The final rule is effective on January 1, 2017. The bank is currently evaluating the impact of the recently announced changes.

The final rule to modify regulatory capital requirements changes the capital treatment of our subordinated debt and, therefore, qualifies as a regulatory event. On March 30, 2016, the bank's Board approved a resolution authorizing the redemption of all outstanding subordinated debt at par. The redemption will be effective June 6, 2016.

On June 12, 2014, the Farm Credit Administration approved a proposed rule to revise the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014. According to its Spring 2016 Regulatory Projects Plan, FCA anticipates adopting a final rule in July 2016.

The undersigned certify that we have reviewed the March 31, 2016, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

James F. Dodson
Chairman of the Board

Amie Pala
Chief Financial Officer

May 10, 2016

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 10, 2016

Balance Sheets

(dollars in thousands)	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Cash	**$ 518,471**	$ 545,090
Federal funds sold and overnight investments	**20,877**	22,413
Investment securities	**4,485,518**	4,445,105
Loans (includes $27,503 and $27,506 at fair value held under fair value option)	**15,256,005**	14,771,006
Less allowance for loan losses	**6,642**	5,833
Net loans	**15,249,363**	14,765,173
Accrued interest receivable	**50,958**	47,816
Other property owned	**438**	438
Premises and equipment, net	**29,764**	27,835
Other assets	**132,922**	135,705
Total assets	**$ 20,488,311**	$ 19,989,575
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 18,688,352**	$ 18,206,726
Subordinated debt, net	**49,818**	49,801
Accrued interest payable	**47,573**	44,766
Reserve for credit losses	**1,238**	1,342
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**59,484**	113,299
Total liabilities	**18,866,528**	18,435,997
Commitments and contingent liabilities (Note 4)		
Shareholders' equity		
Preferred stock	**600,000**	600,000
Capital stock	**255,823**	255,823
Allocated retained earnings	**27,205**	27,203
Unallocated retained earnings	**733,744**	697,883
Accumulated other comprehensive income (loss)	**5,011**	(27,331)
Total shareholders' equity	**1,621,783**	1,553,578
Total liabilities and shareholders' equity	**$ 20,488,311**	$ 19,989,575

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2016	2015
Interest Income		
Loans	**$ 98,940**	$ 87,434
Investment securities	**16,027**	14,808
Total interest income	**114,967**	102,242
Interest Expense		
Bonds, notes and subordinated debt	**58,034**	45,541
Total interest expense	**58,034**	45,541
Net interest income	**56,933**	56,701
Provision for credit losses	**693**	871
Net interest income after provision for credit losses	**56,240**	55,830
Noninterest Income		
Patronage income	**5,057**	5,409
Fees for services to associations	**1,546**	1,467
Fees for loan-related services	**1,640**	4,894
Gain (loss) on loans held under fair value option	**199**	(90)
Other income, net	**(32)**	2,714
Total noninterest income	**8,410**	14,394
Noninterest Expenses		
Salaries and employee benefits	**9,015**	8,946
Occupancy and equipment	**4,659**	4,095
Insurance Fund premiums	**2,798**	2,104
Gain on other property owned	**-**	(3,090)
Other operating expenses	**6,068**	6,068
Total noninterest expense	**22,540**	18,123
Net Income	**42,110**	52,101
Other comprehensive income		
Change in unrealized gain on investments	**32,382**	23,536
Change in cash flow derivative instruments	**6**	310
Change in postretirement benefit plans	**(46)**	(29)
Total other comprehensive income	**32,342**	23,817
Comprehensive Income	**$ 74,452**	$ 75,918

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2014	$ 600,000	$ 233,468	$ 22,508	$ 643,067	$ (19,822)	$ 1,479,221
Net income	-	-	-	52,101	-	52,101
Other comprehensive gain	-	-	-	-	23,817	23,817
Preferred stock dividends	-	-	-	(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
Balance at December 31, 2015	$ 600,000	$ 255,823	$ 27,203	$ 697,883	$ (27,331)	$ 1,553,578
Net income	-	-	-	42,110	-	42,110
Other comprehensive gain	-	-	-	-	32,342	32,342
Preferred stock dividends	-	-	-	(5,062)	-	(5,062)
Patronage distributions						
Cash	-	-	-	(1,185)	-	(1,185)
Shareholders' equity	-	-	2	(2)	-	-
Balance at March 31, 2016	**$ 600,000**	**$ 255,823**	**$ 27,205**	**$ 733,744**	**$ 5,011**	**$ 1,621,783**

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

Statements of Cash Flows

(unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	**2016**	2015
Operating activities		
Net income	**$ 42,110**	$52,101
Reconciliation of net income to net cash provided by operating activities		
Provision for credit losses	**693**	871
Depreciation and amortization on premises and equipment	**1,550**	1,323
Amortization of net premium on loans	**1,657**	2,041
Amortization and accretion on debt instruments	**2,649**	2,452
Accretion of net premium (discount) on investments	**912**	607
(Decrease) increase in fair value on loans under fair value option	**(199)**	90
Gain on sales of other property owned	**-**	(3,090)
Gain on sale of loan held-for-sale	**(75)**	-
Loss on sales of premises and equipment	**-**	3,133
Loss on other earning assets	**137**	-
Allocated equity patronage from System bank	**(13,847)**	(13,498)
Increase in accrued interest receivable	**(3,142)**	(2,874)
Decrease in other assets, net	**16,358**	12,530
Increase in accrued interest payable	**2,807**	3,203
Decrease in other liabilities, net	**(11,339)**	(8,067)
Net cash provided by operating activities	**40,271**	50,822
Investing activities		
Net decrease in federal funds sold	**1,536**	1,211
Investment securities		
Purchases	**(255,953)**	(258,515)
Proceeds from maturities, calls and prepayments	**247,010**	215,211
Increase in loans, net	**(506,393)**	(344,942)
Proceeds from sales of other property owned	**-**	12,962
Proceeds from sales of premises and equipment	**7**	24
Expenditures for premises and equipment	**(3,486)**	(1,269)
Investment in other earning assets	**150**	-
Net cash used in investing activities	**(517,129)**	(375,318)
Financing activities		
Bonds and notes issued	**3,992,197**	2,829,306
Bonds and notes retired	**(3,513,203)**	(2,584,744)
Repayments on capital lease obligations	**(94)**	-
Cash dividends on preferred stock	**(5,062)**	(5,062)
Cash patronage distributions paid	**(23,599)**	(20,675)
Net cash provided by financing activities	**450,239**	218,825
Net decrease in cash	**(26,619)**	(105,671)
Cash at beginning of year	**545,090**	428,361
Cash at end of quarter	**$ 518,471**	$ 322,690
Supplemental schedule of noncash investing and financing activities		
Net decrease in unrealized losses on investment securities	**$ 32,382**	$ 23,536
Preferred stock dividend payable	**20,063**	20,063
Capital lease obligation	**935**	-
Supplemental information		
Interest paid	**$ 55,227**	$ 42,338

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, 2015, are contained in the 2015 Annual Report to shareholders (Annual Report). These unaudited first quarter 2016 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, 2016, the bank provided financing to 14 district associations and certain other financing institutions.

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

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the bank's financial condition or its results of operations.

In April 2015, the FASB issued guidance entitled "Interest — Imputation of Interest." The guidance requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). This guidance was to become effective for interim and annual reporting periods beginning after December 15, 2015, with early application permitted. The bank elected to adopt this guidance effective December 31, 2015, with retroactive application. The adoption of this guidance did not impact the bank's financial condition or its results of operations.

In August 2014, the 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. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The bank is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

NOTE 2 — INVESTMENTS

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, 2016, and December 31, 2015, is included in the following tables.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 247,033	$ 1,942	$ (1,640)	$ 247,335	1.73 %
Corporate debt	236,340	231	(766)	235,805	1.20
Federal agency collateralized mortgage-backed securities					
GNMA	1,711,748	9,933	(5,320)	1,716,361	1.50
FNMA and FHLMC	2,006,541	9,044	(3,876)	2,011,709	1.30
Asset-backed securities	213,718	21	(366)	213,373	0.91
Total liquidity investments	**$ 4,415,380**	**$ 21,171**	**$ (11,968)**	**$ 4,424,583**	**1.37** %

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 63,031	$ -	$ (2,096)	$ 60,935	4.14 %

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 252,436	$ 112	$ (4,193)	$ 248,355	1.68 %
Corporate debt	201,332	54	(784)	200,602	0.97
Federal agency collateralized mortgage-backed securities					
GNMA	1,740,411	3,778	(12,433)	1,731,756	1.51
FNMA and FHLMC	2,008,449	2,996	(12,776)	1,998,669	1.31
Asset-backed securities	200,485	2	(414)	200,073	0.85
Total liquidity investments	$ 4,403,113	$ 6,942	$ (30,600)	$ 4,379,455	1.37 %

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 67,268	$ -	$ (1,618)	$ 65,650	4.10

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at March 31, 2016:

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	$ -	$ -	$ 238,117	$ 9,218	$ 247,335
Corporate debt	59,027	176,778	-	-	235,805
Federal agency collateralized mortgage-backed securities					
GNMA	-	667	7,395	1,708,299	1,716,361
FNMA and FHLMC	-	30,038	197,308	1,784,363	2,011,709
Asset-backed securities	-	209,314	-	4,059	213,373
Total fair value	**$ 59,027**	**$ 416,797**	**$ 442,820**	**$ 3,505,939**	**$ 4,424,583**
Total amortized cost	**$ 59,000**	**$ 417,335**	**$ 442,062**	**$ 3,496,983**	**$ 4,415,380**
Weighted average yield	**1.02%**	**1.13%**	**1.58%**	**1.38%**	**1.37%**

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

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 24,696	$ 36,239	$ 60,935
Total amortized cost	**$ 25,270**	**$ 37,761**	**$ 63,031**
Weighted average yield	**4.09%**	**4.17%**	**4.14%**

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, 2016. 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	$ 40,542	$ (582)	$ 94,587	$ (1,058)	$ 135,129	$ (1,640)
Corporate debt	109,194	(637)	12,409	(129)	121,603	(766)
Federal agency collateralized mortgage-backed securities						
GNMA	311,869	(816)	337,951	(4,504)	649,820	(5,320)
FNMA and FHLMC	610,152	(1,973)	278,706	(1,903)	888,858	(3,876)
Asset-backed securities	139,508	(185)	33,319	(181)	172,827	(366)
Total	**$ 1,211,265**	**$ (4,193)**	**$ 756,972**	**$ (7,775)**	**$ 1,968,237**	**$ (11,968)**

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

In the event of an investment being designated OTTI, to measure the amount related to credit loss in the determination of OTTI, the bank utilizes a third-party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan-level data. Loan-level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan-level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses. In the three months ended March 31, 2016 and 2015, the bank did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at March 31, 2016 and 2015.

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, 2016	December 31, 2015
Direct notes receivable from district associations and OFIs	**$ 9,927,825**	$ 9,621,039
Participations purchased	**5,327,796**	5,149,552
Other bank-owned loans	**384**	415
Total	**$ 15,256,005**	$ 14,771,006

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

	March 31, 2016	December 31, 2015
Direct notes receivable from district associations	**$ 9,884,226**	$ 9,578,441
Real estate mortgage	**329,563**	314,098
Production and intermediate term	**529,618**	604,007
Loans to cooperatives	**312,096**	184,918
Processing and marketing	**2,227,283**	2,193,850
Farm-related business	**162,510**	164,074
Communication	**349,462**	345,555
Energy (rural utilities)	**1,202,066**	1,120,981
Water and waste disposal	**147,022**	144,187
Rural residential real estate	**11**	11
Agricultural export finance	**-**	9,713
Loans to other financing institutions	**43,599**	42,598
Mission-related	**68,549**	68,573
Total	**$ 15,256,005**	$ 14,771,006

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, 2016.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 368,423	$ 267,967	$ -	$ 685	$ 368,423	$ 268,652
Production and intermediate term	1,530,120	1,014,630	5,298	26,870	1,535,418	1,041,500
Agribusiness	2,118,362	944,315	19,657	-	2,138,019	944,315
Communication	465,659	115,707	-	-	465,659	115,707
Energy (rural utilities)	1,399,321	206,668	-	-	1,399,321	206,668
Water and waste disposal	148,876	20,405	-	-	148,876	20,405
Mission-related	4,741	-	-	-	4,741	-
Loans to other financing institutions	-	15,943	-	-	-	15,943
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 6,035,502**	**$ 6,435,635**	**$ 24,955**	**$ 27,555**	**$ 6,060,457**	**$ 6,463,190**

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, 2016, totaled $26,104. The balance of the AMBS CPP was $60,935 at March 31, 2016.

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, 2016, or December 31, 2015.

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 $27,503 at March 31, 2016. 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, 2016:

Balance at January 1, 2016	**$ 27,506**
Net gain on financial instruments under fair value option	**199**
Premium amortization	**(202)**
Balance at March 31, 2016	**$ 27,503**

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

	March 31, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	**$ 2,383**	$ 2,588
Mission-related	**2,066**	2,084
Total nonaccrual loans	**4,449**	4,672
Accruing restructured loans:		
Real estate mortgage	**4,639**	19
Production and intermediate term	**8,173**	13,341
Mission-related	**2,782**	2,742
Total accruing restructured loans	**15,594**	16,102
Total nonperforming loans	**20,043**	20,774
Other property owned	**438**	438
Total nonperforming assets	**$ 20,481**	$ 21,212

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, 2016		December 31, 2015	
Real estate mortgage:				
Acceptable	**91.7**	**%**	92.5	%
OAEM	**7.6**		6.7	
Substandard/Doubtful	**0.7**		0.8	
	100.0	**%**	100.0	%
Production and intermediate term:				
Acceptable	**99.2**	**%**	98.6	%
OAEM	**0.8**		1.4	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Agribusiness:				
Acceptable	**98.1**	**%**	98.4	%
OAEM	**1.3**		1.3	
Substandard/Doubtful	**0.6**		0.3	
	100.0	**%**	100.0	%
Energy and water/waste disposal:				
Acceptable	**98.1**	**%**	98.0	%
OAEM	**1.9**		2.0	
Substandard/Doubtful	**-**		-	
	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	**98.3**	**%**	98.3	%
OAEM	**1.7**		1.7	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Loans to other financing institutions:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Mission-related:				
Acceptable	**97.0**	**%**	97.0	%
OAEM	**-**		-	
Substandard/Doubtful	**3.0**		3.0	
	100.0	**%**	100.0	%
Total loans:				
Acceptable	**98.2**	**%**	98.2	%
OAEM	**1.7**		1.7	
Substandard/Doubtful	**0.1**		0.1	
	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, 2016

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ -	$ -	$ -	$ 332,381	$ 332,381	$ -
Production and intermediate term	-	-	-	531,891	531,891	-
Agribusiness	-	-	-	2,714,247	2,714,247	-
Communication	-	-	-	349,718	349,718	-
Energy and water/waste disposal	-	-	-	1,355,179	1,355,179	-
Rural residential real estate	-	-	-	11	11	-
Direct notes to associations	-	-	-	9,904,038	9,904,038	-
Loans to other financing institutions	-	-	-	43,657	43,657	-
Mission-related	-	2,066	2,066	67,606	69,672	-
Total	**$ -**	**$ 2,066**	**$ 2,066**	**$15,298,728**	**$15,300,794**	**$ -**

December 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	$ -	$ -	$ -	$ 316,657	$ 316,657	$ -
Production and intermediate term	-	-	-	605,952	605,952	-
Agribusiness	-	-	-	2,554,906	2,554,906	-
Communication	-	-	-	345,799	345,799	-
Energy and water/waste disposal	-	-	-	1,270,310	1,270,310	-
Rural residential real estate	-	-	-	11	11	-
Agricultural export finance	-	-	-	9,734	9,734	-
Direct notes to associations	-	-	-	9,597,745	9,597,745	-
Loans to other financing institutions	-	-	-	42,647	42,647	-
Mission-related	-	2,084	2,084	66,981	69,065	-
Total	$ -	$ 2,084	$ 2,084	$ 14,810,742	$ 14,812,826	$ -

Additional impaired loan information is as follows:

	At March 31, 2016			At December 31, 2015		
Impaired loans with a related allowance for credit losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Mission-related	**$ 218**	**$ 218**	**$ 75**	$ 219	$ 219	$ 75
Total	**$ 218**	**$ 218**	**$ 75**	$ 219	$ 219	$ 75
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 7,022**	**$ 11,488**	**$ -**	$ 2,607	$ 7,081	$ -
Production and intermediate term	**8,173**	**11,125**	**-**	13,341	16,129	-
Processing and marketing	**-**	**1,360**	**-**	-	1,371	-
Energy and water/waste disposal	**-**	**17,577**	**-**	-	17,578	-
Mission-related	**4,630**	**4,631**	**-**	4,607	7,797	-
Total	**$ 19,825**	**$ 46,181**	**$ -**	$ 20,555	$ 49,956	$ -
Total impaired loans:						
Real estate mortgage	**$ 7,022**	**$ 11,488**	**$ -**	$ 2,607	$ 7,081	$ -
Production and intermediate term	**8,173**	**11,125**	**-**	13,341	16,129	-
Processing and marketing	**-**	**1,360**	**-**	-	1,371	-
Energy and water/waste disposal	**-**	**17,577**	**-**	-	17,578	-
Mission-related	**4,848**	**4,849**	**75**	4,826	8,016	75
Total	**$ 20,043**	**$ 46,399**	**$ 75**	$ 20,774	$ 50,175	$ 75

	For the Three Months Ended			
	March 31, 2016		March 31, 2015	
Impaired loans with a related allowance for credit losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Energy and water/waste disposal	**$ -**	**$ -**	$ 6,953	$ -
Mission-related	**218**	**4**	227	4
Total	**$ 218**	**$ 4**	$ 7,180	$ 4
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 7,159**	**$ 18**	$ 4,287	$ 37
Production and intermediate term	**8,202**	**126**	12,562	531
Mission-related	**4,572**	**38**	2,550	39
Total	**$ 19,933**	**$ 182**	$ 19,399	$ 607
Total impaired loans:				
Real estate mortgage	**$ 7,159**	**$ 18**	$ 4,287	$ 37
Production and intermediate term	**8,202**	**126**	12,562	531
Energy and water/waste disposal	**-**	**-**	6,953	-
Mission-related	**4,790**	**42**	2,777	43
Total	**$ 20,151**	**$ 186**	$ 26,579	$ 611

At March 31, 2016, impaired loans of $218 had a related specific allowance of $75, while the remaining $19.8 million of impaired loans had no related specific allowance as a result of adequate collateralization.

The average recorded investment in impaired loans for the three months ended March 31, 2016, was $20.2 million. The bank recognized interest income of $186 on impaired loans during the three months ended March 31, 2016.

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, 2015	$ 789	$ 428	$ 1,586	$ 343	$ 2,575	$ -	$ 3	$ -	$ -	$ 109	$ 5,833
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	11	-	-	-	-	-	-	-	11
Provision for credit losses (loan loss reversal)	7	(14)	(89)	9	783	-	(3)	-	-	-	693
Other *	1	6	19	(2)	81	-	-	-	-	-	105
Balance at March 31, 2016	$ 797	$ 420	$ 1,527	$ 350	$ 3,439	$ -	$ -	$ -	$ -	$ 109	$ 6,642
Individually evaluated for impairment	-	-	-	-	-	-	-	-	-	75	75
Collectively evaluated for impairment	797	420	1,527	350	3,439	-	-	-	-	34	6,567
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2016	$ 797	$ 420	$ 1,527	$ 350	$ 3,439	$ -	$ -	$ -	$ -	$ 109	$ 6,642
Balance at December 31, 2014	$ 794	$ 304	$ 1,120	$ 200	$ 7,590	$ -	$ -	$ -	$ -	$ 104	$ 10,112
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-	-
Provision for credit losses (loan loss reversal)	(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
Recorded Investments in Loans Outstanding:											
Ending balance at March 31, 2016	$ 332,381	$ 531,891	$ 2,714,247	$ 349,718	$ 1,355,179	$ 11	$ -	$ 9,904,038	$ 43,657	$ 69,672	$ 15,300,794
Individually evaluated for impairment	$ 7,023	$ 8,172	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,848	$ 20,043
Collectively evaluated for impairment	$ 325,358	$ 523,719	$ 2,714,247	$ 349,718	$ 1,355,179	$ 11	$ -	$ 9,904,038	$ 43,657	$ 64,824	$ 15,280,751
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
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	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

* 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, 2016, the total recorded investment of TDR loans was $15,594 with all classified as accrual, with specific allowance for loan losses of $75. There were no additional commitments to lend to borrowers whose loan terms have been modified in TDRs at March 31, 2016 and December 31, 2015.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs	
	March 31, 2016	December 31, 2015
Real estate mortgage	**$ 4,639**	$ 19
Production and intermediate term	**8,173**	13,341
Mission-related	**2,782**	2,742
Total	**$ 15,594**	$ 16,102

During the three months ended March 31, 2016, 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, 2016, were approximately $245.05 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 2015 Annual Report for a more complete description.

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

	Fair Value Measurements at March 31, 2016			
	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	**$ 20,877**	$ -	$ 20,877	$ -
Investments available for sale:				
Corporate debt	**235,805**	-	235,805	-
Agency-guaranteed debt	**247,335**	-	247,335	-
Mortgage-backed securities	**3,728,071**	-	3,728,071	-
Asset-backed securities	**213,373**	-	213,373	-
Mission-related and other available-for-sale investments	**60,935**	-	-	60,935
Loans valued under the fair value option	**27,503**	-	27,503	-
Derivative assets	**297**	-	297	-
Assets held in nonqualified benefit trusts	**356**	356	-	-
Total assets	**$ 4,534,552**	$ 356	$ 4,473,261	$ 60,935
Liabilities:				
Standby letters of credit	**$ 1,070**	$ -	$ -	$ 1,070
Total liabilities	**$ 1,070**	$ -	$ -	$ 1,070

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 $27,503 at March 31, 2016.

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2016, to March 31, 2016:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:				
Balance at January 1, 2016	$ 50,250	$ 65,650	$ 807	$ 115,093
Net gains included in other comprehensive loss	-	(478)	-	(478)
Purchases, issuances and settlements	-	(4,237)	263	(4,500)
Transfers out of Level 3	(50,250)	-	-	(50,250)
Balance at March 31, 2016	$ -	$ 60,935	$ 1,070	$ 59,865

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

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2016, 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	**$ 4,374**	$ -	$ -	$ 4,374	**$ -**
Other property owned	**487**	-	-	487	-
Total assets	**$ 4,861**	$ -	$ -	$ 4,861	**$ -**

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

	Fair Value Measurements at December 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	**$ 22,413**	$ -	$ 22,413	$ -
Investments available for sale:				
Corporate debt	**200,602**	-	200,602	-
Agency-guaranteed debt	**248,355**	-	248,355	-
Mortgage-backed securities	**3,730,425**	-	3,680,175	50,250
Asset-backed securities	**200,073**	-	200,073	-
Mission-related and other available-for-sale investments	**65,650**	-	-	65,650
Loans valued under the fair value option	**27,506**	-	27,506	-
Loans held for sale in other assets	**4,850**	-	-	4,850
Derivative assets	**504**	-	504	-
Assets held in nonqualified benefit trusts	**347**	347	-	-
Total assets	**$ 4,500,725**	$ 347	$ 4,379,628	$ 120,750
Liabilities:				
Standby letters of credit	**$ 807**	$ -	$ -	$ 807
Total liabilities	**$ 807**	$ -	$ -	$ 807

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	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:				
Balance at January 1, 2015	$ 7	$ 80,583	$ 797	$ 79,793
Net (losses) gains included in other comprehensive loss	-	367	-	367
Purchases, issuances and settlements	(3)	(3,331)	646	(3,980)
Balance at March 31, 2015	$ 4	$ 77,619	$ 1,443	$ 76,180

There were no transfers of assets or liabilities into or out of Level 1, Level 2 or Level 3 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 December 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	**$ 4,597**	$ -	$ -	$ 4,597	**$ (2,065)**
Other property owned	**487**	-	-	487	**3,090**
Total assets	**$ 5,084**	$ -	$ -	$ 5,084	**$ 1,025**

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, 2016				
		Fair Value Measurements Using			
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Cash	**$ 518,471**	$ 518,471	$ -	$ -	$ 518,471
Net loans	**15,217,486**	-	-	15,235,664	15,235,664
Total assets	**$ 15,735,957**	$ 518,471	$ -	$ 15,235,664	$ 15,754,135
Liabilities:					
Systemwide debt securities	**$ 18,688,352**	$ -	$ -	$ 18,843,850	$ 18,843,850
Subordinated debt	**49,818**	-	-	53,203	53,203
	$ 18,738,170	$ -	$ -	$ 18,897,053	$ 18,897,053

	December 31, 2015				
		Fair Value Measurements Using			
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Cash	$ 545,090	$ 545,090	$ -	$ -	$ 545,090
Net loans	14,733,070	-	-	14,676,805	14,676,805
Total assets	$ 15,278,160	$ 545,090	$ -	$ 14,676,805	$ 15,221,895
Liabilities:					
Systemwide debt securities	$ 18,206,726	$ -	$ -	$ 18,265,040	$ 18,265,040
Subordinated debt	49,801	-	-	52,972	52,972
	$ 18,256,527	$ -	$ -	$ 18,318,012	$ 18,318,012

Valuation Techniques

As more fully discussed in Note 2, “Summary of Significant Accounting Policies,” of the 2015 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 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.

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 Discounted cash flow	Price for similar asset Constant prepayment rate Appropriate interest rate yield curve
Loans held under the fair value option	Quoted prices Discounted cash flow	Price for similar instruments 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, 2016, 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, 2016	$ 310,000
Additions	-
Maturities/Amortizations	-
Balance at March 31, 2016	**$ 310,000**

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, 2016, and December 31, 2015, the bank's exposure to counterparties was $297 and $504, respectively. At March 31, 2016, and December 31, 2015, 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, 2016, and December 31, 2015, 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	Sheet Location	Fair Value March 31, 2016	Fair Value December 31, 2015
Interest rate caps	Other assets	$ 297	$ 504

Derivatives designated as hedging instruments	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion)		Location of Gain Reclassification from AOCI into Income	Amount of Gain Reclassified from AOCI into Income (Effective Portion)	
	March 31,			March 31,	
	2016	**2015**		**2016**	**2015**
Interest rate caps	$ (207)	$ (172)	Interest expense	$ 213	$ 482

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	
	2016	2015
Service cost	**$ 59**	$ 70
Interest cost	**121**	124
Amortization of prior service costs	**(46)**	(46)
Amortization of net loss	**-**	17
Net periodic benefit cost	**$ 134**	$ 165

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 (LOSS)

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

The following table summarizes the changes in the balance of the components of AOCI for the three months ended March 31, 2016:

	Total	Unrealized Gain (Loss) on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2016	$ (27,331)	$ (25,276)	$ (148)	$ (1,907)
Change in unrealized losses on available-for-sale securities				
Net decrease in unrealized losses on investment securities	32,382	32,382		
Net change in unrealized losses on securities	32,382	32,382		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(46)		(46)	
Net change in postretirement benefit plans	(46)		(46)	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(207)			(207)
Reclassification of amount recognized in interest expense	213			213
Net change in cash flow derivative instruments	6			6
Total other comprehensive income (loss)	**32,342**	**32,382**	**(46)**	**6**
Balance, March 31, 2016	**$ 5,011**	**$ 7,106**	**$ (194)**	**$ (1,901)**

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

	Total	Unrealized Gain (Loss) 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 change 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 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
	2016	2015	
Amortization of net credits on post-retirement benefit plan	**$ (46)**	$ (29)	Salaries and employee benefits
Amortization on cash flow hedges	**213**	482	Interest expense
Total reclassifications	**$ 167**	$ 453	

NOTE 9 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through May 10, 2016, which is the date the financial statements were issued. On March 30, 2016, the bank's Board approved a resolution authorizing the redemption of all outstanding subordinated debt at par. The redemption will be effective June 6, 2016. There are no other significant subsequent events requiring disclosure as of May 10, 2016.

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, 2016**	December 31, 2015
Cash	**$ 3,586**	$ 5,762
Investment securities	**28,462**	30,213
Loans	**16,302,390**	15,985,054
Less allowance for loan losses	**68,982**	64,517
Net loans	**16,233,408**	15,920,537
Accrued interest receivable	**136,197**	137,950
Other property owned	**17,279**	18,306
Other assets	**402,006**	400,359
Total assets	**$ 16,820,938**	$ 16,513,127
Notes payable	**$ 13,727,586**	$ 13,420,186
Other liabilities	**272,420**	336,638
Total liabilities	**14,000,006**	13,756,824
Capital stock and participation certificates	**61,723**	61,356
Retained earnings	**2,538,366**	2,473,964
Additional paid-in-capital	**224,625**	224,625
Accumulated other comprehensive loss	**(3,782)**	(3,642)
Total shareholder's equity	**2,820,932**	2,756,303
Total liabilities and shareholder's equity	**$ 16,820,938**	$ 16,513,127

	Three Months Ended March 31,	
Statement of income data	**2016**	2015
Interest income	**$ 187,060**	$ 169,686
Interest expense	**67,158**	56,133
Net interest income	**119,902**	113,553
Provision for credit losses	**4,958**	2,589
Net interest income after provision for credit losses	**114,944**	110,964
Noninterest income	**21,708**	18,835
Noninterest expense	**61,968**	58,972
Provision for income taxes	**32**	136
Net income	**74,652**	70,691
Other comprehensive loss:		
Change in postretirement benefit plans	**(140)**	(88)
Total other comprehensive loss	**(140)**	(88)
Comprehensive income	**$ 74,512**	$ 70,603