FIRST QUARTER 2016

Table of Contents

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of the Farm Credit Bank of Texas (bank), its affiliated Federal Land Credit Association (FLCA) and affiliated Agricultural Credit Associations (ACAs) for the three months ended March 31, 2016. The FLCA and ACAs are collectively referred to as associations, and the bank and its affiliated associations are collectively referred to as the district. These comments should be read in conjunction with the accompanying combined financial statements and footnotes, along with the 2015 Annual Report to stockholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2016, was $98,600, a decrease of $7,693, or 7.2 percent, over the same period of 2015. The decrease in net income consisted primarily of a $7,674 increase in noninterest expense, a $4,747 decrease in noninterest income and a $2,191 increase in provision for loan losses, offset by a $6,815 increase in net interest income.

Net Interest Income

Net interest income for the three months ended March 31, 2016, was $176,096, an increase of $6,815, or 4.0 percent, over the same period of 2015. The increase was primarily the result of a $2.20 billion increase in combined district average earning assets, offset by an 18-basis-point decrease in the net interest rate spread to 2.56 percent for the three months ended March 31, 2016. The increase in earning assets was due to increases in association average loan volume, the bank's capital markets loan portfolio and the bank's investment portfolio. The decrease in the net interest rate spread was due to an 18-basis-point increase in the effective cost of average interest-bearing liabilities. The decline in the net interest rate spread is reflective of the interest rate compression being experienced in the current market environment. The district associations had an increase in average loan volume of $1.57 billion compared to the same period of 2015, due mainly to improved general economic conditions. 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 Loan Losses

The district's provision for losses on loans, standby letters of credit and unfunded commitments for the three months ended March 31, 2016, totaled $5,651, an increase of $2,191 from the $3,460 provision for the same period of 2015. The increase was due primarily to general provisions related to loan growth at the district associations.

Noninterest Income

Noninterest income for the three months ended March 31, 2016, was $13,539, a decrease of $4,747, or 26.0 percent, from the same period of 2015. The decrease 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) in 2015 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 $85,352, an increase of $7,674, or 9.9 percent, over the same period of 2015. The increase is primarily attributable to a $3,671 decrease in net gains on OPO, a $1,976 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC), a $743 increase in salaries and benefits, a $686 increase in other operating expenses and a $598 increase in occupancy and equipment expenses. The decrease in gains on OPO included a $3,090 decrease in net gains on disposition of the preferred stock of an ethanol facility, a $333 decrease in other gains at the associations and a $270 increase in net expenses also at the associations on OPO. The increase in premiums to the FCSIC, that are assessed on the average System debt outstanding, increased due to a rate increase from 13 basis points in 2015 to 16 basis points in 2016 and to an increase in debt required to fund earning assets. The increase in salaries and benefits included a $1,166 increase in pension and retirement expenses and a $423 decrease in compensation, related payroll taxes and other benefits (primarily at the district associations).

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	**1.49%**	1.77%
Return on average members' equity	**9.94%**	11.36%
Net interest income as a percentage of average earning assets	**2.74%**	2.91%
Charge-offs, net of recoveries, to average loans	**0.00%**	0.00%
Operating expenses as a percentage of net interest income and noninterest income	**45.04%**	43.41%
Operating expenses as a percentage of average earning assets	**1.33%**	1.40%

Other Comprehensive Income

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

The table below summarizes changes in elements included in other comprehensive income 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 pension and postretirement benefit plans		
Change due to effect of merger	**-**	216
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(231)**	(550)
Amortization of net losses	**4,411**	4,771
Net change in pension and postretirement benefit plans	**4,180**	4,437
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	**$ 36,568**	$ 28,283

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2016, was $21.68 billion, an increase of $494.9 million, or 2.3 percent, from $21.18 billion at December 31, 2015. The increase in the loan portfolio during the first three months of 2016 was due primarily to growth in the associations' loan portfolios of $317.3 million and in the bank's capital markets loan portfolio of $178.2 million.

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.

Loans classified under the Farm Credit Administration's (FCA) Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 98.8 percent at March 31, 2016, and 98.9 percent at December 31, 2015. Nonaccrual loans for the district were 0.60 percent of total loans at March 31, 2016, compared to 0.54 percent at December 31, 2015.

Total district high-risk asset volume increased $16.9 million, or 9.2 percent, to $201.2 million at March 31, 2016, from $184.3 million at December 31, 2015.

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

	March 31, 2016	Increase (Decrease) $	Increase (Decrease) %	December 31, 2015
Nonaccrual loans	**$ 129.7**	$ 16.3	14.4 %	$ 113.4
Accruing formally restructured loans	**47.7**	(2.4)	(4.8)	50.1
Loans 90 days past due and still accruing interest	**6.1**	4.0	190.5	2.1
Total impaired loans	**183.5**	17.9	10.8	165.6
Other property owned	**17.7**	(1.0)	(5.3)	18.7
Total high-risk assets	**$ 201.2**	$ 16.9	9.2 %	$ 184.3

The $16.3 million increase in nonaccrual loans from December 31, 2015, to March 31, 2016, is primarily the result of $35.8 million in transfers to nonaccrual status, offset by $19.9 million in repayments. The increase in nonaccrual loans was primarily due to production and intermediate term loans and real estate mortgage loans at the district associations.

At March 31, 2016, $63.6 million, or 51.3 percent, of the district's nonaccrual loans were considered current as to principal and interest. Continued satisfactory payment performance on these loans may indicate potential for a return to accrual status. At March 31, 2016, the district had $5.8 million in nonaccrual loans on which interest income is recognized upon cash receipts, compared to $3.3 million at December 31, 2015. The decrease in OPO was due primarily to dispositions of $2.9 million at district associations, offset by $1.8 million in additions to OPO at district associations. Impaired loans, consisting of nonaccrual loans, accruing formally restructured loans and loans past due 90 days or more and still accruing interest, constituted 0.85 percent of total loans at March 31, 2016, and 0.78 percent of total loans at December 31, 2015.

The allowance for loan losses at March 31, 2016, totaled $75,624 and constituted 0.35 percent of total loans and was an increase of $5,274, or 7.5 percent, from the allowance for loan losses at December 31, 2015. Additional information about the allowance for loan losses is included in Note 3, "Loans and Reserves for Credit Losses." The allowance for loan losses as a percentage of impaired loans was 41.2 percent as of March 31, 2016, as compared to 42.5 percent as of December 31, 2015. The nature of the security supporting many of the impaired loans (primarily first lien real estate) is considered in the determination of necessary allowances for loan losses. The district also had reserves for credit losses on letters of credit and unfunded commitments totaling $4.2 million at March 31, 2016, which included specific reserves for one letter of credit and a general reserve for credit losses on letters of credit and unused commitments, representing management's estimate of probable credit losses related to unfunded commitments.

Liquidity and Funding Sources

Cash and available-for-sale investment securities totaled $5.06 billion, or 18.6 percent, of total assets at March 31, 2016, compared to $5.05 billion, or 19.0 percent, at December 31, 2015, an increase of $8.3 million, or 0.2 percent. At March 31, 2016, the district's cash balance was $522.1 million, a decrease of $28.8 million from the balance at December 31, 2015. Cash held at the Federal Reserve Bank at March 31, 2016, totaled $503.4 million, compared to $512.2 million at December 31, 2015. The bank maintains levels of cash and other highly liquid assets to meet loan demand, maturing debt and other liquidity needs. At March 31, 2016, the bank had 173 days of liquidity to cover maturing debt obligations, as compared to 200 days at December 31, 2015. Interest-bearing liabilities, consisting of bonds, notes and subordinated debt, increased by $481.6 million, or 2.2 percent, from December 31, 2015, to March 31, 2016.

Investments

The district's investments at March 31, 2016, included the bank's available-for-sale portfolio with a fair value of $4.49 billion and the district associations' held-to-maturity portfolio recorded at an amortized cost of $28.5 million at March 31, 2016. The available-for-sale investments included a liquidity portfolio and a portfolio of other investments. The bank's available-for-sale liquidity portfolio consisted primarily of 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 available-for-sale portfolio of other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) held by the bank that had a fair value of $60.9 million. The district's held-to-maturity portfolio consisted of Farmer Mac AMBS held by district associations which had an amortized cost of $28.46 million and a fair value of $28.51 million.

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

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

	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 available-for-sale 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., 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 that were below AAA rating by all NRSROs.

Capital Resources

The district's combined capital at March 31, 2016, totaled $4,048,956, consisting of $600,000 of Class B non-cumulative subordinated perpetual preferred stock, $62,823 of capital stock and participation certificates, $3,281,884 in retained earnings and $224,625 in additional paid-in capital, offset by $120,376 of accumulated other comprehensive loss. The balance in equity reflected an increase of $120,330, or 3.1 percent, from December 31, 2015, due primarily to net income of $98,600, other comprehensive income of $36,568 and net stock issuance of $367, offset by $5,062 in patronage distributions and preferred stock dividends of $10,143. As of March 31, 2016, the bank and all district associations exceeded all regulatory capital requirements.

Key financial condition comparisons:

	March 31, 2016	December 31, 2015
Members' equity to assets	**14.93%**	14.76%
Total liabilities to members' equity	**5.70:1**	5.78:1
Allowance for loan losses to total loans	**0.35%**	0.33%

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 (System) 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 first-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 district is currently evaluating the impact of the recently announced changes.

The final rule to modify regulatory capital requirements changes the capital treatment of the bank's 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 and district associations, that the report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

James F. Dodson
Chairman of the Board

Amie Pala
Chief Financial Officer

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

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

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

May 10, 2016

Combined Balance Sheets

(dollars in thousands)	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Cash	**$ 522,057**	$ 550,852
Federal funds sold and overnight investments	**20,877**	22,413
Investment securities	**4,513,981**	4,475,318
Loans (includes $27,503 and $27,506 at fair value held under fair value option)	**21,676,737**	21,181,818
Less allowance for loan losses	**75,624**	70,350
Net loans	**21,601,113**	21,111,468
Accrued interest receivable	**167,343**	166,462
Other property owned	**17,717**	18,744
Premises and equipment, net	**109,772**	105,040
Other assets	**164,132**	166,717
Total assets	**$ 27,116,992**	$ 26,617,014
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	**$ 22,538,352**	$ 22,056,726
Subordinated debt, net	**49,818**	49,801
Accrued interest payable	**50,845**	47,351
Patronage distributions payable	**8,288**	141,878
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**400,670**	372,569
Total liabilities	**23,068,036**	22,688,388
Commitments and contingent liabilities (Note 4)		
Members' equity		
Preferred stock	**600,000**	600,000
Capital stock and participation certificates	**62,823**	62,456
Allocated retained earnings	**588,261**	588,262
Unallocated retained earnings	**2,693,623**	2,610,227
Additional paid-in-capital	**224,625**	224,625
Accumulated other comprehensive loss	**(120,376)**	(156,944)
Total members' equity	**4,048,956**	3,928,626
Total liabilities and members' equity	**$ 27,116,992**	$ 26,617,014

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2016	2015
Interest Income		
Loans	**$ 227,655**	$ 206,236
Investment securities	**16,371**	15,237
Total interest income	**244,026**	221,473
Interest Expense		
Bonds, notes and subordinated debt	**58,034**	45,541
Notes payable and other	**9,896**	6,651
Total interest expense	**67,930**	52,192
Net interest income	**176,096**	169,281
Provision for credit losses	**5,651**	3,460
Net interest income after provision for credit losses	**170,445**	165,821
Noninterest Income		
Patronage income	**5,779**	5,829
Fees for loan-related services	**5,733**	8,271
Gain (loss) on loans held under fair value option	**199**	(90)
Other income, net	**1,828**	4,276
Total noninterest income	**13,539**	18,286
Noninterest Expense		
Salaries and employee benefits	**50,077**	49,334
Occupancy and equipment expense	**8,213**	7,615
Insurance Fund premiums	**7,620**	5,644
Gain on other property owned, net	**(64)**	(3,735)
Other operating expenses	**19,506**	18,820
Total noninterest expense	**85,352**	77,678
Income before provision for income taxes	**98,632**	106,429
Provision for income taxes	**32**	136
Net Income	**98,600**	106,293
Other comprehensive income		
Change in unrealized gain on investments	**32,382**	23,536
Change in pension and postretirement benefit plans	**4,180**	4,437
Change in cash flow derivative instruments	**6**	310
Total other comprehensive income	**36,568**	28,283
Comprehensive Income	**$ 135,168**	$ 134,576

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

Combined Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Common Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Additional Paid-in-Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2014	$ 600,000	$ 60,242	$ 542,896	$ 2,557,039	$ 149,179	$ (166,791)	$ 3,742,565
Net income	-	-	-	106,293	-	-	106,293
Other comprehensive gain	-	-	-	-	-	28,283	28,283
Capital stock/participation certificates issued	-	930	-	-	-	-	930
Capital stock/participation certificates retired	-	(691)	(4)	-	-	-	(695)
Impact of association merger:							
Equity issued upon association merger	-	1,041	-	-	75,446	-	76,487
Equity retired upon association merger	-	(1,041)	-	(75,446)	-	-	(76,487)
Net reduction in surplus due to net fair value adjustments related to merger	-	-	-	(2,916)	-		(2,916)
Preferred stock dividends	-	-	-	(5,062)	-	-	(5,062)
Patronage distributions							
Cash	-	-	-	(9,109)	-	-	(9,109)
Balance at March 31, 2015	$ 600,000	$ 60,481	$ 542,892	$ 2,570,799	$ 224,625	$ (138,508)	$ 3,860,289
Balance at December 31, 2015	$ 600,000	$ 62,456	$ 588,262	$ 2,610,227	$ 224,625	$ (156,944)	$ 3,928,626
Net income	-	-	-	98,600	-	-	98,600
Other comprehensive gain	-	-	-	-	-	36,568	36,568
Capital stock/participation certificates issued	-	2,386	-	-	-	-	2,386
Capital stock/participation certificates and allocated retained earnings retired	-	(2,019)	-	-	-	-	(2,019)
Preferred stock dividends	-	-	-	(5,062)	-	-	(5,062)
Patronage distributions							
Cash	-	-	-	(10,143)	-	-	(10,143)
Members' equity	-	-	(1)	1	-	-	-
Balance at March 31, 2016	**$ 600,000**	**$ 62,823**	**$ 588,261**	**$ 2,693,623**	**$ 224,625**	**$ (120,376)**	**$ 4,048,956**

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

Combined Statements of Cash Flows

(unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	**2016**	2015
Operating activities		
Net income	**$ 98,600**	$106,293
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**5,651**	3,460
Carrying value adjustment on other property owned	**50**	72
Depreciation and amortization on premises and equipment	**3,697**	3,165
Accretion of net premium on loans	**2,135**	3,302
Amortization and accretion on debt instruments	**2,819**	2,452
Accretion of net premium on investments	**910**	607
(Increase) decrease in fair value on loans under fair value option	**(199)**	90
Gain from sales of other property owned, net	**(61)**	(3,614)
Gain on sale of loan held-for-sale	**(75)**	-
Loss on other earning assets	**273**	-
Loss from sales of premises and equipment	**680**	2,008
Allocated equity patronage from System bank	**(13,852)**	(13,498)
Increase in accrued interest receivable	**(881)**	(2,823)
Decrease in other assets, net	**16,080**	14,399
Increase in accrued interest payable	**3,495**	3,268
Increase in other liabilities, net	**32,072**	(1,669)
Net cash provided by operating activities	**151,394**	117,512
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	**248,762**	218,790
Increase in loans	**(501,771)**	(306,264)
Proceeds from sales of other property owned	**2,746**	15,817
Proceeds from sales of premises and equipment	**801**	1,034
Expenditures for premises and equipment	**(9,414)**	(3,433)
Investment in other earning assets	**299**	-
Net cash used in investing activities	**(512,994)**	(331,360)
Financing activities		
Bonds and notes issued	**3,992,197**	2,829,306
Bonds and notes retired	**(3,513,203)**	(2,584,744)
Increase in advanced conditional payments	**2,378**	5,471
Equity issued upon merger	**-**	(2,916)
Repayments on capital lease obligation	**(139)**	-
Capital stock and participation certificates issued	**2,386**	930
Capital stock and participation certificates retired	**(2,019)**	(695)
Cash dividends on preferred stock	**(5,062)**	(5,062)
Cash patronage distributions paid	**(143,733)**	(138,202)
Net cash provided by financing activities	**332,805**	104,088
Net decrease in cash	**(28,795)**	(109,760)
Cash at beginning of year	**550,852**	437,201
Cash at end of quarter	**522,057**	327,441
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 122**	$ 890
Loan assets transferred to other property owned	**1,830**	1,575
Net increase in unrealized losses on investment securities	**32,382**	23,536
Cash dividends or patronage distributions payable	**8,288**	18,343
Preferred stock dividend payable	**20,063**	20,063
Capital Lease obligations	**1,386**	-
Supplemental information		
Cash paid for:		
Interest	**$ 64,435**	$ 48,924
Income taxes	**2**	2

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

Notes to Combined Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies followed and the financial condition and results of operations of the combined bank and associations as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to stockholders (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 district, and conform to generally accepted accounting principles. The preparation of these financial statements requires the use of management’s estimates. The results of operations for any interim period are not necessarily indicative of the results to be expected for the entire year.

In 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 and associations are 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 or association’s financial condition or their 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 district elected to adopt this guidance effective December 31, 2015, with retroactive application. The adoption of this guidance did not impact the district’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 of the bank and associations 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 and associations are in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

NOTE 2 — INVESTMENTS

Investments Available for Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The majority of the liquidity portfolio's mortgage-backed securities were federal agency-guaranteed collateralized mortgage-backed securities, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities available for sale, at March 31, 2016, and December 31, 2015, is as follows:

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

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

	Due after one year through five years		Due after five years through 10 years		Total
Fair value of agricultural mortgage-backed securities	$	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 the bank's available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time, for the securities that have been in a continuous unrealized loss position at 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 district evaluates investment securities for other-than-temporary impairment (OTTI) on a quarterly basis. Impairment is considered to be other than temporary if an entity (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its cost or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). In the three months ended March 31, 2016, the district did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI.

Held-to-Maturity Investments

The district's held-to-maturity investments consist of Farmer Mac guaranteed agricultural mortgage-backed securities and are held by district associations. A summary of the amortized cost and fair value of held-to-maturity investment securities at March 31, 2016, is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 28,463	$ 203	$ (155)	$ 28,511	4.61 %

The following table summarizes the contractual maturity, fair value, amortized cost and weighted average yield of the district's held-to-maturity investments at March 31, 2016:

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 17,412	$ 11,098	$ 28,510
Total amortized cost	**$ 17,209**	**$ 11,253**	**$ 28,462**
Weighted average yield	**5.02%**	**3.98%**	**4.61%**

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

A summary of the district's loans follows:

	March 31, 2016	December 31, 2015
Real estate mortgage	**$ 12,371,527**	$ 12,187,679
Production and intermediate term	**2,639,049**	2,763,018
Loans to cooperatives	**440,755**	233,171
Processing and marketing	**3,237,825**	3,126,782
Farm-related business	**340,363**	326,641
Communication	**464,957**	465,149
Energy (rural utilities)	**1,398,601**	1,288,196
Water and waste disposal	**169,252**	165,762
Rural home	**313,863**	301,305
Agricultural export finance	**-**	9,713
Lease receivables	**6,328**	6,258
Loans to other financing institutions	**43,599**	42,598
Mission-related	**250,618**	265,546
	$ 21,676,737	$ 21,181,818

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 and associations purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration (FCA) regulations.

The following table presents information regarding the district's balances of participations purchased and sold, excluding syndications, at March 31, 2016:

	Other Farm Credit Institutions (Outside of the Texas District)		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 137,841	$ 173,591	$ 121,070	$ 22,710	$ 258,911	$ 196,301
Production and intermediate term	528,907	825,003	7,680	30,359	536,587	855,362
Agribusiness	2,153,556	27,531	21,648	3,332	2,175,204	30,863
Communication	465,659	-	-	-	465,659	-
Energy (rural utilities)	1,399,321	-	-	-	1,399,321	-
Water and waste disposal	149,061	-	-	-	149,061	-
Lease receivables	6,060	-	100	-	6,160	-
Mission-related	4,932	-	4,270	-	9,202	-
Loans to other financing institutions	-	15,943	-	-	-	15,943
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 4,845,337**	**$ 4,892,068**	**$ 154,768**	**$ 56,401**	**$ 5,000,105**	**$ 4,948,469**

The bank and associations are authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. At March 31, 2016, ACPs netted against borrowers' related loan balances totaled $184,047 and ACPs included in other liabilities totaled $21,929, compared to $172,908 and $19,551, respectively, at December 31, 2015.

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $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	**$ 93,230**	$ 89,067
Production and intermediate term	**27,937**	15,962
Agribusiness	**1,746**	2,088
Rural residential real estate	**1,047**	1,116
Lease receivables	**12**	16
Mission-related	**5,769**	5,177
Total nonaccrual loans	**129,741**	113,426
Accruing restructured loans:		
Real estate mortgage	**26,850**	20,123
Production and intermediate term	**14,448**	23,702
Rural residential real estate	**337**	340
Mission-related	**6,021**	5,934
Total accruing restructured loans	**47,656**	50,099
Accruing loans 90 days or more past due:		
Real estate mortgage	**4,931**	498
Production and intermediate term	**686**	603
Rural residential real estate	**-**	223
Mission-related	**501**	729
Total accruing loans 90 days or more past due	**6,118**	2,053
Total nonperforming loans	**183,515**	165,578
Other property owned	**17,717**	18,744
Total nonperforming assets	**$ 201,232**	$ 184,322

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

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

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

	March 31, 2016		December 31, 2015	
Real estate mortgage:				
Acceptable	**97.2**	**%**	97.2	%
OAEM	**1.5**		1.5	
Substandard/Doubtful	**1.3**		1.3	
	100.0	**%**	100.0	%
Production and intermediate term:				
Acceptable	**95.8**	**%**	96.4	%
OAEM	**1.8**		1.8	
Substandard/Doubtful	**2.4**		1.8	
	100.0	**%**	100.0	%
Agribusiness:				
Acceptable	**97.7**	**%**	97.7	%
OAEM	**1.6**		1.7	
Substandard/Doubtful	**0.7**		0.6	
	100.0	**%**	100.0	%
Energy and water/waste disposal:				
Acceptable	**98.4**	**%**	98.2	%
OAEM	**1.6**		1.8	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Communication:				
Acceptable	**100.0**	**%**	99.7	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		0.3	
	100.0	**%**	100.0	%
Rural residential real estate:				
Acceptable	**97.7**	**%**	97.7	%
OAEM	**1.0**		1.1	
Substandard/Doubtful	**1.3**		1.2	
	100.0	**%**	100.0	%
Agricultural export finance:				
Acceptable	**-**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	-	**%**	100.0	%
Lease receivables:				
Acceptable	**99.7**	**%**	99.7	%
OAEM	**-**		-	
Substandard/Doubtful	**0.3**		0.3	
	100.0	**%**	100.0	%
Loans to other financing institutions:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Mission-related:				
Acceptable	**97.7**	**%**	98.1	%
OAEM	**-**		-	
Substandard/Doubtful	**2.3**		1.9	
	100.0	**%**	100.0	%
Total loans:				
Acceptable	**97.3**	**%**	97.3	%
OAEM	**1.5**		1.6	
Substandard/Doubtful	**1.2**		1.1	
	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	$ 45,949	$ 41,244	$ 87,193	$ 12,390,323	$ 12,477,516	$ 4,931
Production and intermediate term	26,377	4,963	31,340	2,634,904	2,666,244	686
Agribusiness	389	-	389	4,035,112	4,035,501	-
Communication	-	-	-	465,269	465,269	-
Energy and water/waste disposal	-	-	-	1,574,449	1,574,449	-
Rural residential real estate	3,329	108	3,437	311,735	315,172	-
Lease receivables	-	-	-	6,399	6,399	-
Loans to other financing institutions	-	-	-	43,657	43,657	-
Mission-related	-	6,270	6,270	247,090	253,360	501
Total	**$ 76,044**	**$ 52,585**	**$ 128,629**	**$21,708,938**	**$21,837,567**	**$ 6,118**

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	$ 40,516	$ 32,245	$ 72,761	$ 12,224,166	$ 12,296,927	$ 498
Production and intermediate term	21,945	9,251	31,196	2,758,027	2,789,223	603
Agribusiness	6,633	143	6,776	3,694,602	3,701,378	-
Communication	-	-	-	465,457	465,457	-
Energy and water/waste disposal	-	-	-	1,459,502	1,459,502	-
Rural residential real estate	1,737	288	2,025	300,578	302,603	223
Agricultural export finance	-	-	-	9,735	9,735	-
Lease receivables	8	-	8	6,330	6,338	-
Loans to other financing institutions	-	-	-	42,647	42,647	-
Mission-related	227	5,906	6,133	261,884	268,017	729
Total	$ 71,066	$ 47,833	$ 118,899	$ 21,222,928	$ 21,341,827	$ 2,053

Additional impaired loan information is as follows:

	At March 31, 2016			At December 31, 2015		
Impaired loans with a related allowance for loan losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Real estate mortgage	**$ 14,774**	**$ 15,259**	**$ 2,733**	$ 14,105	$ 14,724	$ 2,649
Production and intermediate term	**14,490**	**14,844**	**3,162**	6,742	6,832	2,534
Farm-related business	**838**	**4,763**	**121**	934	4,858	121
Rural residential real estate	**52**	**52**	**10**	51	51	10
Mission-related	**2,545**	**2,545**	**185**	2,549	2,549	184
Total	**$ 32,699**	**$ 37,463**	**$ 6,211**	$ 24,381	$ 29,014	$ 5,498
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	**$ 110,237**	**$ 120,373**	**$ -**	$ 95,583	$ 105,816	$ -
Production and intermediate term	**28,581**	**42,485**	**-**	33,525	47,230	-
Processing and marketing	**907**	**26,451**	**-**	1,008	26,748	-
Farm-related business	**1**	**293**	**-**	146	563	-
Energy and water/waste disposal	**-**	**22,731**	**-**	-	22,730	-
Rural residential real estate	**1,332**	**1,523**	**-**	1,628	1,823	-
Lease receivables	**12**	**12**	**-**	16	16	-
Mission-related	**9,746**	**9,746**	**-**	9,291	12,482	-
Total	**$ 150,816**	**$ 223,614**	**$ -**	$ 141,197	$ 217,408	$ -
Total impaired loans:						
Real estate mortgage	**$ 125,011**	**$ 135,632**	**$ 2,733**	$ 109,688	$ 120,540	$ 2,649
Production and intermediate term	**43,071**	**57,329**	**3,162**	40,267	54,062	2,534
Processing and marketing	**907**	**26,451**	**-**	1,008	26,748	-
Farm-related business	**839**	**5,056**	**121**	1,080	5,421	121
Energy and water/waste disposal	**-**	**22,731**	**-**	-	22,730	-
Rural residential real estate	**1,384**	**1,575**	**10**	1,679	1,874	10
Lease receivables	**12**	**12**	**-**	16	16	-
Mission-related	**12,291**	**12,291**	**185**	11,840	15,031	184
Total	**$ 183,515**	**$ 261,077**	**$ 6,211**	$ 165,578	$ 246,422	$ 5,498

	For the Three Months Ended			
	March 31, 2016		March 31, 2015	
Impaired loans with a related allowance for loan losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Real estate mortgage	**$ 14,409**	**$ 73**	$ 20,260	$ 56
Production and intermediate term	**5,894**	**207**	3,703	9
Processing and marketing	**-**	**-**	1,062	-
Farm-related business	**883**	**-**	916	-
Energy and water/waste disposal	**-**	**-**	6,953	-
Rural residential real estate	**52**	**-**	95	-
Mission-related	**2,546**	**65**	2,610	64
Total	**$ 23,784**	**$ 345**	$ 35,599	$ 129
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	**$ 107,155**	**$ 856**	$ 119,251	$ 1,301
Production and intermediate term	**22,515**	**459**	32,794	1,337
Processing and marketing	**906**	**-**	3,610	-
Farm-related business	**1**	**3**	171	3
Rural residential real estate	**1,280**	**8**	937	8
Lease receivables	**15**	**-**	30	-
Mission-related	**9,600**	**71**	4,857	88
Total	**$ 141,472**	**$ 1,397**	$ 161,650	$ 2,737
Total impaired loans:				
Real estate mortgage	**$ 121,564**	**$ 929**	$ 139,511	$ 1,357
Production and intermediate term	**28,409**	**666**	36,497	1,346
Processing and marketing	**906**	**-**	4,672	-
Farm-related business	**884**	**3**	1,087	3
Energy and water/waste disposal	**-**	**-**	6,953	-
Rural residential real estate	**1,332**	**8**	1,032	8
Lease receivables	**15**	**-**	30	-
Mission-related	**12,146**	**136**	7,467	152
Total	**$ 165,256**	**$ 1,742**	$ 197,249	$ 2,866

At March 31, 2016, impaired loans of $32.7 million had a related specific allowance of $6.2 million, while the remaining $150.8 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 $165.3 million. The district recognized interest income of $1.7 million 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	Lease Receivables	Loans to OFIs	Mission- Related	Total
Allowance for Credit Losses											
Balance at December 31, 2015	$ 39,195	$ 17,461	$ 8,262	$ 1,087	$ 3,442	$ 620	$ 3	$ 43	$ -	$ 237	$ 70,350
Charge-offs	(71)	(455)	(73)	-	-	-	-	-	-	-	(599)
Recoveries	218	134	302	-	-	1	-	-	-	-	655
Provision for credit losses (loan loss reversal)	552	2,588	1,527	(64)	1,008	40	(3)	3	-	-	5,651
Adjustment due to merger	-	-	-	-	-	-	-	-	-	-	-
Other *	50	(585)	21	(5)	86	-	-	-	-	-	(433)
Balance at March 31, 2016	$ 39,944	$ 19,143	$ 10,039	$ 1,018	$ 4,536	$ 661	$ -	$ 46	$ -	$ 237	$ 75,624
Individually evaluated for impairment	3,172	3,163	19	-	-	10	-	-	-	185	6,549
Collectively evaluated for impairment	36,772	15,980	10,020	1,018	4,536	651	-	46	-	52	69,075
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2016	$ 39,944	$ 19,143	$ 10,039	$ 1,018	$ 4,536	$ 661	$ -	$ 46	$ -	$ 237	$ 75,624
Balance at December 31, 2014	$ 38,137	$ 10,404	$ 6,215	$ 716	$ 8,155	$ 472	$ -	$ 44	$ -	$ 214	$ 64,357
Charge-offs	(319)	(110)	-	-	-	(8)	-	-	-	-	(437)
Recoveries	141	161	183	-	-	-	-	-	-	-	485
Provision for credit losses (loan loss reversal)	(2,645)	2,368	3,327	67	(41)	35	27	(2)	-	324	3,460
Adjustment due to merger	(1,013)	(1,224)	(125)	-	-	(1)	-	-	-	-	(2,363)
Other *	199	(613)	(3,097)	-	33	-	-	-	-	-	(3,478)
Balance at March 31, 2015	$ 34,500	$ 10,986	$ 6,503	$ 783	$ 8,147	$ 498	$ 27	$ 42	$ -	$ 538	$ 62,024
Individually evaluated for impairment	4,750	918	1,141	-	5,500	6	-	-	-	176	12,491
Collectively evaluated for impairment	29,745	10,037	5,362	783	2,647	492	27	42	-	362	49,497
Loans acquired with deteriorated credit quality	5	31	-	-	-	-	-	-	-	-	36
Balance at March 31, 2015	$ 34,500	$ 10,986	$ 6,503	$ 783	$ 8,147	$ 498	$ 27	$ 42	$ -	$ 538	$ 62,024
Recorded Investments in Loans Outstanding:											
Ending balance at March 31, 2016	$ 12,477,516	$ 2,666,244	$ 4,035,501	$ 465,269	$ 1,574,449	$ 315,172	$ -	$ 6,399	$ 43,657	$ 253,360	$ 21,837,567
Individually evaluated for impairment	$ 120,051	$ 52,473	$ 1,746	$ -	$ 562	$ 893	$ -	$ 12	$ -	$ 12,185	$ 187,922
Collectively evaluated for impairment	$ 12,356,862	$ 2,613,737	$ 4,033,755	$ 465,269	$ 1,573,887	$ 314,279	$ -	$ 6,387	$ 43,657	$ 241,175	$ 21,649,008
Loans acquired with deteriorated credit quality	$ 603	$ 34	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 637
Ending balance at March 31, 2015	$ 11,622,353	$ 2,361,437	$ 3,356,626	$ 429,326	$ 1,393,932	$ 271,360	$ 31,916	$ 3,758	$ 42,288	$ 301,520	$ 19,814,516
Individually evaluated for impairment	$ 136,937	$ 37,074	$ 7,378	$ -	$ 6,939	$ 1,227	$ -	$ 28	$ -	$ 7,585	$ 197,168
Collectively evaluated for impairment	$ 11,481,432	$ 2,322,510	$ 3,349,105	$ 429,326	$ 1,386,993	$ 270,133	$ 31,916	$ 3,730	$ 42,288	$ 293,935	$ 19,611,368
Loans acquired with deteriorated credit quality	$ 3,984	$ 1,853	$ 143	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,980

* 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. TDRs are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2016, the total recorded investment of TDR loans was $59,849, including $12,193 classified as nonaccrual and $47,656 classified as accrual, with specific allowance for loan losses of $6,211. Additional commitments to lend to borrowers whose loan terms have been modified in TDRs were $321 at March 31, 2016, and $335 at December 31, 2015.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	March 31, 2016	December 31, 2015	**March 31, 2016**	December 31, 2015
Real estate mortgage	**$ 36,680**	$ 31,424	**$ 9,830**	$ 11,301
Production and intermediate term	**14,906**	24,174	**458**	472
Agribusiness	**1,703**	1,788	**1,703**	1,788
Rural residential real estate	**539**	546	**202**	206
Mission-related	**6,021**	5,934	**-**	-
Total	**$ 59,849**	$ 63,866	**$ 12,193**	$ 13,767

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three months ended March 31, 2016, and March 31, 2015. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end after the restructuring.

For the three months ended March 31, 2016:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 382	$ 369
Rural residential real estate	141	140
Total	$ 523	$ 509

For the three months ended March 31, 2015:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 548	$ 544
Production and intermediate term	929	497
Total	$ 1,477	$ 1,041

The predominant form of concession granted for troubled debt restructuring includes extension of the term and delayed payments. Other types of modifications include interest rate and principal reduction.

A payment default is defined as a payment that is 30 days past due after the date the loan was restructured. There were no troubled debt restructuring defaults that occurred within the previous 12 months and for which there was a payment default during the three months ended March 31, 2016.

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

NOTE 5 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," of the 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	**6,608**	6,608	-	-
Total assets	**$ 4,540,804**	$ 6,608	$ 4,473,261	$ 60,935
Liabilities:				
Standby letters of credit	**$ 1,178**	$ -	$ -	$ 1,178
Total liabilities	**$ 1,178**	$ -	$ -	$ 1,178

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	$ 967	$ 114,933
Net losses included in other comprehensive loss	-	(478)	-	(478)
Purchases, issuances and settlements	-	(4,237)	211	(4,448)
Transfers out of Level 3	(50,250)	-	-	(50,250)
Balance at March 31, 2016	$ -	$ 60,935	$ 1,178	$ 59,757

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:

	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)**	**Total Gains (Losses)**
Assets:					
Loans	**$ 134,354**	$ -	$ -	$ 134,354	**$ (600)**
Other property owned	**19,686**	-	-	19,686	**64**
Total assets	**$ 154,040**	$ -	$ -	$ 154,040	**$ (536)**

Assets and liabilities recorded 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	6,399	6,399	-	-
Total assets	$ 4,506,777	$ 6,399	$ 4,379,628	$ 120,750
Liabilities:				
Standby letters of credit	$ 967	$ -	$ -	$ 967
Total liabilities	$ 967	$ -	$ -	$ 967

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
Balance at January 1, 2015	$ 7	$ 80,583	$ 993	$ 79,597
Net gains included in other comprehensive loss	-	367	-	367
Purchases, issuances and settlements	(3)	(3,331)	659	(3,993)
Balance at March 31, 2015	$ 4	$ 77,619	$ 1,652	$ 75,971

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	$ 115,468	$ -	$ -	$ 115,468	$ (4,907)
Other property owned	20,826	-	-	20,826	2,984
Total assets	$ 136,294	$ -	$ -	$ 136,294	$ (1,923)

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	**$ 522,057**	$ 522,057	$ -	$ -	$ 522,057
Mission-related and other held-to-maturity investments	**28,462**	-	-	28,510	28,510
Net loans	**21,439,256**	-	-	21,468,636	21,468,636
Total assets	**$ 21,989,775**	$ 522,057	$ -	$ 21,497,146	$ 22,019,203
Liabilities:					
Systemwide debt securities and other notes	**$ 22,538,341**	$ -	$ -	$ 22,692,006	$ 22,692,006
Subordinated debt	**49,818**	-	-	53,203	53,203
	$ 22,588,159	$ -	$ -	$ 22,745,209	$ 22,745,209

	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	**$ 550,852**	$ 550,852	$ -	$ -	$ 550,852
Mission-related and other held-to-maturity investments	**30,213**	-	-	30,019	30,019
Net loans	**20,968,494**	-	-	20,946,692	20,946,692
Total assets	**$ 21,549,559**	$ 550,852	$ -	$ 20,976,711	$ 21,527,563
Liabilities:					
Systemwide debt securities and other notes	**$ 22,056,726**	$ -	$ -	$ 22,112,446	$ 22,112,446
Subordinated debt	**49,801**	-	-	52,972	52,972
	$ 22,106,527	$ -	$ -	$ 22,165,418	$ 22,165,418

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 and its affiliated associations' 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. This would include certain mortgage-backed and asset-backed securities. To estimate the fair value of investments, the bank obtains prices from first-party pricing services. 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 include and cash flow derivatives. 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 district'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 district'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. To estimate the fair value of these instruments, the bank obtains prices from first-party pricing services. Generally, these loans would be classified as Level 2.

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.

Subordinated Debt

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

Bonds and Notes

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

Other Property Owned

Other property owned (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	**Balance 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) Gain 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,**	
	2016	**2015**		**2016**	**2015**
Interest rate caps	$ (207)	$ (172)	Interest expense	$ 213	$ 482

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

The following table summarizes the components of net periodic benefit costs for the district's defined benefit pension plan and for other postretirement benefit costs for the three months ended March 31:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2016	2015	**2016**	2015
Service cost	**$ 1,173**	$ 1,332	**$ 320**	$ 387
Interest cost	**4,209**	3,969	**753**	780
Expected return on plan assets	**(4,411)**	(5,140)	**-**	-
Amortization of prior service costs	**-**	1	**(232)**	(245)
Amortization of net loss	**4,365**	4,552	**45**	218
Net periodic benefit cost	**$ 5,336**	$ 4,714	**$ 886**	$ 1,140

As of March 31, 2016, contributions of $11.8 million have been made to the defined benefit pension plan. The district presently anticipates no additional contributions to fund its pension plan in 2015.

NOTE 8 — INCOME TAXES

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

NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE LOSS

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

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

	Total	Unrealized Gain (Loss) on Securities	Pension and Other Post-Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2016	$ (156,944)	$ (25,276)	$ (129,761)	$ (1,907)
Change in unrealized 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 pension and postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(231)		(231)	
Amortization of net losses	4,411		4,411	
Net change in pension and postretirement benefit plans	4,180		4,180	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(207)			(207)
Reclassification of loss recognized in interest expense	213			213
Net change in cash flow derivative instruments	6			6
Total other comprehensive income	**36,568**	**32,382**	**4,180**	**6**
Balance, March 31, 2016	**$ (120,376)**	**$ 7,106**	**$ (125,581)**	**$ (1,901)**

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

	Total	Unrealized Gain (Loss) on Securities	Pension and Other Post-Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2015	$ (166,791)	$ (16,100)	$ (147,996)	$ (2,695)
Change in unrealized gains on available-for-sale securities				
Net decrease in unrealized gains on investment securities	23,536	23,536		
Net change in unrealized losses on securities	23,536	23,536		
Change in pension and postretirement benefit plans				
Change due to effect of merger	216		216	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(550)		(550)	
Amortization of net losses	4,771		4,771	
Net change in pension and postretirement benefit plans	4,437		4,437	
Change in cash flow derivative instruments				
Unrealized gains on interest rate caps	(172)			(172)
Reclassification of loss recognized in interest expense	482			482
Net change in cash flow derivative instruments	310			310
Total other comprehensive income	28,283	23,536	4,437	310
Balance, March 31, 2015	$ (138,508)	$ 7,436	$ (143,559)	$ (2,385)

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

Component of AOCL	Amount Reclassified from AOCL		Affected Line in the Statement of Comprehensive Income
	2016	2015	
Amortization of net charges on pension and postretirement benefit plans	**$ 4,180**	$ 4,221	Salaries and employee benefits
Amortization on cash flow hedges	**213**	482	Interest expense
Total reclassifications	**$ 4,393**	$ 4,703	

NOTE 10 — SUBSEQUENT EVENTS

The district 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 11 — BANK-ONLY FINANCIAL DATA

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

Balance sheet data	March 31, 2016	December 31, 2015
Cash	**$ 518,471**	$ 545,090
Federal funds sold and overnight investments	**20,877**	22,413
Investment securities	**4,485,518**	4,445,105
Loans	**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
Bonds and notes, net	**$ 18,688,352**	$ 18,206,726
Subordinated debt, net	**49,818**	49,801
Accrued interest payable	**47,573**	44,766
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**60,722**	114,641
Total liabilities	**18,866,528**	18,435,997
Preferred stock	**600,000**	600,000
Capital stock	**255,823**	255,823
Retained earnings	**760,949**	725,086
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

	Three Months Ended March 31,	
Statement of income data	**2016**	2015
Interest income	**$ 114,967**	$ 102,242
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	**8,410**	14,394
Noninterest expense	**22,540**	18,123
Net income	**42,110**	52,101
Other comprehensive income:		
Change in fair value of 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