EXPANDING HORIZONS

2016 SECOND QUARTER REPORT
JUNE 30, 2016
TEXAS FARM CREDIT DISTRICT

SECOND 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 six months ended June 30, 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 June 30, 2016, was $111,460, an increase of $6,970, or 6.7 percent, over the same period of 2015. The increase in net income consisted primarily of an $8,832 increase in net interest income and a $5,292 increase in noninterest income, offset by a $4,547 increase in noninterest expense and a $2,501 increase in provision for loan losses.

Net income for the six months ended June 30, 2016, was $210,060, a decrease of $723, or 0.3 percent, over the same period of 2015. The decrease in net income consisted primarily of a $12,221 increase in noninterest expense and a $4,692 increase in provision for loan losses, offset by a $15,647 increase in net interest income and a $545 increase in noninterest income.

Net Interest Income

Net interest income for the three months ended June 30, 2016, was $180,546, an increase of $8,832, or 5.1 percent, over the same period of 2015. The increase was primarily the result of a $2.69 billion increase in combined district average earning assets, offset by a 16-basis-point decrease in the net interest rate spread to 2.54 percent for the three months ended June 30, 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 a 20-basis-point increase in the effective cost of average interest-bearing liabilities. The district associations had an increase in average loan volume of $1.67 billion compared to the same period of 2015, due mainly to improved general economic conditions. Interest expense for the second quarter of 2016 reflected a $2.7 million increase in concession expenses recognized on callable debt as a result of a $1.71 billion increase in debt called in the quarter ended June 30, 2016, compared to the same period in 2015. The bank recognized $4.1 million in concession expenses on $2.79 billion of debt called in the three months ended June 30, 2016, as compared to $1.4 million on $1.08 billion of debt called in the three months ended June 30, 2015. The bank's ability to call debt and replace it with debt that has lower interest rates provides a long-term benefit to the district.

Net interest income for the six months ended June 30, 2016, was $356,642, an increase of $15,647, or 4.6 percent, over the same period of 2015. The increase was primarily the result of a $2.44 billion increase in combined district average earning assets, offset by a 17-basis-point decrease in the net interest rate spread to 2.55 percent for the six months ended June 30, 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 a 19-basis-point increase in the effective cost of average interest-bearing liabilities. The district associations had an increase in average loan volume of $1.62 billion compared to the same period of 2015, due mainly to improved general economic conditions. Interest expense for the second quarter of 2016 reflected a $3.3 million increase in concession expenses recognized on callable debt as a result of a $1.99 billion increase in debt called in the six months ended June 30, 2016, compared to the same period in 2015. The bank recognized $6.3 million in concession expenses on $3.99 billion of debt called in the six months ended June 30, 2016, as compared to $3.0 million on $2.00 billion of debt called in the six months ended June 30, 2015. The bank's ability to call debt and replace it with debt that has lower interest rates provides a long-term benefit to the district.

Provision for Credit Losses

The district's provision for losses on loans, standby letters of credit and unfunded commitments for the three months ended June 30, 2016, totaled $1,179, an increase of $2,501 from the $1,322 negative provision for the same period of 2015. The increase was due primarily to general provisions related to loan growth at the district associations.

The provision for losses on loans, standby letters of credit and unfunded commitments for the six months ended June 30, 2016, was $6,830, an increase of $4,692 from the $2,138 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 June 30, 2016, was $15,201, an increase of $5,292, or 53.4 percent, from the same period of 2015. The increase was due mainly to a $3,096 gain on the sale of a loan and a $2,566 increase in patronage income.

Noninterest income for the six months ended June 30, 2016, was $28,740, an increase of $545, or 1.9 percent, from the same period of 2015. The increase included a $3,096 gain on the sale of a loan at the bank, a decrease from the $3,133 write-off in 2015 of loan accounting software no longer deemed a useable asset and a $2,516 increase in patronage income, offset by a $5,779 decrease from the preferred stock dividends received in 2015 from an ethanol facility in OPO and a $2,921 decrease in loan-related fee income.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2016, was $82,937, an increase of $4,547, or 5.8 percent, over the same period of 2015. The increase is primarily attributable to a $2,269 increase in salaries and benefits, a $2,023 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC), a $628 increase in occupancy and equipment expenses and a $200 increase in net gains on OPO, offset by a $573 decrease in other operating expenses. The increase in salaries and benefits included a $1,494 increase in compensation, related payroll taxes and other benefits (primarily at the district associations) and a $775 increase in pension and retirement expenses. 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 the first half of 2016 and to an increase in debt required to fund earning assets.

Noninterest expense for the six months ended June 30, 2016, was $168,289, an increase of $12,221, or 7.8 percent, over the same period of 2015. The increase is primarily attributable to a $3,999 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC), a $3,012 increase in salaries and benefits, a $1,226 increase in occupancy and equipment expenses and a $3,871 decrease in net gains 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 the first half of 2016 and to an increase in debt required to fund earning assets. The increase in salaries and benefits included a $1,941 increase in pension and retirement expenses and a $1,071 increase in compensation, related payroll taxes and other benefits (primarily at the district associations). The increase in occupancy and equipment expenses was mainly due to increases in computer expense. The decrease in gains on OPO included a $3,090 decrease in net gains on disposition of the preferred stock of an ethanol facility.

Key results of operations comparisons:

	Annualized for the Six Months Ended June 30, 2016	Annualized for the Six Months Ended June 30, 2015
Return on average assets	**1.56%**	1.73%
Return on average members' equity	**10.45%**	11.04%
Net interest income as a percentage of average earning assets	**2.73%**	2.88%
Charge-offs, net of recoveries, to average loans	**< (0.01)%**	0.02%
Operating expenses as a percentage of net interest income and noninterest income	**43.61%**	43.26%
Operating expenses as a percentage of average earning assets	**1.29%**	1.35%

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 six months ended June 30:

	2016	2015
Change in unrealized gains on available-for-sale securities		
Net increase in unrealized gains on investment securities	**$ 44,175**	$ 8,545
Net change in unrealized gains on securities	**44,175**	8,545
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	**(464)**	(441)
Amortization of net losses	**8,821**	9,541
Net change in pension and postretirement benefit plans	**8,357**	9,316
Change in cash flow derivative instruments		
Unrealized losses on cash flow derivative instruments	**(4,668)**	(370)
Reclassification of loss recognized in interest expense	**758**	774
Net change in cash flow derivative instruments	**(3,910)**	404
Other comprehensive income	**$ 48,622**	$ 18,265

The increase in unrealized gains on investments is due primarily to the effect of recent events in the interest rate market on the bank's fixed rate investment securities.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2016, was $22.12 billion, an increase of $937.8 million, or 4.4 percent, from $21.18 billion at December 31, 2015. The increase in the loan portfolio during the first six months of 2016 was due primarily to growth in the associations' loan portfolios of $756.9 million and in the bank's capital markets loan portfolio of $180.3 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 98.7 percent at June 30, 2016, and 98.9 percent at December 31, 2015. Nonaccrual loans for the district were 0.6 percent of total loans at June 30, 2016, compared to 0.5 percent at December 31, 2015.

Total district high-risk asset volume increased $32.7 million, or 17.7 percent, to $217.0 million at June 30, 2016, from $184.3 million at December 31, 2015.

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

	June 30, 2016	Increase (Decrease) $	Increase (Decrease) %	December 31, 2015
Nonaccrual loans	**$ 139.6**	$ 26.2	23.1 %	$ 113.4
Accruing formally restructured loans	**47.8**	(2.3)	(4.6)	50.1
Loans 90 days past due and still accruing interest	**8.5**	6.4	304.8	2.1
Total impaired loans	**195.9**	30.3	18.3	165.6
Other property owned	**21.1**	2.4	12.8	18.7
Total high-risk assets	**$ 217.0**	$ 32.7	17.7 %	$ 184.3

The $26.2 million increase in nonaccrual loans from December 31, 2015, to June 30, 2016, is primarily the result of $64.4 million in transfers to nonaccrual status, offset by $34.6 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 June 30, 2016, $84.5 million, or 60.6 percent, of the district's nonaccrual loans were considered current as to principal and interest. Continued satisfactory payment performance on these loans may indicate potential for a return to accrual status. At June 30, 2016, the district had $4.4 million in nonaccrual loans on which interest income is recognized upon cash receipts, compared to $3.3 million at December 31, 2015. The increase in OPO was due primarily to $6.6 million in additions to OPO at district associations, offset by dispositions of $3.9 million 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 0.9 percent of total loans at June 30, 2016, and 0.8 percent of total loans at December 31, 2015.

The allowance for loan losses at June 30, 2016, totaled $76,674 and constituted 0.3 percent of total loans and was an increase of $6,324, or 9.0 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 39.1 percent as of June 30, 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 $4.6 million at June 30, 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 $5.37 billion, or 19.2 percent, of total assets at June 30, 2016, compared to $5.05 billion, or 19.0 percent, at December 31, 2015, an increase of $317.6 million, or 6.3 percent. At June 30, 2016, the district's cash balance was $344.6 million, a decrease of $206.2 million from the balance at December 31, 2015. Cash held at the Federal Reserve Bank at June 30, 2016, totaled $326.7 million, compared to $512.2 million at December 31, 2015. The district is diversifying its liquidity positions, including the purchase of U.S. Treasury securities in the second quarter of 2016. The bank maintains levels of cash and other highly liquid assets to meet loan demand, maturing debt and other liquidity needs. At June 30, 2016, the bank had 182 days of liquidity to cover maturing debt obligations, as compared to 200 days at December 31, 2015. Interest-bearing liabilities increased by $1.25 billion, or 5.6 percent, from December 31, 2015, to June 30, 2016.

Investments

The district's investments at June 30, 2016, included the bank's available-for-sale portfolio with a fair value of $4.97 billion and the district associations' held-to-maturity portfolio recorded at an amortized cost of $27.7 million at June 30, 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, U.S. Treasury securities and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The 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 $59.7 million. The district's held-to-maturity portfolio consisted of Farmer Mac AMBS held by district associations which had an amortized cost of $27.7 million and a fair value of $28.0 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:

	June 30, 2016		December 31, 2015	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 238,975**	**$ 241,020**	$ 252,436	$ 248,355
Corporate debt	**226,348**	**226,532**	201,332	200,602
Federal agency-guaranteed collateralized mortgage-backed securities:				
GNMA	**1,924,942**	**1,932,107**	1,740,411	1,731,756
FNMA and FHLMC	**2,122,840**	**2,132,842**	2,008,449	1,998,669
U.S. Treasury securities	**199,431**	**200,578**	-	-
Asset-backed securities	**179,208**	**179,116**	200,485	200,073
Total liquidity investments	**$ 4,891,744**	**$ 4,912,195**	$ 4,403,113	$ 4,379,455

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

	June 30, 2016		December 31, 2015	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 61,226**	**$ 59,674**	$ 67,268	$ 65,650

During the six months ended June 30, 2016, there was an increase in unrealized gains on investments totaling $44,175, 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 June 30, 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.

Subordinated Debt

In September 2008, the bank issued $50.0 million of 8.406 percent unsecured subordinated notes due in 2018, generating proceeds of $49.4 million. The proceeds were used to increase regulatory permanent capital and total surplus pursuant to FCA regulations and for general corporate purposes. This debt was unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders.

On March 10, 2016, the FCA approved a final rule to modify the regulatory capital requirements for System banks and associations, effective January 1, 2017. The final rule to modify regulatory capital requirements changes the favorable capital treatment of the 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 occurred on June 6, 2016.

Capital Resources

The district's combined capital at June 30, 2016, totaled $4,150,128, consisting of $600,000 of Class B non-cumulative subordinated perpetual preferred stock, $63,347 of capital stock and participation certificates, $3,370,478 in retained earnings and $224,625 in additional paid-in capital, offset by $108,322 of accumulated other comprehensive loss. The balance in equity reflected an increase of $221,502, or 5.6 percent, from December 31, 2015, due to net income of $210,060, other comprehensive income changes of $48,622 and net stock issuance of $891, offset by $12,946 in patronage distributions and preferred stock dividends of $25,125. As of June 30, 2016, the bank and all district associations exceeded all regulatory capital requirements.

Key financial condition comparisons:

	June 30, 2016	December 31, 2015
Members' equity to assets	**14.88%**	14.76%
Total liabilities to members' equity	**5.72:1**	5.78:1
Allowance for loan losses to total loans	**0.35%**	0.33%

OTHER

CONDITIONS IN THE DISTRICT

In May, the wetter weather conditions that had prevailed for the previous 17 months dissipated. Moderate drought conditions are currently being observed in portions of New Mexico, Alabama and Mississippi, while Texas and Louisiana have adequate topsoil and subsoil moisture to support the development of row crops. One-third of the land area within the district is affected by drought, which is well below the ten-year average of approximately 60 percent at this point of the season.

Row crops are progressing well across the district, and development progress for major crops is comparable to or ahead of the five-year average. Growing conditions for corn, cotton, soybeans and sorghum are favorable relative to recent years, and the vast majority of these crops are rated in fair to excellent condition. In June, the U.S. Department of Agriculture increased its estimates of planted acreage for corn, soybeans, cotton and wheat. The higher-than-anticipated acreage forecasts are expected to pressure prices of these crops throughout the production year. For the remainder of the growing season, the primary focus will shift to weather and its potential impact on abandonment rates and yields. A declining trend in the cost of major inputs, such as fertilizer and chemicals, will assist row crop producers in maintaining profitability in the current 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.

Prices for cattle and beef are lower compared to 2015, but the beef market is showing signs of improvement: the average cattle slaughter weight has declined materially from its peak in the third quarter of 2015, cattle are selling at a premium over futures prices in the cash market, and the price spread between choice and select beef grades has increased to its highest level since 2013. Profitability in the cattle sector has become more normally distributed, and efficient producers at all levels of the supply chain, including cow/calf operators, feedlots and packers, are able to generate positive margins in the current environment. Increasing production in the beef industry is pressuring prices, which is expected to persist over the medium-term. Growth in poultry production is likely to be muted in 2016, as producers grapple with higher soybean meal prices, decreased wholesale chicken prices and low exports. Broiler production remains profitable, though, and recent estimates have indicated that margins in the industry are comparable to the ten-year average. Although milk prices have fallen in recent months, net profitability for dairy producers in the district generally remains adequate due to declining feed costs over the same period.

A stronger U.S. dollar, relative to foreign currencies, will exert downward pressure on commodities in general. Commodities that are commonly exported, such as pork, corn and processed dairy products, are particularly susceptible to the stronger U.S. dollar.

This year, the national unemployment rate fell below five percent for the first time since the Great Recession. While the district experienced job losses in the manufacturing and mining sectors, employment conditions remain positive. 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 impact of potential land value declines in the short to medium term. The bank continues to monitor economic conditions and other factors influencing collateral values and credit quality in the 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.

Moody's Investors Service Rating Actions

On April 6, 2016, Moody's Investors Service affirmed the bank's issuer rating at "Aa3," its subordinated debt rating at "A2" and its noncumulative preferred stock rating at "Baa1 (hyb)," with a stable outlook. The Aa3 issuer rating reflects the bank's "a1" baseline credit assessment (BCA), very high cooperative support from the other Federal Farm Credit Banks and moderate support from the U.S. Government, which has an "Aaa," stable outlook. The bank's subordinated debt and preferred stock ratings incorporated the bank's BCA, very high cooperative support from the other Federal Farm Credit Banks and notching reflecting the debt's relative positions in the bank's capital structure. The bank's BCA incorporates its solid capital levels, adequate risk-adjusted profitability and liquidity as well as the benefits associated with its lending to related associations and their strong capital levels. The "a1" BCA is one of Moody's highest assessments of any financial institution, both domestically and globally.

REGULATORY MATTERS

At June 30, 2016, there were no district associations under written agreements with the FCA.

On March 10, 2016, the FCA 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 will become effective January 1, 2017, pending Congressional review of 30 days after the July 28, 2016, publication in the Federal Register during which both Houses of Congress are in session. The bank is currently evaluating the impact of the recently announced changes.

The final rule to modify regulatory capital requirements changes the capital treatment of 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 occurred on 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. FCA anticipates releasing a final rule in the later part of 2016.

The undersigned certify that we have reviewed the June 30, 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

August 9, 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

August 9, 2016

Combined Balance Sheets

(dollars in thousands)	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash	**$ 344,631**	$ 550,852
Federal funds sold and overnight investments	**21,959**	22,413
Investment securities	**4,999,614**	4,475,318
Loans (includes $27,181 and $27,506 at fair value held under fair value option)	**22,119,622**	21,181,818
Less allowance for loan losses	**76,674**	70,350
Net loans	**22,042,948**	21,111,468
Accrued interest receivable	**175,558**	166,462
Other property owned	**21,101**	18,744
Premises and equipment, net	**114,921**	105,040
Other assets	**168,540**	166,717
Total assets	**$ 27,889,272**	$ 26,617,014
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	**$ 23,352,538**	$ 22,056,726
Subordinated debt, net	**-**	49,801
Accrued interest payable	**46,829**	47,351
Patronage distributions payable	**1,313**	141,878
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**318,401**	372,569
Total liabilities	**23,739,144**	22,688,388
Commitments and contingent liabilities (Note 4)		
Members' equity		
Preferred stock	**600,000**	600,000
Capital stock and participation certificates	**63,347**	62,456
Allocated retained earnings	**589,237**	588,262
Unallocated retained earnings	**2,781,241**	2,610,227
Additional paid-in-capital	**224,625**	224,625
Accumulated other comprehensive loss	**(108,322)**	(156,944)
Total members' equity	**4,150,128**	3,928,626
Total liabilities and members' equity	**$ 27,889,272**	$ 26,617,014

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

Combined Statements of Comprehensive Income

(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2016**	2015	**2016**	2015
Interest Income				
Loans	**$ 235,182**	$ 210,269	**$ 462,837**	$ 416,505
Investment securities	**17,416**	15,376	**33,787**	30,613
Total interest income	**252,598**	225,645	**496,624**	447,118
Interest Expense				
Bonds, notes and subordinated debt	**61,970**	47,158	**120,004**	92,699
Notes payable and other	**10,082**	6,773	**19,978**	13,424
Total interest expense	**72,052**	53,931	**139,982**	106,123
Net interest income	**180,546**	171,714	**356,642**	340,995
Provision (negative provision) for credit losses	**1,179**	(1,322)	**6,830**	2,138
Net interest income after provision for credit losses	**179,367**	173,036	**349,812**	338,857
Noninterest Income				
Patronage income	**6,715**	4,149	**12,494**	9,978
Fees for loan-related services	**4,639**	5,022	**10,372**	13,293
(Loss) gain on loans held under fair value option	**(121)**	(109)	**78**	(199)
Other income, net	**3,968**	847	**5,796**	5,123
Total noninterest income	**15,201**	9,909	**28,740**	28,195
Noninterest Expense				
Salaries and employee benefits	**46,791**	44,522	**96,868**	93,856
Occupancy and equipment expense	**7,212**	6,584	**15,425**	14,199
Insurance Fund premiums	**7,935**	5,912	**15,555**	11,556
Loss (gain) on other property owned, net	**284**	84	**220**	(3,651)
Other operating expenses	**20,715**	21,288	**40,221**	40,108
Total noninterest expense	**82,937**	78,390	**168,289**	156,068
Income before provision for income taxes	**111,631**	104,555	**210,263**	210,984
Provision for income taxes	**171**	65	**203**	201
Net Income	**111,460**	104,490	**210,060**	210,783
Other comprehensive income (loss)				
Change in unrealized gain on investments	**11,793**	(14,991)	**44,175**	8,545
Change in pension and postretirement benefit plans	**4,177**	4,879	**8,357**	9,316
Change in cash flow derivative instruments	**(3,916)**	94	**(3,910)**	404
Total other comprehensive income (loss)	**12,054**	(10,018)	**48,622**	18,265
Comprehensive Income	**$ 123,514**	$ 94,472	**$ 258,682**	$ 229,048

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	-	-	-	210,783	-	-	210,783
Other comprehensive gain	-	-	-	-	-	18,265	18,265
Capital stock/participation certificates issued	-	4,914	-	-	-	-	4,914
Capital stock/participation certificates and allocated retained earnings retired	-	(3,890)	(3)	-	-	-	(3,893)
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	-	-	-	(25,125)	-	-	(25,125)
Patronage distributions							
Cash	-	-	-	(9,668)	-	-	(9,668)
Members' equity	-	-	(3)	3	-	-	-
Balance at June 30, 2015	$ 600,000	$ 61,266	$ 542,890	$ 2,654,670	$ 224,625	$ (148,526)	$ 3,934,925
Balance at December 31, 2015	$ 600,000	$ 62,456	$ 588,262	$ 2,610,227	$ 224,625	$ (156,944)	$ 3,928,626
Net income	-	-	-	210,060	-	-	210,060
Other comprehensive gain	-	-	-	-	-	48,622	48,622
Capital stock/participation certificates issued	-	4,982	-	-	-	-	4,982
Capital stock/participation certificates and allocated retained earnings retired	-	(4,091)	-	-	-	-	(4,091)
Preferred stock dividends	-	-	-	(25,125)	-	-	(25,125)
Patronage distributions							
Cash	-	-	-	(12,946)	-	-	(12,946)
Members' equity	-	-	975	(975)	-	-	-
Balance at June 30, 2016	**$ 600,000**	**$ 63,347**	**$ 589,237**	**$ 2,781,241**	**$ 224,625**	**$ (108,322)**	**$ 4,150,128**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	Six Months Ended June 30, 2,016	2015
Operating activities		
Net income	**$ 210,060**	$210,783
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**6,830**	2,138
Carrying value adjustment on other property owned	**281**	151
Depreciation and amortization on premises and equipment	**7,389**	6,535
Accretion of net premium on loans	**3,559**	6,488
Amortization and accretion on debt instruments	**8,467**	(1,688)
Amortization of net premium on investments	**1,940**	910
(Increase) decrease in fair value on loans under fair value option	**(79)**	199
Gain from sales of other property owned	**(265)**	(3,693)
Gain on sale of loans	**(3,677)**	-
Loss on other earning assets	**304**	-
Loss from sales of premises and equipment	**4,624**	1,300
Allocated equity patronage from System bank	**(13,852)**	(13,498)
Increase in accrued interest receivable	**(9,096)**	(11,541)
Decrease in other assets, net	**8,758**	29,021
(Decrease) increase in accrued interest payable	**(522)**	3,554
Decrease in other liabilities, net	**(38,807)**	(21,138)
Net cash provided by operating activities	**185,914**	209,521
Investing activities		
Net decrease in federal funds sold	**454**	504
Investment securities		
Purchases	**(1,008,975)**	(519,290)
Proceeds from maturities, calls and prepayments	**526,917**	494,267
Increase in loans, net	**(953,918)**	(656,116)
Proceeds from sales of other property owned	**4,103**	17,414
Proceeds from sales of premises and equipment	**2,390**	1,339
Expenditures for premises and equipment	**(23,788)**	(11,833)
Investment in other earning assets	**(1,776)**	-
Net cash used in investing activities	**(1,454,593)**	(673,715)
Financing activities		
Bonds and notes issued	**10,371,810**	6,096,239
Bonds and notes retired	**(9,082,545)**	(5,382,259)
Redemption of subordinated debt	**(50,000)**	-
Increase in advanced conditional payments	**1,170**	9,561
Repayments on capital lease obligation	**(232)**	-
Capital stock and participation certificates issued	**4,982**	4,914
Capital stock and participation certificates retired	**(4,091)**	(3,893)
Cash dividends on preferred stock	**(25,125)**	(25,125)
Cash patronage distributions paid	**(153,511)**	(155,836)
Net cash provided by financing activities	**1,062,458**	543,601
Net decrease in cash	**(206,221)**	79,407
Cash at beginning of year	**550,852**	437,201
Cash at end of quarter	**$ 344,631**	$ 516,608
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 122**	$ 829
Loan assets transferred to other property owned	**6,599**	2,655
Net increase in unrealized gains on investment securities	**44,175**	8,545
Equity issued as a result of association merger	**-**	76,487
Equity retired as a result of association merger	**-**	(76,487)
Adjustment of allowance for loan losses related to association merger	**-**	(2,363)
Cash dividends or patronage distributions payable	**1,313**	1,268
Preferred stock dividend payable	**20,063**	20,063
Capital lease obligation	**1,386**	-
Supplemental information		
Cash paid for:		
Interest	**$ 140,504**	$ 102,569
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 second 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 June 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The bank and associations will evaluate the impact of adoption on their financial condition and results of operations.

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

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. 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 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 June 30, 2016, and December 31, 2015, is as follows:

Investments in the bank's available-for-sale liquidity portfolio at June 30, 2016:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 238,975	$ 3,035	$ (990)	$ 241,020	1.73 %
Corporate debt	226,348	487	(303)	226,532	1.23
Federal agency collateralized mortgage-backed securities					
GNMA	1,924,942	12,594	(5,429)	1,932,107	1.49
FNMA and FHLMC	2,122,840	13,657	(3,655)	2,132,842	1.34
U.S. Treasury securities	199,431	1,147	-	200,578	0.91
Asset-backed securities	179,208	59	(151)	179,116	0.92
Total available-for-sale investments	**$ 4,891,744**	**$ 30,979**	**$ (10,528)**	**$ 4,912,195**	**1.38** %

Investments in the bank's available-for-sale other investments portfolio at June 30, 2016:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 61,226	$ -	$ (1,552)	$ 59,674	4.17 %

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

	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 available-for-sale 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 June 30, 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	$ -	$ -	$ 231,881	$ 9,139	$ 241,020
Corporate debt	59,025	167,507	-	-	226,532
Federal agency collateralized mortgage-backed securities					
GNMA	-	584	5,235	1,926,288	1,932,107
FNMA and FHLMC	-	26,746	259,757	1,846,339	2,132,842
U.S. Treasury securities	-	200,578	-	-	200,578
Asset-backed securities	-	175,555	-	3,561	179,116
Total fair value	**$ 59,025**	**$ 570,970**	**$ 496,873**	**$ 3,785,327**	**$ 4,912,195**
Total amortized cost	**$ 59,000**	**$ 569,343**	**$ 493,812**	**$ 3,769,589**	**$ 4,891,744**
Weighted average yield	**1.06%**	**1.07%**	**1.57%**	**1.40%**	**1.38%**

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	$ 24,264	$ 35,410	$ 59,674
Total amortized cost	**$ 24,638**	**$ 36,588**	**$61,226**
Weighted average yield	**4.17%**	**4.17%**	**4.17%**

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 June 30, 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	$ -	$ -	$ 95,299	$ (990)	$ 95,299	$ (990)
Corporate debt	39,802	(198)	12,426	(105)	52,228	(303)
Federal agency collateralized mortgage-backed securities						
GNMA	390,530	(1,161)	349,362	(4,268)	739,892	(5,429)
FNMA and FHLMC	590,175	(2,837)	186,702	(818)	776,877	(3,655)
Asset-backed securities	26,891	(56)	59,409	(95)	86,300	(151)
Total	**$ 1,047,398**	**$ (4,252)**	**$ 703,198**	**$ (6,276)**	**$ 1,750,596**	**$ (10,528)**

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

In the event of an investment being designated OTTI, to measure the amount related to credit loss in the determination of OTTI, the bank utilizes a third-party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan-level data. Loan-level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan-level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses. In the six months ended June 30, 2016, the district did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at June 30, 2016 and December 31, 2015.

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 June 30, 2016, is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 27,745	$ 288	$ (83)	$ 27,950	4.59%

The following table summarizes the contractual maturity, fair value, amortized cost and weighted average yield of the district's held-to-maturity investments at June 30, 2016:

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 16,987	$ 10,963	$ 27,950
Total amortized cost	**$ 16,699**	**$ 11,046**	**$ 27,745**
Weighted average yield	**4.97%**	**4.01%**	**4.59%**

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

A summary of the district's loans follows:

	June 30, 2016	December 31, 2015
Real estate mortgage	**$ 12,897,916**	$ 12,187,679
Production and intermediate term	**2,638,782**	2,763,018
Loans to cooperatives	**440,848**	233,171
Processing and marketing	**3,263,980**	3,126,782
Farm-related business	**303,277**	326,641
Communication	**485,849**	465,149
Energy (rural utilities)	**1,393,000**	1,288,196
Water and waste disposal	**171,353**	165,762
Rural home	**321,892**	301,305
Agricultural export finance	**272**	9,713
Lease receivables	**6,251**	6,258
Loans to other financing institutions	**44,689**	42,598
Mission-related	**151,513**	265,546
	$ 22,119,622	$ 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. During the first six months of 2016 the bank sold $50.0 million in mission-related loans; additionally, a district association re-evaluated $47.0 million in Mission-related loans, which were reclassified to real estate mortgage loans.

The following table presents information regarding the district's balances of participations purchased and sold, excluding syndications, at June 30, 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	$ 173,030	$ 404,673	$ 182,217	$ 21,711	$ 355,247	$ 426,384
Production and intermediate term	501,171	716,886	7,387	27,792	508,558	744,678
Agribusiness	2,158,907	30,406	20,024	3,635	2,178,931	34,041
Communication	486,779	-	-	-	486,779	-
Energy (rural utilities)	1,393,648	-	-	-	1,393,648	-
Water and waste disposal	152,147	-	-	-	152,147	-
Lease receivables	6,040	-	44	-	6,084	-
Mission-related	4,826	-	4,270	-	9,096	-
Loans to other financing institutions	-	13,566	-	-	-	13,566
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 4,876,548**	**$ 5,015,531**	**$ 213,942**	**$ 53,138**	**$ 5,090,490**	**$ 5,068,669**

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 June 30, 2016, ACPs netted against borrowers' related loan balances totaled $182,368 and ACPs included in other liabilities totaled $20,721, 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 $27,181 at June 30, 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 six months ended June 30, 2016:

Balance at January 1, 2016	**$ 27,506**
Net gain on financial instruments under fair value option	**79**
Net principal reductions	**-**
Premium amortization	**(404)**
Balance at June 30, 2016	**$ 27,181**

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

	June 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	**$ 95,252**	$ 89,067
Production and intermediate term	**34,278**	15,962
Agribusiness	**2,487**	2,088
Rural residential real estate	**2,082**	1,116
Lease receivables	**8**	16
Mission-related	**5,462**	5,177
Total nonaccrual loans	**139,569**	113,426
Accruing restructured loans:		
Real estate mortgage	**28,452**	20,123
Production and intermediate term	**13,403**	23,702
Rural residential real estate	**181**	340
Mission-related	**5,800**	5,934
Total accruing restructured loans	**47,836**	50,099
Accruing loans 90 days or more past due:		
Real estate mortgage	**4,480**	498
Production and intermediate term	**3,995**	603
Rural residential real estate	**-**	223
Mission-related	**-**	729
Total accruing loans 90 days or more past due	**8,475**	2,053
Total nonperforming loans	**195,880**	165,578
Other property owned	**21,101**	18,744
Total nonperforming assets	**$ 216,981**	$ 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:

	June 30, 2016	December 31, 2015
Real estate mortgage:		
Acceptable	**97.5 %**	97.2 %
OAEM	**1.2**	1.5
Substandard/Doubtful	**1.3**	1.3
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**95.1 %**	96.4 %
OAEM	**2.3**	1.8
Substandard/Doubtful	**2.6**	1.8
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**97.8 %**	97.7 %
OAEM	**1.4**	1.7
Substandard/Doubtful	**0.8**	0.6
	100.0 %	100.0 %
Energy and water/waste disposal:		
Acceptable	**95.3 %**	98.2 %
OAEM	**4.7**	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	**97.6 %**	97.7 %
OAEM	**1.1**	1.1
Substandard/Doubtful	**1.3**	1.2
	100.0 %	100.0 %
Agricultural export finance:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Lease receivables:		
Acceptable	**99.3 %**	99.7 %
OAEM	**0.6**	-
Substandard/Doubtful	**0.1**	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	**96.4 %**	98.1 %
OAEM	**-**	-
Substandard/Doubtful	**3.6**	1.9
	100.0 %	100.0 %
Total loans:		
Acceptable	**97.1 %**	97.3 %
OAEM	**1.6**	1.6
Substandard/Doubtful	**1.3**	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:

June 30, 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	$ 52,511	$ 40,725	$ 93,236	$ 12,919,711	$ 13,012,947	$ 4,480
Production and intermediate term	11,224	13,647	24,871	2,644,307	2,669,178	3,995
Agribusiness	4,095	-	4,095	4,018,196	4,022,291	-
Communication	-	-	-	486,101	486,101	-
Energy and water/waste disposal	-	-	-	1,570,422	1,570,422	-
Rural residential real estate	2,774	306	3,080	320,086	323,166	-
Agricultural export finance	-	-	-	275	275	-
Lease receivables	570	-	570	5,775	6,345	-
Loans to other financing institutions	-	-	-	44,748	44,748	-
Mission-related	-	-	-	152,643	152,643	-
Total	**$ 71,174**	**$ 54,678**	**$ 125,852**	**$22,162,264**	**$22,288,116**	**$ 8,475**

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 June 30, 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	**$ 10,342**	**$ 11,559**	**$ 2,487**	$ 14,105	$ 14,724	$ 2,649
Production and intermediate term	**18,772**	**19,006**	**4,102**	6,742	6,832	2,534
Processing and marketing	**750**	**750**	**115**	-	-	-
Farm-related business	**830**	**4,755**	**111**	934	4,858	121
Rural residential real estate	**612**	**611**	**64**	51	51	10
Mission-related	**2,491**	**2,491**	**185**	2,549	2,549	184
Total	**$ 33,797**	**$ 39,172**	**$ 7,064**	$ 24,381	$ 29,014	$ 5,498
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	**$ 117,842**	**$ 123,390**	**$ -**	$ 95,583	$ 105,816	$ -
Production and intermediate term	**32,904**	**46,266**	**-**	33,525	47,230	-
Processing and marketing	**907**	**25,738**	**-**	1,008	26,748	-
Farm-related business	**-**	**279**	**-**	146	563	-
Energy and water/waste disposal	**-**	**22,731**	**-**	-	22,730	-
Rural residential real estate	**1,651**	**1,839**	**-**	1,628	1,823	-
Lease receivables	**8**	**8**	**-**	16	16	-
Mission-related	**8,771**	**8,771**	**-**	9,291	12,482	-
Total	**$ 162,083**	**$ 229,022**	**$ -**	$ 141,197	$ 217,408	$ -
Total impaired loans:						
Real estate mortgage	**$ 128,184**	**$ 134,949**	**$ 2,487**	$ 109,688	$ 120,540	$ 2,649
Production and intermediate term	**51,676**	**65,272**	**4,102**	40,267	54,062	2,534
Processing and marketing	**1,657**	**26,488**	**115**	1,008	26,748	-
Farm-related business	**830**	**5,034**	**111**	1,080	5,421	121
Energy and water/waste disposal	**-**	**22,731**	**-**	-	22,730	-
Rural residential real estate	**2,263**	**2,450**	**64**	1,679	1,874	10
Lease receivables	**8**	**8**	**-**	16	16	-
Mission-related	**11,262**	**11,262**	**185**	11,840	15,031	184
Total	**$ 195,880**	**$ 268,194**	**$ 7,064**	$ 165,578	$ 246,422	$ 5,498

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2016		June 30, 2015		**June 30, 2016**		June 30, 2015	
Impaired loans with a related allowance for loan losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Real estate mortgage	**$ 7,542**	**$ 96**	$ 16,877	$ 158	**$ 10,976**	**$ 169**	$ 18,560	$ 214
Production and intermediate term	**13,692**	**96**	3,715	15	**9,793**	**303**	3,709	24
Processing and marketing	**25**	**12**	-	-	**12**	**12**	528	-
Farm-related business	**832**	**-**	898	-	**858**	**-**	907	-
Energy and water/waste disposal	**-**	**-**	-	-	**-**	**-**	3,457	-
Rural residential real estate	**460**	**4**	31	1	**255**	**4**	63	1
Mission-related	**2,510**	**51**	2,570	83	**2,528**	**116**	2,590	147
Total	**$ 25,061**	**$ 259**	$ 24,091	$ 257	**$ 24,422**	**$ 604**	$ 29,814	$ 386
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	**$ 116,562**	**$ 2,309**	$ 120,335	$ 1,378	**$ 111,858**	**$ 3,165**	$ 119,796	$ 2,679
Production and intermediate term	**31,953**	**494**	29,680	1,080	**27,234**	**953**	31,228	2,417
Processing and marketing	**907**	**-**	2,861	-	**906**	**-**	3,233	-
Farm-related business	**-**	**-**	175	4	**1**	**3**	173	7
Energy and water/waste disposal	**-**	**4**	6,766	-	**-**	**4**	3,402	-
Rural residential real estate	**1,371**	**8**	1,668	16	**1,326**	**16**	1,305	24
Lease receivables	**10**	**-**	26	-	**12**	**-**	28	-
Mission-related	**8,808**	**55**	5,379	115	**9,204**	**126**	5,119	203
Total	**$ 159,611**	**$ 2,870**	$ 166,890	$ 2,593	**$ 150,541**	**$ 4,267**	$ 164,284	$ 5,330
Total impaired loans:								
Real estate mortgage	**$ 124,104**	**$ 2,405**	$ 137,212	$ 1,536	**$ 122,834**	**$ 3,334**	$ 138,356	$ 2,893
Production and intermediate term	**45,645**	**590**	33,395	1,095	**37,027**	**1,256**	34,937	2,441
Processing and marketing	**932**	**12**	2,861	-	**918**	**12**	3,761	-
Farm-related business	**832**	**-**	1,073	4	**859**	**3**	1,080	7
Energy and water/waste disposal	**-**	**4**	6,766	-	**-**	**4**	6,859	-
Rural residential real estate	**1,831**	**12**	1,699	17	**1,581**	**20**	1,368	25
Lease receivables	**10**	**-**	26	-	**12**	**-**	28	-
Mission-related	**11,318**	**106**	7,949	198	**11,732**	**242**	7,709	350
Total	**$ 184,672**	**$ 3,129**	$ 190,981	$ 2,850	**$ 174,963**	**$ 4,871**	$ 194,098	$ 5,716

At June 30, 2016, impaired loans of $33.8 million had a related specific allowance of $7.1 million, while the remaining $162.1 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 June 30, 2016, was $184.7 million. The district recognized interest income of $3.1 million on impaired loans during the three months ended June 30, 2016.

The average recorded investment in impaired loans for the six months ended June 30, 2016, was $175.0 million. The district recognized interest income of $4.9 million on impaired loans during the six months ended June 30, 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 March 31, 2016	$ 39,944	$ 19,143	$ 10,039	$ 1,018	$ 4,536	$ 661	$ -	$ 46	$ -	$ 237	$ 75,624
Charge-offs	(1,123)	(349)	-	-	-	-	-	-	-	-	(1,472)
Recoveries	767	79	856	68	-	4	-	-	-	-	1,774
Provision for credit losses (loan loss reversal)	(1,756)	1,793	52	(34)	1,164	(32)	-	(1)	-	(7)	1,179
Other *	(25)	(281)	(91)	(1)	(35)	2	-	-	-	-	(431)
Balance at June 30, 2016	$ 37,807	$ 20,385	$ 10,856	$ 1,051	$ 5,665	$ 635	$ -	$ 45	$ -	$ 230	$ 76,674
Balance at December 31, 2015	$ 39,195	$ 17,461	$ 8,262	$ 1,087	$ 3,442	$ 620	$ 3	$ 43	$ -	$ 237	$ 70,350
Charge-offs	(1,194)	(804)	(73)	-	-	-	-	-	-	-	(2,071)
Recoveries	985	213	1,158	68	-	5	-	-	-	-	2,429
Provision for credit losses (loan loss reversal)	(1,204)	4,381	1,579	(98)	2,172	8	(3)	2	-	(7)	6,830
Other *	25	(866)	(70)	(6)	51	2	-	-	-	-	(864)
Balance at June 30, 2016	$ 37,807	$ 20,385	$ 10,856	$ 1,051	$ 5,665	$ 635	$ -	$ 45	$ -	$ 230	$ 76,674
Individually evaluated for impairment	2,005	3,795	226	-	-	68	-	-	-	160	6,254
Collectively evaluated for impairment	35,802	16,590	10,630	1,051	5,665	567	-	45	-	70	70,420
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2016	$ 37,807	$ 20,385	$ 10,856	$ 1,051	$ 5,665	$ 635	$ -	$ 45	$ -	$ 230	$ 76,674
Balance at March 31, 2015	$ 34,500	$ 10,986	$ 6,503	$ 783	$ 8,147	$ 498	$ 27	$ 42	$ -	$ 538	62,024
Charge-offs	(1,274)	(369)	(15)	-	(2,065)	-	-	-	-	-	(3,723)
Recoveries	165	897	270	190	-	4	-	-	-	-	1,526
Provision for credit losses (loan loss reversal)	1,431	(276)	987	(162)	(3,349)	50	(4)	3	-	(2)	(1,322)
Other *	(43)	201	(52)	(3)	(15)	(12)	-	-	-	(1)	75
Balance at June 30, 2015	$ 34,779	$ 11,439	$ 7,693	$ 808	$ 2,718	$ 540	$ 23	$ 45	$ -	$ 535	$ 58,580
Balance at December 31, 2014	$ 38,137	$ 10,404	$ 6,215	$ 716	$ 8,155	$ 472	$ -	$ 44	$ -	$ 214	$ 64,357
Charge-offs	(1,593)	(479)	(15)	-	(2,065)	(8)	-	-	-	-	(4,160)
Recoveries	306	1,058	453	190	-	4	-	-	-	-	2,011
Provision for credit losses (loan loss reversal)	(1,214)	2,092	4,314	(95)	(3,390)	85	23	1	-	322	2,138
Adjustment due to merger	(1,013)	(1,224)	(125)	-	-	(1)	-	-	-	-	(2,363)
Other *	156	(412)	(3,149)	(3)	18	(12)	-	-	-	(1)	(3,403)
Balance at June 30, 2015	$ 34,779	$ 11,439	$ 7,693	$ 808	$ 2,718	$ 540	$ 23	$ 45	$ -	$ 535	$ 58,580
Individually evaluated for impairment	4,849	559	821	-	-	39	-	-	-	179	6,447
Collectively evaluated for impairment	29,917	10,859	6,872	808	2,718	501	23	45	-	356	52,099
Loans acquired with deteriorated credit quality	13	21	-	-	-	-	-	-	-	-	34
Balance at June 30, 2015	$ 34,779	$ 11,439	$ 7,693	$ 808	$ 2,718	$ 540	$ 23	$ 45	$ -	$ 535	$ 58,580
Recorded Investments in Loans Outstanding:											
Ending balance at June 30, 2016	$ 13,012,947	$ 2,669,178	$ 4,022,291	$ 486,101	$ 1,570,422	$ 323,166	$ 275	$ 6,345	$ 44,748	$ 152,643	$ 22,288,116
Individually evaluated for impairment	$ 131,132	$ 51,533	$ 2,487	$ -	$ -	$ 2,362	$ -	$ 8	$ -	$ 11,231	$ 198,753
Collectively evaluated for impairment	$ 12,881,229	$ 2,617,614	$ 4,019,804	$ 486,101	$ 1,570,422	$ 320,804	$ 275	$ 6,337	$ 44,748	$ 141,412	$ 22,088,746
Loans acquired with deteriorated credit quality	$ 586	$ 31	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 617
Ending balance at June 30, 2015	$ 11,893,623	$ 2,537,849	$ 3,295,032	$ 404,319	$ 1,419,233	$ 278,389	$ 5	$ 3,735	$ 38,502	$ 278,509	$ 20,149,196
Individually evaluated for impairment	$ 140,007	$ 36,117	$ 5,725	$ -	$ 95	$ 1,902	$ -	$ 24	$ -	$ 8,057	$ 191,927
Collectively evaluated for impairment	$ 11,750,386	$ 2,501,644	$ 3,289,142	$ 404,319	$ 1,419,138	$ 276,487	$ 5	$ 3,711	$ 38,502	$ 270,452	$ 19,953,786
Loans acquired with deteriorated credit quality	$ 3,230	$ 88	$ 165	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,483

* 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 June 30, 2016, the total recorded investment of TDR loans was $61,675, including $13,839 classified as nonaccrual and $47,836 classified as accrual, with specific allowance for loan losses of $7,064. Additional commitments to lend to borrowers whose loan terms have been modified in TDRs were $361 at June 30, 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	
	June 30, 2016	December 31, 2015	**June 30, 2016**	December 31, 2015
Real estate mortgage	**$ 37,848**	$ 31,424	**$ 9,396**	$ 11,301
Production and intermediate term	**13,857**	24,174	**454**	472
Agribusiness	**1,695**	1,788	**1,695**	1,788
Rural residential real estate	**528**	546	**347**	206
Mission-related	**7,747**	5,934	**1,947**	-
Total	**$ 61,675**	$ 63,866	**$ 13,839**	$ 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 and six months ended June 30, 2016, and June 30, 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 June 30, 2016:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 209	$ 208
Production and intermediate term	338	338
Mission-related	2,066	1,947
Total	$ 2,613	$ 2,493

For the three months ended June 30, 2015:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 624	$ 632
Rural residential real estate	160	159
Total	$ 784	$ 791

For the six months ended June 30, 2016:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 590	$ 578
Production and intermediate term	479	478
Mission-related	2,066	1,947
Total	$ 3,135	$ 3,003

For the six months ended June 30, 2015:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,171	$ 1,176
Production and intermediate term	929	497
Rural residential real estate	160	159
Total	$ 2,260	$ 1,832

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 reductions.

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

	Recorded Investment at June 30, 2016	Recorded Investment at June 30, 2015
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage	$ 211	$ 158
Total	$ 211	$ 158

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 June 30, 2016, were approximately $254.63 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 June 30, 2016, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at June 30, 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	**$ 21,959**	$ -	$ 21,959	$ -
Investments available for sale:				
Corporate debt	**226,532**	-	226,532	-
U.S. Treasury securities	**200,578**	-	200,578	-
Agency-guaranteed debt	**241,020**	-	241,020	-
Mortgage-backed securities	**4,064,949**	-	4,064,949	-
Asset-backed securities	**179,116**	-	179,116	-
Mission-related and other available-for-sale investments	**59,674**	-	-	59,674
Loans valued under the fair value option	**27,181**	-	27,181	-
Derivative assets	**164**	-	164	-
Assets held in nonqualified benefit trusts	**6,841**	6,841	-	-
Total assets	**$ 5,028,014**	$ 6,841	$ 4,961,499	$ 59,674
Liabilities:				
Derivative liabilities	**$ 4,070**	$ -	$ 4,070	$ -
Standby letters of credit	**1,136**	-	-	1,136
Total liabilities	**$ 5,206**	$ -	$ 4,070	$ 1,136

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 March 31, 2016, to June 30, 2016:

	Assets	Liabilities	
	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:			
Balance at March 31, 2016	$ 60,935	$ 1,178	$ 59,757
Net gains included in other comprehensive income	544	-	544
Purchases, issuances and settlements	(1,805)	(42)	(1,763)
Balance at June 30, 2016	$ 59,674	$ 1,136	$ 58,538

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 June 30, 2016:

	Assets			Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Loan Held For Sale	Standby Letters of Credit	Net
Balance at January 1, 2016	$ 50,250	$ 65,650	$ 4,850	$ 967	$ 119,783
Net gains included in other comprehensive income	-	66	-	-	66
Purchases, issuances and settlements	-	(6,042)	(4,850)	169	(11,061)
Transfers out of Level 3	(50,250)	-	-	-	(50,250)
Balance at June 30, 2016	$ -	$ 59,674	$ -	$ 1,136	$ 58,538

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the six months ended June 30, 2016. At December 31, 2015, Level 3 investments included one agency MBS and one loan held for sale due to the fact that their valuations were based on Level 3 criteria (broker quotes). In the six months ended June 30, 2016, the loan held for sale was disposed of and the agency MBS was transferred to Level 2 when it had a valuation based on Level 2 criteria (independent third party valuation services). AMBS are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for standby letters of credit is included in Level 3 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at June 30, 2016, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at June 30, 2016				
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Losses**
Assets:					
Loans	**$ 145,280**	$ -	$ -	$ 145,280	**$ (2,071)**
Other property owned	**23,446**	-	-	23,446	**(221)**
Total assets	**$ 168,726**	$ -	$ -	$ 168,726	**$ (2,292)**

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 March 31, 2015, to June 30, 2015:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Standby Letters of Credit	Net
Available-for-sale investment securities:				
Balance at March 31, 2015	$ 4	$ 77,619	$ 1,652	$ 75,971
Net gains included in other comprehensive loss	-	(82)	-	(82)
Purchases, issuances and settlements	(4)	(5,906)	168	(6,078)
Balance at June 30, 2015	$ -	$ 71,631	$ 1,820	$ 69,811

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 June 30, 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	-	285	-	285
Purchases, issuances and settlements	(7)	(9,237)	827	(10,071)
Balance at June 30, 2015	$ -	$ 71,631	$ 1,820	$ 69,811

There were no transfers of assets or liabilities into or out of Level 1, Level 2 or Level 3 from other levels during the six months ended June 30, 2015. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for standby letters of credit is included in Level 3 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 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:

June 30, 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	**$ 344,631**	$ 344,631	$ -	$ -	$ 344,631
Held-to-maturity investments	**27,745**	-	-	27,950	27,950
Net loans	**21,870,487**	-	-	22,009,103	22,009,103
Total assets	**$ 22,242,863**	$ 344,631	$ -	$ 22,037,053	$ 22,381,684
Liabilities:					
Systemwide debt securities and other notes	**$ 23,352,538**	$ -	$ -	$ 23,540,949	$ 23,540,949
	$ 23,352,538	$ -	$ -	$ 23,540,949	$ 23,540,949

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
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 and would include certain mortgage-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 are Farmer Mac AMBS.

Derivative Assets and Liabilities

The bank's derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives may include fair value interest rate swaps, interest rate caps and cash flow interest rate swaps. The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

Assets Held in Nonqualified Benefit Trusts

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

Standby Letters of Credit

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

Loans

Fair value is estimated by discounting the expected future cash flows using the 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 third-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.

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 security Constant prepayment rate Appropriate interest rate yield curve
Loans held under the fair value option	Quoted prices Discounted cash flow	Price for similar asset Constant prepayment rate Appropriate interest rate yield curve
Interest rate caps	Discounted cash flow	Benchmark yield curve Counterparty credit risk Volatility
Interest rate swaps	Discounted cash flow	Benchmark yield curve Counterparty credit risk Volatility

Information About Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Actual balances
Loans	Discounted cash flow	Prepayment forecasts Appropriate interest rate yield curve
Systemwide debt securities	Discounted cash flow	Benchmark yield curve Derived yield spread

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.

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

The notional amounts of the bank's interest rate swaps and interest rate caps held and the amount of activity during the period are summarized in the following table:

	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2016	$ -	$ 310,000	$ 310,000
Additions	200,000	-	200,000
Balance at June 30, 2016	**$ 200,000**	**$ 310,000**	**$ 510,000**

To minimize the risk of credit losses, the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. In addition, substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to another are reached, which thresholds may vary, depending on the counterparty's credit rating. The bank does not anticipate nonperformance by any of these counterparties. However, derivative contracts are reflected in the financial statements on a gross basis regardless of the netting agreement. At June 30, 2016, and December 31, 2015, the bank's exposure to counterparties was $164 and $504, respectively. At June 30, 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 derivative instruments at June 30, 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 June 30, 2016	Fair Value December 31, 2015	Balance Sheet Location	Fair Value June 30, 2016	Fair Value December 31, 2015
Interest rate caps	Other assets	$ 164	$ 504	Other liabilities	$ -	$ -
Pay fixed swaps	Other assets	-	-	Other liabilities	4,070	-

Derivatives designated as hedging instruments	Amount of Loss Recognized in OCL on Derivatives (Effective Portion)		Location of Gain Reclassification from AOCI into Income	Amount of Gain Reclassified from AOCL into Income (Effective Portion)	
	June 30,			June 30,	
	2016	2015		2016	2015
Interest rate caps	$ (340)	$ (370)	Interest expense	$ 456	$ 774
Pay fixed swaps	(4,328)	-	Interest expense	302	-

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 six months ended June 30:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2016	2015	**2016**	2015
Service cost	**$ 2,346**	$ 2,663	**$ 641**	$ 774
Interest cost	**8,417**	7,939	**1,505**	1,559
Expected return on plan assets	**(8,821)**	(10,280)	**-**	-
Amortization of prior service costs	**-**	2	**(464)**	(490)
Amortization of net loss	**8,729**	9,105	**90**	436
Net periodic benefit cost	**$ 10,671**	$ 9,429	**$ 1,772**	$ 2,279

As of June 30, 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 2016.

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 six months ended June 30, 2016:

	Total	Unrealized Gain (Loss) on Securities	Pension and Other Post-Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2016	$ (156,944)	$ (25,276)	$ (129,761)	$ (1,907)
Change in unrealized gains on available-for-sale securities				
Net increase in unrealized gains on investment securities	44,175	44,175		
Net change in unrealized gains on securities	44,175	44,175		
Change in pension and postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(464)		(464)	
Amortization of net losses	8,821		8,821	
Net change in pension and postretirement benefit plans	8,357		8,357	
Change in cash flow derivative instruments				
Unrealized losses on cash flow derivative instruments	(4,668)			(4,668)
Reclassification of loss recognized in interest expense	758			758
Net change in cash flow derivative instruments	(3,910)			(3,910)
Total other comprehensive income	**48,622**	**44,175**	**8,357**	**(3,910)**
Balance, June 30, 2016	**$ (108,322)**	**$ 18,899**	**$ (121,404)**	**$ (5,817)**

The following table summarizes the changes in the balance of the components of AOCL for the six months ended June 30, 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	8,545	8,545		
Net change in unrealized losses on securities	8,545	8,545		
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	(441)		(441)	
Amortization of net losses	9,541		9,541	
Net change in pension and postretirement benefit plans	9,316		9,316	
Change in cash flow derivative instruments				
Unrealized gains on interest rate caps	(370)			(370)
Reclassification of loss recognized in interest expense	774			774
Net change in cash flow derivative instruments	404			404
Total other comprehensive income	18,265	8,545	9,316	404
Balance, June 30, 2015	$ (148,526)	$ (7,555)	$ (138,680)	$ (2,291)

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

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	**$ 8,357**	$ 9,100	Salaries and employee benefits
Amortization on cash flow derivative instruments	**758**	774	Interest expense
Total reclassifications	**$ 9,115**	$ 9,874	

NOTE 10 — SUBSEQUENT EVENTS

The district has evaluated subsequent events through August 9, 2016, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of August 9, 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	**June 30, 2016**	December 31, 2015
Cash	**$ 341,005**	$ 545,090
Federal funds sold and overnight investments	**21,959**	22,413
Investment securities	**4,971,869**	4,445,105
Loans	**15,734,209**	14,771,006
Less allowance for loan losses	**7,482**	5,833
Net loans	**15,726,727**	14,765,173
Accrued interest receivable	**46,512**	47,816
Other property owned	**438**	438
Premises and equipment, net	**32,156**	27,835
Other assets	**134,917**	135,705
Total assets	**$ 21,275,583**	$ 19,989,575
Bonds and notes, net	**$ 19,502,538**	$ 18,206,726
Subordinated debt, net	**-**	49,801
Accrued interest payable	**43,462**	44,766
Preferred stock dividends payable	**20,063**	20,063
Other liabilities	**57,432**	114,641
Total liabilities	**19,623,495**	18,435,997
Preferred stock	**600,000**	600,000
Capital stock	**255,823**	255,823
Retained earnings	**783,424**	725,086
Accumulated other comprehensive income (loss)	**12,841**	(27,331)
Total shareholders' equity	**1,652,088**	1,553,578
Total liabilities and shareholders' equity	**$ 21,275,583**	$ 19,989,575

	Six Months Ended June 30,	
Statement of income data	**2016**	2015
Interest income	**$ 235,121**	$ 207,668
Interest expense	**120,004**	92,699
Net interest income	**115,117**	114,969
Provision (negative provision) for credit losses	**1,492**	(1,667)
Net interest income after provision for credit losses	**113,625**	116,636
Noninterest income	**20,711**	22,149
Noninterest expense	**46,134**	39,519
Net income	**88,202**	99,266
Other comprehensive income:		
Change in fair value of investments	**44,175**	8,545
Change in postretirement benefit plans	**(93)**	(58)
Change in cash flow derivative instruments	**(3,910)**	404
Total other comprehensive income	**40,172**	8,891
Comprehensive Income	**$ 128,374**	$ 108,157