AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

2016 First Quarter

QUARTERLY REPORT

FARM CREDIT

Lending support to rural America®

FIRST QUARTER 2016

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2016 quarterly report of AgFirst Farm Credit Bank and District Associations, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Dale R. Hershey
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

May 9, 2016

Report on Internal Control Over Financial Reporting

AgFirst Farm Credit Bank's (Bank) and each affiliated District Agricultural Credit Association's (District Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Bank's and each District Association's respective Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Bank's and each District Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the respective Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank and each District Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank and each District Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's and each District Association's assets that could have a material effect on its Consolidated Financial Statements.

The Bank's and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank's and each District Association's management concluded that as of March 31, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's and each District Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2016.

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

May 9, 2016

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three month period ended March 31, 2016. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Combined Financial Statements, and the 2015 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of March 31, 2016, the District included nineteen Associations, all of which were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, results of operations for the three months may not be indicative of an entire year due to the seasonal nature of a portion of District's business.

FORWARD-LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from the District's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the District's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States government support of the agricultural industry and the Farm Credit System (System) as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets;
- credit, interest rate and liquidity risk inherent in lending activities; and
- changes in assumptions for determining the allowance for loan losses, other than temporary impairment and fair value measurements.

FINANCIAL CONDITION

Loan Portfolio

The District's aggregate loan portfolio consists primarily of direct loans made by the Associations to eligible borrowers located within their chartered territories. Bank loans to District Associations have been eliminated in the combined District presentation. Diversification of the loan volume by Farm Credit Administration (FCA) regulatory type is illustrated in the table below. Previously reported amounts for March 31, 2015 have been updated to reflect corrections of FCA loan type classifications. See Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements of this report and Note 3, *Loans and Allowance for Loan Losses,* of the District's 2015 Annual Report for further information.

Loan Portfolio *(dollars in thousands)*	**March 31, 2016**		**December 31, 2015**		**March 31, 2015 (as revised)**	
Real Estate Mortgage	$ 12,692,319	48.38%	$ 12,524,416	47.89%	$ 11,497,543	47.55%
Production and Intermediate-Term	6,634,515	25.29	6,947,773	26.57	6,473,677	26.77
Rural Residential Real Estate	3,102,287	11.83	3,076,692	11.76	3,029,748	12.53
Processing and Marketing	1,694,886	6.46	1,693,055	6.47	1,415,105	5.85
Energy and Water/Waste Disposal	546,972	2.09	504,714	1.93	452,533	1.87
Farm-Related Business	466,887	1.78	441,461	1.69	457,228	1.89
Communication	446,817	1.70	451,028	1.73	376,256	1.55
Loans to Cooperatives	368,722	1.41	256,774	0.98	248,000	1.03
Loans to Other Financing Institutions (OFIs)	112,632	0.43	108,020	0.41	96,732	0.40
International	83,549	0.32	70,317	0.27	59,783	0.25
Lease Receivables	3,618	0.01	3,189	0.01	4,386	0.02
Other (including Mission Related)	79,543	0.30	75,317	0.29	70,329	0.29
Total	$ 26,232,747	100.00%	$ 26,152,756	100.00%	$ 24,181,320	100.00%

Total loans outstanding were $26.233 billion at March 31, 2016, an increase of $80.0 million, or 0.31 percent, compared to total loans outstanding at December 31, 2015 and an increase of $2.051 billion, or 8.48 percent, since March 31, 2015. The increase in loan volume compared to March 31, 2015 resulted from improved economic conditions positively impacting borrowers in economically sensitive segments such as forestry, nursery/greenhouse, and borrowers dependent on non-farm income. Also, loan demand over the previous twelve months benefitted from capital expansion in the poultry and swine sectors. Future loan demand is difficult to predict; however, moderate growth is expected in 2016.

Credit Quality

Credit quality of the District's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**March 31, 2016**	**December 31, 2015**	**March 31, 2015**
Acceptable	94.64%	94.99%	94.18%
OAEM *	2.96%	2.65%	2.88%
Adverse**	2.40%	2.36%	2.94%

* *Other Assets Especially Mentioned*
** *Adverse loans include substandard, doubtful, and loss loans.*

Loan portfolio credit quality at March 31, 2016 declined slightly compared to December 31, 2015 and improved slightly compared to March 31, 2015. The decline since year-end is primarily due to deteriorating asset quality in row crop production resulting from low commodity prices and flooding in limited locations in the District in late 2015. Other sectors also experiencing weakness are dairy and beef due to supply and demand imbalances in the market. As a result of the weaknesses in these sectors, credit quality is anticipated to slightly deteriorate in 2016. Over the past twelve months, the incremental improvement of general economic conditions positively impacted forestry, nursery/greenhouse, and borrowers dependent on non-farm income which has helped offset the weakness in above-mentioned sectors. District real estate values remain stable.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at March 31, 2016 were $259.4

million compared to $252.5 million at December 31, 2015. The increase of $6.9 million resulted primarily from $30.6 million of loan balances transferred to nonaccrual status and advances of $5.0 million. Offsetting these decreases were repayments of $23.2 million and transfers to other property owned of $4.4 million. The ten largest nonaccrual borrower relationships at March 31, 2016 accounted for 24.89 percent of the total nonaccrual balance. At March 31, 2016, total nonaccrual loans were primarily classified in the nursery/greenhouse (13.38 percent of the total), forestry (13.06 percent), poultry (12.82 percent), field crops (8.82 percent), cattle (7.83 percent), and dairy (7.15 percent) segments. Nonaccrual loans were 0.99 percent and 0.97 percent of total loans outstanding at March 31, 2016 and December 31, 2015, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs increased $2.7 million since December 31, 2015 and totaled $215.4 million at March 31, 2016. TDRs at March 31, 2016 were comprised of $116.4 million of accruing restructured loans and $99.0 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (20.13 percent of the total), forestry (18.76 percent), poultry (12.22 percent), and field crops (9.32 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO increased $1.0 million since December 31, 2015 and totaled $49.5 million at March 31, 2016. The increase was due to by transfers to OPO of $4.8 million offset by disposals of $3.2 million and writedowns of $627 thousand. The largest OPO holding at March 31, 2016 was land received in settlement of loans to one borrower in the forestry segment totaling $10.6 million (21.48 percent of the total).

Allowance for Loan Losses

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. Although aggregated in the District's combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

The allowance for loan losses was $180.4 million at March 31, 2016, as compared with $178.6 million at December 31, 2015, which was an increase of $1.7 million. Activity which increased the allowance during the three months ended March 31, 2016 included provision expense of $1.3 million and loan recoveries of $2.3 million. Offsetting these increases were charge-offs of $1.9 million as loan collectability became more measurable and apparent. Recoveries during the three month period were related primarily to borrowers in the forestry (16.42 percent of the total), nursery/greenhouse (15.81 percent), field crops (11.31 percent), cattle (8.90 percent), and processing (8.87 percent). Charge-offs during the three month period were related primarily to borrowers in the field crops (29.36 percent of the total), cattle (18.94 percent), rural home loan (13.39 percent), cotton (8.59 percent), poultry (7.81 percent), and forestry (7.21 percent) segments. The allowance at March 31, 2016 included specific reserves of $20.5 million (11.34 percent of the total) and $159.9 million (88.66 percent) of general reserves. The largest commodity segments included in the allowance at March 31, 2016 were the field crops (12.21 percent of the total), forestry (12.07 percent), poultry (11.31 percent), cattle (7.75 percent), and grain (7.74 percent) segments. The allowance for loan losses was 0.69 percent and 0.68 percent of total loans outstanding at March 31, 2016 and December 31, 2015, respectively. See Note 2*, Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals.

Liquidity and Funding Sources

AgFirst and the District Associations maintain adequate liquidity to satisfy the District's daily cash needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several lines of credit with commercial banks, as well as securities repurchase agreement facilities. Providing liquidity for the District's operations is primarily the responsibility of the Bank.

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America. The implied link between the credit rating of the System and the U.S. government, given the System's status as a GSE and continued concerns regarding the government's borrowing limit and budget imbalances, could pose risk to the System in the future.

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2016, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

Currently, Moody's Investor Service and Fitch Ratings have assigned long-term debt ratings for the System of Aaa and AAA and short-term debt ratings of P-1 and F1, respectively. These are the highest ratings available from these rating agencies. Standard & Poor's Ratings Services (S&P) maintains the long-term sovereign credit rating of the U.S. government at AA+, which directly corresponds to its AA+ long-term debt rating of the System. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a GSE. Negative changes to the System's credit ratings could reduce earnings by increasing debt funding costs, and could also have a material adverse effect on liquidity, the ability to conduct normal business operations, and the Bank's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

On September 25, 2015, S&P affirmed the Bank's AA-/A-1+ long- and short-term issuer credit ratings, the stand-alone credit profile of a+ and the BBB+ preferred stock rating. S&P revised their outlook on the Bank to negative from stable, reflecting their assessment of the Bank's capital position. On February 5, 2016, S&P revised their outlook on the Bank back to stable from negative based upon additional analysis of the strength of the Bank's capital position. Ratings and outlook for AgFirst by Fitch Ratings remain unchanged at AA-/F1+ and stable.

At March 31, 2016, AgFirst had $28.492 billion in total debt outstanding compared to $27.973 billion at December 31, 2015. Debt increased to support a higher level of investment securities and the Bank's short-term liquidity needs.

Cash and cash equivalents, which increased $560.5 million from December 31, 2015 to a total of $1.278 billion at March 31, 2016, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

Investment securities totaled $7.760 billion, or 21.76 percent of total assets at March 31, 2016, compared to $7.622 billion, or 21.85 percent, as of December 31, 2015. Investment securities increased $138.5 million, or 1.82 percent, compared to December 31, 2015. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In March, 2016, the Bank sold 29 agency mortgage-backed securities totaling $15.0 million which resulted in gains totaling $620 thousand.

The proceeds were used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity.

Investment securities classified as being available-for-sale totaled $7.106 billion at March 31, 2016. Available-for-sale investments at March 31, 2016 included $142.5 million in U.S. Treasury securities, $3.927 billion in U.S. government guaranteed securities, $2.216 billion in U.S. government agency guaranteed securities, $118.1 million in non-agency collateralized mortgage obligations (CMOs), and $703.2 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of March 31, 2016, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

The FCA classifies eligible liquidity investments according to four liquidity quality levels with level 1 being the highest. The first 15 days of minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. agency investments. The fourth level is a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve which is set to provide coverage to at least 120 days.

At March 31, 2016, AgFirst met each of the individual level criteria above and had a total of 216 days of maturing debt coverage compared to 206 days at December 31, 2015. The increase resulted from a change in the level of upcoming debt. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

Net unrealized gains related to investment securities were $74.8 million at March 31, 2016, compared to $65.9 million at December 31, 2015. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of $1.7 million and $107 thousand for the three months ended March 31, 2016 and 2015, respectively, which was included in Net Other-than-temporary Impairment Losses in the Statements of Income. The Bank's third party pricing consultant uses the US House Price Index as a significant input to its model. Although home prices have generally been increasing, the loss severities associated with foreclosures and bankruptcies have also been on the increase. The consultant adjusted its model over the past quarter to reflect this pattern of increased loss severities which resulted in the increased impairment in the first quarter of 2016. See Note 3, *Investments*, in the Notes to the Combined Financial Statements and *Noninterest Income* section below.

If there is a significant increase in collected or expected cash flows of a previously impaired security, the Bank accretes those additional amounts to interest income, as appropriate, over the remaining life of the security in a prospective manner, based on the difference between the amortized cost basis and the cash flows expected to be collected. The District recognized additional interest income of $678 thousand and $137 thousand for the three months ended March 31, 2016 and 2015, respectively. See Note 3, *Investments*, in the Notes to the Financial Statements for further information.

Capital Resources

Total shareholders' equity increased $122.3 million, or 2.16 percent, from December 31, 2015 to a total of $5.793 billion at March 31, 2016. This increase is primarily attributed to 2016 unallocated retained earnings from net income of $128.1 million.

In March, 2016, the Bank repurchased through a privately negotiated transaction, and subsequently cancelled, four thousand shares of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $4.0 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by $4.0 million and increase additional paid-in capital by $1.2 million. See Note 5, *Shareholders' Equity*, in the Notes to the Financial Statements for further information.

In March, 2016, the FCA adopted a final rule to modify the regulatory capital requirements for System banks and associations. The new capital requirements will be effective January 1, 2017. See *Regulatory Matters* section below for further discussion.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2016 was $128.1 million compared to $135.1 million for the three months ended March 31, 2015, a decrease of $7.0 million, or 5.21 percent. See below for further discussion of change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the three months ended March 31, 2016	For the year ended December 31, 2015	Annualized for the three months ended March 31, 2015
Return on average assets	1.47%	1.63%	1.66%
Return on average shareholders' equity	9.79%	10.34%	10.34%
Net interest margin	2.94%	3.08%	3.15%
Operating expense as a percentage of net interest income and noninterest income	48.91%	47.05%	46.73%
Net (charge-offs) recoveries to average loans	0.01%	0.02%	(0.01)%

The return on average assets and return on average shareholders' equity were negatively impacted in 2016 by a decrease in net income. An increase in average total assets also contributed to the decline in the return on average assets. The lower net interest margin in 2016 also resulted from higher average earning assets in the 2016 period. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expense excluding losses (gains) from other property owned. This ratio was negatively impacted by the decline in income as well as an increase in operating expenses. Net recoveries for the three months ended March 31, 2016 and the year ended December 31, 2015 positively impacted the net (charge-offs) recoveries to average loans ratio. See *Allowance for Loan Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income for the three months ended March 31, 2016 was $248.5 million compared to $248.0 million for the same period of 2015, an increase of $517 thousand or 0.21 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 2.94 percent and 3.15 percent for the three months ended March 31, 2016 and 2015, respectively, a decrease of 21 basis points. The increase resulted primarily from higher average loan balances, but was significantly offset by higher rates paid on interest-bearing liabilities. Higher average balances of interest bearing liabilities also negatively impacted net interest income. During the three months ended March 31, 2016 and 2015, the Bank called debt totaling $3.218 billion and $2.042 billion, respectively, and was able to lower the cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish.

The effects of changes in volume and interest rates on net interest income in the first quarter of 2016, as compared with the first quarter of 2015, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the three months ended March 31, 2016 vs. March 31, 2015		
	Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**
Interest Income:			
Loans	$ 21,992	$ 603	$ 22,595
Investments & Cash Equivalents	742	–	742
Total Interest Income	$ 22,734	$ 603	$ 23,337
Interest Expense:			
Interest-Bearing Liabilities	$ 6,008	$ 16,812	$ 22,820
Changes in Net Interest Income	$ 16,726	$ (16,209)	$ 517

Provision for Loan Losses

AgFirst and the Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision for loan losses was a net expense of $1.3 million for the three months period ended March 31, 2016 compared to $1.7 million for three months ended March 31, 2015. For the three months ended March 31, 2016, the net provision expense consisted of $3.1 million of general reserve expense partially offset by $1.8 million of specific reserve reversals. For the first quarter of 2016, the net provision expense was comprised primarily of provision expense related to the tree fruits and nuts ($660 thousand), dairy ($588 thousand), field crops ($521 thousand), nursery/greenhouse ($390 thousand) and rural home loan ($290 thousand) segments, partially offset by net provision reversals related to the forestry ($704 thousand) and cotton ($531 thousand) segments. For the first quarter of 2015, the net provision expense was comprised primarily of provision expense related to the processing ($1.5 million), cattle ($626 thousand), field crops ($338 thousand), and tree fruits and nuts ($332 thousand) segments, partially offset by net provision reversals related to the nursery/greenhouse ($883 thousand) and poultry ($475 thousand) segments. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	For the three months ended March 31,		
(dollars in thousands)	**2016**	**2015**	**Increase/ (Decrease)**
Loan fees	$ 8,357	$ 7,893	$ 464
Fees for financially related services	1,641	1,351	290
Building lease income	897	944	(47)
Net impairment losses on investments	(1,730)	(107)	(1,623)
Gains (losses) on investments, net	620	1,126	(506)
Gains (losses) on called debt	(7,208)	(4,304)	(2,904)
Gains (losses) on other transactions	24	715	(691)
Other noninterest income	3,396	3,073	323
Total noninterest income	$ 5,997	$ 10,691	$ (4,694)

Noninterest income decreased $4.7 million for the three months ended March 31, 2016 compared to the corresponding period in 2015. The decrease was primarily due to higher losses from called debt, higher investment impairment, lower gains on investments, and lower gains on other transactions as discussed below.

Higher impairment losses on investments of $1.6 million resulted primarily from impairment losses recorded during the three months ended March 31, 2016 on four non-agency collateralized mortgage obligation (CMO) securities. Estimating credit losses on these types of investments utilizes a number of assumptions and management judgment. Impairment recognized during the first quarter of 2016 reflects increased loss severities associated with foreclosures and bankruptcies for certain non-agency CMO bonds in the portfolio. See further discussion in the *Liquidity and Funding Sources* section and Note 3, *Investments*, in the Notes to the Combined Financial Statements.

For the three months ended March 31, 2016 compared to the corresponding period in 2015, gains on investments decreased $506 thousand. In March 2016, the Bank sold 29 agency mortgage-backed securities totaling $15.0 million which resulted in gains totaling $620 thousand. The proceeds from these sales were used to purchase one U.S. government guaranteed security. In March 2015, the Bank sold 204 agency mortgage-backed securities totaling $28.0 million which resulted in gains totaling $1.1 million. The proceeds from these sales were also used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. See discussion of investments in *Liquidity and Funding Sources* section above and in Note 3, *Investments*, in the Notes to the Combined Financial Statements.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on called debt increased $2.9 million for the three month period ended March 31, 2016 compared to the same period in the prior year. Call options were exercised on bonds totaling $3.218 billion for the first quarter of 2016 compared to $2.042 billion for the same period in 2015. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest.

For the three month periods, gains on other transactions decreased $691 thousand primarily as a result of a $1.3 million decline in the market value of certain retirement plan trust assets, partially offset by $342 thousand higher gains on the sale of assets, including furniture, fixtures and equipment and $281 thousand lower provision expense for unfunded commitments. Changes in the reserve for unfunded commitments result from fluctuations in both the balance and composition of unfunded commitments between periods.

Noninterest Expenses

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expenses	**For the three months ended March 31,**		
(dollars in thousands)	**2016**	**2015**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 77,816	$ 76,649	$ 1,167
Occupancy and equipment	10,037	9,973	64
Insurance Fund premiums	9,134	6,959	2,175
Other operating expenses	27,487	27,291	196
Losses (gains) from other property owned	379	531	(152)
Total noninterest expenses	$ 124,853	$ 121,403	$ 3,450

Noninterest expense increased $3.5 million for the three months ended March 31, 2016 compared to the corresponding period in 2015. The increase was due primarily to higher insurance fund premiums and an increase in salaries and employee benefits as discussed below.

Salaries and employee benefits increased $1.2 million for the three month period ended March 31, 2016. This increase resulted primarily from a $2.1 million increase in salaries and incentives due mainly to normal salary administration and a $291 thousand increase in pension and other postretirement benefits expenses, partially offset by $1.4 million decrease in employee health insurance costs for the first quarter of 2016 compared to the first quarter of 2015. In 2015, employer contributions to employee health savings accounts were made and expensed for the full year in the first quarter. In 2016, these contributions are being made and expensed throughout the year.

Insurance Fund premiums increased $2.2 million for the first three months of 2016 compared to the same period in 2015. This increase resulted primarily from an increase in the base annual premium rate to 16 basis points in 2016 from 13 basis points in 2015. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks.

REGULATORY MATTERS

On March 10, 2016, the FCA adopted a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the 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.
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

On November 30, 2015, the FCA, along with four other federal agencies, published in the Federal Register a final rule to establish capital and margin requirements for covered swap entities as required by the Dodd-Frank Act. See below for further information regarding the Dodd-Frank Act.

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2016. 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.
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the 2015 Annual Report of AgFirst Farm Credit Bank and District Associations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Combined Financial Statements, and the 2015 Annual Report of AgFirst Farm Credit Bank and District Associations for recently issued accounting pronouncements.

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Combined Balance Sheets

(dollars in thousands)	March 31, 2016	December 31, 2015
	(unaudited)	*(audited)*
Assets		
Cash	**$ 1,044,965**	$ 506,456
Cash equivalents	**233,524**	211,554
Investment securities:		
Available for sale (amortized cost of $7,032,392 and $6,884,126, respectively)	**7,106,256**	6,949,112
Held to maturity (fair value of $679,772 and $687,754, respectively)	**653,990**	672,672
Total investment securities	**7,760,246**	7,621,784
Loans held for sale	**10,119**	14,179
Loans	**26,232,747**	26,152,756
Allowance for loan losses	**(180,355)**	(178,617)
Net loans	**26,052,392**	25,974,139
Accrued interest receivable	**191,442**	192,618
Accounts receivable	**44,890**	46,822
Investments in other Farm Credit System institutions	**33,241**	31,252
Premises and equipment, net	**189,611**	189,458
Other property owned	**49,499**	48,462
Other assets	**47,898**	42,800
Total assets	**$ 35,657,827**	$ 34,879,524
Liabilities		
Systemwide bonds payable	**$ 22,353,682**	$ 22,339,694
Systemwide notes payable	**6,787,776**	6,083,805
Accrued interest payable	**56,724**	56,690
Accounts payable	**45,726**	236,833
Advanced conditional payments	**6,906**	6,483
Other liabilities	**613,630**	484,959
Total liabilities	**29,864,444**	29,208,464
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**111,000**	115,000
Protected borrower equity	**602**	606
Capital stock and participation certificates	**167,586**	160,456
Additional paid-in-capital	**64,858**	63,678
Retained earnings		
Allocated	**1,867,970**	1,893,930
Unallocated	**3,888,592**	3,762,253
Accumulated other comprehensive income (loss)	**(307,225)**	(324,863)
Total shareholders' equity	**5,793,383**	5,671,060
Total liabilities and equity	**$ 35,657,827**	$ 34,879,524

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2016	2015
Interest Income		
Investments	**$ 32,213**	$ 31,471
Loans	**297,604**	275,009
Total interest income	**329,817**	306,480
Interest Expense	**81,319**	58,499
Net interest income	**248,498**	247,981
Provision for (reversal of allowance for) loan losses	**1,293**	1,713
Net interest income after provision for (reversal of allowance for) loan losses	**247,205**	246,268
Noninterest Income		
Loan fees	**8,357**	7,893
Fees for financially related services	**1,641**	1,351
Building lease income	**897**	944
Total other-than-temporary impairment losses	**—**	—
Portion of loss recognized in other comprehensive income	**(1,730)**	(107)
Net other-than-temporary impairment losses	**(1,730)**	(107)
Gains (losses) on investments, net	**620**	1,126
Gains (losses) on called debt	**(7,208)**	(4,304)
Gains (losses) on other transactions	**24**	715
Other noninterest income	**3,396**	3,073
Total noninterest income	**5,997**	10,691
Noninterest Expenses		
Salaries and employee benefits	**77,816**	76,649
Occupancy and equipment	**10,037**	9,973
Insurance Fund premiums	**9,134**	6,959
Other operating expenses	**27,487**	27,291
Losses (gains) from other property owned	**379**	531
Total noninterest expenses	**124,853**	121,403
Income before income taxes	**128,349**	135,556
Provision (benefit) for income taxes	**261**	432
Net income	**$ 128,088**	$ 135,124

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2016	2015
Net income	**$ 128,088**	$ 135,124
Other comprehensive income net of tax:		
Unrealized gains (losses) on investments:		
Other-than-temporarily impaired	**(1,037)**	1,994
Not other-than-temporarily impaired	**9,906**	(4,549)
Change in value of cash flow hedges	**19**	(153)
Employee benefit plans adjustments	**8,750**	9,219
Other comprehensive income (Note 5)	**17,638**	6,511
Comprehensive income	**$ 145,726**	$ 141,635

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2014	$ 125,250	$ 655	$ 154,471	$ 60,270	$ 1,818,123	$ 3,540,901	$ (297,311)	$ 5,402,359
Comprehensive income						135,124	6,511	141,635
Protected borrower equity retired		(24)						(24)
Capital stock/participation certificates issued (retired), net			8,973					8,973
Dividends declared/paid			113			(160)		(47)
Dividends paid on perpetual preferred stock						(434)		(434)
Cash patronage distribution						(3,000)		(3,000)
Retained earnings retired					(8,117)	24		(8,093)
Patronage distribution adjustment					6,727	(6,369)		358
Balance at March 31, 2015	$ 125,250	$ 631	$ 163,557	$ 60,270	$ 1,816,733	$ 3,666,086	$ (290,800)	$ 5,541,727
Balance at December 31, 2015	$ 115,000	$ 606	$ 160,456	$ 63,678	$ 1,893,930	$ 3,762,253	$ (324,863)	$ 5,671,060
Comprehensive income						**128,088**	**17,638**	**145,726**
Protected borrower equity retired		**(4)**						**(4)**
Capital stock/participation certificates issued (retired), net			**7,016**					**7,016**
Dividends declared/paid			**114**			**(161)**		**(47)**
Redemption of perpetual preferred stock (Note 5)	**(4,000)**			**1,180**				**(2,820)**
Dividends paid on perpetual preferred stock						**(478)**		**(478)**
Cash patronage distribution						**(3,000)**		**(3,000)**
Retained earnings retired					**(23,467)**	**89**		**(23,378)**
Patronage distribution adjustment					**(2,493)**	**1,801**		**(692)**
Balance at March 31, 2016	**$ 111,000**	**$ 602**	**$ 167,586**	**$ 64,858**	**$ 1,867,970**	**$ 3,888,592**	**$ (307,225)**	**$ 5,793,383**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2016	2015
Cash flows from operating activities:		
Net income	**$ 128,088**	$ 135,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**4,921**	4,544
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**(547)**	(736)
Premium amortization (discount accretion) on investment securities	**1,429**	2,510
(Premium amortization) discount accretion on bonds and notes	**3,569**	2,001
Amortization (accretion) of yield mark resulting from merger	**(1,053)**	(425)
Provision for (reversal of allowance for) loan losses	**1,293**	1,713
(Gains) losses on other property owned	**24**	166
Net impairment losses on investments	**1,730**	107
(Gains) losses on investments, net	**(620)**	(1,126)
(Gains) losses on other transactions	**(24)**	(715)
Net change in loans held for sale	**6,619**	364
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**1,176**	4,537
(Increase) decrease in accounts receivable	**1,932**	13,762
(Increase) decrease in other assets	**(6,672)**	(8,604)
Increase (decrease) in accrued interest payable	**34**	(795)
Increase (decrease) in accounts payable	**(28,708)**	(24,471)
Increase (decrease) in other liabilities	**136,287**	116,206
Total adjustments	**121,390**	109,038
Net cash provided by (used in) operating activities	**249,478**	244,162
Cash flows from investing activities:		
Investment securities purchased	**(580,202)**	(333,025)
Proceeds from investment securities sold or matured	**448,107**	418,492
Net (increase) decrease in loans	**(84,437)**	227,676
(Increase) decrease in investments in other Farm Credit System institutions	**(1,989)**	(111)
Purchase of premises and equipment, net	**(5,127)**	(2,998)
Proceeds from sale of premises and equipment, net	**679**	550
Proceeds from sale of other property owned	**3,368**	5,804
Net cash provided by (used in) investing activities	**(219,601)**	316,388
Cash flows from financing activities:		
Bonds and notes issued	**8,121,730**	5,627,418
Bonds and notes retired	**(7,405,750)**	(5,951,677)
Net increase (decrease) in advanced conditional payments	**423**	972
Protected borrower equity retired	**(4)**	(24)
Capital stock and participation certificates issued/retired, net	**7,016**	8,973
Patronage refunds and dividends paid	**(166,137)**	(173,144)
Redemption of perpetual preferred stock	**(2,820)**	—
Dividends paid on perpetual preferred stock	**(478)**	(434)
Retained earnings retired	**(23,378)**	(8,093)
Net cash provided by (used in) financing activities	**530,602**	(496,009)
Net increase (decrease) in cash and cash equivalents	**560,479**	64,541
Cash and cash equivalents, beginning of period	**718,010**	896,189
Cash and cash equivalents, end of period	**$ 1,278,489**	$ 960,730
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	**$ 399**	$ 1,257
Receipt of property in settlement of loans	**4,828**	6,421
Change in unrealized gains (losses) on investments, net	**8,869**	(2,555)
Employee benefit plans adjustments	**(8,750)**	(9,219)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (1,574)**	$ (2,427)
Decrease (increase) in other assets	**1,574**	2,427
Supplemental information:		
Interest paid	**$ 77,732**	$ 57,361
Taxes paid, net	**18**	250

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

Notes to the Combined Financial Statements

(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and its related Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District). A complete description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2015 are contained in the 2015 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying combined financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's combined financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies

The District's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period

The following ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent Annual Report:

- In March, 2016, the FASB issued ASU 2016-07 Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

- In March, 2016, the FASB issued ASU 2016-06 Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. Topic 815 requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the "clearly and closely related" criterion. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments are to be applied on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

- In March, 2016, the FASB issued ASU 2016-05 Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The term novation refers to replacing one counterparty to a derivative instrument with a new counterparty. That change occurs for a variety of reasons, including financial institution mergers, intercompany transactions, an entity exiting a particular derivatives business or relationship, an entity managing against internal credit limits, or in response to laws or regulatory requirements. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815, does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Entities have an option to apply the amendments on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period.

ASUs Pending Effective Date
For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The District is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

Accounting Standards Effective During the Period
There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) –The amendment was adopted prospectively. There were no changes to the District's statements of financial condition or results of operations as a result of this guidance. See Note 6, *Fair Value Measurement*, for the disclosures required by this guidance.

- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the District's statements of financial condition or results of operations as a result of this guidance.

- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern: This amendment is effective for the annual reporting period ended December 31, 2016 and, interim and annual periods thereafter. It may require additional disclosures but will not have a material impact on the District's financial condition or results of operations.

Note 2 — Loans and Allowance for Loan Losses

The District maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the District has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The District manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank and each Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the boards of directors.

A summary of loans outstanding at period end follows:

(dollars in thousands)	March 31, 2016	December 31, 2015
Real estate mortgage	$ 12,692,319	$ 12,524,416
Production and intermediate-term	6,634,515	6,947,773
Loans to cooperatives	368,722	256,774
Processing and marketing	1,694,886	1,693,055
Farm-related business	466,887	441,461
Communication	446,817	451,028
Energy and water/waste disposal	546,972	504,714
Rural residential real estate	3,102,287	3,076,692
International	83,549	70,317
Lease receivables	3,618	3,189
Loans to other financing institutions (OFIs)	112,632	108,020
Other (including Mission Related)	79,543	75,317
Total Loans	$ 26,232,747	$ 26,152,756

The District may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2016					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 300,410	$ 122,780	$ 67,919	$ 14,974	$ 368,329	$ 137,754
Production and intermediate-term	768,806	315,755	202,078	3,887	970,884	319,642
Loans to cooperatives	359,513	–	6,547	–	366,060	–
Processing and marketing	771,247	359,326	971,333	7,800	1,742,580	367,126
Farm-related business	111,577	10,679	130,576	37	242,153	10,716
Communication	448,106	–	–	–	448,106	–
Energy and water/waste disposal	542,650	–	6,037	–	548,687	–
Rural residential real estate	–	–	2,141	–	2,141	–
International	–	–	13,675	–	13,675	–
Lease receivables	1,487	–	–	–	1,487	–
Other (including Mission Related)	83,565	–	16,992	–	100,557	–
Total	$ 3,387,361	$ 808,540	$ 1,417,298	$ 26,698	$ 4,804,659	$ 835,238

	December 31, 2015					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 283,023	$ 105,671	$ 69,681	$ 16,506	$ 352,704	$ 122,177
Production and intermediate-term	677,974	229,517	163,179	14,876	841,153	244,393
Loans to cooperatives	242,394	–	6,902	–	249,296	–
Processing and marketing	766,058	298,552	965,568	8,700	1,731,626	307,252
Farm-related business	106,972	8,629	134,016	38	240,988	8,667
Communication	452,422	–	–	–	452,422	–
Energy and water/waste disposal	500,369	–	6,137	–	506,506	–
Rural residential real estate	–	–	2,375	–	2,375	–
International	–	–	6,682	–	6,682	–
Lease receivables	1,494	–	–	–	1,494	–
Other (including Mission Related)	82,078	–	22,447	–	104,525	–
Total	$ 3,112,784	$ 642,369	$ 1,376,987	$ 40,120	$ 4,489,771	$ 682,489

A significant source of liquidity for the District is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	March 31, 2016			
(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Real estate mortgage	$ 477,636	$ 2,503,812	$ 9,710,871	$ 12,692,319
Production and intermediate-term	1,971,255	3,203,569	1,459,691	6,634,515
Loans to cooperatives	22,841	222,037	123,844	368,722
Processing and marketing	82,368	868,619	743,899	1,694,886
Farm-related business	66,131	239,523	161,233	466,887
Communication	37,850	302,507	106,460	446,817
Energy and water/waste disposal	8,278	184,384	354,310	546,972
Rural residential real estate	82,929	62,877	2,956,481	3,102,287
International	54,519	29,030	–	83,549
Lease receivables	374	2,158	1,086	3,618
Loans to OFIs	6,360	106,130	142	112,632
Other (including Mission Related)	3,269	7,495	68,779	79,543
Total Loans	$ 2,813,810	$ 7,732,141	$ 15,686,796	$ 26,232,747
Percentage	10.73%	29.47%	59.80%	100.00%

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	March 31, 2016	December 31, 2015
Real estate mortgage:		
Acceptable	94.47%	94.70%
OAEM	2.89	2.69
Substandard/doubtful/loss	2.64	2.61
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	91.90%	92.62%
OAEM	4.12	3.65
Substandard/doubtful/loss	3.98	3.73
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	98.31%	99.00%
OAEM	0.85	–
Substandard/doubtful/loss	0.84	1.00
	100.00%	100.00%
Processing and marketing:		
Acceptable	97.40%	98.12%
OAEM	1.93	1.20
Substandard/doubtful/loss	0.67	0.68
	100.00%	100.00%
Farm-related business:		
Acceptable	94.76%	98.84%
OAEM	4.64	0.60
Substandard/doubtful/loss	0.60	0.56
	100.00%	100.00%
Communication:		
Acceptable	97.82%	97.84%
OAEM	2.18	2.16
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2016	December 31, 2015
Energy and water/waste disposal:		
Acceptable	90.70%	89.87%
OAEM	9.30	10.13
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.05%	99.00%
OAEM	0.53	0.55
Substandard/doubtful/loss	0.42	0.45
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	96.82%	96.10%
OAEM	2.82	3.40
Substandard/doubtful/loss	0.36	0.50
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	99.06%	98.96%
OAEM	–	–
Substandard/doubtful/loss	0.94	1.04
	100.00%	100.00%
Total Loans:		
Acceptable	94.64%	94.99%
OAEM	2.96	2.65
Substandard/doubtful/loss	2.40	2.36
	100.00%	100.00%

The following tables provide an age analysis of the recorded investment in past due loans as of:

	March 31, 2016					
(dollars in thousands)	30 Through 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 or More Past Due and Accruing Interest
Real estate mortgage	$ 47,355	$ 57,959	$ 105,314	$ 12,694,468	$ 12,799,782	$ 341
Production and intermediate-term	46,202	38,557	84,759	6,604,348	6,689,107	287
Loans to cooperatives	4	–	4	369,377	369,381	–
Processing and marketing	200	1,500	1,700	1,696,829	1,698,529	–
Farm-related business	1,259	449	1,708	467,591	469,299	–
Communication	–	–	–	447,249	447,249	–
Energy and water/waste disposal	–	–	–	549,218	549,218	–
Rural residential real estate	32,015	5,785	37,800	3,073,189	3,110,989	–
International	–	–	–	83,596	83,596	–
Lease receivables	–	5	5	3,621	3,626	–
Loans to OFIs	–	–	–	112,803	112,803	–
Other (including Mission Related)	586	–	586	79,736	80,322	–
Total	$ 127,621	$ 104,255	$ 231,876	$ 26,182,025	$ 26,413,901	$ 628

(dollars in thousands)	December 31, 2015 30 Through 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 or More Past Due and Accruing Interest
Real estate mortgage	$ 63,847	$ 45,682	$ 109,529	$ 12,520,873	$ 12,630,402	$ 223
Production and intermediate-term	26,330	43,769	70,099	6,938,339	7,008,438	205
Loans to cooperatives	5	–	5	257,253	257,258	–
Processing and marketing	1,500	–	1,500	1,695,649	1,697,149	–
Farm-related business	4	374	378	442,847	443,225	–
Communication	–	–	–	451,442	451,442	–
Energy and water/waste disposal	–	–	–	505,704	505,704	–
Rural residential real estate	36,434	6,561	42,995	3,041,847	3,084,842	944
International	–	–	–	70,307	70,307	–
Lease receivables	–	6	6	3,189	3,195	–
Loans to OFIs	–	–	–	108,181	108,181	–
Other (including Mission Related)	–	–	–	76,081	76,081	–
Total	$ 128,120	$ 96,392	$ 224,512	$ 26,111,712	$ 26,336,224	$ 1,372

Nonperforming assets (including the recorded investment for loans) and related credit quality statistics are summarized as follows:

(dollars in thousands)	March 31, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	$ 133,555	$ 133,339
Production and intermediate-term	110,254	104,034
Processing and marketing	1,517	1,508
Farm-related business	4,725	4,512
Rural residential real estate	9,315	9,095
Lease receivables	5	6
Other (including Mission Related)	–	14
Total	$ 259,371	$ 252,508
Accruing restructured loans:		
Real estate mortgage	$ 62,634	$ 60,932
Production and intermediate-term	39,222	38,659
Farm-related business	1,743	1,794
Rural residential real estate	3,313	3,318
Other (including Mission Related)	9,462	9,324
Total	$ 116,374	$ 114,027
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 341	$ 223
Production and intermediate-term	287	205
Rural residential real estate	–	944
Total	$ 628	$ 1,372
Total nonperforming loans	$ 376,373	$ 367,907
Other property owned	49,499	48,462
Total nonperforming assets	$ 425,872	$ 416,369
Nonaccrual loans as a percentage of total loans	0.99%	0.97%
Nonperforming assets as a percentage of total loans and other property owned	1.62%	1.59%
Nonperforming assets as a percentage of capital	7.35%	7.34%

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

(dollars in thousands)	March 31, 2016	December 31, 2015
Impaired nonaccrual loans:		
Current as to principal and interest	$ 138,999	$ 127,764
Past due	120,372	124,744
Total	259,371	252,508
Impaired accrual loans:		
Restructured	116,374	114,027
90 days or more past due	628	1,372
Total	$ 117,002	$ 115,399
Total impaired loans	$ 376,373	$ 367,907
Additional commitments to lend	$ 4,069	$ 7,878

Additional impaired loan information at period end is summarized as follows. Unpaid principal balance represents the contractual principal balance of the loan.

(dollars in thousands)	March 31, 2016			Quarter Ended March 31, 2016	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 38,381	$ 42,900	$ 7,476	$ 37,049	$ 492
Production and intermediate-term	61,703	77,834	11,533	58,614	692
Processing and marketing	1,500	1,500	–	1,449	22
Farm-related business	3,923	4,628	416	3,809	53
Rural residential real estate	2,255	2,656	439	1,855	25
Lease receivables	–	–	–	–	–
Other (including Mission Related)	9,390	9,222	595	9,240	125
Total	$ 117,152	$ 138,740	$ 20,459	$ 112,016	$ 1,409
With no related allowance for credit losses:					
Real estate mortgage	$ 158,149	$ 197,619	$ –	$ 155,515	$ 2,114
Production and intermediate-term	88,060	124,603	–	87,048	1,189
Processing and marketing	17	493	–	17	–
Farm-related business	2,545	2,661	–	2,471	35
Rural residential real estate	10,373	12,174	–	9,227	136
Lease receivables	5	60	–	5	–
Other (including Mission Related)	72	951	–	25	–
Total	$ 259,221	$ 338,561	$ –	$ 254,308	$ 3,474
Total:					
Real estate mortgage	$ 196,530	$ 240,519	$ 7,476	$ 192,564	$ 2,606
Production and intermediate-term	149,763	202,437	11,533	145,662	1,881
Processing and marketing	1,517	1,993	–	1,466	22
Farm-related business	6,468	7,289	416	6,280	88
Rural residential real estate	12,628	14,830	439	11,082	161
Lease receivables	5	60	–	5	–
Other (including Mission Related)	9,462	10,173	595	9,265	125
Total	$ 376,373	$ 477,301	$ 20,459	$ 366,324	$ 4,883

(dollars in thousands)	December 31, 2015			Year Ended December 31, 2015	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 42,006	$ 46,344	$ 8,094	$ 51,679	$ 1,869
Production and intermediate-term	57,049	73,294	12,289	56,147	2,467
Processing and marketing	1,500	1,500	–	379	75
Farm-related business	3,920	4,583	367	7,683	190
Energy and water/waste disposal	–	–	–	347	–
Rural residential real estate	2,068	2,460	470	2,664	92
Lease receivables	–	–	–	–	–
Other (including Mission Related)	9,249	9,179	592	8,555	491
Total	$ 115,792	$ 137,360	$ 21,812	$ 127,454	$ 5,184
With no related allowance for credit losses:					
Real estate mortgage	$ 152,488	$ 195,648	$ –	$ 143,514	$ 8,514
Production and intermediate-term	85,849	125,081	–	105,985	4,355
Processing and marketing	8	2,152	–	1,468	1
Farm-related business	2,386	2,405	–	2,578	116
Energy and water/waste disposal	–	–	–	–	–
Rural residential real estate	11,289	13,490	–	7,574	407
Lease receivables	6	61	–	10	–
Other (including Mission Related)	89	880	–	1,910	3
Total	$ 252,115	$ 339,717	$ –	$ 263,039	$ 13,396
Total:					
Real estate mortgage	$ 194,494	$ 241,992	$ 8,094	$ 195,193	$ 10,383
Production and intermediate-term	142,898	198,375	12,289	162,132	6,822
Processing and marketing	1,508	3,652	–	1,847	76
Farm-related business	6,306	6,988	367	10,261	306
Energy and water/waste disposal	–	–	–	347	–
Rural residential real estate	13,357	15,950	470	10,238	499
Lease receivables	6	61	–	10	–
Other (including Mission Related)	9,338	10,059	592	10,465	494
Total	$ 367,907	$ 477,077	$ 21,812	$ 390,493	$ 18,580

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows. Prior to issuance of the District's 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. As discussed in Note 3, *Loans and Allowance for Loan Losses*, of the District's 2015 Annual Report, FCA loan type classifications prior to December 31, 2015 have been revised as necessary to reflect these loan type classifications, as adjusted. In the table below, activity for the quarter ended March 31, 2015 is presented as revised.

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Other Loans **	Total
Activity related to allowance for credit losses:										
Balance at December 31, 2015	$ 79,176	$ 80,611	$ 8,087	$ 2,449	$ 1,933	$ 5,268	$ 106	$ 41	$ 946	$ 178,617
Charge-offs	(339)	(1,299)	–	–	–	(253)	–	–	–	(1,891)
Recoveries	786	1,132	319	–	–	94	–	–	5	2,336
Provision for loan losses	(168)	(1,146)	1,473	686	138	316	20	(17)	(9)	1,293
Other	–	(15)	15	–	–	–	–	–	–	–
Balance at March 31, 2016	$ 79,455	$ 79,283	$ 9,894	$ 3,135	$ 2,071	$ 5,425	$ 126	$ 24	$ 942	$ 180,355
Balance at December 31, 2014	$ 76,151	$ 76,431	$ 11,990	$ 1,518	$ 2,406	$ 5,142	$ 54	$ 80	$ 1,081	$ 174,853
Charge-offs	(1,503)	(1,025)	–	–	–	(104)	–	–	–	(2,632)
Recoveries	529	693	978	–	–	7	–	–	5	2,212
Provision for loan losses	589	2,024	(1,133)	158	(39)	239	11	(22)	(114)	1,713
Other	–	(49)	–	–	–	–	–	–	49	–
Balance at March 31, 2015	$ 75,766	$ 78,074	$ 11,835	$ 1,676	$ 2,367	$ 5,284	$ 65	$ 58	$ 1,021	$ 176,146
Allowance on loans evaluated for impairment:										
Individually	$ 7,476	$ 11,533	$ 416	$ –	$ –	$ 439	$ –	$ –	$ 595	$ 20,459
Collectively	71,979	67,750	9,478	3,135	2,071	4,986	126	24	347	159,896
PCI***	–	–	–	–	–	–	–	–	–	–
Balance at March 31, 2016	$ 79,455	$ 79,283	$ 9,894	$ 3,135	$ 2,071	$ 5,425	$ 126	$ 24	$ 942	$ 180,355
Individually	$ 8,094	$ 12,289	$ 367	$ –	$ –	$ 470	$ –	$ –	$ 592	$ 21,812
Collectively	71,082	68,322	7,720	2,449	1,933	4,798	106	41	354	156,805
PCI***	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2015	$ 79,176	$ 80,611	$ 8,087	$ 2,449	$ 1,933	$ 5,268	$ 106	$ 41	$ 946	$ 178,617
Recorded investment in loans evaluated for impairment:										
Individually	$ 272,214	$ 137,597	$ 11,965	$ –	$ –	$ 1,809,380	$ –	$ –	$ 9,389	$ 2,240,545
Collectively	12,525,387	6,551,510	2,525,244	447,249	549,218	1,301,556	83,596	3,626	183,736	24,171,122
PCI***	2,181	–	–	–	–	53	–	–	–	2,234
Ending balance at March 31, 2016	$ 12,799,782	$ 6,689,107	$ 2,537,209	$ 447,249	$ 549,218	$ 3,110,989	$ 83,596	$ 3,626	$ 193,125	$ 26,413,901
Individually	$ 269,840	$ 129,699	$ 12,133	$ –	$ –	$ 1,771,871	$ –	$ –	$ 9,304	$ 2,192,847
Collectively	12,358,355	6,878,739	2,385,499	451,442	505,704	1,312,847	70,307	3,195	174,958	24,141,046
PCI***	2,207	–	–	–	–	124	–	–	–	2,331
Ending balance at December 31, 2015	$ 12,630,402	$ 7,008,438	$ 2,397,632	$ 451,442	$ 505,704	$ 3,084,842	$ 70,307	$ 3,195	$ 184,262	$ 26,336,224

** Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
*** Includes mission related loans, international loans, and loans to OFIs.*
**** Purchased credit impaired loans.*

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. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. The tables do not include any purchased credit impaired (PCI) loans.

(dollars in thousands)	Three months ended March 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 1,869	$ 4,474	$ –	$ 6,343	
Production and intermediate-term	393	7,279	–	7,672	
Rural residential real estate	–	103	–	103	
Total	$ 2,262	$ 11,856	$ –	$ 14,118	
Post-modification					
Real estate mortgage	$ 1,786	$ 4,491	$ –	$ 6,277	$ –
Production and intermediate-term	378	7,272	–	7,650	–
Rural residential real estate	–	103	–	103	–
Total	$ 2,164	$ 11,866	$ –	$ 14,030	$ –

(dollars in thousands) Outstanding Recorded Investment	Three months ended March 31, 2015 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification					
Real estate mortgage	$ 384	$ 5,370	$ –	$ 5,754	
Production and intermediate-term	1,400	9,878	–	11,278	
Rural residential real estate	–	507	–	507	
Other (including Mission Related)	–	–	1,000	1,000	
Total	$ 1,784	$ 15,755	$ 1,000	$ 18,539	
Post-modification					
Real estate mortgage	$ 387	$ 4,481	$ –	$ 4,868	$ (43)
Production and intermediate-term	1,400	10,027	–	11,427	(2)
Rural residential real estate	–	490	–	490	–
Other (including Mission Related)	–	–	1,000	1,000	–
Total	$ 1,787	$ 14,998	$ 1,000	$ 17,785	$ (45)

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

(dollars in thousands)	Three months ended March 31,	
Defaulted Troubled Debt Restructurings	**2016**	**2015**
Real estate mortgage	$ 115	$ 1,806
Production and intermediate-term	331	1,583
Rural residential real estate	–	44
Total	$ 446	$ 3,433

The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Total TDRs		Nonaccrual TDRs	
(dollars in thousands)	**March 31, 2016**	**December 31, 2015**	**March 31, 2016**	**December 31, 2015**
Real estate mortgage	$ 101,747	$ 102,280	$ 39,113	$ 41,348
Production and intermediate-term	94,555	91,329	55,333	52,670
Processing and marketing	1	1	1	1
Farm-related business	4,687	4,559	2,944	2,765
Rural residential real estate	4,944	5,217	1,631	1,899
Other (including Mission Related)	9,462	9,338	–	14
Total Loans	$ 215,396	$ 212,724	$ 99,022	$ 98,697
Additional commitments to lend	$ 2,391	$ 6,948		

The following table presents foreclosure information as of period end:

	March 31, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 3,189	$ 2,378
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 5,740	$ 1,669

PCI Loans

For further discussion of the District's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, of the District's most recent Annual Report.

In connection with past mergers, certain Associations purchased impaired loans that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at March 31, 2016, were as follows.

(dollars in thousands)	
Real estate mortgage	$ 2,181
Rural residential real estate	53
Total Loans	$ 2,234

At both March 31, 2016 and December 31, 2015, there was no allowance for loan losses related to these loans. During the three months ended March 31, 2016, provision for loan losses on these loans was an expense reversal of $77 thousand compared with an expense reversal of $41 thousand for the three month period ended March 31, 2015. See above for a summary of changes in the total allowance for loan losses for the period ended March 31, 2016. There were no loans acquired for 2016 or 2015 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain loans that are within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because the acquiring Associations could not reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. At the time of purchase, the real estate markets were very unpredictable, making estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the acquiring Associations did not have the information necessary to reasonably estimate cash flows expected to be collected to compute their yield.

Note 3 — Investments

Investment Securities

District investments consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

Included in the available-for-sale investments are non-agency collateralized mortgage obligations (CMOs) and asset-backed securities (ABSs). These securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria and requires Farm Credit System (System) institutions to provide notification to the FCA when a security becomes ineligible. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at March 31, 2016 had a fair value of $117.2 million and $30.4 million, respectively.

Held-to-maturity investments consist of Mission Related Investments acquired primarily under the Rural Housing Mortgage-Backed Securities (RHMS) and Rural America Bond (RAB) pilot programs. RHMS must be fully guaranteed by a government agency or government sponsored enterprise. RABs are private placement securities which generally have some form of credit enhancement.

Held-to-maturity securities also include ABSs issued through the Small Business Administration and guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

In its Conditions of Approval for the program, the FCA considers an RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At March 31, 2016, the District held three RABs whose credit quality had deteriorated beyond the program limits.

Effective December 31, 2014, the FCA ended the pilot programs approved after 2004 as part of the Investment in Rural America initiative. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The FCA can consider future participation in these programs on a case-by-case basis.

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. In 2015, the Bank purchased $42.4 million in U.S. Treasury securities which are held for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

During the first three months of 2016, proceeds from sales of investments were $16.0 million and realized gains were $620 thousand. During the first three months of 2015, proceeds from sales of investments were $29.1 million and realized gains were $1.1 million.

Available-for-sale
A summary of the amortized cost and fair value of debt securities held as available-for-sale investments follows:

	March 31, 2016				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Treasury Securities	$ 142,419	$ 118	$ (5)	$ 142,532	0.55%
U.S. Govt. Guaranteed	3,871,517	59,637	(4,401)	3,926,753	1.71
U.S. Govt. Agency Guaranteed	2,206,599	16,602	(7,532)	2,215,669	1.11
Non-Agency CMOs (a)	132,692	615	(15,224)	118,083	0.96
ABSs	679,165	24,622	(568)	703,219	1.54
Total	$ 7,032,392	$ 101,594	$ (27,730)	$ 7,106,256	1.47%

	December 31, 2015				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Treasury Securities	$ 42,405	$ –	$ –	$ 42,405	0.68%
U.S. Govt. Guaranteed	3,924,073	55,715	(9,198)	3,970,590	1.69
U.S. Govt. Agency Guaranteed	2,123,526	16,050	(7,688)	2,131,888	0.98
Non-Agency CMOs (b)	140,516	51	(13,707)	126,860	0.75
ABSs	653,606	25,084	(1,321)	677,369	1.24
Total	$ 6,884,126	$ 96,900	$ (31,914)	$ 6,949,112	1.40%

(a) Gross unrealized losses included non-credit related other-than-temporary impairment included in Accumulated Other Comprehensive Income (AOCI) of $9.8 million for Non-Agency CMOs.
(b) Gross unrealized losses included non-credit related other-than temporary impairment included in AOCI of $9.2 million for Non-Agency CMOs.

Held-to-maturity
A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments follows:

	March 31, 2016				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency Guaranteed	$ 450,603	$ 16,952	$ (1,201)	$ 466,354	3.43%
ABSs	29,575	527	(110)	29,992	1.87
RABs and Other (a)	173,812	10,629	(1,015)	183,426	5.83
Total	$ 653,990	$ 28,108	$ (2,326)	$ 679,772	4.00%

	December 31, 2015				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency Guaranteed	$ 465,073	$ 14,891	$ (5,978)	$ 473,986	3.50%
ABSs	31,739	523	(119)	32,143	1.45
RABs and Other (b)	175,860	8,027	(2,262)	181,625	5.83
Total	$ 672,672	$ 23,441	$ (8,359)	$ 687,754	4.01%

(a) Gross unrealized losses included non-credit related other-than-temporary impairment included in AOCI of $99 thousand for RABs and Other.
(b) Gross unrealized losses included non-credit related other-than-temporary impairment included in AOCI of $101 thousand for RABs and Other.

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at March 31, 2016 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**
U.S. Govt. Treasury Securities	$ 112,528	0.47 %	$ 30,004	0.85 %	$ –	– %	$ –	– %	$ 142,532	0.55 %
U.S. Govt. Guaranteed	–	–	1	0.68	91,574	0.95	3,835,178	1.73	3,926,753	1.71
U.S. Govt. Agency Guaranteed	3,600	0.33	204,750	1.16	187,757	1.15	1,819,562	1.10	2,215,669	1.11
Non-Agency CMOs	–	–	–	–	921	1.15	117,162	0.95	118,083	0.96
ABSs	–	–	672,812	0.96	–	–	30,407	59.99	703,219	1.54
Total fair value	$ 116,128	0.47 %	$ 907,567	1.01 %	$ 280,252	1.09 %	$ 5,802,309	1.58 %	$ 7,106,256	1.47 %
Total amortized cost	$ 116,085		$ 906,830		$ 280,124		$ 5,729,353		$ 7,032,392	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**	**Amount**	**Weighted Average Yield**
U.S. Govt. Agency Guaranteed	$ –	– %	$ 143	4.45 %	$ –	– %	$ 450,460	3.43 %	$ 450,603	3.43 %
ABSs	782	2.16	19,884	1.93	3,945	1.93	4,964	1.52	29,575	1.87
RABs and Other	3,096	4.43	30,203	5.71	32,554	6.35	107,959	5.75	173,812	5.83
Total amortized cost	$ 3,878	3.97 %	$ 50,230	4.21 %	$ 36,499	5.87 %	$ 563,383	3.86 %	$ 653,990	4.00 %
Total fair value	$ 3,876		$ 51,819		$ 37,586		$ 586,491		$ 679,772	

A substantial portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for all investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	March 31, 2016					
	Less than 12 Months		**12 Months or Greater**		**Total**	
(dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Govt. Treasury Securities	$ 27,461	$ (5)	$ –	$ –	$ 27,461	$ (5)
U.S. Govt. Guaranteed	506,318	(1,441)	430,642	(2,960)	936,960	(4,401)
U.S. Govt. Agency Guaranteed	758,141	(3,638)	552,760	(5,095)	1,310,901	(8,733)
Non-Agency CMOs	–	–	107,630	(15,224)	107,630	(15,224)
ABSs	275,193	(179)	9,512	(499)	284,705	(678)
RABs and Other	19,058	(707)	11,127	(308)	30,185	(1,015)
Total	$ 1,586,171	$ (5,970)	$ 1,111,671	$ (24,086)	$ 2,697,842	$ (30,056)

	December 31, 2015					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 1,110,754	$ (5,606)	$ 449,637	$ (3,592)	$ 1,560,391	$ (9,198)
U.S. Govt. Agency Guaranteed	925,228	(6,849)	478,018	(6,817)	1,403,246	(13,666)
Non-Agency CMOs	753	(2)	121,417	(13,705)	122,170	(13,707)
ABSs	601,682	(962)	7,121	(478)	608,803	(1,440)
RABs and Other	49,318	(1,658)	10,761	(604)	60,079	(2,262)
Total	$ 2,687,735	$ (15,077)	$ 1,066,954	$ (25,196)	$ 3,754,689	$ (40,273)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the District intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss recognized equals the full difference between amortized cost and fair value of the security. When the District does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and noncredit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The District performs periodic credit reviews, including other-than-temporary impairment (OTTI) analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the creditworthiness of bond insurers, and (7) volatility of the fair value changes.

The District uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The District obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party.

Following are the assumptions used for the periods ended:

Assumptions Used	MBSs	ABSs
March 31, 2016		
Default rate by range	1.83% to 22.88%	19.68% to 36.26%
Prepayment rate by range	3.41% to 11.69%	2.58% to 11.28%
Loss severity by range	8.74% to 68.91%	84.42% to 100.69%
December 31, 2015		
Default rate by range	1.24% to 25.28%	24.03% to 39.76%
Prepayment rate by range	3.11% to 15.56%	2.35% to 10.41%
Loss severity by range	4.37% to 59.66%	86.04% to 100.65%

Based on the results of all analyses, the District has recognized $1.7 million of credit-related OTTI for 2016, which is included in Net Other-than-temporary Impairment Losses in the Combined Statements of Income. Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total OTTI is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

For the three months ended March 31, 2016, net unrealized gains of $9.9 million were recognized in other comprehensive income on available-for-sale investments that are not other-than-temporarily impaired.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings for which a portion of an other-than-temporary impairment was recognized in other comprehensive income:

	For the three months ended March 31,			
(dollars in thousands)		**2016**		**2015**
Amount related to credit loss-beginning balance	$	59,226	$	60,217
Additions for initial credit impairments		–		–
Additions for subsequent credit impairments		1,730		107
Reductions for increases in expected cash flows		(679)		(137)
Reductions for securities sold/settled/matured		–		–
Amount related to credit loss-ending balance		60,277		60,187
Life to date incurred credit losses		(21,458)		(19,689)
Remaining unrealized credit losses	$	38,819	$	40,498

For all other impaired investments, the District has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government agency securities and the District expects these securities would not be settled at a price less than their amortized cost.

Note 4 — Debt

Bonds and Notes

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks.

In accordance with FCA regulations, each issuance of Systemwide Debt Securities ranks equally with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Global Debt Securities, and
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes.

Additional information regarding Systemwide Debt Securities can be found in their respective offering circulars.

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities by maturity. Weighted average interest rates include the effect of related derivative financial instruments. The table does not include $649.5 million of intra-system obligations.

	March 31, 2016					
(dollars in thousands)	Bonds		Discount Notes		Total	
Maturities	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**
One year or less	$ 5,284,672	0.82%	$ 6,138,318	0.45%	$ 11,422,990	0.62%
Greater than one year to two years	5,742,973	0.73	–	–	5,742,973	0.73
Greater than two years to three years	3,338,699	1.03	–	–	3,338,699	1.03
Greater than three years to four years	1,862,338	1.50	–	–	1,862,338	1.50
Greater than four years to five years	1,559,706	1.76	–	–	1,559,706	1.76
Greater than five years	4,565,294	2.56	–	–	4,565,294	2.56
Total	$ 22,353,682	1.31%	$ 6,138,318	0.45%	$ 28,492,000	1.12%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at March 31, 2016 was 118 days.

Note 5 — Shareholders' Equity

Perpetual Preferred Stock

Payment of dividends or redemption price on issued Preferred Stock may be restricted if the Bank fails to satisfy applicable minimum capital adequacy, surplus, and collateral requirements.

In March, 2016, the Bank repurchased through a privately negotiated transaction, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $4.0 million. The effect of the repurchase was to reduce preferred stock outstanding by $4.0 million and increase additional paid-in capital by $1.2 million.

In August, 2015, the Bank repurchased through a privately negotiated transaction, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $10.3 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by $10.3 million and increase additional paid-in-capital by $3.4 million.

Accumulated Other Comprehensive Income

The following presents activity related to AOCI for the periods presented below:

Changes in Accumulated Other Comprehensive Income by Component *(a)*

(dollars in thousands)	For the three months ended March 31, 2016	2015
Investment Securities:		
Balance at beginning of period	$ 65,906	$ 108,886
Other comprehensive income before reclassifications	7,768	(1,521)
Amounts reclassified from AOCI	1,101	(1,034)
Net current period other comprehensive income	8,869	(2,555)
Balance at end of period	$ 74,775	$ 106,331
Cash Flow Hedges:		
Balance at beginning of period	$ (957)	$ (548)
Other comprehensive income before reclassifications	–	134
Amounts reclassified from AOCI	19	(287)
Net current period other comprehensive income	19	(153)
Balance at end of period	$ (938)	$ (701)
Employee Benefit Plans:		
Balance at beginning of period	$ (389,812)	$ (405,649)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	8,750	9,219
Net current period other comprehensive income	8,750	9,219
Balance at end of period	$ (381,062)	$ (396,430)
Total Accumulated Other Comprehensive Income:		
Balance at beginning of period	$ (324,863)	$ (297,311)
Other comprehensive income before reclassifications	7,768	(1,387)
Amounts reclassified from AOCI	9,870	7,898
Net current period other comprehensive income	17,638	6,511
Balance at end of period	$ (307,225)	$ (290,800)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

(dollars in thousands)	For the three months ended March 31, 2016	2015	Income Statement Line Item
Investment Securities:			
Sales gains & losses	$ 620	$ 1,126	Gains (losses) on investments, net
Holding gains & losses	(1,730)	(107)	Net other-than-temporary impairment
Amortization	9	15	Interest income on investments
Net amounts reclassified	(1,101)	1,034	
Cash Flow Hedges:			
Interest income	(19)	153	See Note 10.
Gains (losses) on other transactions	–	134	See Note 10.
Net amounts reclassified	(19)	287	
Employee Benefit Plans:			
Periodic pension costs	(8,750)	(9,219)	See Note 7.
Net amounts reclassified	(8,750)	(9,219)	
Total reclassifications for period	$ (9,870)	$ (7,898)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

Level 3 inputs are unobservable and supported by little or no market activity. Level 3 assets and liabilities could include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities could also include investments and derivative contracts whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the most recent Annual Report to Shareholders.

In 2009, the Bank began adjusting the pricing it received for the Non-Agency ABS and CMO securities from the third party pricing service with that obtained from an investment analysis consultant due to the inherent illiquidity and dislocation in the market for these bonds. At that time, these securities were also reclassified and reported as Level 3 fair value measurements because of this market unobservable pricing input. Over time, this valuation input was discontinued because of a reduction in volatilities and risk, as measured by the pricing differences and changes over time, for these bonds. Documentation from the third party pricing service indicates market observable inputs are used in their valuations of these securities. On June 30, 2015, the Non-Agency ABS and CMO bonds were transferred to Level 2 of the fair value hierarchy.

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. Except as described above, the District had no transfers of assets or liabilities measured on a recurring basis into or out of Level 1 or Level 2 during the reporting period.

(dollars in thousands)	**ABSs**	**Non-Agency CMOs**
Balance at December 31, 2014	$ 34,783	$ 153,011
Gains or (losses) included in earnings	–	(107)
Gains or (losses) included in OCI	320	1,621
Purchases	–	–
Sales	–	–
Settlements	(704)	(6,229)
Transfers in and/or out of Level 3	–	–
Balance at March 31, 2015	$ 34,399	$ 148,296

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Fair values are estimated at least annually, or when information suggests a significant change in value, for assets measured at fair value on a nonrecurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	At or for the Three Months Ended March 31, 2016					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Treasury Securities	$ 142,532	$ –	$ 142,532	$ –	$ 142,532	
U.S. Govt. Guaranteed	3,926,753	–	3,926,753	–	3,926,753	
U.S. Govt. Agency Guaranteed	2,215,669	–	2,215,669	–	2,215,669	
Non-Agency CMOs	118,083	–	118,083	–	118,083	
ABSs	703,219	–	703,219	–	703,219	
Total investments available-for-sale	7,106,256	–	7,106,256	–	7,106,256	
Federal funds sold, securities purchased under resale agreements, and other	233,524	–	233,524	–	233,524	
Interest rate swaps and other derivative instruments	3,600	–	3,600	–	3,600	
Assets held in trust funds	22,705	22,705	–	–	22,705	
Recurring Assets	$ 7,366,085	$ 22,705	$ 7,343,380	$ –	$ 7,366,085	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 355,914	$ –	$ –	$ 355,914	$ 355,914	$ 1,797
Other property owned	49,499	–	–	54,878	54,878	(24)
Nonrecurring Assets	$ 405,413	$ –	$ –	$ 410,792	$ 410,792	$ 1,773
Other Financial Instruments						
Assets:						
Cash	$ 1,044,965	$ 1,044,965	$ –	$ –	$ 1,044,965	
Investments held to maturity	653,990	–	496,346	183,426	679,772	
Loans	25,706,597	–	–	25,826,388	25,826,388	
Other Financial Assets	$ 27,405,552	$ 1,044,965	$ 496,346	$ 26,009,814	$ 27,551,125	
Liabilities:						
Systemwide debt securities	$ 29,141,458	$ –	$ –	$ 29,239,365	$ 29,239,365	
Other Financial Liabilities	$ 29,141,458	$ –	$ –	$ 29,239,365	$ 29,239,365	

(dollars in thousands)	At or for the Year Ended December 31, 2015 Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Treasury Securities	$ 42,405	$ –	$ 42,405	$ –	$ 42,405	
U.S. Govt. Guaranteed	3,970,590	–	3,970,590	–	3,970,590	
U.S. Govt. Agency Guaranteed	2,131,888	–	2,131,888	–	2,131,888	
Non-Agency CMOs	126,860	–	126,860	–	126,860	
ABSs	677,369	–	677,369	–	677,369	
Total investments available-for-sale	6,949,112	–	6,949,112	–	6,949,112	
Federal funds sold, securities purchased under resale agreements, and other	211,554	–	211,554	–	211,554	
Interest rate swaps and other derivative instruments	5,174	–	5,174	–	5,174	
Assets held in trust funds	21,730	21,730	–	–	21,730	
Recurring Assets	$ 7,187,570	$ 21,730	$ 7,165,840	$ –	$ 7,187,570	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 346,095	$ –	$ –	$ 346,095	$ 346,095	$ 15,870
Other property owned	48,462	–	–	53,850	53,850	(2,238)
Other investments	–	–	–	–	–	(251)
Nonrecurring Assets	$ 394,557	$ –	$ –	$ 399,945	$ 399,945	$ 13,381
Other Financial Instruments						
Assets:						
Cash	$ 506,456	$ 506,456	$ –	$ –	$ 506,456	
Investments held to maturity	672,672	–	506,129	181,625	687,754	
Loans	25,642,223	–	–	25,546,564	25,546,564	
Other Financial Assets	$ 26,821,351	$ 506,456	$ 506,129	$ 25,728,189	$ 26,740,774	
Liabilities:						
Systemwide debt securities	$ 28,423,499	$ –	$ –	$ 28,406,558	$ 28,406,558	
Other Financial Liabilities	$ 28,423,499	$ –	$ –	$ 28,406,558	$ 28,406,558	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Derivative Instruments
Level 3 derivative instruments consist of forward contracts that represent a hedge of an unrecognized firm commitment to purchase agency securities at a future date. The value of the forward is the difference between the fair value of the security at inception of the forward and the measurement date. Significant inputs for these valuations would be discount rate and volatility. These Level 3 derivatives would decrease (increase) in value based upon an increase (decrease) in the discount rate.

Generally, for derivative instruments which are subject to changes in the value of the underlying referenced instrument, change in the assumption used for default rate is accompanied by directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayment rates.

Unobservable inputs for discount rate and volatility do not increase or decrease based on movements in other significant unobservable inputs for these Level 3 instruments.

Inputs to Valuation Techniques
Management determines the District's valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on 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

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Forward contracts – when-issued securities	$ –	Broker/Consensus pricing	Offered quotes	None outstanding
Impaired loans and other property owned	$ 410,792	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Other investments – RBIC	$ –	Third party evaluation	Income, expense, capital	Not applicable

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Investments available-for-sale	Discounted cash flow	Constant prepayment rate Probability of default Loss severity
	Quoted prices	Price for similar security
	Vendor priced	**
Federal funds sold, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield
Interest rate swaps	Discounted cash flow	Annualized volatility Counterparty credit risk Own credit risk

*** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
RABs and other	Discounted cash flow	Risk adjusted spread Prepayment rates Probability of default Loss severity
Assets held in trust funds	Quoted prices	Price for identical security
Bonds and notes	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

Note 7 — Employee Benefit Plans

Following are retirement and other postretirement benefit expenses for the District:

	For the three months ended March 31,	
(dollars in thousands)	2016	2015
Pension	$ 12,077	$ 11,067
401k	3,227	2,972
Other postretirement benefits	3,286	4,259
Total	$ 18,590	$ 18,298

Following are retirement and other postretirement benefit contributions for the District. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2015.

(dollars in thousands)	Actual YTD Through 3/31/16	Projected Contributions for Remainder of 2016	Projected Total Contributions 2016
Pensions	$ 257	$ 34,354	$ 34,611
Other postretirement benefits	1,776	5,565	7,341
Total	$ 2,033	$ 39,919	$ 41,952

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the District participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2016.

Further details regarding employee benefit plans are contained in the most recent Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

Note 8 — Commitments and Contingencies

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which the bank is primarily liable, the Farm Credit System Insurance Corporation (FCSIC) must expend amounts in the Insurance Fund to the extent available to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once joint and several liability is initiated, the FCA is required to make “calls” to satisfy the liability first on all non-defaulting banks in the proportion that each non-defaulting bank’s available collateral (collateral in excess of collateralized obligations) bears to the aggregate available collateral of all non-defaulting banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting bank’s remaining assets. Upon making a call on non-defaulting banks with respect to a Systemwide Debt Security issued on behalf of a defaulting bank, the FCA is required to appoint FCSIC as the receiver for the defaulting bank. The receiver would be required to expeditiously liquidate assets of the bank.

AgFirst did not anticipate making any payments on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement for any of the periods presented. The total amount outstanding and the carrying amount of the Bank’s liability under the agreement are as follows:

(dollars in billions)	**3/31/16**	**12/31/15**
Total System bonds and notes	$ 245.049	$ 243.335
AgFirst bonds and notes	$ 28.492	$ 27.973

From time to time, legal actions are pending against the District in which claims for money damages are asserted. On at least a quarterly basis, the District assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the District. Because it is not probable that the District will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

March 31, 2016						
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 3,600	$ –	$ 3,600	$ –	$ –	$ 3,600
Reverse repurchase and similar arrangements	233,524	–	233,524	(233,524)	–	–
Total	$ 237,124	$ –	$ 237,124	$ (233,524)	$ –	$ 3,600

December 31, 2015						
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 5,174	$ –	$ 5,174	$ –	$ –	$ 5,174
Reverse repurchase and similar arrangements	211,554	–	211,554	(211,554)	–	–
Total	$ 216,728	$ –	$ 216,728	$ (211,554)	$ –	$ 5,174

There were no liabilities subject to master netting arrangements or similar agreements during the reporting periods.

A description of the rights of setoff associated with recognized derivative assets and liabilities subject to enforceable master netting arrangements is located in Note 10, *Derivative Financial Instruments and Hedging Activities*.

The reverse repurchase agreements are accounted for as collateralized lending.

Bank Only Financial Data

Condensed financial information of the Bank follows:

Balance Sheets		
(dollars in thousands)	March 31, 2016	December 31, 2015
	(unaudited)	*(audited)*
Cash, cash equivalents and investment securities	$ 8,908,473	$ 8,184,432
Loans		
To District Associations	14,356,105	14,890,580
To others	7,393,671	7,250,178
Total loans	21,749,776	22,140,758
Allowance for loan losses	(16,412)	(15,113)
Net loans	21,733,364	22,125,645
Other assets	308,352	310,523
Total assets	$ 30,950,189	$ 30,620,600
Bonds and notes	$ 28,492,000	$ 27,973,107
Other liabilities	125,353	392,472
Total liabilities	28,617,353	28,365,579
Perpetual preferred stock	111,000	115,000
Capital stock and participation certificates	307,993	307,483
Additional paid-in-capital	41,168	39,988
Retained earnings	1,803,772	1,732,628
Accumulated other comprehensive income (loss)	68,903	59,922
Total shareholders' equity	2,332,836	2,255,021
Total liabilities and equity	$ 30,950,189	$ 30,620,600

Statements of Income

(dollars in thousands)	For the three months ended March 31, 2016	2015
	(unaudited)	
Interest income	$ 188,311	$ 171,884
Interest expense	79,668	58,088
Net interest income	108,643	113,796
Provision for (reversal of allowance for) loan losses	920	1,369
Net interest income after provision for loan losses	107,723	112,427
Noninterest expense, net	36,092	28,941
Net income	$ 71,631	$ 83,486

Note 10 — Derivative Financial Instruments and Hedging Activities

One of the District's goals is to minimize interest rate sensitivity by managing the repricing characteristics of assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The District maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to achieve that goal. Currently, the primary derivative type used by the District is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the District to lower funding costs, diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Under these arrangements, the District 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 District may also purchase interest rate derivatives, such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets. In addition, the District may also fix a price to be paid in the future which qualifies as a derivative forward contract.

As a result of interest rate fluctuations, interest income and interest expense related to hedged variable-rate assets and liabilities, respectively, will increase or decrease. Another result of interest rate fluctuations is that hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effects of any earnings variability or unrealized changes in market value are expected to be substantially offset by the District's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The District considers its 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 primary types of derivative instruments used and the amount of activity for the periods presented is summarized in the following table:

	For the Three Months Ended March 31, 2016		2015	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 150	$ –	$ 250	$ 1
Additions	–	–	–	2
Maturities/amortization	–	–	–	(2)
Terminations	–	–	–	–
Balance at end of period	$ 150	$ –	$ 250	$ 1

By using derivative instruments, the District exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the District's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the District, thus creating a repayment risk for the District. When the fair value of the derivative contract is negative, the District owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the District transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The District typically enters into master agreements that contain netting provisions. These provisions allow the District to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties.

Counterparty exposure related to derivatives at:

(dollars in millions)	**March 31, 2016**	**December 31, 2015**
Estimated Gross Credit Risk	$3.6	$5.2
Percent of Notional	2.40%	3.45%
Cash Collateral Held *(on balance sheet)*	$–	$–
Securities Collateral Held *(off balance sheet)*	$–	$–
Cash Collateral Posted *(off balance sheet)*	$–	$–
Securities Collateral Posted *(on balance sheet)*	$–	$–

The District's derivative activities, which are performed by the Bank, are monitored by the Asset-Liability Management Committee (ALCO) as part of its oversight of the District's asset/liability and treasury functions. The Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's Board of Directors through the analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest rate risk-management strategies.

Fair Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The District includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the three months ended March 31, 2016 was $1.6 million, while the amount of the gain on the Systemwide Debt Securities was $1.6 million. The amount of the loss on interest rate swaps recognized in interest expense for the three months ended March 31, 2015 was $2.4 million, while the amount of the gain on the Systemwide Debt Securities was $2.4 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the District may acquire when-issued securities, generally government agency guaranteed bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30 or more days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Any differences in market value of the contracted securities, between the purchase and reporting or settlement date, represent the value of the forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the District's Balance Sheet for each period end. As of the periods presented, the District had not committed to purchase any when-issued bonds.

For derivative instruments that are designated and qualify as a cash flow hedge, such as the District's forward contracts, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Fair Values of Derivative Instruments

The following tables represent the fair value of derivative instruments designated as hedging instruments for the periods presented:

(dollars in thousands)	Balance Sheet Classification – Assets	3/31/16 Fair Value	Balance Sheet Classification – Liabilities	3/31/16 Fair Value
Receive-fixed swaps	Other Assets	$ 3,600	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 3,600		$ –

(dollars in thousands)	Balance Sheet Classification – Assets	12/31/15 Fair Value	Balance Sheet Classification – Liabilities	12/31/15 Fair Value
Receive-fixed swaps	Other Assets	$ 5,174	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 5,174		$ –

The following table sets forth the amount of net gain (loss) on derivatives recognized in earnings and, for cash flow hedges, the amount of net gain (loss) recognized in AOCI for the periods presented. See Note 5, *Shareholders' Equity*.

(dollars in thousands)	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income *		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
		2016	2015	2016	2015	2016	2015
Fair Value Hedges:							
Receive-fixed swaps	Noninterest income	$ –	$ –				
Cash Flow Hedges:							
Firm Commitments	Interest Income	$ (19)	$ 153	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	–	134	–	–	–	134

** Represents total gain or loss for fair value hedges and effective portion for cash flow hedges.*

Note 11 — Regulatory Enforcement Matters

In February, 2016, the FCA terminated the written supervisory agreement with one District Association with total assets of approximately $167.4 million.

Note 12 — Subsequent Events

The District evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through May 9, 2016, which was the date the financial statements were issued.

In April, 2016, the Bank repurchased through a privately negotiated transaction, and subsequently cancelled, approximately 42 thousand shares of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $41.8 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by $41.8 million and increase additional paid-in capital by $11.7 million.