

EXPANDING HORIZONS



2015 ANNUAL REPORT
TEXAS FARM CREDIT DISTRICT



EXPANDIN

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An aerial photograph of a rural landscape. The foreground and middle ground are dominated by large, rectangular agricultural fields in various shades of green and brown. A network of roads and dirt paths crisscrosses the landscape. Several small farmsteads with white buildings and clusters of trees are scattered throughout. The background shows a hazy horizon under a bright sky.

G HORIZONS

OUR MISSION is to enhance the quality of life in rural communities by using cooperative principles to provide competitive credit and superior service to our member-owners.

There's no stopping agriculture.

With each new year, farmers, ranchers and agribusinesses become more productive, adaptable and sophisticated as they satisfy a growing appetite for food and fiber.

Since 1916, Farm Credit has been with them every step of the way. It is our mission to help agriculture and rural communities grow and thrive by providing the capital necessary for successful businesses and essential rural infrastructure.

As the Texas Farm Credit District sustains solid performance and growth, we continue to invest in the vibrancy of communities throughout rural America.



FARM CREDIT
100
ESTABLISHED 1916

Farm Credit System

Farm Credit's nationwide network of cooperatives got its start when President Woodrow Wilson signed the Federal Farm Loan Act of 1916.

With Farm Credit's 99th year behind us, we in the Texas Farm Credit District look back with pride on our support of rural communities and agriculture.

A century ago, farmers and ranchers lacked sufficient access to affordable credit and long-term financing. Seeing this critical need for capital, our nation's leaders passed the Federal Farm Loan Act of 1916 and established the network of farmer-owned lending cooperatives now known as the Farm Credit System.

Agriculture has since grown increasingly complex and capital-intensive in order to supply a quadrupling world population. The way we do business has advanced along with the industry and technology. Over the years, lawmakers have expanded the products and services that Farm Credit can provide in order to best serve rural America.

Our mission and stability ensure that we will remain a source of reliable credit in 2016, our centennial year, and for many more to come.



Library of Congress

Producers and customers gather at a North Texas farmers market in 1939.



Farm Credit Bank of Texas

Our mission and cooperative structure remain the same as in the 1930s, when technology was vastly different for staff at the Federal Land Bank of Houston, a predecessor of the Farm Credit Bank of Texas.



FARM CREDIT BANK OF TEXAS



(Left to right) Lester Little, Vice Chairman, Brad C. Bean, Ralph W. "Buddy" Cortese, James F. "Jimmy" Dodson, Chairman, Elizabeth G. "Betty" Flores, M. Philip Guthrie, Jon M. "Mike" Garnett

BOARD OF DIRECTORS

The bank provides funding and support services to the lending cooperatives in the Texas Farm Credit District, helping them be successful so that they can help agricultural producers and rural communities succeed.

A seven-member board of directors establishes policies for the bank, provides strategic direction, oversees management and ensures that the bank operates in a safe and sound manner.

Possessing a commitment to transparency and the principles behind the bank's cooperative business model, the board members have extensive business and leadership experience in a variety of backgrounds. Five of the directors are farmers or ranchers and were elected by the local financing cooperatives that own the bank. The two board-appointed directors have backgrounds in banking, finance and business operations.



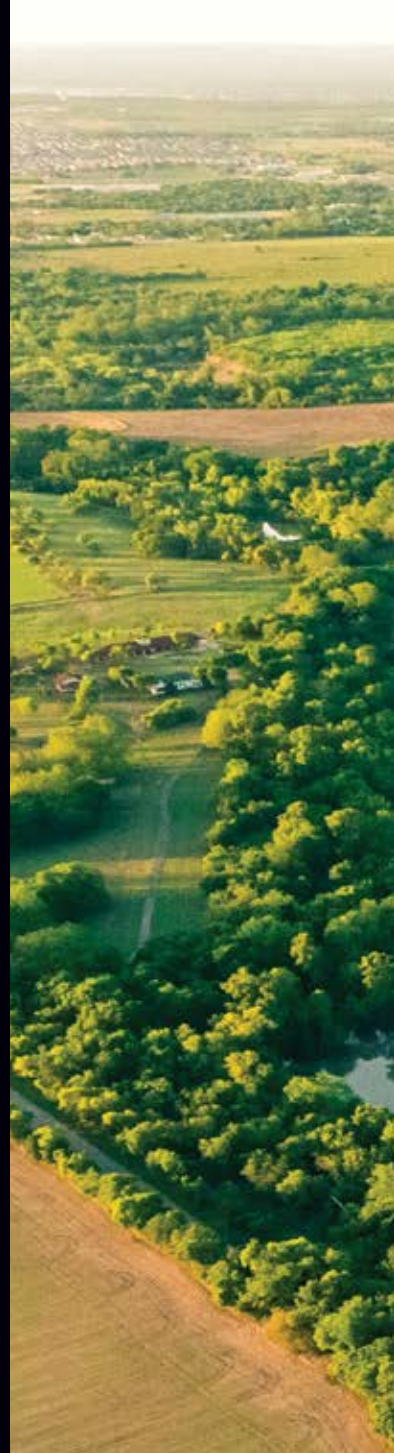
The Texas Farm Credit District — comprising the Farm Credit Bank of Texas and 14 affiliated lending cooperatives in Alabama, Louisiana, Mississippi, New Mexico and Texas — reported strong financial results for 2015. Loan volume increased 9.5 percent to a record \$21.2 billion, and total assets reached a record \$26.6 billion.

Together the bank and associations reported net income of \$426.8 million, the second highest result in the district's history. Net interest income was a record \$697.9 million. With very low levels of adverse assets, the district reported credit quality near historical highs. At the end of 2015, 98.9 percent of loans were considered acceptable or special mention, compared with 98.6 percent at the end of 2014.

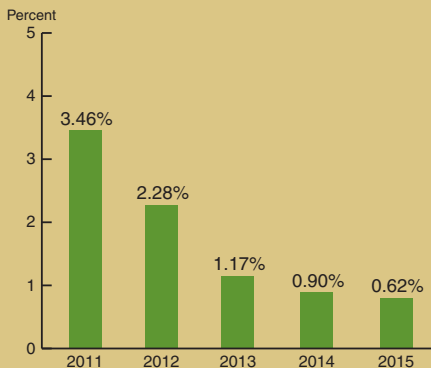
2015 KEY FINANCIAL HIGHLIGHTS

(Dollars in Thousands)

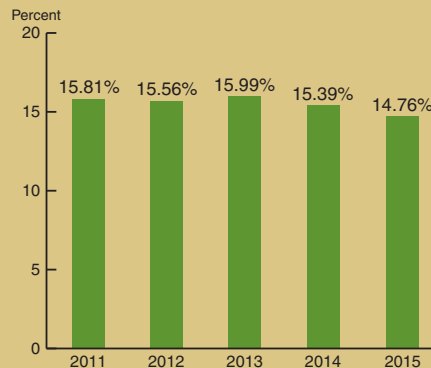
Total Loans.....	\$ 21,181,818
Total Assets.....	\$ 26,617,014
Net Income	\$ 426,839
Return on Average Assets	1.70%
Return on Average Members' Equity	10.82%



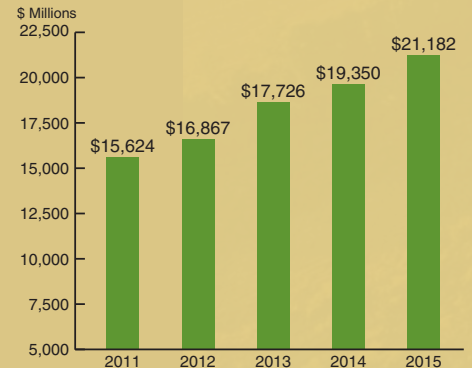
Nonaccrual Loans and Other
Property Owned to Total Loans
and Other Property Owned at Year End



Total Members' Equity to
Total Assets at Year End



Total Loans Outstanding
at Year End



MESSAGE TO STOCKHOLDERS

If I were to choose one word to describe the year 2015 in the Texas Farm Credit District, it would be growth.

The strong, diversified economy in our five-state territory continued to add jobs and attract new companies and industries. Rains brought much-needed soil moisture, resulting in generally healthy crop, pasture and range conditions districtwide and no drought for the first time in five years.

Amid these positive conditions, demand for rural land remained robust in the district, which is home to a vibrant and diverse agriculture industry. Moderately rising land values and sales contributed to record loan volume, record assets and record net interest income. District loan volume increased 9.5 percent, building on the 9.2 percent loan growth in the prior year. Together, the Farm Credit Bank of Texas and its affiliated lending associations reported \$426.8 million in net income, second only to our record earnings in 2014.

The associations' dedication to meeting the diverse needs of the rural marketplace can be seen in growth across loan types, including agricultural real estate, ag production, agribusiness and rural home loans. The lenders enhanced portfolio diversification by participating in loans to businesses that ag producers and rural communities rely on, such as food processors, agribusinesses and companies that provide power, water, telecommunications services, and other essential services and infrastructure to rural areas. These high-quality participation loans help associations carry out the Farm Credit mission to the fullest extent possible while minimizing risk and generating the stable earnings they need to provide dependable credit in good times and bad.

Strong underwriting standards and loan servicing resulted in district credit quality near historical highs. At the end of 2015, 98.9 percent of district loans were considered acceptable or special mention.



Larry R. Doyle
Chief Executive Officer
Farm Credit Bank of Texas

In 2015 the bank and every district association returned a portion of 2014 earnings to borrowers in the form of patronage dividends. Recently, our customer-owned institutions declared a record \$245.0 million in patronage based on 2015 earnings. Sharing our success in this way is a unique benefit of our cooperative business structure, providing a tangible indication of our financial health and effectively reducing borrowing costs for the farmers, ranchers, agribusinesses and other borrowers we support.

Much of our remaining earnings is being invested in operational and technology initiatives designed to enhance operational efficiency, data privacy, customer service and convenience. These multiyear initiatives made great progress in 2015, expanding on the intuitive, interactive tools available for associations and their borrowers.

We look forward to 2016, when the Farm Credit System will celebrate its first 100 years of support to rural communities and agriculture. With a large asset base, diversified and well-collateralized loans, excellent credit quality, and strong capital position, the Texas Farm Credit District is well positioned to continue that legacy of service in the times ahead.

A handwritten signature in dark ink, appearing to read 'L. Doyle', written in a cursive style.

Larry R. Doyle
Chief Executive Officer
Farm Credit Bank of Texas



FARM CREDIT



**Supporting Rural Communities
and Agriculture for 100 Years**

For nearly a century, Farm Credit has helped farmers, ranchers and agribusiness owners achieve their goals and dreams. With diverse backgrounds, operations and financing needs, our customers represent the future of agriculture and rural America.

Our unique purpose gives us an understanding of the risks and rewards involved in running an agricultural operation. Whether borrowers are young and beginning producers or seasoned operators, Farm Credit offers the agricultural financing expertise and reliable credit they need to be successful.

On the following pages, we introduce just a few of the member-owners who are part of the co-op family in the Texas Farm Credit District. We are proud to be their lending partner.



The Barrett family
Wetumpka, Alabama

Preserving the Agricultural Lifestyle



Justin Barrett and his father, Dr. I.C. "Nealy" Barrett Jr., know what it is like to be very busy. In addition to running a successful commercial cow-calf operation, they both have professional full-time careers and still make time to advocate for agriculture in their community.

For the Barretts, preserving the agricultural lifestyle is not only a goal but their mission in life. As third- and fourth-generation farmers and ranchers, they are devoted to perpetuating that lifestyle not only for their own family but for future generations of farmers.

"It's sad, but farms like ours are disappearing," says Justin. "We want ours to be here for my kids. We also want to encourage young people to get into farming."

Justin, a biosystems engineer, and Nealy Jr., an associate state veterinarian, manage just under 500 head of cattle with almost no hired labor. Helping with the books and other farm chores are Nealy Jr.'s wife, Jennie, who has an off-farm job in education, and Justin's wife, Jordan, who is a full-time mom. Tech-savvy, Justin draws from his mathematics training to use technology and data to boost the farm's profitability. As a veterinarian, Nealy Jr. oversees herd health and maintenance.

Since 2012, the Barretts have relied upon Alabama Ag Credit to help with their financing needs.

"We believe that our close working relationship with Alabama Ag Credit has enabled us to expand and operate the way we do," Nealy Jr. says. "It's refreshing to work with a company that understands agriculture and knows you as a friend, not just as a client."

Growing and Milling Rice Is a Family Tradition

Debbie Robbins
Doguet's Rice Milling Co.
Beaumont, Texas



For a family steeped in the rice business, there's no better place than Beaumont, in the heart of Texas rice country.

Here, Kevin and Debbie Robbins grow rice and raise cattle, and also serve fellow rice farmers at Doguet's Rice Milling Co., where Debbie is owner and president. Two sons and about 45 employees also work in the family business started by her father.

Doguet's dries, mills, stores and markets rice, working with about 50 farmers from the west side of Houston into Louisiana. Its two facilities can store 620,000 hundredweight of rice.

"We're at capacity every year," Debbie says. "The farmers in this area really need rice facilities."

What assured the company's growth was the decision several years ago to mill organic rice, which is in high demand and fetches a premium for growers.

"It's what consumers want, it has no pesticides and it's good for the environment," Debbie says. "It's a win for the mill and a win for the farmer."

Rice isn't the only Doguet family tradition.

"We have always had a farm loan from Capital Farm Credit," says Debbie, whose brothers also are Farm Credit customers. "When we need financing, we consider them every time because of the patronage dividends."

A Legacy of Land Ownership

When Antwain Downs retired from his career with a paper mill 10 years ago, he didn't stop working. Instead, he started farming full time, building on a legacy that his great-grandfather began in 1872.

Downs, who farmed cotton part time for nearly 30 years, is the fourth generation to work the family land near Bastrop, La. — but he is the first to expand the operation. Since retiring, he has built the farm to 550 acres, improved the land, and switched to corn, wheat and soybean production. To reduce expenses, he partners on equipment purchases with two neighbors.

Cooperating with other farmers is important to Downs, who has hosted field days for the National Black Growers Council and the Morehouse Black Farmers and Landowners Association, of which he is treasurer.

"I learned from the school of hard knocks," he says. "If I can make it easier for other farmers in my situation by sharing my experiences, then I want to help."

Downs hopes that the property his great-grandfather purchased will someday be managed by his grandchildren.

"If he hadn't bought the land in 1872, I wouldn't have had land to start farming on," he says. "Even if the next generation doesn't want to farm, they can rent it for income, or if they do want to farm, they'll have something to start with."

Louisiana Land Bank, which refinanced the newer acreage for Downs in 2014, applauds his goals.

"We're pleased to support Mr. Downs as he continues this legacy," says Land Bank Assistant Vice President Jarrod Sellar. "We want to see him do well."



Antwain Downs
Bastrop, Louisiana



Advocate for Agriculture

Jay Hill
Mesilla Park, New Mexico

New Mexico's Jay Hill is proof that you don't have to grow up on a farm to be a successful farmer and an advocate for agriculture.

Reared on a small acreage on the edge of Las Cruces, N.M., the 32-year-old always wanted to raise crops.

"I enjoyed watching all the farmers around us, and I was interested in the agricultural lifestyle," says Hill, whose dad grew 10 acres of alfalfa behind their house.

Eventually, he convinced his father to purchase more land, and when he was 15, they planted their first vegetable crop. In 2010, after graduating from New Mexico State University, Hill took over full-time management of the farm, and two years later he turned to Ag New Mexico, FCS for financing to expand the operation.

"They're willing to step outside the box to help a young person," he says of his Farm Credit lender.

Today, Hill Farms encompasses 750 acres of green and red chile, onions, lettuce, pecans, pinto beans, corn and hay. Hill also runs a cow-calf herd, and he and his wife will soon operate a farm store where they will sell fresh produce.

Proud of his chosen career, Hill believes farmers have a responsibility to educate consumers about food production. In 2015, he was one of the Five Faces of Agriculture for the U.S. Farmers and Ranchers Alliance, serving as a public advocate for agriculture and using social media to show how food is produced at Hill Farms.

"You have to be willing to put yourself out there to build trust with consumers," Hill says.





The Jacoby family
Melvin, Texas



Grain, Cuisine and Everything Between

On a hillside near the geographic center of Texas, grain rattles in a tall elevator as pickup trucks come and go from a feed mill, feed store, café, gas station, mechanic shop and custom fertilizer business.

Diversification started early at Jacoby Feed and Seed in Melvin, Texas.

"Way back in the early '80s, I figured out real quick that you can't hire and fire somebody just because things cycle," says owner Jason Jacoby, who now has about 50 employees. "We depend on Mother Nature here, and she throws you different things. The ups and downs make it tough if you're not diversified."

While the business branched out, Jason and his wife brought up four sons, ran a farming and ranching operation, and bought more land with financing from Central Texas Farm Credit. Recently they opened a rail center in Brady and a sister restaurant in Austin.

"All of the beef and lamb that we serve here or in Austin, we raised," Jason says. "We know what it's been fed and how it's been treated from start to finish."

At Jacoby's Restaurant and Mercantile in Austin, son Adam Jacoby enjoys talking to urban customers about the food's connection to local ag producers with a commitment to quality.

"I'm happy that this is an extension of small-town Texas," Adam says. "That ties in with Farm Credit and agriculture, because this wouldn't be happening without agriculture. That's the core of our story."



Five-Year Summary of Selected Combined Financial Data

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

<i>(dollars in thousands)</i>	2015	2014	2013	2012	2011
Balance Sheet Data					
Cash, federal funds sold and overnight investments	\$ 573,265	\$ 459,287	\$ 631,865	\$ 536,979	\$ 453,406
Investment securities	4,475,318	4,125,477	3,693,524	3,415,554	3,287,928
Loans	21,181,818	19,349,652	17,725,520	16,866,732	15,624,013
Less allowance for loan losses	70,350	64,357	74,164	106,842	114,117
Net loans	21,111,468	19,285,295	17,651,356	16,759,890	15,509,896
Other property owned	18,744	32,710	47,142	98,211	87,956
Other assets*	438,219	421,185	335,937	303,105	291,762
Total assets	\$ 26,617,014	\$ 24,323,954	\$ 22,359,824	\$ 21,113,739	\$ 19,630,948
Obligations with maturities of one year or less*	\$ 12,248,212	\$ 10,533,289	\$ 9,267,894	\$ 9,031,899	\$ 8,750,813
Obligations with maturities greater than one year*	10,440,176	10,048,100	9,517,695	8,795,759	7,776,007
Total liabilities	22,688,388	20,581,389	18,785,589	17,827,658	16,526,820
Preferred stock	600,000	600,000	600,000	482,000	482,000
Capital stock and participation certificates	62,456	60,242	59,225	59,859	60,024
Allocated retained earnings	588,262	542,896	474,197	419,721	374,231
Unallocated retained earnings	2,610,227	2,557,039	2,529,030	2,412,571	2,257,527
Additional paid-in-capital	224,625	149,179	22,737	22,737	22,737
Accumulated other comprehensive loss	(156,944)	(166,791)	(110,954)	(110,807)	(92,391)
Total members' equity	3,928,626	3,742,565	3,574,235	3,286,081	3,104,128
Total liabilities and members' equity	\$ 26,617,014	\$ 24,323,954	\$ 22,359,824	\$ 21,113,739	\$ 19,630,948
Statement of Income Data					
Net interest income	\$ 697,936	\$ 655,223	\$ 630,817	\$ 615,163	\$ 608,056
(Provision) negative provision for loan losses	(5,653)	6,470	(6,308)	(33,631)	(45,048)
Noninterest expense, net	(265,519)	(222,653)	(205,389)	(171,132)	(193,167)
Benefit from (provision for) income taxes	75	(529)	160	(985)	(1,175)
Net income	\$ 426,839	\$ 438,511	\$ 419,280	\$ 409,415	\$ 368,666
Key Financial Ratios (unaudited)					
Net income to:					
Average assets	1.70%	1.90%	1.95%	2.00%	1.88%
Average members' equity	10.82	11.59	11.64	12.42	11.75
Net interest income to average earning assets	2.86	2.93	3.03	3.12	3.23
Net charge-offs (recoveries) to average loans	0.02	(0.02)	0.23	0.22	0.60
Total members' equity to total assets	14.76	15.38	15.98	15.55	15.80
Allowance for loan losses to total loans	0.33	0.33	0.42	0.63	0.73
Permanent capital ratio (bank only)	17.74	18.33	21.64	18.64	20.85
Total surplus ratio (bank only)	15.48	15.86	17.29	15.92	17.36
Core surplus ratio (bank only)	9.88	10.07	10.12	9.92	10.48
Net collateral ratio (bank only)	107.70	108.00	108.67	107.94	108.27
Net Income Distributions (unaudited)					
Net income distributions					
Preferred stock dividends	\$ 50,250	\$ 50,250	\$ 49,931	\$ 43,761	\$ 43,761
Patronage distributions					
Cash	154,720	154,236	139,344	106,624	87,032
Allocated retained earnings	90,319	78,499	109,480	103,986	101,375

*For 2014, 2013, 2012 and 2011, unamortized debt issuance costs have been reclassified from "Other Assets" to be reflected as a direct deduction from the related debt liability. See Note 2, "Summary of Significant Accounting Policies," section N: "Change in Accounting Principle – Debt Issuance Costs" for more information.

Combined Average Balances and Net Interest Earnings

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(unaudited)

December 31,

(dollars in thousands)	2015			2014			2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Investment securities and federal funds sold	\$ 4,280,222	\$ 62,149	1.45%	\$ 3,924,486	\$ 54,968	1.40%	\$ 3,566,320	\$ 54,132	1.52%
Loans	20,122,634	859,347	4.27	18,404,792	789,275	4.29	17,225,899	756,077	4.39
Total interest-earning assets	24,402,856	921,496	3.78	22,329,278	844,243	3.78	20,792,219	810,209	3.90
Cash	349,945			361,310			404,038		
Accrued interest receivable	168,664			154,917			149,016		
Allowance for loan losses	(62,726)			(66,130)			(93,663)		
Other noninterest-earning assets	304,810			282,802			288,310		
Total average assets	\$ 25,163,549			\$ 23,062,177			\$ 21,539,920		
Liabilities and Shareholders' Equity									
Bonds, medium-term notes and subordinated debt, net	\$ 15,184,487	\$ 191,775	1.26%	\$ 13,684,863	\$ 160,985	1.18%	\$ 12,823,736	\$ 151,917	1.18%
Discount notes, net, and other	5,574,084	31,785	0.57	5,198,329	28,035	0.54	4,706,870	27,475	0.58
Total interest-bearing liabilities	20,758,571	223,560	1.08	18,883,192	189,020	1.00	17,530,606	179,392	1.02
Noninterest-bearing liabilities	461,887			395,886			408,224		
Total liabilities	21,220,458			19,279,078			17,938,830		
Shareholders' equity and retained earnings	3,943,091			3,783,099			3,601,090		
Total average liabilities and shareholders' equity	\$ 25,163,549			\$ 23,062,177			\$ 21,539,920		
Net interest rate spread		<u>\$ 697,936</u>	2.70%		<u>\$655,223</u>	2.78%		<u>\$ 630,817</u>	2.88%
Net interest margin			2.86%			2.93%			3.03%



Management's Discussion and Analysis

(dollars in thousands, except as noted)

The following commentary provides a discussion and analysis of the combined financial position and results of operations of the Farm Credit Bank of Texas (bank), the Federal Land Credit Association (FLCA) and the Agricultural Credit Associations (ACAs) for the years ended December 31, 2015, 2014 and 2013. The FLCA and ACAs collectively are referred to as "associations," and the bank and its affiliated associations are collectively referred to as "the district." The commentary should be read in conjunction with the accompanying combined financial statements, notes to the combined financial statements (notes) and additional sections of this report. The accompanying combined financial statements were prepared under the oversight of the bank's audit committee.

The district, which serves Texas, Alabama, Mississippi, Louisiana and portions of New Mexico, is part of the federally chartered Farm Credit System (System). The bank provides funding to the associations which, in turn, provide credit to their borrower-shareholders. As of December 31, 2015, the district comprised the bank, one FLCA and 13 ACAs. The bank also had funding relationships with certain Other Financing Institutions (OFIs).

Certain reclassifications have been made to the prior period combined financial statements to conform with current period presentation.

Forward-Looking Information

This annual information 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 our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, government-sponsored enterprises and Other Financing Institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Critical Accounting Policies

The combined financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," to the accompanying combined financial statements. The following is a summary of certain critical policies.

- **Allowance for loan losses** — The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired. Each of these individual loans are evaluated based on the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. If the present value of expected future cash flows (or, alternatively, the fair value of the collateral) is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), an impairment is recognized by making an addition to the allowance for loan losses with a corresponding charge to the provision for loan losses or by similarly adjusting an existing valuation allowance. In addition to these specific allowances, general allowances for loan losses are recorded to reflect expected credit deterioration and inherent losses in that portion of loans that are not individually evaluated.
- **Valuation methodologies** — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Third-party valuation services are utilized by management to obtain fair values for the majority of the bank's investments. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the district's results of operations.

- **Pensions and retirement plans** — The bank and its related associations participate in a defined benefit pension plan. The plan is noncontributory, and benefits are based on salary and years of service. In addition, the bank and its related associations also participate in defined contribution retirement savings plans. The bank and all associations provide certain health care benefits to eligible retired employees and directors. District employees' eligibility for these benefits upon retirement is dependent on conditions set by each district employer. The expense for all retirement plans is recorded as part of salaries and employee benefits. The defined benefit pension plan expense is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to the Aon Hewitt AA Only Above-Median Yield Curve, actuarial analyses and industry norms. The Aon Hewitt yield curves are determined based on actual corporate bond yields for bonds rated AA as of the measurement date. In October 2014, the Society of Actuaries issued revised mortality tables (RP 2014) and a mortality improvement scale (MP 2014) for use by actuaries, insurance companies, governments, benefit-plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000). The adoption of these new tables resulted in an increase of \$24.2 million to our pension plan's projected benefit obligation and \$8.1 million to our retiree welfare plans' projected benefit obligations in 2014.

OVERVIEW

General

The district's loan portfolio totaled \$21.18 billion at December 31, 2015, a 9.5 percent increase from the prior year. The increase in loan volume in 2015 was primarily related to an increase in district associations' loan portfolios and an increase in the bank's capital markets loan portfolio. The district's net income for 2015 was \$426.8 million, a decrease of \$11.7 million, or 2.7 percent, from the \$438.5 million in net income for 2014. The decrease in net income for 2015 was driven by a \$48.2 million increase in noninterest expense, a \$12.1 million increase in provisions for loan losses, offset by a \$42.7 million increase in net interest income, a \$5.3 million increase in noninterest income and a \$604 decrease in provision for income taxes.

The increase in noninterest expense included a \$24.1 million increase in salaries and benefits, a \$10.8 million decrease in gains on other property owned, and a \$4.1 million increase in premiums paid to the FCSIC. The improvement in the district's net interest income was primarily driven by growth in earning assets, partially offset by a decrease in the net interest rate spread. During 2015, asset growth and funding levels were at compressed rate spreads which were reflective of market conditions and contributed to an 8-basis-point decrease in the net interest rate spread. The increase in provision for credit losses included a \$9.2 million increase at

the district associations and a \$2.9 million decrease in negative provisions for loan losses at the bank. The increase in provision at the district associations was due largely to an increase in required allowances related to loans and unfunded commitments which are collectively evaluated for impairment.

Funding

During 2015, the System continued to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. Investor demand for Systemwide debt securities has remained favorable across all products. The bank has continued to have reliable access to funding at competitive rates and terms necessary to support our lending and business operations. Future ratings action affecting the U.S. government and related entities (including the System) may affect our borrowing cost and/or limit our access to the debt capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve.

Conditions in the Texas District

Drought conditions improved considerably during 2015. The vast majority of the Texas district is not experiencing drought conditions, aside from the western counties of New Mexico, as of December 2015. Comparatively, over 85 percent of New Mexico and 60 percent of Texas were at least abnormally dry at the beginning of the year. Higher moisture levels have resulted in improved pasture conditions compared to the previous year.

The combination of increasing cattle slaughter weights, the recovery of supply in the pork industry and foreign countries' bans on imports of U.S. poultry products have resulted in record levels of meat in U.S. cold storage. The high levels of domestic supply weighed on the value of all major animal proteins during 2015. Most beef feedlots in the district experienced negative margins during the second half of 2015. Many large-scale producers, however, benefited from formula or grid-based pricing arrangements and/or alliances with meat packers. Although net profitability was lower than the previous year for cattle ranchers, producers continued to generate positive returns during 2015. Meat prices are expected to rebound somewhat in 2016 as some domestic supply pressure is alleviated, but reduced export demand combined with the strong U.S. dollar will likely keep prices depressed relative to recent highs.

Cotton prices declined from the previous year due to record global stocks and the low cost of alternative synthetic fibers, such as polyester. World stocks are expected to decline following the 2015 marketing year for the first time since 2008. Prospects for price increases remain slim, though, and recent projections indicate little change for cotton prices in 2016. Corn and soybean prices have also fallen in response to high supplies relative to historical norms. Prices on grains are expected to remain near current levels in the upcoming season. The estimated 2015 yields per acre on most field crops in the district were comparable to the five-year moving average. Retail fertilizer prices declined by an estimated 10 to 25 percent during the year, which will facilitate cost management improvements in 2016. Farmers in the Texas district continue to leverage risk management tools, such as programs available under the U.S. Farm Bill, multi-peril crop insurance, and forward, futures and options contracts, to minimize risks.

Over the past two years, the value of West Texas Intermediate (WTI) crude oil has fallen by close to 70 percent. In response, the number of active oil rigs in Texas is down 62 percent year-over-year, according to Baker Hughes. Recent estimates indicate that the petroleum industry in Texas directly or indirectly supports approximately 9 percent of total employment and 14 percent of total statewide GDP per the Texas A&M Real Estate Center. Significant job losses have already occurred in the petroleum industry across the Texas district. Growth in non-petroleum related employment, however, led to a decline in the average unemployment rate in the district during 2015 despite the weakness in the oil and gas industry. Further job cuts related to the petroleum industry are probable in 2016, but the district economy is well-diversified overall. Although the quality of the loan portfolio may be impacted in the future by weather conditions or macroeconomic events, the district portfolio continues to be supported by strong credit quality, high levels of capital, low advance rates, and diversification.

Financial Highlights

- ❖ Net income totaled \$426.8 million for the year ended December 31, 2015, compared to \$438.5 million for 2014 and \$419.3 million for 2013, reflecting a decrease of 2.7 percent from 2014 and an increase of 4.6 percent over 2013.
- ❖ Net interest income for the year ended December 31, 2015, was \$697.9 million, compared to \$655.2 million for 2014 and \$630.8 million for 2013, reflecting 6.5 percent and 3.9 percent increases over the years ended December 31, 2014 and 2013, respectively.
- ❖ Return on average assets and return on average members' equity for the year ended December 31, 2015, were 1.70 percent and 10.82 percent, respectively, compared to 1.90 percent and 11.59 percent for 2014 and 1.95 percent and 11.64 percent for 2013, respectively.
- ❖ Patronage distributions declared totaled \$245.0 million in 2015, compared to \$232.7 million and \$248.8 million in 2014 and 2013, respectively.
- ❖ The aggregate principal amount of loans outstanding at December 31, 2015, was \$21.18 billion, compared to \$19.35 billion at December 31, 2014, reflecting an increase of 9.5 percent.

RESULTS OF OPERATIONS

Net Income

The district's net income of \$426.8 million for the year ended December 31, 2015, reflected a decrease of 2.7 percent from net income of \$438.5 million for the year ended December 31, 2014, and an increase of 4.6 percent from net income of \$419.3 million for 2013. The return on average assets decreased to 1.70 percent for the year ended December 31, 2015, from 1.90 percent reported for the year ended December 31, 2014. This decrease was due primarily to a \$48.2 million increase in noninterest expense, a \$12.1 million increase in provisions for loan losses discussed in the "Provision for Loan Losses" section of this discussion, offset by a \$42.7 million increase in net interest income, a \$5.3 million increase in noninterest income and a \$604 decrease in provision for income taxes.

Analysis of Operating Margin to Average Earning Assets

	For the Years Ended December 31,		
	2015	2014	2013
Net interest margin	2.86%	2.93%	3.03%
Operating expense	1.33	1.29	1.28
Operating margin	1.53%	1.64%	1.75%

Changes in Components of Net Income

	2015 vs. 2014	2014 vs. 2013
Net income, prior period	\$ 438,511	\$ 419,280
Increase (decrease) due to:		
Increase in interest income	77,253	34,034
Increase in interest expense	(34,540)	(9,628)
Increase in net interest income	42,713	24,406
Increase in provision (negative provision) for loan losses	(12,123)	12,778
Increase (decrease) in noninterest income	5,286	(6,111)
Increase in noninterest expense	(48,152)	(11,153)
Increase in benefit from (provision for) income taxes	604	(689)
Total (decrease) increase in net income	(11,672)	19,231
Net income	\$ 426,839	\$ 438,511

Discussion of the changes in components of net income is included in the following narrative.

Interest Income

Total interest income for the year ended December 31, 2015, was \$921.5 million, an increase of \$77.3 million, or 9.2 percent, compared to 2014. The increase was due to an increase in earning assets, which included increases in the district associations' loan portfolios, the bank's investment portfolio and the bank's capital markets portfolio. Total interest income for the year ended December 31, 2014, was \$844.2 million, an increase of \$34.0 million, or 4.2 percent, compared to 2013. The increase for 2014 was due to an increase in earning assets, partially offset by a decrease in the yield on earning assets.

The following table illustrates the impact that volume and yield changes had on interest income over these periods.

	Year Ended December 31,	
	2015 vs. 2014	2014 vs. 2013
Increase in average earning assets	\$ 2,073,578	\$ 1,537,059
Average yield, prior year	3.78%	3.90%
Interest income variance attributed to change in volume	78,381	59,945
Average earning assets, current year	24,402,856	22,329,278
Decrease in average yield	(0.005)%	(0.12)%
Interest income variance attributed to change in yield	(1,128)	(25,911)
Net change in interest income	\$ 77,253	\$ 34,034

Interest Expense

Total interest expense for the year ended December 31, 2015, was \$223.6 million, an increase of \$34.5 million, or 18.3 percent, from the prior year. Total interest expense for the year ended December 31, 2014, was \$189.0 million, an increase of \$9.6 million, or 5.4 percent, from 2013. The increase for 2015 was due primarily to an increase in interest-bearing liabilities and an increase in the average rate on debt. The increase for 2014 was due primarily to an increase in interest-bearing liabilities, offset by a decrease in the average rate on debt. During 2015, 2014 and 2013, the bank was able to reduce its interest expense by calling and replacing debt totaling \$5.57 billion, \$2.33 billion and \$3.00 billion, respectively.

The following table illustrates the impact that volume and rate changes had on interest expense over these periods.

	Year Ended December 31,	
	2015 vs. 2014	2014 vs. 2013
Increase in average interest-bearing liabilities	\$ 1,875,379	\$ 1,352,586
Average rate, prior year	1.00%	1.02%
Interest expense variance attributed to change in volume	18,754	13,796
Average interest-bearing liabilities, current year	20,758,571	18,883,192
Increase (decrease) in average rate	0.08%	(0.02)%
Interest expense variance attributed to change in rate	15,786	(4,168)
Net change in interest expense	\$ 34,540	\$ 9,628

Net Interest Income

Net interest income increased by \$42.7 million, or 6.5 percent, from 2014 to 2015 and increased by \$24.4 million, or 3.9 percent, from 2013 to 2014. Factors responsible for these changes are illustrated in Figure 1.

Net interest income for 2015 increased from 2014 due to an increase in average-earning assets, offset by an 8-basis-point decrease in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt.

Net interest income for 2014 increased from 2013 due to an increase in average-earning assets, offset by a 10-basis-point decrease in the interest rate spread.

Provision for Loan Losses

The provision for loan losses for 2015 was \$5.7 million, reflecting an increase of \$12.1 million from the \$6.5 million negative provision recorded in 2014. The associations' provisions increased by \$9.2 million, while the negative provision for loan losses at the bank decreased by \$2.9 million. The increase at the district associations is due primarily to an increase in required allowances related to loans and unfunded commitments which are collectively evaluated for impairment related to growth in association loan volume and the adoption in 2015 of an updated 2015 probability of default curve. The negative provisions at the bank during 2015 and 2014 were mainly the result of decreases in loan loss reversals.

Noninterest Income

Noninterest income of \$55.8 million reflected an increase of \$5.3 million, or 10.5 percent, from 2014 to 2015. The increase was primarily due to a \$3.2 million increase in loan-related fees, a \$2.3 million increase in patronage income, a \$212 decrease in losses on the sale of securities and a \$37 decrease in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporarily impaired on investment securities, which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," offset by a \$471 decrease in fair value on loans purchased in the secondary market.

Noninterest income of \$50.5 million reflected a decrease of \$6.1 million, or 10.8 percent, from 2013 to 2014. The decrease was primarily due to a \$6.2 million decrease in loan-related fees, a \$626 decrease in fair value on loans purchased in the secondary market and a \$212 increase in losses on the sale of securities, offset by a \$604 decrease in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporarily impaired on investment securities.

Figure 1

Analysis of Net Interest Income

	2015		2014		2013	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 20,122,634	\$ 859,347	\$ 18,404,792	\$ 789,275	\$ 17,225,899	\$ 756,077
Investments	4,280,222	62,149	3,924,486	54,968	3,566,320	54,132
Total earning assets	24,402,856	921,496	22,329,278	844,243	20,792,219	810,209
Interest-bearing liabilities	20,758,571	223,560	18,895,033	189,020	17,542,791	179,392
Impact of capital	\$ 3,644,285		\$ 3,434,245		\$ 3,249,428	
NET INTEREST INCOME		\$ 697,936		\$ 655,223		\$ 630,817
	Average Yield		Average Yield		Average Yield	
Yield on loans	4.27%		4.29%		4.39%	
Yield on investments	1.45		1.40		1.52	
Yield on earning assets	3.78		3.78		3.90	
Cost of interest-bearing liabilities	1.08		1.00		1.02	
Interest rate spread	2.70		2.78		2.88	
Impact of capital	0.16		0.15		0.15	
Net interest income/average earning assets	2.86		2.93		3.03	

Noninterest Expenses

Noninterest expenses for 2015 totaled \$321.3 million, increasing \$48.2 million, or 17.6 percent, from 2014. The increase was primarily due to an increase of \$24.1 million in salaries and employment benefits, a decrease of \$10.8 million in net gains on other property owned (OPO), a \$6.0 million increase in other operating expenses, a \$4.1 million increase in premiums to the FCSIC and an increase of \$3.2 million in occupancy and equipment expense. The \$24.1 million increase in salaries and employee benefits was due primarily to an \$11.2 million increase in pension and retirement expenses, increases in compensation and related payroll taxes of \$9.6 million at the district's associations and \$1.2 million at the bank, and a \$2.1 million increase in other benefits. The increase in pension and retirement expenses included a \$10.2 million increase in the district's defined benefit pension plan expense, due primarily to an increase in the amortization in 2015 of actuarial losses recognized at December 31, 2014. The \$10.8 million decrease in gains on OPO included an \$11.9 million decrease in gains on disposal of OPO, offset by a decrease in carrying value adjustments on the underlying collateral of \$915. The increase in other operating expenses included a \$2.2 million increase in association advertising and member relations and a \$1.6 million increase in association professional and contract services. Premiums to the FCSIC increased as a result of the rate increase from 12 basis points in 2014 to 13 basis points in 2015 and an increase in debt required to fund earning assets. The Insurance Fund has announced rate increases in 2016 to 16 basis points through June 30, 2016, and 18 basis points from July 1, 2016, to December 31, 2016. The \$3.2 million increase in occupancy and equipment expenses included a \$1.5 million increase in computer expense and \$771 increase in cost of space at the district's associations.

Noninterest expenses for 2014 totaled \$273.1 million, increasing \$11.2 million, or 4.3 percent, from 2013. The increase was primarily due to an increase of \$6.5 million in salaries and employment benefits, a \$5.2 million increase in other operating expenses, a \$4.3 million increase in premiums to the FCSIC and an increase of \$4.2 million in occupancy and equipment expense, offset by an increase of \$9.1 million in net gains on OPO. The \$6.5 million increase in salaries and employee benefits was due primarily to a \$12.2 million increase in compensation and related payroll taxes at the district's associations and a \$2.0 million increase in compensation and related payroll taxes at the bank, offset by an \$8.7 million decrease in pension and retirement expenses. The decrease in pension and retirement expenses included a \$10.0 million decrease in the district's defined benefit pension plan expense, due primarily to a reduction in the amortization of actuarial losses resulting from actuarial gains recognized at December 31, 2013. The increase in other operating expenses included a \$2.7 million increase in association advertising and member relations, a \$532 increase in travel expenses at the district's associations and a \$581 increase in communications expense. Premiums to the FCSIC increased as a result of the rate increase from 10 basis points in 2013 to 12 basis points in 2014 and an increase in debt required to fund earning assets. The \$4.2 million increase in occupancy and equipment expenses included a \$3.8 million increase in computer expense and an \$803 increase in cost of space at the district's associations. The \$9.1 million increase in gains on OPO included a \$7.8 million increase in gains on disposal of OPO and a decrease in carrying value adjustments on the underlying collateral of \$1.0 million. Gains on disposal of OPO included \$15.3 million in gains recognized on the sale of equity shares in an ethanol-related OPO held by 11 of the district's associations in August 2014.

Operating expense (salaries and employee benefits, occupancy and equipment, Insurance Fund premiums and other operating expenses) statistics are set forth below for each of the three years ended December 31,

	2015	2014	2013
Excess of net interest income over operating expense	\$ 373,661	368,279	\$ 364,114
Operating expense as a percentage of net interest income	46.46%	43.79%	42.28%
Operating expense as a percentage of net interest income and noninterest income	43.02	40.66	38.80
Operating expense as a percentage of average loans	1.61	1.56	1.55
Operating expense as a percentage of average earning assets	1.33	1.29	1.28

The district's operating expense statistics for 2015 and 2014 reflect the increase in operating expenses, offset by increases in net interest income and noninterest income.

CORPORATE RISK PROFILE

Overview

The district is in the business of making and participating in agricultural and other loans which requires us to take certain risks in exchange for compensation for the risks undertaken. Management of risks inherent in our business is essential for our current and long-term financial performance. Our goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities.

The major types of risk to which we have exposure are:

- **structural risk** — risk inherent in our business and related to our structure (an interdependent network of lending institutions);
- **credit risk** — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed;
- **interest rate risk** — risk that changes in interest rates may adversely affect our operating results and financial condition;
- **liquidity risk** — risk of loss arising from the inability to meet obligations when they come due without incurring unacceptable losses;
- **operational risk** — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events;
- **reputational risk** — risk of loss resulting from events, real or perceived, that shape the image of the bank, district associations, the System or any System entities, including the impact of investors' perceptions about agriculture, the reliability of district or System financial information or the overt actions of any district or System institution; and
- **political risk** — risk of loss of support for the Farm Credit System (System) and agriculture by the federal and state governments.

Structural Risk Management

Structural risk results from the fact that the bank and its related associations are part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and

operationally interdependent, this structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the banks are jointly and severally liable for the payments of Systemwide debt securities. Although capital at the association level reduces a bank’s credit exposure with respect to its direct loans to its affiliated associations, this capital may not be available to support the payment of principal and interest on Systemwide debt securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements — the Amended and Restated Contractual Interbank Performance Agreement (CIPA), and the Second Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score (CIPA score) is calculated that measures the financial condition and performance of each district using various ratios that take into account the district’s and bank’s capital, asset quality, earnings, interest rate risk and liquidity. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each district must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each district. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period.

The MAA is designed to provide for the timely identification and resolution of individual bank financial issues and establishes performance criteria and procedures for the banks that provide operational oversight and control over a bank’s access to System funding. The performance criteria set forth in the MAA are as follows:

- the defined CIPA scores,
- the net collateral ratio of a bank, and
- the permanent capital ratio of a bank.

The bank net collateral ratio is net collateral (primarily earning assets) divided by total liabilities, and the bank permanent capital ratio is primarily the bank’s common stock, preferred stock and surplus divided by risk-adjusted assets.

If a bank fails to meet the above performance criteria, it will be placed into one of three categories. Each category gives the other System banks progressively more control over a bank that has declining financial performance under the MAA performance criteria. A “Category I” bank is subject to additional monitoring and reporting requirements; a “Category II” bank’s ability to participate in issuances of Systemwide debt securities may be limited to refinancing maturing debt obligations; and a “Category III” bank may not be permitted to participate in issuances of Systemwide debt securities. A bank exits these categories by returning to compliance with the agreed-upon performance criteria.

The criteria for the net collateral ratio and the permanent capital ratio are:

	Net Collateral Ratio	Permanent Capital Ratio
Category I	<104%*	<8.0%
Category II	<103%	<7.0%
Category III	<102%	<5.0%

*The bank is required to maintain a net collateral ratio of at least 50 basis points greater than its 104 percent regulatory minimum to avoid being placed in Category I.

As required by the MAA, the banks and the Funding Corporation undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. In connection with the most recent review, the banks and the Funding Corporation agreed to enter into the Second Amended and Restated MAA, which became effective on January 1, 2012. The revised MAA retains the same general framework and most of the provisions of the previous MAA. One important change requires the banks to maintain a net collateral ratio of at least 50 basis points greater than the regulatory minimum (104 percent for the bank) in order to avoid being placed in Category I.

During the three years ended December 31, 2015, all banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2015, all banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2015, the banks met the defined CIPA score required by the MAA.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolio and derivative counterparty credit exposures. We manage credit risk associated with our retail lending activities through an assessment of the credit risk profile of an individual borrower. Each institution sets its own underwriting standards and lending policies, approved by their board of directors, that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- **character** — borrower integrity and credit history;
- **capacity** — repayment capacity of the borrower based on cash flows from operations or other sources of income;
- **collateral** — protects the lender in the event of default and represents a potential secondary source of loan repayment;
- **capital** — ability of the operation to survive unanticipated risks; and
- **conditions** — requirements that govern intended use of loan funds.

The retail credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity and financial position. Repayment capacity focuses on the borrower’s ability to repay the loan based on cash flows from operations or other sources of income, including non-farm income. Real estate loans with terms greater than 10 years must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate loans with terms greater than 10 years may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than \$250,000. This credit risk-rating process incorporates objective and subjective criteria to identify inherent strengths and weaknesses and risks in a particular relationship.

This credit risk-rating process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate 4-point

scale addressing loss given default. The 14-point risk-rating scale provides for nine “acceptable” categories, one “other assets especially mentioned” category, two “substandard” categories, one “doubtful” category and one “loss” category. The loss given default scale establishes ranges of anticipated economic loss if the loan defaults. The calculation of economic loss includes principal and interest as well as collections costs, legal fees and staff costs.

By buying and selling loans or interests in loans to or from other institutions within the System or outside the System, we limit our exposure to either a borrower or commodity concentration. This also allows us to manage growth and capital, and to improve geographic diversification.

Portfolio credit risk is also evaluated with the goal of managing the concentration of credit risk. Concentration risk is reviewed and measured by industry, commodity, geography and customer limits.

Loan Portfolio

The district loan portfolio consists only of retail loans. Bank loans to its affiliated associations have been eliminated in the combined financial statements. Gross loan volume of \$21.18 billion at December 31, 2015, reflected an increase of \$1.83 billion, or 9.5 percent, from the \$19.35 billion loan portfolio balance at December 31, 2014. Loans, net of the allowance for loan losses, represented 79.3 percent, 79.2 percent and 78.9 percent of total assets as of December 31, 2015, 2014 and 2013, respectively.

Agricultural real estate mortgage loans totaled \$12.19 billion at December 31, 2015, an increase of \$788.5 million, or 6.9 percent, from 2014, and currently comprise approximately 58.0 percent of the district’s loan portfolio. Commercial loans for agricultural production, processing and marketing totaled \$5.89 billion, an increase of \$889.5 million, or 17.8 percent, from 2014, and represented 27.8 percent of the loan portfolio at December 31, 2015. The total of all other loans, which included energy (rural utilities) loans, communications loans, farm-related business loans, rural home loans and loans to OFIs, increased by \$154.2 million. The composition of the district’s loan portfolio by category may be found in Note 4, “Loans and Allowance for Loan Losses,” to the accompanying combined financial statements. The increase of loan volume in 2015 was primarily related to a \$1.44 billion increase in district associations’ loan portfolios and a \$396.2 million increase in the bank’s capital markets loan portfolio. In 2014, association loan volume increased by \$1.29 billion, and in 2013 association loan volume increased by \$565.1 million primarily due to improvements in general economic conditions.

The bank’s capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank actively pursues the purchase of participations and syndications originated outside of the district’s territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or sub-participated to the associations or to other System entities.

In December 2015, the bank transferred a loan with a par value of \$5.0 million to a loans held for sale category included in “Other assets” at its fair value of \$4.850 million. A loss of \$77 was

recognized upon adjustment of the loan to fair value in December 2015. The loan was subsequently sold in February 2016 with a gain recognition of \$75.

The diversity of states underlying the district’s loan portfolio is reflected in the following table:

	December 31,		
	2015	2014	2013
Texas	52%	53%	53%
Alabama	7	7	7
Mississippi	7	7	7
Louisiana	3	4	4
Illinois	3	3	4
All other states	28	26	25
Total	100%	100%	100%

The bank and district associations review the credit quality of the loan portfolio as a part of their credit risk practices, using the classifications of the Uniform Classification System which is used by all System institutions. The classifications are defined as follows:

- **Acceptable** — Assets are expected to be fully collectible and represent the highest quality.
- **Other Assets Especially Mentioned (Special Mention)** — Assets are currently collectible but exhibit some potential weakness.
- **Substandard** — Assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- **Doubtful** — Assets exhibit similar weaknesses to substandard assets, but have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- **Loss** — Assets are considered uncollectible.

The following table discloses the credit quality of the district’s loan portfolio at December 31,

	2015	2014	2013
Acceptable	97.3%	97.1%	96.4%
Special mention	1.6	1.5	1.4
Substandard/doubtful/loss	1.1	1.4	2.2
Total	100.0%	100.0%	100.0%

During 2015, overall credit quality at the bank and at the district associations improved slightly from prior years. Loans classified (under the Farm Credit Administration’s Uniform Loan Classification System) as “acceptable” or “other assets especially mentioned” as a percentage of total loans and accrued interest receivable were 98.9 percent at December 31, 2015, compared to 98.6 percent at December 31, 2014, and 97.8 percent at December 31, 2013.

High-Risk Assets

Nonperforming loan volume is composed of nonaccrual loans, accrual restructured loans and loans 90 days or more past due and still accruing interest, and is referred to as impaired loans. High-risk assets consist of impaired loans and other property owned. Total high-risk assets have decreased by \$46.6 million, or 20.2 percent, from \$230.9 million at December 31, 2014, to \$184.3 million at December 31, 2015. The decrease in high-risk assets during 2015 includes a \$28.8 million decrease in nonaccrual loans. The decrease in nonaccrual loans was primarily the result of repayments of \$85.1 million, transfers to accrual loans of \$3.7 million, the movement of loans to OPO totaling \$6.5 million and charge-offs, net of

recoveries, totaling \$3.6 million, offset by \$61.5 million in additions to nonaccrual from accrual status and \$4.5 million in advances on nonaccrual loans. The decrease in nonaccrual loans included significant decreases in loans related to the hunting, trapping and game sector and electric services.

The following table discloses the components of the district's high-risk assets at December 31,

(in millions)	2015	2014	2013
Nonaccrual loans	\$ 113.4	\$ 142.2	\$ 161.3
Accrual formally restructured loans	50.1	54.1	53.2
Loans past due 90 days or more and still accruing interest	2.1	1.9	3.6
Other property owned	18.7	32.7	47.1
Total	\$ 184.3	\$ 230.9	\$ 265.2

At December 31, 2015, \$55.0 million, or 48.5 percent, of loans classified as nonaccrual were current as to principal and interest, compared to \$64.7 million, or 45.5 percent, of nonaccrual loans at December 31, 2014, and \$86.1 million, or 53.4 percent, at December 31, 2013.

Figures 2, 3 and 4 provide analyses of the relationships of nonaccrual loans and high-risk assets to total loans and members' equity at December 31, 2015, 2014 and 2013.

Allowance and Provision for Loan Losses

At December 31, 2015, the allowance for loan losses was \$70.4 million, or 0.3 percent of total loans outstanding, compared to \$64.4 million (0.3 percent) and \$74.2 million (0.4 percent) at December 31, 2014 and 2013, respectively. Net charge-offs of \$3.6 million, \$3.9 million and \$38.8 million were recorded in 2015, 2014 and 2013, respectively. Charge-offs during 2015 included charge-offs on loans related to electric services. The district's provision for loan losses of \$5.7 million for 2015 reflected an increase of \$12.1 million, or 187.4 percent, from the provision recorded for 2014, due primarily to changes in provisions required on loans collectively evaluated at the respective year end and to decreases in loan loss reversals, described in the "Provision for Loan Losses" section of this discussion. The allowance for loan losses for the district represents the aggregate of each entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each entity is particular to that institution and is not available to absorb losses realized by other institutions. The allowance for loan losses at each period end was considered by management to be adequate to absorb probable

losses existing in and inherent to its loan portfolio. Management's evaluations consider factors including loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions and economic conditions.

The following table provides an analysis of key statistics related to the allowance for loan losses at December 31:

	2015	2014	2013
Allowance for loan losses as a percentage of:			
Average loans	0.4%	0.3%	0.4%
Loans at year end			
Total loans	0.3	0.3	0.4
Nonaccrual loans	62.0	45.3	46.0
Total impaired loans	42.5	32.5	34.0
Net charge-offs to average loans	0.02	(0.02)	0.2
Provision expense to average loans	<0.1	<0.1	<0.1

Interest Rate Risk Management

Asset/liability management is the bank's process for directing and controlling the composition, level and flow of funds related to the bank's and district's interest-rate-sensitive assets and liabilities. The bank is able to manage the balance sheet composition by using various debt issuance strategies and hedging transactions to match its asset cash flows. Management's objective is to generate adequate and stable net interest income in a changing interest rate environment.

The bank uses a variety of techniques to manage its financial exposure to changes in market interest rates. These include monitoring the difference in the maturities or repricing cycles of interest-rate-sensitive assets and liabilities; simulating changes in net interest income under various interest rate scenarios; and monitoring the change in the market value of interest-rate-sensitive assets and liabilities under various interest rate scenarios.

The interest rate risk inherent in a district association's loan portfolio is substantially mitigated through its funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process. Under the Farm Credit Act of 1971, as amended, a district association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members.

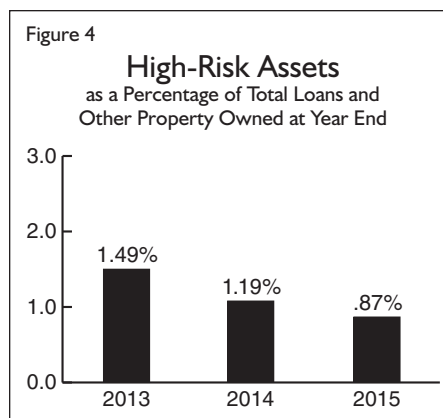
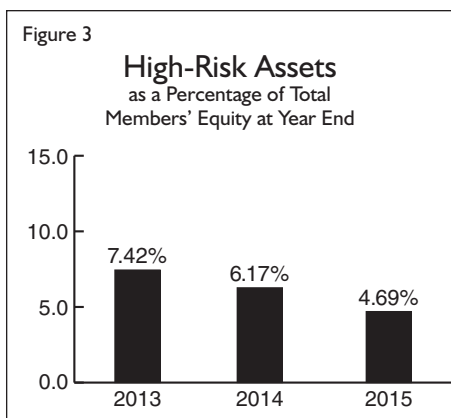
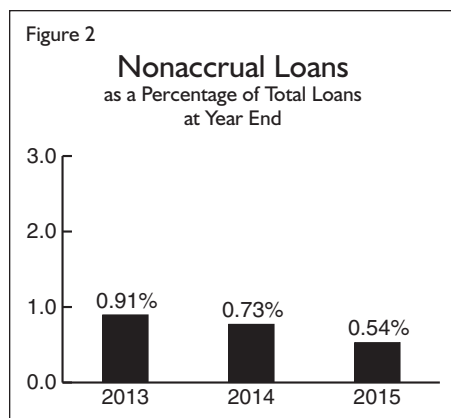


Figure 5

Interest Rate Gap Analysis as of December 31, 2015

	Interest-Sensitive Period						
	One Month or Less	Over One Through Six Months	Over Six Through Twelve Months	Total Twelve Months or Less	Over One Year but Less Than Five Years	Over Five Years and Non-Rate Sensitive	Total
Earning Assets							
Total loans	\$ 7,276,226	\$ 2,677,007	\$ 2,152,201	\$ 12,105,434	\$ 7,074,479	\$ 2,001,905	\$ 21,181,818
Total investments	1,768,616	324,985	258,064	2,351,665	1,347,377	798,689	4,497,731
Total earning assets	9,044,842	3,001,992	2,410,265	14,457,099	8,421,856	2,800,594	25,679,549
Interest-Bearing Liabilities							
Total interest-bearing funds	8,041,462	2,775,433	1,550,845	12,367,740	8,691,407	1,066,949	22,126,096
Excess of earning assets over interest-bearing liabilities	—	—	—	—	—	3,553,453	3,553,453
Total interest-bearing liabilities	8,041,462	2,775,433	1,550,845	12,367,740	8,691,407	4,620,402	\$ 25,679,549
Interest rate sensitivity gap	\$ 1,003,380	\$ 226,559	\$ 859,420	\$ 2,089,359	\$ (269,551)	\$ (1,819,808)	
Cumulative interest rate sensitivity gap	\$ 1,003,380	\$ 1,229,939	\$ 2,089,359	\$ 2,089,359	\$ 1,819,808		

The district's net interest income is determined by the difference between income earned on loans and investments and the interest expense paid on funding sources, typically Systemwide bonds, medium-term notes, discount notes and subordinated debt. The district's level of net interest income is affected by both changes in market interest rates and timing differences in the maturities or repricing cycles of interest-rate-sensitive assets and liabilities. Depending upon the direction and magnitude of changes in market interest rates, the district's net interest income may be affected either positively or negatively by the mismatch in the maturity or the repricing cycle of interest-rate-sensitive assets and liabilities.

The rate sensitivity gap analysis in Figure 5 sets forth a static measurement of the district's volume of interest-rate-sensitive assets and liabilities outstanding as of December 31, 2015, which are projected to mature or reprice in each of the future time periods shown. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the district has a positive gap position, indicating that the district has an exposure to decreasing interest rates. This would occur when interest expense on maturing or repricing interest-bearing liabilities increases sooner than interest income on maturing or repricing assets. The cumulative gap, which is a static measure, does not take into consideration the changing value of options available in order to manage this exposure, specifically the bank's ability to exercise or not exercise options on callable debt. These options are considered when projecting the effects of interest rate changes on net income and on the market value of equity in the following tables.

To reflect the expected cash flow and repricing characteristics of the district's balance sheet, an estimate of expected prepayments on loans and mortgage-related investments is used to adjust the maturities of the loans and investments in the earning assets section of the gap

analysis. Changes in market interest rates will affect the volume of prepayments on loans. Correspondingly, adjustments have been made to reflect the characteristics of callable debt instruments and the effect derivative financial instruments have on the repricing structure of the district's balance sheet.

The bank may use derivative financial instruments to manage the district's interest rate risk and liquidity position. Interest rate swaps for asset/liability management purposes may be used to change the repricing characteristics of liabilities to match the repricing characteristics of the assets they support. The bank does not hold, and is restricted by policy from holding, derivative financial instruments for trading purposes and is not a party to leveraged derivative transactions.

At December 31, 2015, the bank had no fair value interest rate swap contracts. At December 31, 2015, the bank held interest rate caps with a notional amount of \$310.0 million and a fair value of \$504. See Note 16, "Derivative Instruments and Hedging Activity," to the accompanying combined financial statements for further discussion. Unrealized losses on interest rate caps, the difference between the amortized cost and fair value, are recorded as a reduction of accumulated other comprehensive income. To the extent that its derivatives have a negative fair value, the bank has a payable on the instrument and the counterparty is exposed to the credit risk of the bank. To the extent that its derivatives have a positive fair value, the bank has a receivable on the instrument and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the bank has bilateral collateral agreements to reduce potential exposure, diversify counterparties in the swap transactions and monitor the credit ratings of all counterparties with whom it transacts. Figure 6 summarizes the bank's activity in derivative financial instruments for 2015. At December 31, 2015, the bank had credit risk exposure to three counterparties on derivative contracts totaling \$0.5 million.

Interest rate risk exposure as measured by simulation modeling calculates the district's expected net interest income and market value of equity based upon projections of interest-rate-sensitive

assets, liabilities, derivative financial instruments and interest rate scenarios. The bank monitors the district's financial exposure to instantaneous and parallel changes in interest rates of 200 basis points up or down over a rolling 12-month period. Per FCA regulations, when the current three-month Treasury bill interest rate is less than 4 percent, the minus 200-basis-point scenario should be replaced with a downward shock equal to one-half of the three-month Treasury bill rate. As of December 31, 2015, projected district net interest income would increase by \$17.0 million, or 2.5 percent, if interest rates were to increase by 200 basis points, and would decrease by \$3.1 million, or 0.44 percent, if interest rates were to decrease by 8 basis points. In general, the bank's ability to exercise call options on debt benefits the district in the event of decreasing interest rates. In a rising interest rate scenario, the benefit of rate increases on investments, association loans and the bank's participation loans would outpace the increase in the cost of debt.

Liquidity Risk Management

The district's liquidity risk management practices ensure the district's ability to meet its financial obligations. These obligations include the repayment of Systemwide debt securities as they mature, the ability to fund new and existing loan and other funding commitments, and the ability to fund operations in a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets.

The Insurance Corporation insures the timely payment of principal and interest on Systemwide debt securities. The Insurance Corporation maintains the Insurance Fund for this purpose and for certain other purposes. In the event a System bank is unable to timely pay principal or interest on any insured debt obligation for which that bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the System banks on the debt obligation cannot be invoked until the Insurance Fund is 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. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in demanding market circumstances which threaten the banks' ability

to pay maturing debt obligations. The agreement provides for advances of up to \$10.00 billion and terminates on September 30, 2016, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is in the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding will be available if needed by the System.

The bank's primary source of liquidity is the ability to issue Systemwide debt securities, which are the general unsecured joint and several obligations of the System banks as discussed below. As a secondary source of liquidity, the bank maintains an investment portfolio comprised primarily of high-quality liquid securities. The securities provide a stable source of income for the bank, and their high quality ensures the portfolio can quickly be converted to cash should the need arise.

FCA regulations require each bank to maintain a minimum of 90 days of liquidity coverage on a continuous basis, assuming no access to the capital markets. Liquidity coverage is defined as the number of days that maturing Systemwide debt securities could be funded with cash and eligible liquidity investments maintained by the bank. Regulations on liquidity reserve requirement divided the existing eligible liquidity reserve requirement into three levels: Level 1 consists of cash and cash-like instruments and must provide 15 days of coverage; Level 2 consists primarily of government-guaranteed securities and must provide 30 days of coverage (combined with Level 1); and Level 3 consists primarily of agency-guaranteed securities and must provide a total of 90 days of coverage (combined with Level 1 and Level 2). Additionally, regulations require the bank to maintain a supplemental liquidity reserve above the 90-day minimum to cover cash flow requirements unique to the bank. At December 31, 2015, the bank met all individual level criteria and had a total of 200 days of liquidity coverage, as compared with 232 days at December 31, 2014.

Funding Sources

The bank continually raises funds to support our mission to provide credit and related services to the rural and agricultural sectors, repay maturing Systemwide debt securities and meet other obligations. As a government-sponsored enterprise, the bank has had access to the nation's and world's capital markets. This access has provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the rural and agricultural sectors. Moody's Investors Service and Standard & Poor's rate the System's long-term debt as Aaa and AA+, respectively. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's government-sponsored enterprise status. Standard and Poor's rating on long-term debt of AA+ is in concert with its sovereign credit rating on the United States of America at AA+. Material changes to the factors considered could result in a different debt rating. However, as a result of the System's financial performance, credit quality and standing in the capital markets, we anticipate continued access to funding necessary to support System needs. The U.S. government does not guarantee, directly or indirectly, Systemwide debt securities.

In September 2008, the bank issued \$50.0 million in subordinated debt in a private placement to one investor. The debt is a 10-year instrument with a coupon rate of 8.406 percent. Prior to the bank's

Figure 6

Activity in Derivative Financial Instruments (Notional Amounts)

(in millions)

Balance at December 31, 2014	\$ 615
Additions	20
Maturities/amortizations	(325)
Balance at December 31, 2015	<u>\$ 310</u>

issuance of its Class B noncumulative subordinated perpetual preferred stock (Class B Series 1) in August 2010, the subordinated debt received preferential regulatory capital and collateral treatment, being includible in portions of permanent capital and total surplus and being excludable from total liabilities for purposes of net collateral ratio calculation. Regulatory conditions related to the issuance of the Class B Series 1 preferred stock reduced the benefit of these preferential ratio treatments, which would previously have been ratably removed 20.0 percent per year during years six to 10 of the debt's term.

The bank receives ratings from two rating agencies:

- On April 21, 2015, Fitch Ratings affirmed the bank's long-term and short-term issuer default ratings (IDRs) at "AA-" and "F1+," respectively, with a stable outlook. Fitch also affirmed the bank's subordinated debt rating at "A+," its noncumulative perpetual preferred stock rating at "BBB" and its support floor at "AA-." Fitch also affirmed the Farm Credit System's long-term and short-term issuer default ratings (IDRs) at "AAA" and "F1+," respectively, with a stable outlook, and its support floor at "AAA." As a government-sponsored entity, the System benefits from implicit government support, and thus, the ratings and rating outlook are directly linked to the U.S. sovereign rating. The affirmation of the System banks' IDRs reflect their prudent, conservative credit culture, their unique funding advantage and their structural second-loss position on the majority of their loan portfolio.
- On October 15, 2015, Moody's Investors Service (Moody's) affirmed the bank's issuer rating at "Aa3," its subordinated debt rating at "A2," and its noncumulative preferred stock rating at "Baa1 (hyb)," with a stable outlook. The Aa3 issuer rating reflects the bank's "a1" baseline credit assessment (BCA), very high cooperative support from the other Federal Farm Credit Banks and moderate support from the U.S. government, which has an "Aaa," stable outlook. The bank's subordinated debt and preferred stock ratings incorporate the bank's BCA, very high cooperative support from the other Federal Farm Credit Banks and notching reflecting the debt's relative positions in the bank's capital structure. The bank's BCA incorporates its solid capital levels, adequate risk-adjusted profitability and liquidity as well as the benefits associated with its lending to related associations and their strong capital levels. The "a1" BCA is one of Moody's highest assessments of any financial institution, both domestically and globally.

The following table provides a summary of the period-end balances of the debt obligations of the district (*dollars in millions*):

	December 31,		
	2015	2014	2013
Bonds and term notes outstanding	\$ 15,770	\$ 14,751	\$ 13,414
Average effective interest rate	1.26%	1.08%	1.13%
Average life (years)	2.7	2.7	3.1
Subordinated debt outstanding	\$ 50	\$ 50	\$ 50
Average effective interest rate	8.41%	8.41%	8.41%
Average life (years)	2.8	3.8	4.8
Discount notes outstanding	\$ 2,437	\$ 1,579	\$ 1,175
Average effective interest rate	0.30%	0.12%	0.10%
Average life (days)	110	140	112
Notes payable to other System banks	\$ 3,850	\$ 3,650	\$ 3,650
Average effective interest rate	0.73%	0.68%	0.71%
Average life (years)	1.0 or less	1.0 or less	1.0 or less

The following table provides a summary of the average balances of the debt obligations of the district (*dollars in millions*) for the years ended December 31:

	2015	2014	2013
Average interest-bearing liabilities outstanding	\$ 20,759	\$ 18,883	\$ 17,531
Average interest rates on interest-bearing liabilities	1.08%	1.00%	1.02%

Investments

As permitted under FCA regulations, a bank is authorized to hold eligible investments for the purposes of maintaining a diverse source of liquidity, profitably managing short-term surplus funds and managing interest rate risk. The bank is authorized to hold an amount not to exceed 35 percent of loans outstanding. The bank's holdings are within this limit as of December 31, 2015. FCA regulations also permit an association to hold eligible investments with the approval of its affiliated bank.

FCA regulations also define eligible investments by specifying credit-rating criteria, final maturity limit and percentage of investment portfolio limit for each investment type. Generally, the bank's investments must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's, Standard & Poor's or Fitch Ratings. If an investment no longer meets the eligibility rating criteria, the investment becomes ineligible.

The following table discloses the district's available-for-sale liquidity portfolio at December 31,

	2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency-guaranteed debt	\$ 252,436	\$ 248,355	\$ 159,334	\$ 155,190
Corporate debt	201,332	200,602	241,516	241,530
Federal agency collateralized mortgage-backed securities:				
GNMA	1,740,411	1,731,756	1,708,215	1,701,417
FNMA & FHLMC	2,008,449	1,998,669	1,829,075	1,825,894
Other collateralized mortgage-backed securities	—	—	7	7
Asset-backed securities	200,485	200,073	81,806	81,770
Total liquidity investments	\$ 4,403,113	\$ 4,379,455	\$ 4,019,953	\$ 4,005,808

Total liquidity investments increased \$373.6 million, or 9.5 percent, in 2015. The growth was primarily the result of increased agency debt securities and asset-backed security investments.

The district's other investments, totaling \$95.9 million, consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS). The bank held AMBS with a fair value of \$65.7 million in an available-for-sale other investments portfolio, and associations held AMBS with an amortized cost of \$30.2 million in a held-to-maturity portfolio. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

Farmer Mac is a government-sponsored enterprise and is examined and regulated by FCA. It provides secondary market arrangements for agricultural and rural home mortgage loans that meet certain

underwriting standards. Farmer Mac is authorized to provide loan guarantees or be a direct pooler of agricultural mortgage loans. Farmer Mac is owned by both System and non-System investors, and its board of directors has both System and non-System representation. Farmer Mac is not liable for any debt or obligation of any System institution, and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac.

The bank's available-for-sale other investments portfolio, which is not included in its liquidity portfolio, consisted of Farmer Mac AMBS at December 31:

	2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	\$ 67,268	\$ 65,650	\$ 82,539	\$ 80,583

The bank had no credit losses related to other-than-temporarily-impaired (OTTI) securities during 2015. During 2014, the bank recognized credit losses on the sale of OTTI security with a book value of \$301, realizing a loss of \$37. During 2013, the bank recognized credit losses on the sale of five OTTI securities totaling \$641. The sales of OTTI securities were in March 2013, November 2013 and December 2013, and had book values of \$5.1 million, \$1.8 million and \$10.9 million, respectively, realizing losses of \$143, \$199 and \$299, respectively. The bank held no securities that were designated as OTTI securities at December 31, 2015 and 2014.

The composition and characteristics of the district's investment securities are described in Note 3, "Investment Securities," to the accompanying combined financial statements.

Farm Credit Administration regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of investment portfolio limit for each investment type. At the time of purchase, the bank's investments must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard and Poor's Ratings Services or Fitch Ratings. U.S. Treasury securities, U.S. agency securities (except mortgage securities) and other obligations fully insured or guaranteed by the U.S., its agencies, instrumentalities and corporations are considered eligible investments under the Farm Credit Administration's regulations even if downgraded. Under the regulations, these investments have no final maturity limit, no credit rating requirement by Nationally Recognized Statistical Rating Organizations, investment portfolio limit, or other requirements.

Credit Rating Criteria by Eligible Investment Type	Moody's	Standard & Poor's	Fitch
Overnight federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Term federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Commercial paper	P-1	A-1+, A-1	F1
Corporate securities	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA
Mortgage-backed securities	Aaa	AAA	AAA
Asset-backed securities	Aaa	AAA	AAA

The following tables set forth investments available-for-sale within the liquidity portfolio at fair value by credit rating:

December 31, 2015	Eligible				Ineligible						Total
	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated*	AA/Aa	A/A	BBB/Baa	B/B	CCC/Caa	CC/Ca	
Agency-guaranteed debt**	\$ —	\$ —	\$ —	\$ 248,355	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 248,355
Corporate debt	—	91,777	—	108,825	—	—	—	—	—	—	200,602
Federal agency collateralized mortgage-backed securities**											
GNMA	—	—	—	1,731,756	—	—	—	—	—	—	1,731,756
FNMA & FHLMC	—	—	—	1,998,669	—	—	—	—	—	—	1,998,669
Other collateralized mortgage-backed securities	—	—	—	—	—	—	—	—	—	—	—
Asset-backed securities	200,073	—	—	—	—	—	—	—	—	—	200,073
Total	\$ 200,073	\$ 91,777	\$ —	\$ 4,087,605	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,379,455

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

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

December 31, 2014	Eligible				Ineligible						Total
	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated*	AA/Aa	A/A	BBB/Baa	B/B	CCC/Caa	CC/Ca	
Agency-guaranteed debt**	\$ —	\$ —	\$ —	\$ 155,190	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 155,190
Corporate debt	—	97,475	—	144,055	—	—	—	—	—	—	241,530
Federal agency collateralized mortgage-backed securities**											
GNMA	—	—	—	1,701,417	—	—	—	—	—	—	1,701,417
FNMA & FHLMC	—	—	—	1,825,894	—	—	—	—	—	—	1,825,894
Other collateralized mortgage-backed securities	—	—	—	—	7	—	—	—	—	—	7
Asset-backed securities	81,770	—	—	—	—	—	—	—	—	—	81,770
Total	\$ 81,770	\$ 97,475	\$ —	\$ 3,826,556	\$ 7	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,005,808

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

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

December 31, 2013	Eligible				Ineligible						Total
	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated*	AA/Aa	A/A	BBB/Baa	B/B	CCC/Caa	CC/Ca	
Agency-guaranteed debt** \$	—	\$ —	\$ —	\$ 130,024	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 130,024
Corporate debt	—	75,832	—	173,747	—	—	—	—	—	—	249,579
Federal agency collateralized mortgage-backed securities**											
GNMA	—	—	—	1,680,426	—	—	—	—	—	—	1,680,426
FNMA & FHLMC	—	—	—	1,421,578	—	—	—	—	—	—	1,421,578
Other collateralized mortgage-backed securities	—	—	—	—	2,696	—	4,833	—	—	—	7,529
Asset-backed securities	50,138	—	—	—	—	882	—	—	276	—	51,296
Total	\$ 50,138	\$ 75,832	\$ —	\$ 3,405,775	\$ 2,696	\$ 882	\$ 4,833	\$ —	\$ 276	\$ —	\$ 3,540,432

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

**At December 31, 2013, due to credit ratings of the U.S. government which remain "AA+" and related lowered long-term credit ratings of government-sponsored enterprises due to the potential reduction in the capacity of the U.S. government to support these securities, these investments were reported as eligible split-rated investments.

Capital Adequacy

District members' equity totaled \$3.93 billion at December 31, 2015, including \$600.0 million in preferred stock, \$62.5 million in capital stock and participation certificates, \$3.20 billion in retained earnings and \$224.6 million in additional paid-in-capital, offset by accumulated other comprehensive losses of \$156.9 million.

Bank Class A Cumulative Perpetual Preferred Stock (Class A preferred stock) – On November 7, 2003, the bank issued 100,000 shares of \$1,000 per share par value Class A preferred stock for net proceeds of \$98,644, after expenses of \$1,356 associated with the offering. The dividend rate was 7.561 percent, payable semi-annually to December 15, 2013, after which dividends were payable quarterly at a rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. On September 26, 2005, the bank issued an additional 100,000 shares of cumulative perpetual preferred stock with the same terms. During 2010, the bank repurchased \$18.0 million par value of the Class A preferred stock at a net premium and cost of \$529. For regulatory purposes, the preferred stock was treated as equity, and was not mandatorily redeemable. Dividends on preferred stock were recorded as declared. The Class A preferred stock ranked, as to dividends and other distributions (including patronage) upon liquidation, dissolution or winding up, prior to all other classes and series of equity securities of the bank. "Dividend/patronage stopper" clauses in the preferred stock offerings required the payment or declaration of current period dividends on the preferred stock issuances before any other patronage could be declared, and were required before payment of bank investment and direct note patronage to associations and OFIs could be paid. In 2013, Class A preferred stock dividends of \$13,761 were declared and paid. On December 15, 2013, the bank redeemed all outstanding 200,000 shares of the Class A preferred stock. The redemption was at the par value of \$1,000 per share, plus all accrued and unpaid dividends up to, but not including, the redemption date of December 15, 2013. As the bank had repurchased 18,000 shares of the Class A preferred stock in 2010, the outlay for the remaining Class A preferred stock on December 15, 2013, totaled \$182.0 million, at which time the final related dividends of \$6,881 were paid.

Bank Class B Series 1 Noncumulative Subordinated Perpetual Preferred Stock (Class B-1 preferred stock) – On August 26, 2010, the bank issued \$300.0 million of Class B noncumulative subordinated perpetual preferred stock, representing 300,000 shares

at \$1,000 per share par value for net proceeds of \$296.6 million. The net proceeds of the issuance were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of \$1,000 per share. The Class B-1 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B-1 preferred stock ranks, both as to dividends and upon liquidation, senior to all of our outstanding capital stock. For regulatory purposes, the Class B-1 preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance will require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. Class B-1 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid. In 2015, 2014 and 2013, Class B-1 preferred stock dividends totaling \$30.0 million were declared and paid. At December 31, 2015, dividends payable on Class B-1 preferred stock totaled \$15.0 million.

Bank Class B Series 2 Noncumulative Subordinated Perpetual Preferred Stock (Class B-2 preferred stock) – On July 23, 2013, the bank issued \$300.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 2, representing three million shares at \$100 per share par value, for net proceeds of \$295.9 million. Dividends on the Class B-2 preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2013, at an annual fixed rate of 6.75 percent of par value of \$100 per share up to, but excluding September 15, 2023, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 4.01 percent. The Class B-2 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank on any dividend payment date on or after September 15, 2023. The Class B-2 preferred stock ranks, both as to dividends and upon liquidation, pari passu with respect to the existing Class B-1 preferred stock,

and senior to all of the bank's outstanding capital stock. For regulatory purposes, the Class B-2 preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Class B-2 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid. In 2015 and 2014, Class B-2 preferred stock dividends totaling \$20.3 million were declared and paid. In 2013, Class B-2 preferred stock dividends totaling \$13.1 million were declared and paid. At December 31, 2015, dividends payable on Class B-2 preferred stock totaled \$5.1 million.

Borrower equity purchases required by association capitalization bylaws (see Note 9, "Members' Equity," to the accompanying combined financial statements), combined with a history of growth in retained earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions. The \$3.93 billion capital position of the district at December 31, 2015, reflects an increase of 5.0 percent over the December 31, 2014, capital position of \$3.74 billion. This increase is attributable to net income of \$426.8 million earned in 2015, and other comprehensive income of \$9.8 million, offset by patronage declared of \$154.7 million, dividends accrued and paid on preferred stock totaling \$50.3 million, a net decrease in capital stock and allocated earnings of \$42.7 million and a \$2.9 million decrease in fair value adjustments due to merger.

In 2014, the district revised its historical combined balance sheets and combined statements of changes in members' equity for 2013 to correct the classification of certain nonqualified allocations of retained earnings. The correction resulted in a \$42,662 increase in unallocated retained earnings and a \$42,662 decrease in allocated retained earnings at December 31, 2013. The revision is also reflected in the Five-Year Summary of Combined Financial Data as to retained earnings and allocated equity patronage distributions. Management evaluated the impact of the correction as immaterial to previously issued financial statements; however, it has elected to revise the combined financial statements in order to correctly present such amounts in the comparative financial statements. The correction had no effect on earnings, cash flows or district financial ratios for 2013.

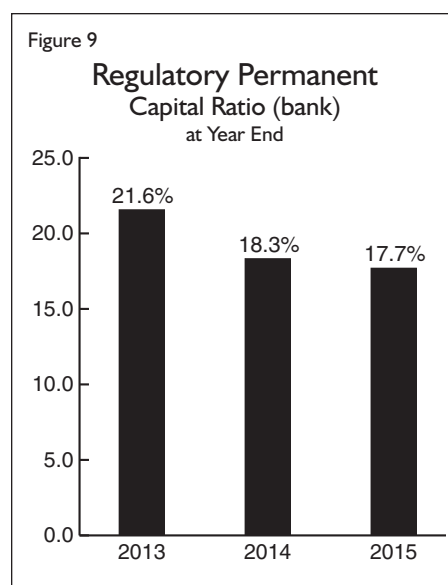
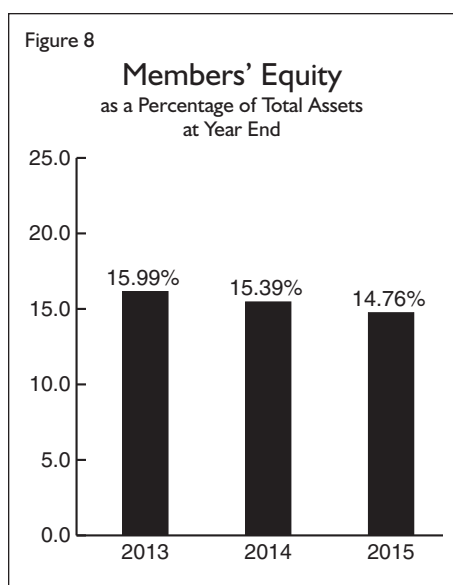
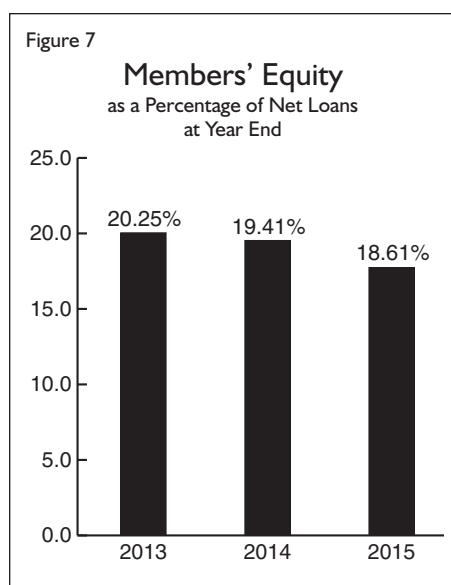
Accumulated other comprehensive loss totaled \$156.9 million at December 31, 2015, a decrease of \$9.8 million from December 31, 2014, due to an \$18.2 million decrease in unrealized losses related to pension and other postretirement benefits and a \$788 decrease in unrealized losses on cash flow interest rate caps, offset by an increase of \$9.2 million in unrealized losses on investment securities. The decrease in unrealized losses on pension and other postretirement benefits was mainly the result of increased amortization in 2015 of actuarial losses recognized at December 31, 2014, which resulted from a decrease in the discount rate used to determine the present value of our future benefit obligations and the effects of the adoption of new mortality tables which indicate substantial life expectancy improvements. The increase in unrealized net losses on investments was primarily attributable to the effects of market interest rates on the bank's fixed-rate investments.

The return on average members' equity for the year ended December 31, 2015, was 10.82 percent, compared to 11.59 percent and 11.64 percent reported for the years ended December 31, 2014 and 2013, respectively.

FCA regulations require System institutions to compute a total surplus ratio, a core surplus ratio and a net collateral ratio (bank only), and maintain at least the minimum standard for each ratio. In those instances where an entity may not be in compliance, the regulations require the entity to submit a corrective plan to the FCA designed to move the institution into compliance. As of December 31, 2015, the bank and all district associations were in compliance with the regulations. Note 9, "Members' Equity," to the accompanying combined financial statements outlines the ranges of capital ratios for the bank and district associations. The bank's permanent capital ratio of 17.7 percent at December 31, 2015, is considered adequate, in accordance with the capital plan adopted by the bank's board of directors. An analysis of the trend in the district's capital ratios is presented in Figures 7, 8 and 9.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches



of the internal control system, and the risk of fraud by employees or persons outside the System. The board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution;
- adoption of internal audit and control procedures;
- direction for the operation of a program to review and assess its assets;
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation;
- adoption of asset quality classification standards;
- adoption of standards for assessing credit administration, including the appraisal of collateral; and
- adoption of standards for the training required to initiate a program.

In general, we address operational risk through the organization's internal governance structure. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are risk-based and are re-evaluated on an annual basis, or more frequently, if necessary. The board of directors is responsible for defining the role of the audit committee in providing oversight and review of the institution's internal controls.

Reputational Risk Management

Reputational risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the bank, the System or any of its entities. The bank and its affiliated associations could be harmed if its reputation were impacted by negative publicity about the System as a whole, an individual System entity or the agriculture industry in general.

Reputational risk is the direct responsibility of each System entity. For reputational issues that have broader consequences for the System as a whole, System governance will communicate guidance to the System supporting those business practices that are consistent with our mission.

Political Risk Management

We, as part of the System, are an instrumentality of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that affects the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

We manage political risk by actively supporting The Farm Credit Council (Council), which is a full-service, federal trade association representing the System before Congress, the executive branch and others. The Council provides the mechanism for "grassroots"

involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, we take an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to The Farm Credit Council, each district has its own council, which is a member of the Council. The district councils represent the interests of their members on a local and state level, as well as on a federal level.

Recent Accounting Pronouncements

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

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

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance entitled "Interest — Imputation of Interest." The guidance requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). This guidance was to become effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The bank elected to adopt this guidance effective December 31, 2015 with retroactive application. The adoption of the guidance had no impact on the bank's financial condition or its results of operations. See section N: "Change in Accounting Principle — Debt Issuance Costs" of Note 2, "Summary of Significant Accounting Policies," to the accompanying financial statements.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity

to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The district is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

Regulatory Matters

At December 31, 2015, there were no district associations under written agreements with the Farm Credit Administration.

On October 30, 2015, the Farm Credit Administration, along with four other federal agencies, issued a final rule to establish capital and margin requirements for covered swap entities as required by the Dodd-Frank Act. On the same date, FCA and the other agencies also issued an interim final rule with a request for comments exemption certain financial end users from the margin requirements in the final rule. The deadline for submission of public comments was January 31, 2016. Both the final and the interim final rules will become effective April 1, 2016.

On August 24, 2015, FCA published a final rule amending existing regulations related to mergers and consolidations of System institutions that clarify the merger review and approval process, identify when the 60-day review period begins, require that only independent tabulators be authorized to validate ballots and tabulate stockholder votes on mergers and consolidations, require institutions to hold informational meetings if circumstances warrant, explain the reconsideration petition process, and specify the record date list to be provided to stockholders who wish to file a reconsideration petition. The regulation became effective November 2, 2015.

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

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

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,

- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014. According to its Fall 2015 Regulatory Projects Plan, FCA anticipates adopting a final rule in April 2016.

On May 8, 2014, the Farm Credit Administration approved a proposed rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

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

The initial public comment period ended on February 16, 2015.

On June 15, 2015, the Farm Credit Administration reopened the comment period from June 26 to July 10, 2015. FCA adopted a final rule in March 2016.

On February 20, 2014, FCA published a proposed rule to amend its regulations governing standards of conduct of directors, employees, and agents of Farm Credit System institutions, excluding the Federal Agricultural Mortgage Corporation. The amendments would clarify and strengthen reporting requirements and prohibitions, require institutions to establish a Code of Ethics, and enhance the role of the Standards of Conduct Official. The public comment period ended on June 20, 2014. According to its Fall 2015 Regulatory Projects Plan, FCA anticipates adopting a final rule in March 2016.

Other

The merger of two district associations, AgTexas Farm Credit Services and Great Plains Ag Credit, ACA, having been approved by FCA and the respective associations’ stockholders, became effective January 1, 2015.



Report of Management

The Farm Credit Bank of Texas and the Texas Farm Credit District Associations

The accompanying combined financial statements of the Farm Credit Bank of Texas (bank) and its affiliated associations, collectively referred to as the district, are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. The combined financial statements, in the opinion of management, present fairly the financial condition of the district. Other financial information included in the annual report is consistent with that in the combined financial statements.

To meet its responsibility for reliable financial information, management depends on the accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be reasonable in relation to the benefits derived. To monitor compliance, financial operations audits are performed as well as review of internal controls over financial reporting. The combined financial statements are audited by PricewaterhouseCoopers LLP (PwC), independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Farm Credit Bank of Texas and district associations are also examined by the Farm Credit Administration.

In the opinion of management, the combined financial statements are true and correct and fairly state the financial position of the bank and district associations at December 31, 2015, 2014 and 2013. The independent auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of the bank or district associations.

The undersigned certify that we have reviewed the December 31, 2015, annual report of the Farm Credit Bank of Texas and district associations, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

March 11, 2016



Report of Audit Committee

The Farm Credit Bank of Texas and the Texas Farm Credit District Associations

The audit committee (committee) is composed of the entire board of directors of the Farm Credit Bank of Texas (bank). The committee oversees the bank's system of internal controls and the adequacy of management's action with respect to recommendations arising from those internal control activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's website at www.farmcreditbank.com. In 2015, nine committee meetings were held, with some of these meetings including executive sessions between the committee and PricewaterhouseCoopers LLP (PwC) and the bank's internal auditor. The committee approved the appointment of PwC as independent auditors for 2016.

Management is responsible for the bank's internal controls and for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the district's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed the district's audited financial statements for the year ended December 31, 2015, with management and PwC. The committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communications With Those Charged With Governance).

PwC has provided to the committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees). The committee discussed with appropriate representatives of PwC the firm's independence from the bank. The committee also approved the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the auditor's independence. Furthermore, throughout 2015 the committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate. Both PwC and the bank's internal auditor directly provided reports on significant matters to the committee.

Brad C. Bean, Chairman
M. Philip Guthrie, Vice Chairman
Ralph W. Cortese
James F. Dodson
Elizabeth G. Flores
Jon M. Garnett
Lester Little

Audit Committee Members

March 11, 2016



Report on Internal Control Over Financial Reporting

The Farm Credit Bank of Texas' (bank's) principal executive and principal financial officer are responsible for establishing and maintaining adequate internal control over financial reporting for the district's combined 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 principal executive and principal financial officer, or persons performing similar functions, and effected by its board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the combined financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and 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 district; (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 district; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the district's assets that could have a material effect on its combined financial statements.

The bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2015. In making the assessment, management used the updated Internal Control – Integrated Framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission on May 14, 2013, commonly referred to as the "COSO 2013 Framework." This evaluation relies upon the evaluations made by the individual associations and the related certification they provide to the bank.

Based on the assessment performed, the district concluded that as of December 31, 2015, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the district determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2015. A review of the assessment performed was reported to the bank's audit committee.

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

March 11, 2016



Independent Auditor's Report

To the Board of Directors of Farm Credit Bank of Texas and Texas District Associations:

We have audited the accompanying combined financial statements of Farm Credit Bank of Texas and Texas District Associations (the District), which comprise the combined balance sheets as of December 31, 2015, 2014 and 2013, and the related combined statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Farm Credit Bank of Texas and Texas District Associations as of December 31, 2015, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 11, 2016

Combined Balance Sheets

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	December 31,		
	2015	2014	2013
Assets			
Cash	\$ 550,852	\$ 437,201	\$ 610,056
Federal funds sold and overnight investments	22,413	22,086	21,809
Investment securities	4,475,318	4,125,477	3,693,524
Loans (includes \$27,506, \$40,532 and \$58,461 at fair value held under fair value option)	21,181,818	19,349,652	17,725,520
Less allowance for loan losses	70,350	64,357	74,164
Net loans	21,111,468	19,285,295	17,651,356
Accrued interest receivable	166,462	150,084	136,610
Other property owned	18,744	32,710	47,142
Premises and equipment, net	105,040	93,316	79,454
Other assets	166,717	177,785	119,873
Total assets	\$ 26,617,014	\$ 24,323,954	\$ 22,359,824
Liabilities and members' equity			
Liabilities			
Bonds and notes, net	\$ 22,056,726	\$ 19,980,008	\$ 18,239,316
Subordinated debt, net	49,801	49,739	49,681
Accrued interest payable	47,351	40,213	39,853
Patronage distributions payable	141,878	147,436	134,376
Preferred stock dividends payable	20,063	20,063	20,063
Other liabilities	372,569	343,930	302,300
Total liabilities	22,688,388	20,581,389	18,785,589
Commitments and contingencies (Note 13)			
Members' equity			
Preferred stock	600,000	600,000	600,000
Common stock and participation certificates	62,456	60,242	59,225
Allocated retained earnings	588,262	542,896	474,197
Unallocated retained earnings	2,610,227	2,557,039	2,529,030
Additional paid-in-capital	224,625	149,179	22,737
Accumulated other comprehensive loss	(156,944)	(166,791)	(110,954)
Total members' equity	3,928,626	3,742,565	3,574,235
Total liabilities and members' equity	\$ 26,617,014	\$ 24,323,954	\$ 22,359,824

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

Combined Statements of Comprehensive Income

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	Year Ended December 31,		
	2015	2014	2013
Investment securities	\$ 62,149	\$ 54,968	\$ 54,132
Loans	859,347	789,275	756,077
Total interest income	921,496	844,243	810,209
Bonds, notes and subordinated debt	191,625	163,164	153,763
Notes payable and other	31,935	25,856	25,629
Total interest expense	223,560	189,020	179,392
Net interest income	697,936	655,223	630,817
Provision (negative provision) for loan losses	5,653	(6,470)	6,308
Net interest income after provision (negative provision) for loan losses	692,283	661,693	624,509
Patronage income	21,878	19,534	19,325
Fees for loan-related services	28,584	25,385	31,551
Loss on sale of securities	—	(212)	—
(Loss) gain on loans held under fair value option	(838)	(367)	259
Other income, net	6,147	6,182	6,102
Impairment losses on investments			
Total other-than-temporarily impaired losses	—	(37)	(641)
Less: portion of loss recognized in other comprehensive income	—	—	—
Net impairment loss recognized in earnings	—	(37)	(641)
Total noninterest income	55,771	50,485	56,596
Salaries and employee benefits	190,895	166,794	160,281
Occupancy and equipment expense	28,775	25,591	21,349
Insurance Fund premiums	23,953	19,865	15,608
Gains on other property owned, net	(2,985)	(13,806)	(4,718)
Other operating expenses	80,652	74,694	69,465
Total noninterest expense	321,290	273,138	261,985
Income before income taxes	426,764	439,040	419,120
(Benefit from) provision for income taxes	(75)	529	(160)
Net income	\$ 426,839	\$ 438,511	\$ 419,280
Other comprehensive loss			
Change in pension and postretirement benefit plans	18,235	(71,797)	62,497
Change in unrealized (loss) gain on investments	(9,176)	14,203	(64,407)
Change in cash flow derivative instruments	788	1,757	1,763
Total other comprehensive gain (loss)	9,847	(55,837)	(147)
Comprehensive Income	\$ 436,686	\$ 382,674	\$ 419,133

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

Combined Statements of Changes in Members' Equity

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	Preferred Stock	Common Stock and Participation Certificates	Retained Earnings			Additional Paid-in-Capital	Accumulated Other Comprehensive Loss	Total Members' Equity
			Allocated	Unallocated	Total			
Balance at December 31, 2012	\$ 482,000	\$ 59,859	\$ 419,721	\$ 2,412,571	\$ 2,832,292	\$ 22,737	\$ (110,807)	\$ 3,286,081
Net income	—	—	—	419,280	419,280	—	—	419,280
Other comprehensive loss	—	—	—	—	—	—	(147)	(147)
Issuance of Class B Series 2 preferred stock	300,000	—	—	—	—	—	—	300,000
Redemption of Class A preferred stock	(182,000)	—	—	—	—	—	—	(182,000)
Issuance costs on preferred stock	—	—	—	(4,066)	(4,066)	—	—	(4,066)
Capital stock/participation certificates and allocated retained earnings issued	—	9,125	—	—	—	—	—	9,125
Capital stock/participation certificates and allocated retained earnings retired	—	(9,759)	(55,004)	—	(55,004)	—	—	(64,763)
Preferred stock dividends	—	—	—	(49,931)	(49,931)	—	—	(49,931)
Patronage distributions								
Cash	—	—	—	(139,344)	(139,344)	—	—	(139,344)
Members' equity	—	—	109,480	(109,480)	—	—	—	—
Balance at December 31, 2013	600,000	59,225	474,197	2,529,030	3,003,227	22,737	(110,954)	3,574,235
Net income	—	—	—	438,511	438,511	—	—	438,511
Other comprehensive loss	—	—	—	—	—	—	(55,837)	(55,837)
Capital stock/participation certificates and allocated retained earnings issued	—	8,237	—	—	—	—	—	8,237
Capital stock/participation certificates and allocated retained earnings retired	—	(7,220)	(9,800)	—	(9,800)	—	—	(17,020)
Equity issued upon association merger	—	—	—	—	—	126,442	—	126,442
Equity retired upon association merger	—	—	—	(126,442)	(126,442)	—	—	(126,442)
Net reduction in surplus due to net fair value adjustments related to merger	—	—	—	(1,075)	(1,075)	—	—	(1,075)
Preferred stock dividends	—	—	—	(50,250)	(50,250)	—	—	(50,250)
Patronage distributions								
Cash	—	—	—	(154,236)	(154,236)	—	—	(154,236)
Members' equity	—	—	78,499	(78,499)	—	—	—	—
Balance at December 31, 2014	600,000	60,242	542,896	2,557,039	3,099,935	149,179	(166,791)	3,742,565
Net income	—	—	—	426,839	426,839	—	—	426,839
Other comprehensive income	—	—	—	—	—	—	9,847	9,847
Capital stock/participation certificates and allocated retained earnings issued	—	9,793	—	—	—	—	—	9,793
Capital stock/participation certificates and allocated retained earnings retired	—	(7,579)	(44,953)	—	(44,953)	—	—	(52,532)
Equity issued upon association merger	—	—	—	—	—	75,446	—	75,446
Equity retired upon association merger	—	—	—	(75,446)	(75,446)	—	—	(75,446)
Net reduction in surplus due to net fair value adjustments related to merger	—	—	—	(2,916)	(2,916)	—	—	(2,916)
Preferred stock dividends	—	—	—	(50,250)	(50,250)	—	—	(50,250)
Patronage distributions								
Cash	—	—	—	(154,720)	(154,720)	—	—	(154,720)
Members' equity	—	—	90,319	(90,319)	—	—	—	—
Balance at December 31, 2015	\$ 600,000	\$ 62,456	\$ 588,262	\$ 2,610,227	\$ 3,198,489	\$ 224,625	\$ (156,944)	\$ 3,928,626

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

Combined Statements of Cash Flows

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	Year Ended December 31,		
	2015	2014	2013
Operating Activities			
Net income	\$ 426,839	\$ 438,511	\$ 419,280
Reconciliation of net income to net cash provided by operating activities			
Provision (negative provision) for loan losses	5,653	(6,470)	6,308
Carrying value adjustments on other property owned	1,486	2,401	3,431
Depreciation and amortization on premises and equipment	13,697	11,714	9,707
Accretion of net premium on loans	8,563	11,851	6,964
Amortization and accretion on debt instruments	(3,272)	(1,834)	(3,366)
Accretion of net premium (discount) on investments	1,064	1,381	(106)
Decrease (increase) in fair value of loans held under fair value option	838	367	(259)
Decrease in fair value of loan held for sale	77	—	—
Gain on sale of loans	—	—	(1,902)
Loss on sale of investment securities	—	212	—
Loss on impairment of available-for-sale investments	—	37	641
Allocated equity patronage from System bank	(13,550)	(13,083)	(12,406)
Gain on sales of other property owned	(4,597)	(16,511)	(8,688)
Loss (gain) on sales of premises and equipment, net	90	(1,434)	(4,791)
Increase in accrued interest receivable	(16,378)	(13,474)	(5,181)
Decrease (increase) in other assets, net	14,911	(19,785)*	(6,940)
Increase in accrued interest payable	7,138	360	5,484
Increase in other liabilities, net	30,016	1,560	22,292
Net cash provided by operating activities	472,575	395,803	430,468
Investing Activities			
Net (increase) decrease in federal funds sold	(327)	(277)	2,328
Investment securities			
Purchases	(1,412,538)	(1,331,075)	(1,374,908)
Proceeds from maturities, calls and prepayments	1,052,458	904,622	1,012,295
Proceeds from sales	—	7,073	19,844
Increase in loans	(1,813,457)	(1,690,630)*	(983,408)
Proceeds from sale of loans	200,000	—	323,318
Proceeds from sale of other property owned	21,213	34,084	83,780
Proceeds from sale of premises and equipment	7,769	2,043	3,731
Expenditures for premises and equipment	(32,158)	(26,185)	(16,392)
Investment in other earning assets	(6,919)	—	—
Net cash used in investing activities	(1,983,959)	(2,100,345)	(929,412)
Financing Activities			
Bonds and notes issued	15,044,259	10,361,565	9,333,855
Bonds and notes retired	(13,161,738)	(8,620,462)	(8,639,246)
Decrease in advanced conditional payments	(1,209)	(8,132)	(666)
Bank Class B Series 2 preferred stock issued	—	—	300,000
Bank Class A preferred stock retired	—	—	(182,000)
Issuance costs on preferred stock	—	—	(4,066)
Capital stock and participation certificates issued	9,793	8,237	9,125
Capital stock and participation certificates retired and allocated retained earnings distributed	(7,579)	(17,020)	(64,763)
Fair value adjustment related to association merger	(2,916)	(1,075)	—
Repayments on capital lease obligation	(94)	—	—
Cash dividends on preferred stock	(50,250)	(50,250)	(49,931)
Cash dividends and patronage distributions paid	(205,231)	(141,176)	(106,150)
Net cash provided by financing activities	1,625,035	1,531,687	596,158
Net increase (decrease) in cash	113,651	(172,855)	97,214
Cash at beginning of year	437,201	610,056	512,842
Cash at end of year	\$ 550,852	\$ 437,201	\$ 610,056
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	\$ 2,325	\$ 1,929	\$ 5,480
Loans transferred to other property owned	6,461	7,471	32,934
Net (decrease) increase in unrealized gains on investment securities	(9,176)	14,203	(64,407)
Patronage distributions payable	141,878	147,436	134,376
Preferred stock dividends payable	20,063	20,063	20,063
Capital lease obligation	1,028	—	—
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
Decrease in bonds and notes	\$ —	\$ —	\$ (91)
Supplemental Information			
Cash paid during the year for:			
Interest	\$ 216,422	\$ 188,660	\$ 173,908
Income taxes	2	—	315

*Correction from prior year's 2014 presentation. See Note 2 for additional information.

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



Notes to Combined Financial Statements

Farm Credit Bank of Texas and District Associations

(dollars in thousands, except per share amounts and as noted)

Note I — Organization and Operations

A. Organization:

The Farm Credit Bank of Texas (bank) is one of the banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations established by acts of Congress. The System is currently subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

As of December 31, 2015, the nation was served by three Farm Credit Banks (FCBs), each of which has specific lending authority within its chartered territory, and one Agricultural Credit Bank (ACB) — collectively, the “System banks” — which has nationwide lending authority for lending to cooperatives. The ACB also has lending authorities of an FCB within its chartered territories. The bank is chartered to service the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Agricultural Credit Associations (ACAs) and/or Federal Land Credit Associations (FLCAs). The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (district). The district’s one FLCA, 13 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs) and preferred stockholders jointly owned the bank at December 31, 2015. The FLCA and ACAs collectively are referred to as associations.

Each FCB and the ACB provides funding for its district associations and is responsible for supervising certain activities of the associations within their districts. The FCBs and/or associations make loans to or for the benefit of eligible borrower-stockholders for qualified agricultural purposes. District associations borrow the majority of funds from their related bank. The System banks obtain a substantial majority of their funds for lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion of their funds from internally generated earnings and from the issuance of common and preferred stock and, to a lesser extent, from the issuance of subordinated debt.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the bank and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

B. Operations:

The Farm Credit Act sets forth the types of authorized lending activities and financial services which can be offered by the bank and the associations and defines the eligible borrowers which they may serve. The associations are authorized to provide, or participate with other lenders to provide, credit, credit commitments and related services to eligible borrowers. Eligible

borrowers are defined as (a) bona fide farmers and ranchers and producers or harvesters of aquatic products, (b) persons furnishing to farmers and ranchers services directly related to their on-farm operating needs, (c) owners of rural homes, (d) rural residents and (e) farm-related businesses. The bank also may lend to any national bank, state bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union or any association of agricultural producers (aggregately referred to as OFIs) engaged in the making of loans to farmers and ranchers, and any corporation engaged in the making of loans to producers or harvesters of aquatic products.

The associations also serve as intermediaries in offering credit life and multi-peril crop insurance and financial management services to their borrowers.

FCA regulations require borrower information be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

The FLCA borrows funds from the bank and in turn originates and services long-term real estate mortgage loans made to its members. The OFIs borrow from the bank and, in turn, originate and service short- and intermediate-term loans for their members. The ACAs borrow from the bank and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members. ACAs may form a parent-subsidiary structure and may operate their long-term mortgage activities through an FLCA subsidiary and their short- and intermediate-term lending activities through a PCA subsidiary. In the states of Alabama, Louisiana, Mississippi, New Mexico and Texas, the bank may purchase from the FLCA and ACAs long-term real estate mortgage loans and, from ACAs, short- and intermediate-term loans.

The bank, in conjunction with other banks in the System, jointly owns several service organizations which were created to provide a variety of services for the System. The bank has ownership interests in the following service organizations:

- **Federal Farm Credit Banks Funding Corporation** (Funding Corporation) — provides for the issuance, marketing and processing of Systemwide debt securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- **Farm Credit System Building Association** — leases premises and equipment to the FCA, as required by the Farm Credit Act.
- **Farm Credit System Association Captive Insurance Company** — as a reciprocal insurer, provides insurance services to its member organizations.

In addition, The Farm Credit Council acts as a full-service, federated trade association which represents the System before

Congress, the executive branch and others, and provides support services to System institutions on a fee basis.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used to (1) insure the timely payment of principal and interest on Systemwide debt obligations (insured debt), (2) ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses, by the Insurance Corporation, of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the associations, into the Insurance Fund based on its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the combined bank and associations conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of combined financial statements in conformity with GAAP requires the managements of the bank and associations to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Significant estimates are discussed in these notes as applicable.

Revisions and Reclassifications

Certain amounts in prior years’ combined financial statements have been reclassified to conform to the current year’s presentation. In addition, the district revised its combined cash flow statement for 2014 between the net cash provided by operating activities and net cash used in investing activities to correct non-cash participation loan activity that was incorrectly reflected in the operating activities section as an increase in other assets. The revision resulted in an increase to net cash provided by operating activities of \$21.8 million and an increase in net cash used in investing activities of \$21.8 million. Management has evaluated the impact of the correction and concluded that the amount is immaterial to previously issued financial statements; however, it has elected to revise the cash flow statement in order to correctly present such amounts. The correction had no effect on the balance sheet, the statement of comprehensive income, earnings or the financial ratios.

The accompanying combined financial statements include the accounts of the bank and associations, and reflect the investments in and allocated earnings of the service organizations in which the bank has partial ownership interests. All significant transactions and balances between the bank and associations have been eliminated in combination. The multiemployer structure of the district’s defined benefit retirement plan results in the recording of the plan upon combination only.

A. Cash:

Cash, as included in the financial statements, represents cash on hand and on deposit at banks and at the Federal Reserve.

B. Investment Securities:

The bank and associations, as permitted under FCA regulations, hold eligible investments for the purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk.

The bank’s investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2015, 2014 and 2013, respectively. These investments are reported at fair value, and unrealized holding gains and losses on investments are netted and reported as a separate component of members’ equity in the balance sheet (accumulated other comprehensive gain [loss]). Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other-than-temporarily impaired (OTTI). The bank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a “credit loss”). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the bank would record an additional other-than-temporarily impaired and adjust the yield of the security prospectively. The amount of total other-than-temporarily impaired for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporarily impaired and its fair value. Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The bank does not hold investments for trading purposes.

The bank and associations may also hold additional investments in accordance with mission-related investment programs, approved by the Farm Credit Administration. These programs allow the bank and associations to make investments that further the System’s mission to serve rural America. Mission-related investments are not included in liquidity calculations and are not covered by the eligible investment limitations specified by the FCA regulations. Mortgage-backed securities issued by the the Federal Agricultural Mortgage Corporation (Farmer Mac)

are considered other investments and are also excluded from the eligible investment limitation and liquidity calculations. Mission-related investments for which the associations have the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

At December 31, 2015, the district held other investments, totaling \$95.9 million, which consisted of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). The bank held AMBS with a fair value of \$65.7 million in an available-for-sale other investments portfolio, and associations held AMBS with an amortized cost of \$30.2 million in a held-to-maturity portfolio. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

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

The district's holdings in investment securities are more fully described in Note 3, "Investment Securities."

C. Loans and Allowance for Loan Losses:

Long-term real estate mortgage loans can have maturities ranging from five to 40 years. Substantially all short-term and intermediate-term loans are made for agricultural production or operating purposes and have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and any unearned income or unamortized discount. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding. Funds which are held by the district on behalf of the borrowers, where legal right of setoff exists, and which can be used to reduce outstanding loan balances at the district's discretion, are netted against loans in the combined balance sheets.

Loan origination fee income and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loans as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, accrual restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the bank or association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the bank or association's economic loss and avoid foreclosure. Concessions vary by program, are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that full collection of principal and interest is in doubt. In accordance with FCA regulations, all loans 180 days or more past due are considered nonaccrual. When a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is either reversed (if current year interest) or charged against the allowance for loan losses (if prior year interest). Loans are charged off at the time they are determined to be uncollectible.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, payments are recognized as interest income. Nonaccrual loans may be returned to accrual status when contractual principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The bank and related associations use a two-dimensional loan rating model based on an internally generated combined System risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between "1" and "9" is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to

a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the bank's and associations' allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs. The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio. A specific allowance may be established for impaired loans under authoritative accounting guidance. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral-dependent.

D. Other Property Owned:

Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying

amount at acquisition. Income and expenses from operations and carrying value adjustments are included in losses (gains) on other property owned.

E. Premises and Equipment:

Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation expense is calculated using the straight-line method over the estimated useful lives of 40 years for buildings and improvements, three to 10 years for furniture, equipment and certain leasehold improvements, and three years for automobiles. Computer software and hardware are amortized over three to 10 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized and amortized over the remaining useful life of the asset.

F. Other Assets and Other Liabilities:

The bank and associations are authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. The total outstanding gross balances of advance conditional payments, both netted against loans and classified as other liabilities, at December 31, 2015, 2014 and 2013 were \$192.5 million, \$130.1 million and \$123.6 million, respectively.

Derivative financial instruments are included on the balance sheet at fair value, as either other assets or other liabilities.

Other assets also includes any loans that are designated as a held-for-sale portfolio. At December 31, 2015, other assets included one loan held for sale with a fair value of \$4,850.

G. Employee Benefit Plans:

Employees of the bank and associations participate in one of two districtwide retirement plans and are eligible to participate in the 401(k) plan of the district. Within the 401(k) plan, a certain percentage of employee contributions is matched by the bank and associations. The 401(k) plan costs are expensed as incurred. Additionally, certain qualified individuals in the bank and associations may participate in a separate, nonqualified supplemental 401(k) plan.

As more fully described in Note 11, "Employee Benefit Plans," these plans are accounted for and reported in accordance with authoritative accounting guidance. The bank and all associations provide certain health care benefits to eligible retired employees and directors. District employees' eligibility for these benefits upon retirement is dependent on conditions set by each district employer.

The structure of the district's defined benefit plan is characterized as multiemployer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. Participating employers are jointly and severally liable for the plan obligations. Upon withdrawal or termination of their participation in the plan, a participating employer must pay all associated costs of its

withdrawal from the plan, including its unfunded liability (the difference between replacement annuities and the withdrawing employer's share of allocated plan assets) and associated costs of withdrawal. As a result, participating employers of the plans only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. The majority of plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination at the district level only.

Authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits other than pensions (primarily health care benefits) to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

H. Income Taxes:

The bank, the FLCA and the FLCA subsidiaries of ACA parent companies are exempt from federal and certain other income taxes as provided in the Farm Credit Act. The ACAs and their PCA subsidiaries provide for federal and certain other income taxes.

Certain ACAs operate as cooperatives which qualify for tax treatment under Subchapter T of the Internal Revenue Code. These ACAs and their PCA subsidiaries can exclude from taxable income amounts distributed as qualified patronage distributions to borrowers in the form of cash, stock or allocated retained earnings. Provisions for income taxes for these ACAs are made only on the earnings not distributed as qualified patronage distributions. Certain ACAs distribute patronage on the basis of taxable income. In this method, deferred income taxes are provided on the taxable income of ACAs on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. Other ACAs distribute patronage on the basis of book income. In this method, deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. For most ACAs, a valuation allowance is provided for the deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduce taxable earnings.

As of December 31, 2015, deferred income taxes have not been provided by the ACAs and their PCA subsidiaries on \$36.0 million of pre-1993 patronage distributions from the bank because management's intent is to (1) permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) pass any distributions related to pre-1993 earnings to borrowers through qualified patronage allocations. No deferred taxes have been provided on the bank's post-1994 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances which, if distributions were made, would result in income taxes being paid at the association level.

I. Derivative Instruments and Hedging Activity:

In the normal course of business, the bank may enter into derivative financial instruments, including interest rate swaps and caps, which are principally used to manage interest rate risk on

assets, liabilities and firm commitments. Derivatives are recorded on the balance sheet as assets and liabilities at fair value.

For fair-value hedge transactions which hedge changes in the fair value of assets, liabilities or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value. For cash flow hedges, which hedge the exposure to variability in expected future cash flows, changes in the fair value of the derivative are reflected in accumulated other comprehensive income. The bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific liabilities on the balance sheet. The bank may use interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of authoritative accounting guidance, and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively when the bank determines that a derivative has not been or is not expected to be effective as a hedge. In the event that hedge accounting were discontinued and the derivative remained outstanding, the bank would carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings. See Note 16, "Derivative Instruments and Hedging Activity," for additional disclosures about derivative instruments.

J. Fair Value Measurements:

The Financial Accounting Standards Board (FASB) guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Included in Level 1 are assets held in trust funds, which relate to deferred compensation. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities and derivative contracts. The market value of collateral assets and liabilities is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes the district's Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), non-agency securities, certain loans and other property owned.

The fair value disclosures are presented in Note 15, "Fair Value Measurements."

K. Recently Issued or Adopted Accounting Pronouncements:

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

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

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from

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

L. Off-Balance-Sheet Credit Exposures:

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

M. Merger Accounting:

The authoritative guidance on business combinations applies to all transactions in which an entity obtains control of one or more businesses and requires the acquirer to use the acquisition method of accounting and recognize assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date.

For System institutions, because the stock in each association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the acquiring association would identify and estimate the acquisition date fair value of the equity interests (net assets) of the acquired association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, are measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. The excess value received, by the acquiring association from the acquired association, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

N. Change in Accounting Principle – Debt Issuance Costs:

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance entitled "Interest — Imputation of Interest." The guidance requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). This guidance was to become effective for interim and annual reporting periods beginning after December 15, 2015, with early application permitted. The bank elected to adopt this guidance effective December 31, 2015, with the required retroactive application. The adoption of this guidance resulted in the Balance Sheets reclassification of unamortized debt issuance costs from "Other assets" to offset balance of the related debt liability, and had no impact on retained earnings or shareholders' equity and did not result in any change to the Statements of Comprehensive Income.

The amounts of unamortized debt issuance costs reclassified from “Other assets” to offset the related debt are summarized below:

	2015	2014	2013
Bonds and notes	\$ 13,652	\$ 11,273	\$ 12,696
Subordinated debt	199	261	319
Total reclassification from “Other assets”	\$ 13,851	\$ 11,534	\$ 13,015

Note 3 — Investment Securities

The district’s available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of agency-guaranteed debt instruments, mortgage-backed investments, asset-backed investments and corporate debt. At December 31, 2015, the district’s other investments portfolio consisted of AMBS held by district associations in a held-to-maturity portfolio with an amortized cost of \$30.2 million and AMBS held by the bank in an available-for-sale portfolio with a fair value of \$65.7 million. The bank’s AMBS were purchased from district associations as a part of the bank’s Capitalized Participation Pool (CPP) program. In accordance with this program, any positive impact to the net income of the bank can be returned as patronage to the association if declared by the bank’s board of directors. The declared patronage approximates the net earnings of the respective pool, which is eliminated upon combination.

Investments in the available-for-sale liquidity portfolio and held-to-maturity investments at December 31, 2015, 2014 and 2013 follow:

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	\$ 252,436	\$ 112	\$ (4,193)	\$ 248,355	1.68%
Corporate debt	201,332	54	(784)	200,602	0.97
Federal agency collateralized mortgage-backed securities					
GNMA	1,740,411	3,778	(12,433)	1,731,756	1.51
FNMA and FHLMC	2,008,449	2,996	(12,776)	1,998,669	1.31
Asset-backed securities	200,485	2	(414)	200,073	0.85
Total liquidity investment	\$ 4,403,113	\$ 6,942	\$ (30,600)	\$ 4,379,455	1.37%

Held-to-maturity investments:

Agricultural mortgage-backed securities	\$ 30,213	\$ 77	\$ (271)	\$ 30,019	4.54%
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	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	\$ 159,334	\$ —	\$ (4,144)	\$ 155,190	1.45%
Corporate debt	241,516	313	(299)	241,530	0.76
Federal agency collateralized mortgage-backed securities					
GNMA	1,708,215	6,212	(13,010)	1,701,417	1.54
FNMA and FHLMC	1,829,075	6,174	(9,355)	1,825,894	1.36
Other collateralized mortgage-backed securities	7	—	—	7	2.42
Asset-backed securities	81,806	10	(46)	81,770	0.59
Total liquidity investments	\$ 4,019,953	\$ 12,709	\$ (26,854)	\$ 4,005,808	1.39%

Held-to-maturity investments:

Agricultural mortgage-backed securities	\$ 39,086	\$ 180	\$ (281)	\$ 38,985	4.58%
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	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	\$ 135,738	\$ —	\$ (5,714)	\$ 130,024	1.53%
Corporate debt	250,312	482	(1,215)	249,579	0.83
Federal agency collateralized mortgage-backed securities					
GNMA	1,690,952	9,400	(19,926)	1,680,426	1.43
FNMA and FHLMC	1,431,037	4,838	(14,297)	1,421,578	1.16
Other collateralized mortgage-backed securities	7,736	—	(207)	7,529	2.76
Asset-backed securities	51,320	43	(67)	51,296	0.61
Total liquidity investments	\$ 3,567,095	\$ 14,763	\$ (41,426)	\$ 3,540,432	1.28%

Held-to-maturity investments:

Agricultural mortgage-backed securities	\$ 55,669	\$ 79	\$ (632)	\$ 55,116	4.57%
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Investments in the available-for-sale other investments portfolio follow:

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 67,268	\$ —	\$ (1,618)	\$ 65,650	4.10%

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 82,539	\$ —	\$ (1,956)	\$ 80,583	4.17%

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 101,063	\$ —	\$ (3,640)	\$ 97,423	4.29%

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of the available-for-sale liquidity portfolio at December 31, 2015, follows:

	Due In One Year Or Less	Due After One Year Through Five Years	Due After Five Years Through 10 Years	Due After 10 Years	Total
Agency-guaranteed debt	\$ —	\$ —	\$ 239,200	\$ 9,155	\$ 248,355
Corporate debt	54,053	146,549	—	—	200,602
Federal agency collateralized mortgage-backed securities					
GNMA	—	779	9,650	1,721,327	1,731,756
FNMA and FHLMC	—	23,111	166,205	1,809,353	1,998,669
Asset-backed securities	—	195,770	—	4,303	200,073
Total	\$ 54,053	\$ 366,209	\$ 415,055	\$ 3,544,138	\$ 4,379,455
Total amortized cost	\$ 54,000	\$ 367,083	\$ 419,460	\$ 3,562,570	\$ 4,403,113
Weighted average yield	0.83%	1.00%	1.65%	1.38%	1.37%

Collateralized mortgage obligations (CMOs) have stated contractual maturities in excess of 15 years. However, the security structure of the CMOs is designed to produce a relatively short-term life. At

December 31, 2015, the CMO portfolio had a weighted average remaining life of approximately three years.

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

	Due After One Year Through Five Years
Fair value of agricultural mortgage-backed securities	\$ 65,650
Total amortized cost	67,268
Weighted average yield	4.10%

Investments in the district's held-to-maturity investment portfolio at December 31, 2015, follow:

	Due After One Year Through Five Years	Due After Five Years Through 10 Years	Total
Fair value	\$ 18,537	\$ 11,482	\$ 30,019
Amortized cost	18,499	11,714	30,213
Weighted average yield	4.94%	3.90%	4.54%

The ratings of the eligible investments held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk must meet the applicable regulatory guidelines, which require these securities to be high-quality, senior class and rated triple-A at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through overcollateralization and the priority of payments of senior classes over junior classes. The bank performs analysis based on expected

behavior of the loans, whereby these loan performance scenarios are applied against each security's credit-support structure to monitor credit-enhancement sufficiency to protect the investment. The model output includes projected cash flows, including any shortfalls in the capacity of the underlying collateral to fully return the original investment, plus accrued interest.

There were no sales of other-than-temporarily impaired (OTTI) investments in 2015. There was a sale of one OTTI security in 2014 and five OTTI securities in 2013. Proceeds and related losses on sales or impairments of specific investment securities follow:

	Year Ended December 31,		
	2015	2014	2013
Proceeds on sales	\$ —	\$ 7,073	\$ 19,844
Realized losses due to impairment	—	—	1
Realized losses on sales	—	37	641

The net realized gain and loss is included on the combined statements of income as part of total noninterest income.

At December 31, 2015, the district had 155 investments that were in a loss position out of 280 total investments. The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position. The continuous loss position is based on the date the impairment occurred. An investment is considered impaired if its fair value is less than its cost.

	December 31, 2015					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	\$ 128,784	\$ (1,413)	\$ 95,370	\$ (2,780)	\$ 224,154	\$ (4,193)
Corporate debt	144,151	(637)	12,398	(147)	156,549	(784)
Federal agency collateralized mortgage-backed securities						
GNMA	406,962	(1,775)	571,789	(10,658)	978,751	(12,433)
FNMA and FHLMC	1,366,070	(7,925)	138,358	(4,851)	1,504,428	(12,776)
Asset-backed securities	175,092	(393)	14,979	(21)	190,071	(414)
Total	\$ 2,221,059	\$ (12,143)	\$ 832,894	\$ (18,457)	\$ 3,053,953	\$ (30,600)

	December 31, 2014					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	\$ 64,869	\$ (128)	\$ 90,321	\$ (4,016)	\$ 155,190	\$ (4,144)
Corporate debt	77,228	(290)	14,991	(9)	92,219	(299)
Federal agency collateralized mortgage-backed securities						
GNMA	567,669	(2,188)	394,308	(10,822)	961,977	(13,010)
FNMA and FHLMC	431,074	(2,343)	437,178	(7,012)	868,252	(9,355)
Other collateralized mortgage-backed securities	—	—	7	—	7	—
Asset-backed securities	47,256	(46)	—	—	47,256	(46)
Total	\$ 1,188,096	\$ (4,995)	\$ 936,805	\$ (21,859)	\$ 2,124,901	\$ (26,854)

	December 31, 2013					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	\$ 130,024	\$ (5,714)	\$ —	\$ —	\$ 130,024	\$ (5,714)
Corporate debt	63,918	(1,005)	19,791	(209)	83,709	(1,214)
Federal agency collateralized mortgage-backed securities						
GNMA	726,115	(15,916)	61,698	(4,011)	787,813	(19,927)
FNMA and FHLMC	913,673	(14,298)	—	—	913,673	(14,298)
Other collateralized mortgage-backed securities	4,833	(6)	2,696	(200)	7,529	(206)
Asset-backed securities	14,682	(2)	1,157	(65)	15,839	(67)
Total	\$ 1,853,245	\$ (36,941)	\$ 85,342	\$ (4,485)	\$ 1,938,587	\$ (41,426)

As more fully discussed in Note 2, “Summary of Significant Accounting Policies,” the guidance for other-than-temporarily impaired contemplates numerous factors in determining whether an impairment is other-than-temporary, including: (i) whether or not an entity intends to sell the security; (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs; or (iii) whether an entity does not expect to recover the security’s entire amortized cost basis (even if it does not intend to sell).

The bank and associations perform a quarterly evaluation on a security-by-security basis considering all available information. If the bank or an association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the entire difference between amortized cost and fair value of the security. When the bank or an association does not intend to sell securities in an unrealized loss position, other-than-temporarily impaired is considered using various factors, including the length of time and the extent to which the fair value is less than cost; adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral; payment structure of the security; ratings by rating agencies; the creditworthiness of bond insurers; and volatility of the fair value changes. A bank or association uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, the bank and associations consider factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements.

The district held no investment securities designated as OTTI at December 31, 2015 and 2014. During 2014, the bank recognized credit losses on the sale of one OTTI security with a book value of \$301, realizing a loss of \$37. During 2013, the bank recognized credit losses on the sale of five OTTI securities totaling \$641. Noncredit losses on these investments, totaling \$51, were included as a charge against accumulated other comprehensive income at December 31, 2013. There were sales of OTTI securities in March 2013, November 2013 and December 2013, which had book values of \$5.1 million, \$1.8 million and \$10.9 million, respectively, realizing losses of \$143, \$199 and \$299, respectively.

To measure the amount related to credit loss in the determination of other-than-temporary impairment, the bank may utilize an independent third-party’s services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities’ loan level data. The present value of these cash flow projections is then evaluated against the specific security’s structure and credit enhancement to determine if the bond will absorb losses.

The following table details the activity related to the credit loss component of the amortized cost of debt securities that have been written down for other-than-temporarily impaired and the credit component of the loss that is recognized in earnings for the past three years:

	For the Twelve Months Ended December 31,		
	2015	2014	2013
Credit loss component, beginning of period	\$ —	\$ 454	\$ 5,084
Additions:			
Subsequent credit impairment	—	37	641
Reductions:			
For securities sold	—	(491)	(5,271)
Credit loss component, end of period	\$ —	\$ —	\$ 454

Note 4 — Loans and Allowance for Loan Losses

A summary of the district’s loan types at December 31 follows:

	2015	2014	2013
Real estate mortgage	\$ 12,187,679	\$ 11,399,205	\$ 10,794,302
Production and intermediate term	2,763,018	2,426,838	1,877,296
Agribusiness			
Loans to cooperatives	233,171	173,115	173,572
Processing and marketing	3,126,782	2,573,461	2,345,046
Farm-related business	326,641	382,888	226,110
Communications	465,149	341,026	304,755
Energy (rural utilities)	1,288,196	1,285,432	1,343,360
Water and waste disposal	165,762	154,499	133,975
Rural home	301,305	262,243	225,942
Mission-related	265,546	307,921	242,583
Agricultural export finance	9,713	120	19,788
Loans to other financing institutions	42,598	38,919	34,380
Lease receivables	6,258	3,985	4,411
Total	\$ 21,181,818	\$ 19,349,652	\$ 17,725,520

The FCA approved a program that allows the bank and its associations to purchase investments in debt instruments called “Rural America Bonds.” This program is intended to help meet the growing financing needs of agriculture and rural America, improve the income and economic well-being of American farmers and ranchers, and enhance the economic vibrancy of rural areas that support agriculture. Loans related to this initiative are included in “mission-related” loans in the previous table. After the December 31, 2014, discontinuance of this program, approval of these investments may be sought from the FCA on an individual basis.

The bank’s capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank actively pursues the purchase of participations and syndications originated outside of the district’s territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or subparticipated to the associations or to other System entities.

The bank and associations purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information on loan participations, excluding syndications, at December 31, 2015:

	Other Farm Credit Institutions (Outside of Texas District)		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 130,799	\$ 156,894	\$ 102,363	\$ 21,893	\$ 233,162	\$ 178,787
Production and intermediate term	538,089	839,947	12,324	29,403	550,413	869,350
Agribusiness	1,833,675	22,492	23,586	3,121	1,857,261	25,613
Communications	465,799	—	—	—	465,799	—
Energy (rural utilities)	1,288,986	—	—	—	1,288,986	—
Water and waste disposal	146,290	—	—	—	146,290	—
Agricultural export finance	9,713	—	—	—	9,713	—
Lease receivables	6,028	—	60	—	6,088	—
Loans to other financing institutions	—	15,943	—	—	—	15,943
Direct note receivable from district associations	—	3,850,000	—	—	—	3,850,000
Mission-related	4,933	—	4,270	—	9,203	—
Total	\$ 4,424,312	\$ 4,885,276	\$ 142,603	\$ 54,417	\$ 4,566,915	\$ 4,939,693

At December 31, 2015, the bank had a total of \$3.85 billion of direct notes from district associations sold to another System bank. These sales provide diversification benefits between Farm Credit entities.

The district has elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled \$27,506 at December 31, 2015. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in Noninterest Income on the Statements of Comprehensive Income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis.

The following is a summary of the transactions on loans for which the fair value option has been elected for the 12 months ended December 31, 2015:

Balance at January 1, 2015	\$ 40,532
Maturities, repayments and calls by issuers	(10,175)
Net gains on financial instruments under fair value option	(838)
Change in premium amortization	(2,013)
Balance at December 31, 2015	<u>\$ 27,506</u>

The district's concentration of credit risk in various agricultural commodities is shown in the following table at December 31 (*dollars in millions*):

Commodity	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
Livestock	\$ 6,973	33%	\$ 6,363	33%	\$ 6,049	34%
Crops	2,760	13	2,591	13	2,362	14
Timber	1,688	8	1,628	9	1,615	9
Cotton	820	4	802	4	748	4
Poultry	758	4	655	3	567	3
Dairy	645	3	521	3	548	3
Rural home	301	1	262	1	226	1
Other	7,237	34	6,528	34	5,611	32
Total	<u>\$ 21,182</u>	<u>100%</u>	<u>\$ 19,350</u>	<u>100%</u>	<u>\$ 17,726</u>	<u>100%</u>

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

In March 2010, the bank purchased loans which had experienced credit deterioration and other property owned from a district association. The remaining loans from this purchase of \$1.2 million were transferred to accrual status in November 2013. There were two remaining loans in that portfolio that totaled \$1.2 million, with no related allowance for loan losses at December 31, 2014. The loans were sold at par value to a district association in 2015.

The bank has purchased loan participations from two district associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of

the purchased loans' par value. CPP loans held by the bank at December 31, 2015, totaled \$26,595.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loans. Interest income recognized and cash payments received on nonaccrual impaired loans are applied in a similar manner as for nonaccrual loans, as described in Note 2, "Summary of Significant Accounting Policies."

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due. Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties.

	December 31,		
	2015	2014	2013
Nonaccrual loans			
Current as to principal and interest	\$ 54,999	\$ 64,696	\$ 86,089
Past due	58,427	77,484	75,200
Total nonaccrual loans	113,426	142,180	161,289
Accrual loans			
Restructured	50,099	54,100	53,211
90 days or more past due	2,053	1,918	3,621
Total impaired accrual loans	52,152	56,018	56,832
Total impaired loans	\$ 165,578	\$ 198,198	\$ 218,122

There were \$1,189 in commitments to lend additional funds to borrowers whose loans were classified as nonaccrual or restructured at December 31, 2015.

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

	December 31,		
	2015	2014	2013
Nonaccrual loans			
Real estate mortgage	\$ 89,067	\$ 116,338	\$ 108,370
Production and intermediate term	15,962	11,995	38,410
Agribusiness	2,088	5,832	11,988
Rural residential real estate	1,116	961	1,302
Lease receivables	16	31	48
Energy and water/waste disposal	—	7,023	1,171
Mission-related loans	5,177	—	—
Total nonaccrual loans	113,426	142,180	161,289
Accruing restructured loans			
Real estate mortgage	20,123	25,499	33,717
Production and intermediate term	23,702	22,252	14,129
Agribusiness	—	—	105
Rural residential real estate	340	275	72
Mission-related loans	5,934	6,074	5,189
Total accruing restructured loans	50,099	54,100	53,212
Accruing loans 90 days or more past due			
Real estate mortgage	498	704	754
Production and intermediate term	603	—	2,371
Agribusiness	—	1	—
Rural residential real estate	223	156	—
Mission-related loans	729	1,057	496
Total accruing loans 90 days or more past due	2,053	1,918	3,621
Total nonperforming loans	165,578	198,198	218,122
Other property owned	18,744	32,710	47,142
Total nonperforming assets	\$ 184,322	\$ 230,908	\$ 265,264

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

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

The following table presents loans and related accrued interest classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2015	2014	2013
Real estate mortgage			
Acceptable	97.2%	96.5%	96.1%
OAEM	1.5	1.7	1.7
Substandard/Doubtful	1.3	1.8	2.2
	100.0%	100.0%	100.0%
Production and intermediate term			
Acceptable	96.4%	96.6%	93.5%
OAEM	1.8	1.8	2.7
Substandard/Doubtful	1.8	1.6	3.8
	100.0%	100.0%	100.0%
Agribusiness			
Acceptable	97.7%	98.7%	98.3%
OAEM	1.7	1.0	0.8
Substandard/Doubtful	0.6	0.3	0.9
	100.0%	100.0%	100.0%
Energy and water/waste disposal			
Acceptable	98.2%	98.7%	97.3%
OAEM	1.8	0.8	—
Substandard/Doubtful	—	0.5	2.7
	100.0%	100.0%	100.0%
Communications			
Acceptable	99.7%	99.6%	99.5%
OAEM	—	—	—
Substandard/Doubtful	0.3	0.4	0.5
	100.0%	100.0%	100.0%
Rural home			
Acceptable	97.7%	97.6%	96.9%
OAEM	1.1	1.0	1.2
Substandard/Doubtful	1.2	1.4	1.9
	100.0%	100.0%	100.0%
Agricultural export finance			
Acceptable	100.0%	100.0%	100.0%
OAEM	—	—	—
Substandard/Doubtful	—	—	—
	100.0%	100.0%	100.0%
Lease receivables			
Acceptable	99.7%	93.2%	92.2%
OAEM	—	5.9	6.5
Substandard/Doubtful	0.3	0.9	1.3
	100.0%	100.0%	100.0%

	2015	2014	2013
Loans to other financing institutions			
Acceptable	100.0%	100.0%	100.0%
OAEM	—	—	—
Substandard/Doubtful	—	—	—
	100.0%	100.0%	100.0%
Mission-related			
Acceptable	98.1%	98.3%	97.4%
OAEM	—	—	—
Substandard/Doubtful	1.9	1.7	2.6
	100.0%	100.0%	100.0%
Total loans			
Acceptable	97.3%	97.1%	96.4%
OAEM	1.6	1.5	1.4
Substandard/Doubtful	1.1	1.4	2.2
	100.0%	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2015:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	\$ 40,516	\$ 32,245	\$ 72,761	\$ 12,224,166	\$ 12,296,927	\$ 498
Production and intermediate term	21,945	9,251	31,196	2,758,027	2,789,223	603
Agribusiness	6,633	143	6,776	3,694,602	3,701,378	—
Energy and water/waste disposal	—	—	—	1,459,502	1,459,502	—
Communications	—	—	—	465,457	465,457	—
Rural residential real estate	1,737	288	2,025	300,578	302,603	223
Agricultural export finance	—	—	—	9,735	9,735	—
Lease receivables	8	—	8	6,330	6,338	—
Loans to OFIs	—	—	—	42,647	42,647	—
Mission-related	227	5,906	6,133	261,884	268,017	729
Total	\$ 71,066	\$ 47,833	\$ 118,899	\$ 21,222,928	\$ 21,341,827	\$ 2,053

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2014:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	\$ 41,202	\$ 60,345	\$ 101,547	\$ 11,396,150	\$ 11,497,697	\$ 704
Production and intermediate term	11,345	2,537	13,882	2,434,265	2,448,147	—
Agribusiness	8,775	2,498	11,273	3,131,936	3,143,209	1
Energy and water/waste disposal	4,916	2,086	7,002	1,438,602	1,445,604	—
Communications	—	—	—	341,312	341,312	—
Rural residential real estate	3,013	267	3,280	259,932	263,212	156
Agricultural export finance	—	—	—	120	120	—
Lease receivables	—	—	—	4,071	4,071	—
Loans to OFIs	—	—	—	38,966	38,966	—
Mission-related	1,108	1,057	2,165	308,795	310,960	1,057
Total	\$ 70,359	\$ 68,790	\$ 139,149	\$ 19,354,149	\$ 19,493,298	\$ 1,918

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2013:

	Days Past Due	or More Past Due	Total Past Due	Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	\$ 39,855	\$ 45,347	\$ 85,202	\$ 10,802,797	\$ 10,887,999	\$ 754
Production and intermediate term	13,255	16,762	30,017	1,865,035	1,895,052	2,371
Agribusiness	1,723	2,743	4,466	2,751,517	2,755,983	—
Energy and water/waste disposal	—	—	—	1,481,665	1,481,665	—
Communications	—	—	—	305,050	305,050	—
Rural residential real estate	1,899	329	2,228	224,751	226,979	—
Agricultural export finance	—	—	—	19,828	19,828	—
Lease receivables	—	—	—	4,507	4,507	—
Loans to OFIs	—	—	—	34,421	34,421	—
Mission-related	8,535	496	9,031	235,847	244,878	496
Total	\$ 65,267	\$ 65,677	\$ 130,944	\$ 17,725,418	\$ 17,856,362	\$ 3,621

Note: The recorded investment in the 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.

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

As of December 31, 2015, the total recorded investment of troubled debt restructured loans was \$63.9 million including \$13.8 million classified as nonaccrual and \$50.1 million classified as accrual, with specific allowance for loan losses of \$1,368. As of December 31, 2015, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$335.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the years ended December 31, 2015, 2014 and 2013. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. For the year ended December 31, 2015:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	\$ 6,437	\$ 6,026
Production and intermediate term	4,723	5,010
Rural residential real estate	402	426
Mission-related	941	955
Total	\$ 12,503	\$ 12,417

For the year ended December 31, 2014:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	\$ 8,711	\$ 8,299
Production and intermediate term	12,665	11,712
Rural residential real estate	190	222
Mission-related	941	955
Total	\$ 22,507	\$ 21,188

For the year ended December 31, 2013:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	\$ 2,019	\$ 1,964
Production and intermediate term	280	255
Agribusiness	6,622	2,971
Rural residential real estate	104	112
Mission-related	5,172	5,165
Total	\$ 14,197	\$ 10,467

*Note: Premodification represents the recorded investment prior to restructuring, and postmodification represents the recorded investment following the restructuring. The recorded investment is the face amount of the receivable 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.

A payment default is defined as a payment that is 30 days past due after the date the loan was restructured. There were no payment defaults on troubled debt restructurings that occurred within the previous 12 months. The payment defaults on troubled debt restructured loans was related to one borrower at a district association in 2013. The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

	Recorded Investment at December 31, 2015	Recorded Investment at December 31, 2014	Recorded Investment at December 31, 2013
Troubled debt restructurings that subsequently defaulted:			
Real estate mortgage	\$ —	\$ —	\$ 100
Total	\$ —	\$ —	\$ 100

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

	Total Loans Modified as TDRs			TDRs in Nonaccrual Status		
	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2015	December 31, 2014	December 31, 2013
Real estate mortgage	\$ 31,424	\$ 40,634	\$ 51,548	\$ 11,301	\$ 15,135	\$ 17,831
Production and intermediate term	24,174	25,571	14,535	472	3,319	406
Agribusiness	1,788	3,332	8,525	1,788	3,332	8,419
Rural residential real estate	546	279	109	206	4	38
Mission-related	5,934	6,074	5,189	—	—	—
Total	\$ 63,866	\$ 75,890	\$ 79,906	\$ 13,767	\$ 21,790	\$ 26,694

Additional impaired loan information at December 31, 2015, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses					
Real estate mortgage	\$ 14,105	\$ 14,724	\$ 2,649	\$ 16,921	\$ 825
Production and intermediate term	6,742	6,832	2,534	4,138	106
Processing and marketing	—	—	—	262	—
Farm-related business	934	4,858	121	921	—
Energy and water/waste disposal	—	—	—	1,714	—
Rural residential real estate	51	51	10	46	2
Mission-related	2,549	2,549	184	3,199	586
Total	\$ 24,381	\$ 29,014	\$ 5,498	\$ 27,201	\$ 1,519
Impaired loans with no related allowance for credit losses					
Real estate mortgage	\$ 95,583	\$ 105,816	\$ —	\$ 114,126	\$ 9,133
Production and intermediate term	33,525	47,230	—	31,747	6,551
Processing and marketing	1,008	26,748	—	2,654	27
Farm-related business	146	563	—	161	32
Energy and water/waste disposal	—	22,730	—	1,687	—
Rural residential real estate	1,628	1,823	—	1,434	90
Lease receivables	16	16	—	24	—
Mission-related	9,291	12,482	—	3,936	638
Total	\$ 141,197	\$ 217,408	\$ —	\$ 155,769	\$ 16,471
Total impaired loans					
Real estate mortgage	\$ 109,688	\$ 120,540	\$ 2,649	\$ 131,047	\$ 9,958
Production and intermediate term	40,267	54,062	2,534	35,885	6,657
Processing and marketing	1,008	26,748	—	2,916	27
Farm-related business	1,080	5,421	121	1,082	32
Energy and water/waste disposal	—	22,730	—	3,401	—
Rural residential real estate	1,679	1,874	10	1,480	92
Lease receivables	16	16	—	24	—
Mission-related	11,840	15,031	184	7,135	1,224
Total	\$ 165,578	\$ 246,422	\$ 5,498	\$ 182,970	\$ 17,990

*Unpaid principal balance represents the contractual obligations of the loans.

Additional impaired loan information at December 31, 2014, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses					
Real estate mortgage	\$ 21,079	\$ 23,508	\$ 4,564	\$ 26,075	\$ 764
Production and intermediate term	4,029	4,838	1,542	12,669	25
Processing and marketing	1,071	1,577	237	1,621	—
Farm-related business	920	4,844	138	991	—
Energy and water/waste disposal	7,023	7,023	5,500	2,857	21
Rural residential real estate	114	173	17	57	2
Mission-related	2,612	2,612	176	2,576	236
Total	\$ 36,848	\$ 44,575	\$ 12,174	\$ 46,846	\$ 1,048
Impaired loans with no related allowance for credit losses					
Real estate mortgage	\$ 121,462	\$ 138,174	\$ —	\$ 111,045	\$ 5,037
Production and intermediate term	30,218	47,394	—	27,267	2,360
Loans to cooperatives	—	—	—	420	28
Processing and marketing	3,668	29,614	—	3,927	6
Farm-related business	174	760	—	187	89
Energy and water/waste disposal	—	22,730	—	—	1
Rural residential real estate	1,278	1,370	—	1,399	43
Lease receivables	31	31	—	39	—
Mission-related	4,519	8,217	—	4,333	300
Total	\$ 161,350	\$ 248,290	\$ —	\$ 148,617	\$ 7,864
Total impaired loans					
Real estate mortgage	\$ 142,541	\$ 161,682	\$ 4,564	\$ 137,120	\$ 5,801
Production and intermediate term	34,247	52,232	1,542	39,936	2,385
Loans to cooperatives	—	—	—	420	28
Processing and marketing	4,739	31,191	237	5,548	6
Farm-related business	1,094	5,604	138	1,178	89
Energy and water/waste disposal	7,023	29,753	5,500	2,857	22
Rural residential real estate	1,392	1,543	17	1,456	45
Lease receivables	31	31	—	39	—
Mission-related	7,131	10,829	176	6,909	536
Total	\$ 198,198	\$ 292,865	\$ 12,174	\$ 195,463	\$ 8,912

*Unpaid principal balance represents the contractual obligations of the loans.

Additional impaired loan information at December 31, 2013, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses					
Real estate mortgage	\$ 41,123	\$ 50,123	\$ 9,905	\$ 48,402	\$ 577
Production and intermediate term	27,653	28,654	6,212	21,486	452
Processing and marketing	6,878	10,871	2,401	28,201	136
Farm-related business	1,068	4,992	191	3,340	—
Energy and water/waste disposal	1,171	1,171	1,147	1,359	—
Communications	—	—	—	2,099	123
Rural residential real estate	253	253	14	285	6
Mission-related	2,331	2,331	78	585	39
Total	\$ 80,477	\$ 98,395	\$ 19,948	\$ 105,757	\$ 1,333
Impaired loans with no related allowance for credit losses					
Real estate mortgage	\$ 101,718	\$ 111,132	\$ —	\$ 136,514	\$ 7,197
Production and intermediate term	27,256	49,522	—	25,214	3,565
Processing and marketing	3,856	28,391	—	10,922	70
Farm-related business	292	1,000	—	2,385	309
Energy and water/waste disposal	—	22,796	—	—	—
Communications	—	—	—	414	—
Rural residential real estate	1,120	1,210	—	1,338	55
Lease receivables	48	48	—	55	—
Mission-related	3,354	7,088	—	1,166	89
Total	\$ 137,644	\$ 221,187	\$ —	\$ 178,008	\$ 11,285
Total impaired loans					
Real estate mortgage	\$ 142,841	\$ 161,255	\$ 9,905	\$ 184,916	\$ 7,774
Production and intermediate term	54,909	78,176	6,212	46,700	4,017
Processing and marketing	10,734	39,262	2,401	39,123	206
Farm-related business	1,360	5,992	191	5,725	309
Energy and water/waste disposal	1,171	23,967	1,147	1,359	—
Communications	—	—	—	2,513	123
Rural residential real estate	1,373	1,463	14	1,623	61
Lease receivables	48	48	—	55	—
Mission-related	5,685	9,419	78	1,751	128
Total	\$ 218,121	\$ 319,582	\$ 19,948	\$ 283,765	\$ 12,618

*Unpaid principal balance represents the contractual obligations of the loans.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans were as follows at December 31:

	2015	2014	2013
Interest income which would have been recognized under the original loan terms	\$ 29,706	\$ 24,037	\$ 30,749
Less: Interest income recognized	17,769	8,912	12,618
Foregone interest income	\$ 11,937	\$ 15,125	\$ 18,131

A summary of changes in the allowance for loan losses and period end recorded investment (including accrued interest) in loans follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivables	Loans to OFIs	Mission- Related	Total
Allowance for Loan Losses:											
Balance at December 31, 2014	\$ 38,137	\$ 10,404	\$ 6,215	\$ 716	\$ 8,155	\$ 472	\$ —	\$ 44	\$ —	\$ 214	\$ 64,357
Charge-offs	(1,795)	(1,010)	(14)	—	(2,065)	(23)	—	—	—	—	(4,907)
Recoveries	4,735	1,851	1,566	190	—	200	—	—	—	—	8,542
(Negative provision) provision for loan losses	(1,042)	8,056	1,038	206	(2,609)	(23)	3	(1)	—	25	5,653
Adjustment due to merger	(1,013)	(1,223)	(125)	—	—	(2)	—	—	—	—	(2,363)
Other*	173	(617)	(418)	(25)	(39)	(4)	—	—	—	(2)	(932)
Balance at December 31, 2015	\$ 39,195	\$ 17,461	\$ 8,262	\$ 1,087	\$ 3,442	\$ 620	\$ 3	\$ 43	\$ —	\$ 237	\$ 70,350
Individually evaluated for impairment	\$ 2,965	\$ 2,570	\$ 844	\$ —	\$ —	\$ 6	\$ —	\$ —	\$ —	\$ 184	\$ 6,569
Collectively evaluated for impairment	36,230	14,891	7,418	1,087	3,442	614	3	43	—	53	63,781
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2015	\$ 39,195	\$ 17,461	\$ 8,262	\$ 1,087	\$ 3,442	\$ 620	\$ 3	\$ 43	\$ —	\$ 237	\$ 70,350
Recorded Investments in Loans Outstanding:											
Balance at December 31, 2015	\$ 12,296,927	\$ 2,789,223	\$ 3,701,378	\$ 465,457	\$ 1,459,502	\$ 302,603	\$ 9,735	\$ 6,338	\$ 42,647	\$ 268,017	\$ 21,341,827
Ending Balance: loans individually evaluated for impairment	\$ 112,734	\$ 40,865	\$ 4,107	\$ —	\$ —	\$ 1,743	\$ —	\$ 16	\$ —	\$ 11,808	\$ 171,273
Ending Balance: loans collectively evaluated for impairment	\$ 12,183,511	\$ 2,748,320	\$ 3,697,128	\$ 465,457	\$ 1,459,502	\$ 300,860	\$ 9,735	\$ 6,322	\$ 42,647	\$ 256,209	\$ 21,169,691
Ending Balance: loans acquired with deteriorated credit quality	\$ 682	\$ 38	\$ 143	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 863

*Reserve for losses on standby letters of credit and unfunded commitments recorded in other liabilities.

	Production and Real Estate Mortgage	Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivables	Loans to OFIs	Mission- Related	Total
Allowance for Loan Losses:											
Balance at December 31, 2013	\$ 42,429	\$ 13,591	\$ 11,654	\$ 641	\$ 5,222	\$ 429	\$ 7	\$ 49	\$ —	\$ 142	\$ 74,164
Charge-offs	(4,516)	(1,200)	(625)	—	—	(82)	—	—	—	—	(6,423)
Recoveries	409	1,545	493	—	57	—	—	—	—	—	2,504
Provision (negative provision) for loan losses	835	(2,463)	(4,400)	109	(786)	149	(7)	(5)	—	98	(6,470)
Adjustment due to merger	(1,696)	(193)	(88)	(2)	(242)	(24)	—	—	—	—	(2,245)
Other*	676	(876)	(819)	(32)	3,904	—	—	—	—	(26)	2,827
Balance at December 31, 2014	\$ 38,137	\$ 10,404	\$ 6,215	\$ 716	\$ 8,155	\$ 472	\$ —	\$ 44	\$ —	\$ 214	\$ 64,357
Individually evaluated for impairment	\$ 4,603	\$ 1,560	\$ 1,194	\$ —	\$ 5,500	\$ 11	\$ —	\$ —	\$ —	\$ 176	\$ 13,044
Collectively evaluated for impairment	33,534	8,844	5,021	716	2,655	461	—	44	—	38	51,313
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2014	\$ 38,137	\$ 10,404	\$ 6,215	\$ 716	\$ 8,155	\$ 472	\$ —	\$ 44	\$ —	\$ 214	\$ 64,357
Recorded Investments in Loans Outstanding:											
Balance at December 31, 2014	\$ 11,497,697	\$ 2,448,147	\$ 3,143,209	\$ 341,312	\$ 1,445,604	\$ 263,212	\$ 120	\$ 4,071	\$ 38,966	\$ 310,960	\$ 19,493,298
Ending Balance: loans individually evaluated for impairment	\$ 143,575	\$ 34,216	\$ 7,960	\$ —	\$ 7,023	\$ 1,460	\$ —	\$ 31	\$ —	\$ 7,061	\$ 201,326
Ending Balance: loans collectively evaluated for impairment	\$ 11,352,730	\$ 2,413,818	\$ 3,135,106	\$ 341,312	\$ 1,438,581	\$ 261,752	\$ 120	\$ 4,040	\$ 38,966	\$ 303,899	\$ 19,290,324
Ending Balance: loans acquired with deteriorated credit quality	\$ 1,392	\$ 113	\$ 143	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,648

*Reserve for losses on standby letters of credit and unfunded commitments recorded in other liabilities.

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivables	Loans to OFIs	Mission- Related	Total
Allowance for Loan Losses:											
Balance at December 31, 2012	\$ 42,868	\$ 20,939	\$ 36,753	\$ 2,602	\$ 3,213	\$ 398	\$ 3	\$ 30	\$ —	\$ 36	\$ 106,842
Charge-offs	(9,300)	(6,641)	(28,018)	—	—	(151)	—	—	—	—	(44,110)
Recoveries	1,418	1,548	2,355	—	—	14	—	—	—	—	5,335
Provision (negative provision) for loan losses	8,523	(1,912)	505	(1,960)	855	168	4	19	—	106	6,308
Other*	(1,080)	(343)	59	(1)	1,154	—	—	—	—	—	(211)
Balance at December 31, 2013	\$ 42,429	\$ 13,591	\$ 11,654	\$ 641	\$ 5,222	\$ 429	\$ 7	\$ 49	\$ —	\$ 142	\$ 74,164
Individually evaluated for impairment	\$ 10,111	\$ 6,207	\$ 3,534	\$ —	\$ 1,147	\$ 25	\$ —	\$ —	\$ —	\$ 78	\$ 21,102
Collectively evaluated for impairment	32,318	7,384	8,120	641	4,075	404	7	49	—	64	53,062
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2013	\$ 42,429	\$ 13,591	\$ 11,654	\$ 641	\$ 5,222	\$ 429	\$ 7	\$ 49	\$ —	\$ 142	\$ 74,164
Recorded Investments in Loans Outstanding:											
Balance at December 31, 2013	\$ 10,887,999	\$ 1,895,052	\$ 2,755,983	\$ 305,050	\$ 1,481,665	\$ 226,979	\$ 19,828	\$ 4,507	\$ 34,421	\$ 244,878	\$ 17,856,362
Ending Balance: loans individually evaluated for impairment	\$ 152,836	\$ 54,594	\$ 14,836	\$ —	\$ 1,171	\$ 1,997	\$ —	\$ 48	\$ —	\$ 5,165	\$ 230,647
Ending Balance: loans collectively evaluated for impairment	\$ 10,735,163	\$ 1,840,458	\$ 2,741,147	\$ 305,050	\$ 1,480,494	\$ 224,982	\$ 19,828	\$ 4,459	\$ 34,421	\$ 239,713	\$ 17,625,715
Ending Balance: loans acquired with deteriorated credit quality	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2015	2014	2013
Land	\$ 18,090	\$ 17,689	\$ 14,242
Buildings and improvements	63,614	54,687	49,977
Furniture and equipment	85,988	75,889	65,516
	167,692	148,265	129,735
Accumulated depreciation	(62,652)	(54,949)	(50,281)
Total	\$ 105,040	\$ 93,316	\$ 79,454

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space. Under the terms of the lease amendment, the bank will pay annual base rental ranging from \$18 per square foot in the first year to \$26 per square foot in the last year. Annual lease expenses for the facility, including certain operating expenses passed through from the

landlord, were \$3.5 million, \$3.0 million and \$3.1 million for 2015, 2014 and 2013, respectively. As a part of lease extension and renewal, there were abatements of pass-through costs for six months in 2014 and for two months in 2013.

On July 31, 2015, the bank entered into a lease of computer network storage equipment, the terms of which provide for payments of \$32 per month for 36 months. In that the present value of the minimum lease payments is greater than 90 percent of the fair value of the asset at the inception of the lease, the lease has been capitalized. At December 31, 2015, the capitalized lease had a book value of \$998, net of depreciation of \$125, and a related liability of \$1,028. Interest on the capital lease obligation totaled \$2 in 2015.

Following is a schedule of the minimum lease payments for the bank and district associations on building and computer equipment leases:

	Minimum Lease Payments
2016	\$ 5,614
2017	5,155
2018	4,606
2019	3,944
2020	3,398
Thereafter	10,289
Total minimum lease payments	\$ 33,006

Note 6 — Other Property Owned

Other property owned (OPO), consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. OPO totaled \$18,744, \$32,710 and \$47,142 at December 31, 2015, 2014 and 2013, respectively. The \$18,744 balance of OPO at December 31, 2015, consisted of \$438 held by the bank and \$18,306 held by district associations.

Net gain (loss) on OPO consists of the following for the years ended:

	December 31,		
	2015	2014	2013
Gain (loss) on sale, net	\$ 4,597	\$ 16,511	\$ 8,688
Carrying value adjustments	(1,486)	(2,401)	(3,431)
Operating expense, net	(126)	(304)	(539)
Net gain (loss) on other property owned	\$ 2,985	\$ 13,806	\$ 4,718

Note 7 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2015	2014	2013
Investment in another System bank	\$ 105,135	\$ 90,073	\$ 75,412
Other accounts receivable	24,316	22,371	21,202
Participations accounts receivable	—	21,806	—
Loan held for sale	4,850	—	—
RBIC investment	7,551	1,368	—
Fair value of derivatives	504	748	831
Deferred tax assets, net	1,904	3,211	4,513
Other	22,457	38,208	17,915
Total	\$ 166,717	\$ 177,785	\$ 119,873

Other liabilities comprised the following at December 31:

	2015	2014	2013
Pension liability	\$ 125,971	\$ 137,056	\$ 80,090
Accounts payable	96,223	70,143	87,087
Postretirement benefits	65,017	69,315	53,183
Advance conditional payments	19,551	20,760	28,892
Bank draft payable	26,167	17,055	25,009
FCSIC premium payable	19,167	15,543	12,068
Deferred tax liabilities	306	224	899
Other	20,167	13,834	15,072
Total	\$ 372,569	\$ 343,930	\$ 302,300

Note 8 — Bonds and Notes

Systemwide Debt Securities and Notes Payable:

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Certain conditions must be met before the bank can participate in the issuance of Systemwide debt securities. The bank 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 as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. The System banks and the Funding Corporation have entered into the second amended and restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2015, the bank was, and currently remains, in compliance with the conditions and requirements of the MAA. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2015, the bank had such specified eligible assets totaling \$19.82 billion, and obligations and accrued interest payable totaling \$18.25 billion, resulting in excess eligible assets of \$1.57 billion.

Each issuance of Systemwide debt securities ranks equally, in accordance with the FCA regulations, 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 district's participation in Systemwide debt securities and notes payable to another System bank at December 31, 2015, follows (*dollars in millions*):

Year of Maturity	Systemwide				Notes Payable to Other System Bank		Total	
	Bonds		Discount Notes					
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2016	\$ 5,329.2	0.51%	\$ 2,437.3	0.30%	\$ 3,850.0	0.73%	\$ 11,616.5	0.54
2017	3,151.1	1.01	—	—	—	—	3,151.1	1.01
2018	1,964.0	1.23	—	—	—	—	1,964.0	1.23
2019	1,658.5	1.58	—	—	—	—	1,658.5	1.58
2020	1,056.4	1.86	—	—	—	—	1,056.4	1.86
Subsequent years	2,610.2	2.66	—	—	—	—	2,610.2	2.66
Total	\$ 15,769.4	1.26%	\$ 2,437.3	0.30%	\$ 3,850.0	0.73%	\$ 22,056.7	1.04%

Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2015, was 110 days.

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2015:

Year of Maturity	Amount	Range of First Call Dates
2016	\$ 495,200	1/6/2016 – 1/27/2016
2017	1,425,000	1/1/2016 – 10/20/2016
2018	1,642,060	1/1/2016 – 12/21/2016
2019	1,357,034	1/1/2016 – 10/28/2016
2020	838,121	1/1/2016 – 10/21/2016
Subsequent years	1,667,369	1/1/2016 – 3/1/2018
Total	<u>\$ 7,424,784</u>	1/1/2016 – 3/1/2018

Callable debt may be called on the first call date and, generally, every day thereafter with seven business days' notice. Expenses associated with the exercise of call options on debt issuances are included in interest expense.

As described in Note 1, "Organization and Operations," the Insurance Fund is available to ensure the timely payment of principal and interest on bank bonds and Systemwide debt securities (insured debt) of insured System banks to the extent that net assets are available in the Insurance Fund. All other liabilities in the combined financial statements are uninsured. At December 31, 2015, the assets of the Insurance Fund aggregated \$4.04 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal and interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon.

The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in demanding market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10.00 billion and terminates on September 30, 2016, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is in the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding will be available if needed by the System.

Subordinated Debt:

In September 2008, the bank issued \$50.0 million of 8.406 percent unsecured subordinated notes due in 2018, generating proceeds of \$49.4 million. The proceeds were used to increase regulatory permanent capital and total surplus pursuant to Farm Credit Administration regulations and for general corporate purposes. Due to regulatory limitations on third-party capital (including preferred stock and subordinated debt) instituted upon the issuance of the bank's Class B Series 1 Noncumulative Subordinated Perpetual Preferred Stock, subordinated debt is no longer qualified for inclusion in permanent capital or total surplus. This debt is unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest is payable semi-annually on March 15 and September 15. Interest will be deferred if, as of the fifth business day prior to

an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated debt. During such a period, the issuing bank may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt is not considered Systemwide debt and is not guaranteed by the Farm Credit System or any banks in the System. Payments on the subordinated notes are not insured by the Farm Credit Insurance Fund. In accordance with FCA's approval of the bank's subordinated debt offering, the bank's minimum net collateral ratio for all regulatory purposes while any subordinated debt is outstanding will be 104 percent, instead of the 103 percent stated by regulation.

The subordinated debt may be redeemed in whole at the bank's option upon the occurrence of a regulatory event, whereby through a change in law or regulation the subordinated debt is no longer eligible for (i) inclusion in the bank's permanent capital or total surplus or any comparable regulatory capital requirements under any successor regulations or (ii) exclusion from total liabilities for purposes of calculating the bank's net collateral ratio or any comparable regulatory capital requirements under any successor regulations. The redemption of subordinated debt will be at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided the bank has made payment in full of all amounts then due in respect of the bank's senior indebtedness. The bank will give each holder of the subordinated debt written notice of the redemption not less than 30 days and not more than 60 days prior to the date fixed for such redemption.

Other:

At December 31, 2015, the bank had a total of \$3.85 billion of direct notes sold to another System bank. These sales provide diversification benefits between Farm Credit entities. At the district level the sold portion is reflected as notes payable to another System bank.

Note 9 — Members' Equity

Descriptions of the bank's and associations' capitalization requirements, regulatory capitalization requirements, and restrictions and equities are provided below.

At a special stockholders' meeting held on February 28, 2013, the bank's Class A common stockholders approved amendments to the bank's capitalization bylaws that increased the amount of preferred stock the bank is authorized to issue and have outstanding at any one time from \$500 million to \$1.00 billion and that provide greater flexibility in determining the par value of such stock. At the same time, the Class A common stockholders also approved an Omnibus Approval of Preferred Stock Revolver that allows the bank to issue up to \$1.00 billion of preferred stock outstanding at any time for a period of 10 years.

A. Capitalization Requirements:

As a condition of borrowing, in accordance with the Farm Credit Act, each borrower is required to invest in common stock (in the case of mortgage or agricultural loans) or participation certificates (in the case of rural residence or farm-related business loans) of their respective association.

Capitalization bylaws of the associations establish minimum and maximum stock purchase requirements for borrowers. The initial investment requirement of the associations ranges from the statutory minimum of \$1,000 to 2 percent of the loan amount, and in some cases, \$1,000 to 2 percent per customer. The capitalization bylaws also limit the capital contributions that an institution can require from its borrowers to 10 percent of defined borrowings for associations. If necessary, each association's board of directors may modify, within the range defined in their bylaws, the capitalization requirements to meet the association's capital needs.

A borrower obtaining a mortgage or agricultural loan purchases voting common stock which entitles the holder to a single vote, regardless of the number of shares held in the respective association. Within two years after a borrower's loan is repaid in full, any voting common stock held by the borrower will be converted to nonvoting common stock. A borrower obtaining a rural residence or farm-related business loan purchases participation certificates which provide no voting rights to their owner.

Each class of nonvoting stock must approve, as a class, the adoption of future revisions of capitalization bylaws if the class of stock is affected by a change in the preference provided for in the proposed capitalization bylaws.

Capitalization bylaws for each association provide for the amount of voting common stock or participation certificates that are required to be purchased by a borrower as a percentage of the loan obtained. The borrower acquires ownership of the common stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The bank and the associations have a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. Regulatory Capitalization Requirements and Restrictions:

FCA's capital adequacy regulations require the bank and associations to achieve and maintain, at minimum, permanent capital of 7 percent of risk-adjusted assets and off-balance-sheet commitments. The Farm Credit Act has defined permanent capital to include all capital except stock and other equities that may be retired upon the repayment of the holder's loan or otherwise at the option of the holder, or is otherwise not at risk. Risk-adjusted assets have been defined by regulations as the balance sheet assets and off-balance-sheet commitments adjusted by various percentages ranging from 0 to 100 percent, depending on the level of risk inherent in the various types of assets. The bank and associations are prohibited from reducing permanent capital by retiring stock or by making certain other distributions to stockholders unless the minimum permanent capital standard is met.

The bank's permanent capital ratio at December 31, 2015, was 17.74 percent and exceeded FCA standards. All associations currently meet the minimum capital standard established by FCA regulations. Except as noted below, all associations are

currently able to retire stock or distribute earnings in accordance with the Farm Credit Act and FCA regulatory restrictions.

The following table sets forth the ranges of capital standards for the district at December 31, 2015:

	Permanent Capital Ratio Ranges %	Core Surplus Ratio Ranges %	Total Surplus Ratio Ranges %
Bank	17.74	9.88	15.48
FLCA	18.66	18.31	18.31
ACAs	13.05 – 23.05	12.78 – 22.55	12.78 – 22.55
Regulatory minimum standard	7.00	3.50	7.00

The bank is required by FCA regulations to achieve and maintain net collateral of 103 percent of total liabilities. However, the issuance of subordinated debt resulted in FCA requiring the net collateral to be 104 percent of total liabilities while any subordinated debt is outstanding. Net collateral consists of loans, real or personal property acquired in connection with loans, marketable investments, and cash and cash equivalents.

At December 31, 2015, the bank's net collateral ratio was 107.70 percent.

C. Description of Associations' Equities:

The following is a summary of the associations' stock and participation certificates outstanding:

Stock and Participation Certificates	Par Value	Number of Shares at December 31,		
		2015	2014	2013
Stock				
Common – voting (eligible for dividends, convertible)	\$ 5.00	11,694,491	11,286,412	11,090,467
Common – nonvoting (eligible for dividends, convertible)	\$ 5.00	47,642	33,763	33,514
Participation certificates – nonvoting (eligible for dividends, convertible)	\$ 5.00	529,037	505,280	467,676

In the event of the liquidation or dissolution of an association, any assets of the association remaining after payment or retirement of all liabilities shall be distributed to stockholders in the following order:

First, holders of preferred stock at par value, if any;

Second, ratably to holders of all classes of common stock and participation certificates at par value or face amount;

Third, ratably to the holders of allocated retained earnings on the basis of oldest allocations first;

Fourth, ratably to the holders of nonqualified written notices of allocation on the basis of the oldest allocations first;

Then, the remainder of assets ratably to all holders of common stock and participation certificates, in proportion to the aggregate patronage of each such holder to the total patronage of all holders.

ACA bylaws provide for operation as cooperatives which qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under cooperative operations, earnings of the ACA may be distributed to borrowers. Patronage distributions are generally in the form of allocated retained earnings and cash. At least 20 percent of the total patronage distribution must be paid in cash. Amounts not distributed are retained as unallocated retained earnings, unless a plan of revolvment exists.

The district revised its historical combined balance sheets and combined statements of changes in members' equity for 2013, to correct the classification of certain nonqualified allocations of retained earnings. The correction resulted in a \$42,662 increase in unallocated retained earnings and a \$42,662 decrease in allocated retained earnings at December 31, 2013. Management evaluated the impact of the correction as immaterial to previously issued financial statements; however, it has elected to revise the combined financial statements in order to correctly present such amounts in the comparative financial statements. The correction had no effect on earnings, cash flows or district financial ratios for 2013.

D. Description of Bank Equities:

Class A Cumulative Perpetual Preferred Stock (Class A preferred stock) – On November 7, 2003, the bank issued 100,000 shares of \$1,000 per share par value Class A preferred stock for net proceeds of \$98,644, after expenses of \$1,356 associated with the offering. The dividend rate was 7.561 percent, payable semi-annually to December 15, 2013, after which dividends were payable quarterly at a rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. On September 26, 2005, the bank issued an additional 100,000 shares of cumulative perpetual preferred stock with the same terms. During 2010, the bank repurchased \$18.0 million par value of the Class A preferred stock at a net premium and cost of \$529. For regulatory purposes, the preferred stock was treated as equity, and was not mandatorily redeemable. Dividends on preferred stock were recorded as declared. The Class A preferred stock ranked, as to dividends and other distributions (including patronage) upon liquidation, dissolution or winding up, prior to all other classes and series of equity securities of the bank. "Dividend/patronage stopper" clauses in the preferred stock offerings required the payment or declaration of current period dividends on the preferred stock issuances before any other patronage could be declared, and were required before payment of bank investment and direct note patronage to associations and OFIs could be paid. In 2013, Class A preferred stock dividends of \$13,761 were declared and paid. On December 15, 2013, the bank redeemed all outstanding 200,000 shares of the Class A preferred stock. The redemption was at the par value of \$1,000 per share, plus all accrued and unpaid dividends up to, but not including, the redemption date of December 15, 2013. As the bank had repurchased 18,000 shares of the Class A preferred stock in 2010, the outlay for the remaining Class A preferred stock on December 15, 2013, totaled \$182.0 million, at which time the final related dividends of \$6,881 were paid.

Class B Series 1 Noncumulative Subordinated Perpetual Preferred Stock (Class B-1 preferred stock) – On August 26, 2010, the bank issued \$300.0 million of Class B noncumulative

subordinated perpetual preferred stock, representing 300,000 shares at \$1,000 per share par value for net proceeds of \$296.6 million. The net proceeds of the issuance were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of \$1,000 per share. The Class B-1 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B-1 preferred stock ranks senior, both as to dividends and upon liquidation, to all outstanding capital stock. For regulatory purposes, the Class B-1 preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance will require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. Class B-1 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid. In 2015, 2014 and 2013, Class B preferred stock dividends totaling \$30.0 million were declared and paid. At December 31, 2015, dividends payable on Class B-1 preferred stock totaled \$15.0 million.

Class B Series 2 Noncumulative Subordinated Perpetual Preferred Stock (Class B-2 preferred stock) – On July 23, 2013, the bank issued \$300.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 2, representing three million shares at \$100 per share par value, for net proceeds of \$295.9 million. Dividends on the Class B-2 preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2013, at an annual fixed rate of 6.75 percent of par value of \$100 per share up to, but excluding September 15, 2023, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 4.01 percent. The Class B-2 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank on any dividend payment date on or after September 15, 2023. The Class B-2 preferred stock ranks, both as to dividends and upon liquidation, *pari passu* with respect to the existing Class B-1 preferred stock, and senior to all of the bank's outstanding capital stock. For regulatory purposes, the Class B-2 preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Class B-2 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid. In 2015 and 2014, Class B-2 preferred stock dividends totaling \$20.3 million were declared and paid. At December 31, 2015, dividends payable on Class B-2 preferred stock totaled \$5.1 million. In 2013, Class B-2 preferred stock dividends totaling \$13.1 million were declared and paid.

Class A Voting Common Stock – According to the bank’s bylaws, the minimum and maximum stock investments that the bank may require of the ACAs and FLCA are 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of each association’s average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock (with a par value of \$5 per share) and allocated retained earnings. The current investment required of the associations is 2 percent of their average borrowings from the bank. No Class A voting common stock may be retired except at the sole discretion of the bank’s board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank’s Capital Plan. There were 50,945 shares, 46,471 shares and 43,855 shares of Class A voting common stock issued and outstanding at December 31, 2015, 2014 and 2013, respectively. Class A voting common stock includes 742 shares at December 31, 2015 purchased by district associations as a condition of the bank’s Capitalized Participation Pool (CPP) program. Under the CPP program, the stock investment that the bank requires is 1.6 percent of each AMBS pool and 8 percent of each loan pool. These intercompany balances and transactions are eliminated in combination.

Class A Nonvoting Common Stock – The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of \$5 per share) in the bank based on a minimum

and maximum of 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of the OFIs’ average borrowings from the bank. No Class A nonvoting common stock may be retired except at the sole discretion of the bank’s board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank’s Capital Plan. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 220 shares, 223 shares and 253 shares of Class A nonvoting common stock issued and outstanding at December 31, 2015, 2014 and 2013, respectively.

E. Additional Paid-in-Capital

The \$224,625 in additional paid-in-capital represents the excess value received by acquiring associations from acquired associations over the par value of capital stock issued in association mergers. Additional paid-in-capital is considered unallocated surplus for purposes of shareholder distributions. Generally, patronage is paid out of current year earnings and as such, this would not be paid out in the form of patronage. In the case of liquidation, additional paid-in-capital would be treated as unallocated surplus and distributed to shareholders after other obligations of the association had been satisfied.

F. Accumulated Other Comprehensive Loss:

Following is a summary of the components of accumulated other comprehensive (loss) income (AOCL) and the changes occurring during the year ended December 31, 2015:

	Total	Unrealized Loss on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2015	\$ (166,791)	\$ (16,100)	\$ (147,996)	\$ (2,695)
Change in unrealized losses on available-for-sale securities				
Net change in unrealized losses on investment securities	(9,176)	(9,176)		
Net change in unrealized losses on securities	(9,176)	(9,176)		
Change in retirement benefit plans				
Actuarial losses	(128)		(128)	
Changes due to effect of merger	216		216	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(935)		(935)	
Amortization of net losses	19,082		19,082	
Net change in retirement benefit plans	18,235		18,235	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(586)			(586)
Reclassification of loss recognized in interest expense	1,374			1,374
Net change in cash flow derivative instruments	788			788
Total other comprehensive income (loss)	9,847	(9,176)	18,235	788
Balance, December 31, 2015	\$ (156,944)	\$ (25,276)	\$ (129,761)	\$ (1,907)

Following is a summary of the components of accumulated other comprehensive (loss) income (AOCL) and the changes occurring during the year ended December 31, 2014:

	Total	Unrealized Loss on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2014	\$ (110,954)	\$ (30,303)	\$ (76,199)	\$ (4,452)
Change in unrealized losses on available-for-sale securities				
Net change in unrealized losses on investment securities	13,940	13,940		
Reclassification adjustment for losses on sales of securities included in net income	212	212		
Decrease in noncredit portion of other-than-temporarily impairment (OTTI) losses	14	14		
Reclassification adjustment for OTTI credit losses included in net income	37	37		
Net change in unrealized losses on securities	14,203	14,203		
Change in retirement benefit plans				
Actuarial losses	(79,298)		(79,298)	
Changes due to effect of merger	326		326	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(958)		(958)	
Amortization of net losses	8,133		8,133	
Net change in retirement benefit plans	(71,797)		(71,797)	
Change in cash flow derivative instruments				
Unrealized losses on interest rate caps	(791)			(791)
Reclassification of loss recognized in interest expense	2,548			2,548
Net change in cash flow derivative instruments	1,757			1,757
Total other comprehensive (loss) income	(55,837)	14,203	(71,797)	1,757
Balance, December 31, 2014	\$ (166,791)	\$ (16,100)	\$ (147,996)	\$ (2,695)

Following is a summary of the components of accumulated other comprehensive (loss) income (AOCL) and the changes occurring during the year ended December 31, 2013:

	Total	Unrealized Gain (Loss) on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2013	\$ (110,807)	\$ 34,104	\$ (138,696)	\$ (6,215)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	(65,903)	(65,903)		
Decrease in noncredit portion of other-than-temporarily impairment (OTTI) losses	855	855		
Reclassification adjustment for OTTI credit losses included in net income	641	641		
Net change in unrealized losses on securities	(64,407)	(64,407)		
Change in retirement benefit plans				
Actuarial gains	46,485		46,485	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(1,171)		(1,171)	
Amortization of net losses	17,183		17,183	
Net change in retirement benefit plans	62,497		62,497	
Change in cash flow derivative instruments				
Unrealized gains on interest rate caps	166			166
Reclassification of loss recognized in interest expense	1,597			1,597
Net change in cash flow derivative instruments	1,763			1,763
Total other comprehensive (loss) income	(147)	(64,407)	62,497	1,763
Balance, December 31, 2013	\$ (110,954)	\$ (30,303)	\$ (76,199)	\$ (4,452)

The following table summarizes amounts reclassified out of accumulated other comprehensive loss to current earnings:

Description	Amount Reclassified from Accumulated Other Comprehensive Loss			Location of Gain (Loss) Recognized in Statement of Comprehensive Income
	2015	2014	2013	
Unrealized Losses on Securities				
Losses on sales of other-than-temporarily-impaired securities	\$ —	\$ (37)	\$ (641)	Impairment losses on investments
Retirement Benefit Plans				
Amortization of prior service credits	935	958	1,171	Salaries and employee benefits
Amortization of net actuarial losses	(19,082)	(8,133)	(17,183)	Salaries and employee benefits
Cash Flow Derivative Instruments				
Losses on cash flow derivatives	(1,374)	(2,548)	(1,597)	Interest expense
	\$ (19,521)	\$ (9,760)	\$ (18,250)	

Note 10 — Income Taxes

Only the district's ACAs have taxable income, as the bank, the FLCA and the FLCA subsidiaries of ACAs are exempt from federal and other income taxes.

The provision for (benefit from) income taxes follows for years ended December 31:

	2015	2014	2013
Current			
Federal	\$ (16)	\$ (99)	\$ (188)
State	—	—	—
Total current	(16)	(99)	(188)
Deferred			
Federal	(84)	599	(99)
State	25	29	127
Total deferred	(59)	628	28
Total (benefit from) provision for income taxes	\$ (75)	\$ 529	\$ (160)

The (benefit from) provision for income tax differs from the amount of income tax determined by applying the statutory federal income tax rate to district pretax income as a result of the following differences for years ended December 31:

	2015	2014	2013
Federal tax at statutory rate	\$ 149,367	\$ 153,664	\$ 146,692
State tax, net	24	29	127
Nontaxable bank income	(67,284)	(65,891)	(62,937)
Other nontaxable entities	(78,458)	(83,246)	(79,873)
Valuation allowance	3,467	3,155	2,917
Patronage distributions	(7,425)	(6,401)	(4,418)
Other, net	234	(781)	(2,668)
Total (benefit from) provision for income taxes	\$ (75)	\$ 529	\$ (160)

Deferred tax assets and liabilities comprised the following elements at December 31:

	2015	2014	2013
Allowance for loan losses	\$ 7,380	\$ 4,615	\$ 3,741
Carrying value adjustment for acquired property	60	60	43
Postretirement benefits	1,575	1,764	1,949
Net operating loss carryforward	40,330	39,118	37,902
Other	206	233	120
Gross deferred tax assets	49,551	45,790	43,755
Less valuation allowance	(47,310)	(42,396)	(39,242)
Adjusted gross deferred tax assets	2,241	3,394	4,513
FCBT stock redemption	—	—	(625)
Other	(642)	(408)	(274)
Gross deferred tax liabilities	(642)	(408)	(899)
Net deferred tax assets	\$ 1,599	\$ 2,986	\$ 3,614

There were no uncertain tax positions and related liabilities for unrecognized tax benefits recorded at December 31, 2015. Any penalties and interest related to income taxes would be accounted for as an adjustment to income tax expense.

Note 11 — Employee Benefit Plans

Employees of the district participate in either the district's defined benefit retirement plan (DB plan) or in a non-elective defined contribution feature (DC plan) within the Farm Credit Benefits Alliance 401(k) plan. In addition, all employees may participate in the Farm Credit Benefits Alliance 401(k) plan.

The DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan in 1998 and beyond, to facilitate reorganization and/or restructuring. Under authoritative accounting guidance, there were no pension plan termination benefits recognized resulting from employees who qualified for an early retirement option under a retention plan at December 31, 2015, 2014 and 2013.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the non-elective pension feature of the DC plan direct the placement of their employers' contributions made on their behalf into various investment alternatives.

The district also participates in the Farm Credit Benefits Alliance 401(k) plan, which offers a pre-tax and after-tax and Roth compensation deferral feature. Employers match 100 percent of employee contributions for the first 3 percent of eligible compensation and then match 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent of eligible compensation. Employer contributions for the DC plan and the 401(k) plan totaled \$10.8 million, \$9.8 million and \$8.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Certain executive or highly compensated employees in the district are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (Supplemental 401(k) Plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- **Restored Employer Contributions** – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- **Elective Deferrals** – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- **Discretionary Contributions** – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

Contributions of \$508, \$528 and \$285 were made to this plan for the years ended December 31, 2015, 2014 and 2013. The present value of accumulated benefits and funded balance in the plan totaled \$6,399 at December 31, 2015.

The bank and associations also provide certain health care benefits to eligible retired employees, beneficiaries and directors (retiree medical plan).

The following table reflects the benefit obligation, cost and actuarial assumptions for the district's DB pension plan and other postretirement benefit plans:

	Pension Benefits			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
Accumulated benefit obligation, end of year	\$ 363,098	\$ 372,439	\$ 315,553			
Change in projected benefit obligation						
Projected benefit obligation, beginning of year	\$ 410,832	\$ 351,671	\$ 370,574	\$ 69,466	\$ 53,183	\$ 61,867
Service cost	5,327	4,941	5,858	1,548	1,243	1,586
Interest cost	15,877	15,916	15,073	3,117	2,718	2,682
Plan participants' contributions	—	—	—	581	529	492
Plan amendments	—	—	—	—	—	—
Curtailment loss	—	—	—	—	—	—
Actuarial (gain) loss	(12,372)	60,668	(25,595)	(7,002)	14,209	(11,105)
Benefits paid	(26,010)	(22,364)	(14,239)	(2,734)	(2,416)	(2,339)
Projected benefit obligation, end of year	\$ 393,654	\$ 410,832	\$ 351,671	\$ 64,976	\$ 69,466	\$ 53,183
Change in plan assets						
Plan assets at fair value, beginning of year	\$ 277,415	\$ 271,673	\$ 240,715	\$ —	\$ —	\$ —
Actual return on plan assets	1,059	15,893	28,703	—	—	—
Company contributions	10,658	12,213	16,494	2,153	1,887	1,847
Plan participants' contributions	—	—	—	581	529	492
Benefits paid	(26,010)	(22,364)	(14,239)	(2,734)	(2,416)	(2,339)
Plan assets at fair value, end of year	\$ 263,122	\$ 277,415	\$ 271,673	\$ —	\$ —	\$ —
Funded status at end of year	\$ (130,532)	\$ (133,417)	\$ (79,998)	\$ (64,976)	\$ (69,466)	\$ (53,183)
Amounts recognized in the combined balanced sheets consist of:						
Retirement plan liability	\$ (130,532)	\$ (133,417)	\$ (79,998)	\$ (64,976)	\$ (69,466)	\$ (53,183)
Accumulated other comprehensive loss (income)	125,971	137,056	80,090	3,779	10,954	(3,956)
Amounts recognized in accumulated other comprehensive income						
Net actuarial loss (gain)	\$ 125,971	\$ 137,052	\$ 80,050	\$ 6,224	\$ 14,564	\$ 1,391
Prior service cost (credit)	—	4	40	(2,445)	(3,610)	(5,347)
Total	\$ 125,971	\$ 137,056	\$ 80,090	\$ 3,779	\$ 10,954	\$ (3,956)
The funding policy establishes contribution requirements for the district's DB plan if plan assets are less than the accumulated benefit obligation at year end. The policy calls for contributions equal to the value of the additional benefits expected to be earned by employees during the year. The plan sponsor is the board of directors of the Farm Credit Bank of Texas. In accordance with this policy, contributions of \$10,658, \$12,213 and \$16,494 were made to the plan in January 2015, January 2014 and January 2013, respectively.						
The following table discloses the excess of the DB plan's accumulated benefit obligation over its plan assets at December 31:						
District DB plan projected benefit obligation	\$ 393,654	\$ 410,832	\$ 351,671			
District DB plan assets at fair value	263,122	277,415	271,673			
Accumulated benefit obligation (ABO) of district DB plan	363,098	372,439	315,553			
Funding shortfall (plan assets to ABO)	(99,976)	(95,024)	(43,880)			
Net periodic benefit cost						
Service cost	\$ 5,327	\$ 4,941	\$ 5,858	\$ 1,548	\$ 1,243	\$ 1,586
Interest cost	15,877	15,916	15,073	3,117	2,718	2,682
Expected return on plan assets	(20,560)	(20,315)	(18,732)	—	—	—
Amortization of:						
Prior service cost	4	36	36	(979)	(1,078)	(1,228)
Net actuarial loss	18,210	8,087	16,435	872	51	765
Net periodic benefit cost	\$ 18,858	\$ 8,665	\$ 18,670	\$ 4,558	\$ 2,934	\$ 3,805
Curtailment expense	—	—	—	—	—	—
Settlement expense	—	—	—	—	—	—
Special termination benefits	—	—	—	—	—	—
Total benefit cost	\$ 18,858	\$ 8,665	\$ 18,670	\$ 4,558	\$ 2,934	\$ 3,805
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income						
Net actuarial loss (gain) in the current period	\$ 7,129	\$ 65,089	\$ (35,565)	\$ (7,001)	\$ 14,209	\$ (11,105)
Settlement expense	—	—	—	—	—	—
Prior service costs	—	—	—	—	—	—
Amortization of prior service costs	(4)	(36)	(36)	979	1,078	1,228
Amortization of net actuarial (gain) loss	(18,210)	(8,087)	(16,435)	(872)	(51)	(765)
Net change	\$ (11,085)	\$ 59,966	\$ (52,036)	\$ (6,894)	\$ 15,236	\$ (10,642)
AOCI amounts expected to be amortized in 2016						
Prior service cost (credit)	\$ —			\$ (928)		
Net actuarial loss (gain)	17,461			181		
Total	\$ 17,461			\$ (747)		

	Pension Benefits			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
Weighted-average assumptions used to determine benefit obligation at year end						
Measurement date	12/31/2015	12/31/2014	12/31/2013	12/31/2015	12/31/2014	12/31/2013
Discount rate	4.45%	4.00%	4.70%	4.70%	4.55%	5.20%
Expected long-term rate of return	7.50%	7.50%	7.50%	N/A	N/A	N/A
Rate of compensation increase	5.50%	5.50%	5.50%	N/A	N/A	N/A
Health care cost trend rate assumed for next year (pre/post-65) — medical				7.00%/6.50%	7.25%/6.75%	7.50%/6.50%
Health care cost trend rate assumed for next year (pre/post-65) — prescriptions				6.50%	6.75%	6.50%
Ultimate health care cost trend rate				4.50%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				2025	2024	2024
Weighted-average assumptions used to determine net periodic cost for the year						
Measurement date	12/31/2014	12/31/2013	12/31/2012	12/31/2014	12/31/2013	12/31/2012
Discount rate	4.00%	4.70%	4.15%	4.55%	5.20%	4.40%
Expected return on plan assets	7.50%	7.50%	7.50%	N/A	N/A	N/A
Rate of compensation increase	5.50%	5.50%	5.50%	N/A	N/A	N/A
Health care cost trend rate assumed for next year (pre/post-65) — medical				7.25%/6.75%	7.50%/6.50%	7.25%/6.50%
Health care cost trend rate assumed for next year (pre/post-65) — prescriptions				6.75%	6.50%	7.75%
Ultimate health care cost trend rate				5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				2024	2024	2023
Effect of Change in Assumed Health Care Cost Trend Rates						
Effect on total service cost and interest cost components						
One-percentage-point increase				\$	895	
One-percentage-point decrease					(696)	
Effect on year-end postretirement benefit obligation						
One-percentage-point increase				\$	11,935	
One-percentage-point decrease					(9,460)	

Plan Assets

The trustees of the district DB plan set investment policies and strategies for the plan, including target allocation percentages for each category of plan asset. Generally, the funding objectives of the DB plan are to achieve and maintain plan assets in accordance with the funding policy mentioned above and to provide competitive investment returns and reasonable risk levels when measured against appropriate benchmarks. Plan trustees develop asset allocation policies based on plan objectives, characteristics of pension liabilities, capital market expectations and asset-liability projections. District postretirement health care plans have no plan assets and are funded on a current basis by employer contributions and retiree premium payments.

	Fair Value Measurement at December 31, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category:				
Commingled trust funds:				
Russell Multi-Asset Core Fund	\$ 175,759	\$ —	\$ 175,759	\$ —
Russell Multi-Manager Bond Fund	87,363	—	87,363	—
Total assets	\$ 263,122	\$ —	\$ 263,122	\$ —

	Pension Benefits				Other Postretirement Benefits			
	Target	2015	2014	2013	Target	2015	2014	2013
Expected Future Cash Flow Information								
Expected Benefit Payments								
Fiscal 2016		\$	31,013		\$	2,143		
Fiscal 2017			26,510			2,361		
Fiscal 2018			27,009			2,617		
Fiscal 2019			26,259			2,902		
Fiscal 2020			27,234			3,048		
Fiscal 2021 – 2025			132,716			17,225		
Expected Contributions								
Fiscal 2016		\$	11,785		\$	2,143		
Plan Assets								
Asset Category	Target	2015	2014	2013	Target	2015	2014	2013
Equity securities	60%	60%	60%	60%	—%	—%	—%	—%
Debt securities	40	40	40	40	—	—	—	—
Cash/other	—	—	—	—	100	100	100	100
Total	100%	100%	100%	100%	100%	100%	100%	100%

As disclosed in the preceding table, the expected total contribution for pension benefits for 2016 is \$11.8 million.

In October 2014, the Society of Actuaries issued revised mortality tables (RP 2014) and a mortality improvement scale (MP 2014) for use by actuaries, insurance companies, governments, benefit-plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000). The adoption of these new tables resulted in an increase in 2014 of \$24,220 to our pension plan's projected benefit obligations and \$8,137 to our retiree welfare plans' projected benefit obligations.

Notwithstanding current investment market conditions, the expected long-term rate of return assumption is determined independently for each defined benefit pension plan and for each other postretirement benefit plan. Generally, plan trustees use historical return information to establish a best-estimate range for each asset class in which the plans are invested. Plan trustees select the most appropriate rate for each plan from the best-estimate range, taking into consideration the duration of plan benefit liabilities and plan sponsor investment policies.

Note 12 — Related Party Transactions

In the ordinary course of business, the associations have entered into loan transactions with directors, officers and other employees of associations and other organizations with which such persons may be associated. Total loans to such persons at December 31, 2015, 2014 and 2013 amounted to \$198.7 million, \$217.6 million and \$201.9 million, respectively. In the opinion of management, such loans outstanding to directors, officers and other employees at December 31, 2015, did not involve more than a normal risk of collectability, were subject to approval requirements contained in FCA regulations, and were made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Disclosures on individual associations' officers and directors are found in the associations' individual annual reports.

Note 13 — Commitments and Contingencies

The district has various outstanding commitments and contingent liabilities as discussed elsewhere in these notes.

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of other System banks. The total bank and consolidated Systemwide debt obligations of the System at December 31, 2015, were approximately \$243.34 billion.

In the normal course of business, district entities incur a certain amount of claims, litigation, and other legal and administrative proceedings, all of which are considered incidental to the normal conduct of business. The bank and district associations believe they have meritorious defenses to the claims currently asserted against them, and, with respect to such legal proceedings, intend to defend themselves vigorously, litigating or settling cases according to management's judgment as to what is in the best interest of the entity and its shareholders.

On a regular basis, district entities assess their liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that the entity would incur a loss and the amount of the loss could be reasonably estimated, the entity would record a liability in its financial statements. These liabilities would be increased or decreased to reflect any relevant developments on a quarterly basis. For other matters, where a loss is not probable or the amount of the loss is not estimable, the district entities do not record a liability.

Currently, other actions are pending against the district in which claims for monetary damages are asserted. Upon the basis of current information, management and legal counsel are of the opinion that any resulting losses are not probable, and that the ultimate liability, if any, resulting from a lawsuit and other pending actions will not be material in relation to the financial position, results of operations or cash flows of the district.

Note 14 — Financial Instruments With Off-Balance-Sheet Risk

The bank and associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest rate risk. In the normal course of business, various commitments are made to customers, including commitments to extend credit and standby letters of credit, which represent credit-related financial instruments with off-balance-sheet risk.

At any time, the bank and associations have outstanding a significant number of commitments to extend credit. The bank and associations also provide standby letters of credit to guarantee the performance of customers to third parties. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees (if any) are recognized in the combined balance sheets (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The district's commitments to extend credit totaled \$4.98 billion, \$4.62 billion and \$4.57 billion at December 31, 2015, 2014 and 2013, respectively. At December 31, 2015, the district had \$101.0 million in outstanding standby letters of credit, issued primarily in conjunction with participation loans. Outstanding standby letters of credit generally have expiration dates ranging from 2016 to 2020.

The credit risk involved in issuing commitments and letters of credit is essentially the same as that involved in extending loans to customers, and the same credit policies are applied by management. In the event of funding, the credit risk amounts are equal to the contract amounts, assuming that counterparties fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty.

Note 15 — Fair Value Measurements

Authoritative accounting guidance defines fair value 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. See Note 2, “Summary of Significant Accounting Policies,” for additional information.

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

Fair Value Measurement at December 31, 2015				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	\$ 22,413	\$ —	\$ 22,413	\$ —
Investments available-for-sale:				
Corporate debt	200,602	—	200,602	—
Agency-guaranteed debt	248,355	—	248,355	—
Mortgage-backed securities	3,730,425	—	3,680,175	50,250
Asset-backed securities	200,073	—	200,073	—
Mission-related and other available-for-sale investments	65,650	—	—	65,650
Loans valued under the fair value option	27,506	—	27,506	—
Loans held for sale in other assets	4,850	—	—	4,850
Derivative assets	504	—	504	—
Assets held in nonqualified benefit trusts	6,399	6,399	—	—
Total assets	\$ 4,506,777	\$ 6,399	\$ 4,379,628	\$ 120,750
Liabilities:				
Standby letters of credit	\$ 967	\$ —	\$ —	\$ 967
Total liabilities	\$ 967	\$ —	\$ —	\$ 967

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2015:

	Assets			Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Loan Held For Sale	Standby Letters of Credit	Total
Balance at January 1, 2015	\$ 7	\$ 80,583	\$ —	\$ 993	\$ 79,597
Net (losses) gains included in other comprehensive loss	(171)	338	—	—	167
Purchases, issuances and settlements	50,414	(15,271)	—	(26)	35,169
Transfers into Level 3	—	—	4,850	—	4,850
Balance at December 31, 2015	\$ 50,250	\$ 65,650	\$ 4,850	\$ 967	\$ 119,783

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the year ended December 31, 2015. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At December 31, 2015, Level 3 investments included one agency MBS and one loan held for sale due to the fact that their valuations were based on level three criteria (broker quotes). The liability for standby letters of credit are included in Level 3 as their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

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

Fair Value Measurement at December 31, 2015					
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	\$ 115,468	\$ —	\$ —	\$ 115,468	\$ (4,907)
Other property owned	20,826	—	—	20,826	2,984
Total assets	\$ 136,294	\$ —	\$ —	\$ 136,294	\$ (1,923)

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

	Fair Value Measurement at December 31, 2014			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	\$ 22,086	\$ —	\$ 22,086	\$ —
Investments available-for-sale:				
Corporate debt	241,530	—	241,530	—
Agency-guaranteed debt	155,190	—	155,190	—
Mortgage-backed securities	3,527,318	—	3,527,311	7
Asset-backed securities	81,770	—	81,770	—
Mission-related and other available-for-sale investments	80,583	—	—	80,583
Loans valued under the fair value option	40,532	—	40,532	—
Derivative assets	748	—	748	—
Assets held in nonqualified benefit trusts	5,941	5,941	—	—
Total assets	\$ 4,155,698	\$ 5,941	\$ 4,069,167	\$ 80,590
Liabilities:				
Standby letters of credit	\$ 993	\$ —	\$ —	\$ 993
Total liabilities	\$ 993	\$ —	\$ —	\$ 993

The table below represents a reconciliation of all Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2014:

	Assets					Liabilities	Total
	Corporate Debt	Agency- Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage- Backed Securities	Asset-Backed Securities	Standby Letters of Credit	
Available-for-sale investment securities:							
Balance at January 1, 2014	\$ 15,000	\$ 26,949	\$ 7,529	\$ 97,423	\$ 1,157	\$ —	\$ 148,058
Net (losses) gains included in other comprehensive loss	—	29	(75)	1,684	65	—	1,703
Net losses included in earnings	—	—	(207)	—	(42)	—	(249)
Purchases, issuances and settlements	—	(195)	139,690	(18,524)	(1,180)	161	119,630
Transfers into Level 3	—	—	—	—	—	832	(832)
Transfers out of Level 3	(15,000)	(26,783)	(146,930)	—	—	—	(188,713)
Balance at December 31, 2014	\$ —	\$ —	\$ 7	\$ 80,583	\$ —	\$ 993	\$ 79,597
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2014	\$ —	\$ —	\$ 207	\$ —	\$ 42	\$ —	\$ 249

None of the losses included in earnings in 2014 were attributable to assets still held at December 31, 2014.

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the year ended December 31, 2014. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At December 31, 2014, Level 3 investments included one non-agency MBS. In 2014, one corporate debt security and three agency debt securities which had previously been included in Level 3 were valued using independent third-party valuation services using Level 2 criteria and were, accordingly, transferred from Level 3 to Level 2. The liability for standby letters of credit was transferred into Level 3 during 2014 due to a determination that their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

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

	Fair Value Measurement at December 31, 2014				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	\$ 135,831	\$ —	\$ —	\$ 135,831	\$ (6,423)
Other property owned	36,344	—	—	36,344	13,806
Total assets	\$ 172,175	\$ —	\$ —	\$ 172,175	\$ 7,383

Assets and liabilities measured at fair value on a recurring basis at December 31, 2013, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2013				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Federal funds	\$ 21,809	\$ —	\$ 21,809	\$ —
Investments available-for-sale:				
Corporate debt	249,580	—	234,580	15,000
Agency-guaranteed debt	130,024	—	103,075	26,949
Mortgage-backed securities	3,109,532	—	3,102,003	7,529
Asset-backed securities	51,296	—	50,139	1,157
Mission-related and other available-for-sale investments	97,423	—	—	97,423
Loans valued under the fair value option	58,461	—	58,461	—
Derivative assets	831	—	831	—
Assets held in nonqualified benefit trusts	5,127	5,127	—	—
Total assets	\$ 3,724,083	\$ 5,127	\$ 3,570,898	\$ 148,058
Liabilities:				
Standby letters of credit	\$ 1,372	\$ —	\$ 1,372	\$ —
Total liabilities	\$ 1,372	\$ —	\$ 1,372	\$ —

The table below represents a reconciliation of Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2013:

	Corporate Debt Securities	U.S. Agency Securities	Mortgage-Backed Securities	Agricultural Mortgage- Backed Securities	Asset-Backed Securities	Loans Under Fair Value Option	Total
Available-for-sale investment securities:							
Balance at January 1, 2013	\$ 59,958	\$ 15,117	\$ 26,938	\$ 3,096	\$ 115,479	\$ 4,764	\$ 225,352
Net (losses) gains included in other comprehensive income	(76)	(1,232)	52	716	(1,552)	—	(2,092)
Net (losses) gains included in earnings	—	—	(442)	(199)	—	—	(641)
Purchases, issuances and settlements	(25,012)	54,891	144,744	(2,456)	(16,504)	(4,764)	150,899
Transfers into Level 3	—	—	15,821	—	—	—	15,821
Transfers out of Level 3	(19,870)	(41,827)	(179,584)	—	—	—	(241,281)
Balance at December 31, 2013	\$ 15,000	\$ 26,949	\$ 7,529	\$ 1,157	\$ 97,423	\$ —	\$ 148,058

None of the losses included in earnings in 2013 were attributable to assets still held at December 31, 2013.

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the year ended December 31, 2013.

Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At December 31, 2013, Level 3 investments included three agency MBS and one corporate debt instrument due to the fact that their valuations were based on Level 3 criteria (broker quotes) and one non-agency MBS and certain non-agency ABS backed by home equity. In 2013, corporate debt and an agency MBS which had previously been included in Level 3 were valued using independent third-party valuation services using Level 2 criteria and were, accordingly, transferred from Level 3 to Level 2.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2013, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2013					
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	\$ 156,334	\$ —	\$ —	\$ 156,334	\$ (44,111)
Other property owned	52,380	—	—	52,380	4,718
Total assets	\$ 208,714	\$ —	\$ —	\$ 208,714	\$ (39,393)

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized as follows:

	December 31, 2015				
	Fair Value Measurements Using				
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Cash	\$ 550,852	\$ 550,852	\$ —	\$ —	\$ 550,852
Mission-related and other held-to-maturity investments	30,213	—	—	30,019	30,019
Net loans	20,968,494	—	—	20,946,692	20,946,692
Total assets	\$ 21,549,559	\$ 550,852	\$ —	\$ 20,976,711	\$ 21,527,563
Liabilities:					
Systemwide debt securities and other notes	\$ 22,056,726	\$ —	\$ —	\$ 22,112,446	\$ 22,112,446
Subordinated debt	49,801	—	—	52,972	52,972
	\$ 22,106,527	\$ —	\$ —	\$ 22,165,418	\$ 22,165,418
	December 31, 2014				
	Fair Value Measurements Using				
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Cash	\$ 437,201	\$ 437,201	\$ —	\$ —	\$ 437,201
Mission-related and other held-to-maturity investments	39,086	—	—	38,985	38,985
Net loans	19,108,932	—	—	19,166,500	19,166,500
Total assets	\$ 19,585,219	\$ 437,201	\$ -	\$ 19,205,485	\$ 19,642,686
Liabilities:					
Systemwide debt securities and other notes	\$ 19,980,008	\$ —	\$ —	\$ 20,062,271	\$ 20,062,271
Subordinated debt	49,739	—	—	53,989	53,989
	\$ 20,029,747	\$ —	\$ —	\$ 20,116,260	\$ 20,116,260
	December 31, 2013				
	Fair Value Measurements Using				
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Cash	\$ 610,056	\$ 610,056	\$ —	\$ —	\$ 610,056
Mission-related and other held-to-maturity investments	55,669	—	—	55,116	55,116
Net loans	17,436,561	—	—	17,363,491	17,363,491
Total assets	\$ 18,102,286	\$ 610,056	\$ —	\$ 17,418,607	\$ 18,028,663
Liabilities:					
Systemwide debt securities and other notes	\$ 18,239,316	\$ —	\$ —	\$ 18,218,619	\$ 18,218,619
Subordinated debt	49,681	—	—	54,407	54,407
	\$ 18,288,997	\$ —	\$ —	\$ 18,273,026	\$ 18,273,026

Valuation Techniques

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

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around

inputs to the valuation, the securities are classified as Level 3. At December 31, 2015, Level 3 securities included one mortgage-backed security valued using independent third-party valuation services. Level 3 assets at December 31, 2015, also include the bank's AMBS portfolio, which is valued by the bank using a model that incorporates underlying rates and current yield curves.

As permitted under Farm Credit Administration regulations, the banks are authorized to hold eligible investments. The regulations define eligible investments by specifying credit rating criteria, final maturity limit and percentage of portfolio limit for each investment type. At the time of purchase, mortgage-backed and asset-backed securities must be triple-A rated by at least one Nationally Recognized Statistical Rating Organization. The triple-A rating requirement puts the banks in a position to hold the senior tranches of securitizations. The underlying loans for mortgage-backed securities are residential mortgages, while the underlying loans for asset-backed securities are home equity lines of credit, small business loans, equipment loans or student loans.

To estimate the fair value of the majority of the investments held, the bank obtains prices from third-party pricing services.

Assets Held in Nonqualified Benefits Trusts

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

Derivatives

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include interest rate caps.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

Standby Letters of Credit

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

Loans

For certain loans evaluated for impairment under accounting impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

The bank has elected the fair value option for certain callable loans purchased on the secondary market at a significant

premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. The fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Accordingly, these assets are classified within Level 2.

In December 2015 the bank reclassified one loan to other assets as a loan held for sale, which is measured at fair value at December 31, 2015, based on Level 3 criteria (broker quote).

Bonds and Notes

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

Subordinated Debt

The fair value of subordinated debt is estimated using discounted cash flows. Generally, the instrument would be classified as Level 2; however, due to limited activity and less transparency around inputs to the valuation, the securities are classified as Level 3.

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobservable Input
Mortgage-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Asset-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Mission-related investments	Discounted cash flow	Prepayment rates
Loan held for sale	Discounted cash flow	Appropriate interest rate yield curve

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Federal funds sold	Carrying value	Par/principal
Investment securities available for sale	Quoted prices	Price for similar security
	Discounted cash flow	Constant prepayment rate Appropriate interest rate yield curve
Loans held under the fair value option	Quoted prices	Price for similar security
	Discounted cash flow	Constant prepayment rate Appropriate interest rate yield curve
Interest rate caps	Discounted cash flow	Appropriate interest rate yield curve
		Annualized volatility

Information About Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Actual balance
Loans	Discounted cash flow	Prepayment forecasts
		Appropriate interest rate yield curve
		Probability of default Loss severity
Systemwide debt securities and subordinated debt	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk

Note 16 — Derivative Instruments and Hedging Activity

The bank maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet liabilities so that the net interest margin is not adversely affected by movements in interest rates. The bank 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 bank has purchased interest rate caps to reduce the impact of rising interest rates on its floating-rate assets. At December 31, 2015, the bank held interest rate caps with a notional amount of \$310.0 million and a fair value of \$504. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the year ended December 31, 2015, is summarized in the following table:

	Receive Fixed Swaps	Pay Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2015	\$ —	\$ —	\$ 615,000	\$ 615,000
Additions	—	—	20,000	20,000
Maturities/Amortizations	—	—	(325,000)	(325,000)
Balance at December 31, 2015	\$ —	\$ —	\$ 310,000	\$ 310,000

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

To minimize the risk of credit losses, the bank maintains collateral agreements to limit exposure to agreed-upon thresholds; the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency; and the bank also monitors the credit standing of, and levels of exposure to, individual counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank 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. At December 31, 2015, the bank had credit exposure to counterparties totaling \$0.5 million, as compared with \$0.8 million at December 31, 2014.

The table below presents the credit ratings of counterparties to whom the bank has credit exposure at December 31, 2015:

(dollars in millions)	Remaining Years to Maturity			Total	Maturity Distribution Netting	Exposure	Collateral Held	Exposure Net of Collateral
	Less Than One Year	More Than One to Five Years	More Than Five Years					
Moody's Credit Rating								
A1	\$ —	\$ —	\$ 0.2	\$ 0.2	\$ —	\$ 0.2	\$ —	\$ 0.2
Aa3	—	—	0.3	0.3	—	0.3	—	0.3

The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's oversight of the bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the district's overall interest rate risk-management strategies. The bank may enter into interest rate swaps classified as fair value hedges primarily to convert a portion of its non-prepayable fixed-rate long-term debt to floating-rate debt.

Fair Value of Derivative Instruments:

The following table represents the fair value of derivative instruments as of December 31:

	Balance Sheet Location	Fair Value 2015	Fair Value 2014	Fair Value 2013	Balance Sheet Location	Fair Value 2015	Fair Value 2014	Fair Value 2013
Interest rate caps	Other assets	\$ 504	\$ 748	\$ 831	Other liabilities	\$ —	\$ —	\$ —

The following table sets forth the amount of gain (loss) recognized in the Other Comprehensive Income (OCI) for the years ended December 31, 2015, 2014 and 2013:

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) at December 31,		
	2015	2014	2013
Interest rate caps	\$ (586)	\$ (791)	\$ 166
	Amount of Gain Reclassified From AOCI Into Income (Effective Portion) at December 31,		
	2015	2014	2013
Interest expense	\$ 1,374	\$ 2,548	\$ 1,597

The following table provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information in the table presents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information in the table represents the notional amounts and weighted average interest rates by expected maturity dates.

December 31, 2015 (dollars in millions)	Maturities of 2015 Derivative Products and Other Financial Instruments								Fair Value
	2016	2017	2018	2019	2020	Subsequent Years	Total		
Total debt obligations:									
Fixed rate	\$ 4,082	\$ 2,686	\$ 1,964	\$ 1,659	\$ 1,056	\$ 2,610	\$ 14,057	\$ 14,117	
Weighted average interest rate	0.53%	1.11%	1.23%	1.58%	1.86%	2.66%	1.36%		
Variable rate	\$ 7,535	\$ 465	\$ —	\$ —	\$ —	\$ —	\$ 8,000	\$ 7,998	
Weighted average interest rate	0.54%	0.38%	—	—	—	—	0.53%		
Total debt obligations	\$ 11,617	\$ 3,151	\$ 1,964	\$ 1,659	\$ 1,056	\$ 2,610	\$ 22,057	\$ 22,115	
Weighted average interest rate	0.54%	1.00%	1.23%	1.58%	1.86%	2.66%	1.06%		
Derivative instruments:									
Interest rate caps									
Notional value	\$ 140	\$ 50	\$ —	\$ —	\$ 50	\$ 70	\$ 310	\$ 1	
Weighted average receive rate	—	—	—	—	—	—	—		
Weighted average pay rate	—	—	—	—	—	—	—		

Note 17 — Selected Quarterly Financial Information (Unaudited)

Quarterly results of operations are shown below for the years ended December 31:

	2015				
	First	Second	Third	Fourth	Total
Net interest income	\$ 169,281	\$ 171,714	\$ 172,892	\$ 184,049	\$ 697,936
Provision (negative provision) for loan losses	3,460	(1,322)	4,781	(1,266)	5,653
Noninterest expense, net	59,528	68,546	62,465	74,905	265,444
Net income	\$ 106,293	\$ 104,490	\$ 105,646	\$ 110,410	\$ 426,839
	2014				
	First	Second	Third	Fourth	Total
Net interest income	\$ 157,359	\$ 162,308	\$ 167,532	\$ 168,024	\$ 655,223
(Negative provision) provision for loan losses	(1,819)	(4,975)	(4,115)	4,439	(6,470)
Noninterest expense, net	52,932	50,120	35,027	85,103	223,182
Net income	\$ 106,246	\$ 117,163	\$ 136,620	\$ 78,482	\$ 438,511
	2013				
	First	Second	Third	Fourth	Total
Net interest income	\$ 157,960	\$ 157,416	\$ 157,838	\$ 157,603	\$ 630,817
Provision (negative provision) for loan losses	385	7,941	4,414	(6,432)	6,308
Noninterest expense, net	41,762	45,851	47,518	70,098	205,229
Net income	\$ 115,813	\$ 103,624	\$ 105,906	\$ 93,937	\$ 419,280

Note 18 — Bank-Only Financial Data

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

eliminated in combination. The multiemployer structure of the district's defined benefit plan results in the recording of this plan only upon combination.

Balance Sheet Data	Year Ended December 31,		
	2015	2014	2013
Cash and federal funds sold	\$ 567,503	\$ 450,447	\$ 624,261
Investment securities	4,445,105	4,086,391	3,637,855
Loans			
To associations	9,621,039	8,504,806	7,360,025
To others	5,149,967	4,755,031	4,418,716
Less allowance for loan losses	5,833	10,112	13,660
Net loans	14,765,173	13,249,725	11,765,081
Accrued interest receivable	47,816	44,429	37,657
Other property owned	438	10,310	13,812
Other assets	163,540	160,714	121,036
Total assets	\$ 19,989,575	\$ 18,002,016	\$ 16,199,702
Bonds and notes	\$ 18,206,726	\$ 16,330,008	\$ 14,589,316
Subordinated debt	49,801	49,739	49,681
Other liabilities	179,470	143,048	167,458
Total liabilities	18,435,997	16,522,795	14,806,455
Preferred stock	600,000	600,000	600,000
Capital stock	255,823	233,468	220,543
Allocated retained earnings	27,203	22,508	20,314
Unallocated retained earnings	697,883	643,067	585,503
Accumulated other comprehensive (loss) income	(27,331)	(19,822)	(33,113)
Total members' equity	1,553,578	1,479,221	1,393,247
Total liabilities and members' equity	\$ 19,989,575	\$ 18,002,016	\$ 16,199,702

Income Statement	Year Ended December 31,		
	2015	2014	2013
Interest income	\$ 428,360	\$ 389,823	\$ 369,483
Interest expense	195,892	163,164	153,763
Net interest income	232,468	226,659	215,720
(Negative provision) provision for credit losses	(2,506)	(5,433)	6,253
Net interest income after (negative provision) provision for credit losses	234,974	232,092	209,467
Noninterest income	40,638	37,845	45,027
Noninterest expense	83,373	81,677	74,674
Net income	\$ 192,239	\$ 188,260	\$ 179,820
Other comprehensive (loss) income	(7,509)	13,291	(60,946)
Comprehensive income	\$ 184,730	\$ 201,551	\$ 118,874

Note 19 — Association Mergers

Effective January 1, 2015, Great Plains Ag Credit, ACA headquartered in Amarillo, Texas, was acquired by AgTexas Farm Credit Services, ACA headquartered in Lubbock, Texas. The merged association is using the AgTexas Farm Credit Services, ACA name and is headquartered in Lubbock, Texas. The primary reason for the merger was based on a determination that the combined organizations should be financially and operationally stronger than the respective associations on a stand-alone basis. The acquisition method of accounting, required for mergers of cooperatives occurring after January 1, 2009, was used in the merger.

As the accounting acquirer, AgTexas Farm Credit Services, ACA accounted for the transaction by using their historical information and accounting policies and recording the identifiable assets and liabilities of Great Plains Ag Credit, ACA as of the acquisition date of January 1, 2015, at their respective fair values. The association operates for the mutual benefit of their borrowers and other customers and not for the benefit of any other equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the associations can issue stock only at its par value of \$5 per share, the stock is not tradable and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of Great Plains Ag Credit, ACA that were converted into shares of AgTexas Farm Credit Services, ACA had identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio. Association management believes that because the stock in each association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, AgTexas Farm Credit Services, ACA identified and estimated the acquisition date fair value of the equity interest (net assets) of Great Plains Ag Credit, ACA instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Great Plains Ag Credit, ACA, were measured based on various estimates using assumptions that AgTexas Farm Credit Services, ACA management believe are reasonable utilizing information available at the merger date. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that

was substantially equal to the fair value of the member interests transferred in the merger. As a result, AgTexas Farm Credit Services, ACA management determined goodwill was immaterial and therefore recorded no goodwill. The excess value received by AgTexas Farm Credit Services, ACA from Great Plains Ag Credit, ACA over par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

The following table summarizes the fair values of the identifiable assets acquired and liabilities AgTexas Farm Credit Services, ACA assumed from Great Plains Ag Credit, ACA upon acquisition:

	Fair Value	Contractual Amount	Contractual Amounts not Expected to be Collected
Loans	\$ 521,179	\$ 525,309	\$ 2,363
Total assets	547,081	—	—
Notes payable	441,509	443,234	—
Total liabilities	458,670	—	—
Net assets acquired	88,411	—	—
Impaired loans acquired	5,349	5,304	—
Amount of accretable yield on impaired loans	45	—	—

As Great Plains Ag Credit, ACA (the acquired entity) was an affiliated association of the district prior to the business combination with AgTexas Farm Credit Services, ACA, the Great Plains Ag Credit, ACA financial position and results of operations are included in the combined district financial statements for the years ending December 31, 2014 and 2013. Great Plains Ag Credit, ACA results of operations for the pre-merger periods were as follows:

	2014	2013
Net interest income	\$ 14,963	\$ 15,409
Negative provision (provision) for loan losses	882	(5,917)
Noninterest income	7,987	7,649
Noninterest expense	(10,816)	(8,462)
Provision for income taxes	(427)	1,212
Net income	\$ 12,589	\$ 9,891

Note 20 — Subsequent Events

The district has evaluated subsequent events through March 11, 2016, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of March 11, 2016.



Disclosure Information and Index

Disclosures Required by Farm Credit Administration Regulations

Description of Business

The Farm Credit Bank of Texas (FCBT or bank), Agricultural Credit Associations (ACAs) and a Federal Land Credit Association (FLCA), collectively referred to as the district, are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrower-shareholders for qualified agricultural purposes in the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. The district's ACA parent associations, which each contain wholly-owned FLCA and Production Credit Association (PCA) subsidiaries and the FLCA are collectively referred to as associations. A further description of territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference to Note 1, "Organization and Operations," to the accompanying financial statements.

The description of significant developments that had or could have a material impact on results of operations or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting business, seasonal characteristics and concentrations of assets, if any, required to be disclosed in this section are incorporated herein by reference to "Management's Discussion and Analysis" of the bank included in this annual report to shareholders.

Board of Directors and Senior Officers

FCBT is governed by a seven-member board of directors. Five directors are farmers or ranchers, who are elected by the customers of the 14 associations that own the bank. Two directors, who are not stockholders of any of the associations, are appointed by the elected board members. The board of directors is responsible for directing the operations of the bank. The bank's senior officers, through the bank's chief executive officer, are accountable to the board of directors and work with the board of directors to set the bank's direction, goals and strategies.

The following represents certain information regarding the board of directors and senior officers of the bank as of December 31, 2015, including business experience during the past five years:

Directors

James F. "Jimmy" Dodson, 62, chairman of the board of directors, is from Robstown, Texas. He grows cotton, corn, wheat and milo on four family farm operations and owns a seed sales business. Mr. Dodson serves on the bank's audit and compensation committees and is chairman of the Tenth District Farm Credit Council board. He is the board's designated financial expert on the board audit committee for the bank. He also serves on the National Farm Credit Council Board of Directors, where he is a member of the executive committee. He is also president of Dodson Farms, Inc.

and Dodson Ag, Inc., and is a partner in Legacy Farms and 3-D Farms. He is manager of Weber Station LLC, which is the managing partner of Weber Greene, Ltd., both of which are family farm real estate management firms. Mr. Dodson is a founding member of Cotton Leads, a responsible cotton production initiative of U.S. and Australian Cotton Producer organizations. He also serves on the boards of Gulf Coast Cooperative, an agricultural retail cooperative, and the Texas Agricultural Cooperative Council, an industry trade association. He is past chairman of the National Cotton Council of America, the American Cotton Producers and the Cotton Foundation, and formerly served as a director of Cotton Incorporated. He is past chairman of the Texas AgFinance, FCS board of directors and a former member of the Texas District's Stockholders Advisory Committee. Mr. Dodson became a director of the bank in 2003 and his current term expires at the end of 2017.

Lester Little, 65, vice chairman of the board of directors, is from Hallettsville, Texas. He owns and operates a farm and offers custom-farming services, primarily reclaiming farms and handling land preparation. His principal crops are corn, milo, hay and wheat. Mr. Little is a member of the bank's audit and compensation committees. He is also a member of the Tenth District Farm Credit Council. In addition, he is a member of the Farm Bureau, an agriculture trade organization, and serves on the Lavaca Regional Water Planning Group, a regional water planning authority in Texas. He previously was a board member of the Lavaca Central Appraisal District, a county organization in Texas that hires the chief appraiser for the county for purposes of assigning real estate values for tax assessments, and board chairman of the Hallettsville Independent School District Board of Trustees. He is former chairman of the Capital Farm Credit board of directors and previously served as vice chairman of the Texas District's Stockholders Advisory Committee. Mr. Little became a director in 2009 and his term expires at the end of 2017.

Brad C. Bean, 55, is from Gillsburg, Mississippi. He is a dairy farmer with other farming interests, including corn, sorghum and timber. In January 2016, Mr. Bean was re-elected chairman of the bank's audit committee. He is also a member of the bank's compensation committee and the Tenth District Farm Credit Council. Mr. Bean serves on the boards of the Amite County Farm Bureau and the Amite County Cooperative, both of which are trade organizations. Mr. Bean is a former chairman of Southern AgCredit, ACA board of directors and a former vice chairman of the Texas District's Stockholders Advisory Committee. He was elected to his first term on the board effective January 1, 2013, and his term expired at the end of 2015. Mr. Bean was re-elected to another three-year term effective January 1, 2016.

Ralph W. "Buddy" Cortese, 69, is from Fort Sumner, New Mexico. He is president of Cortese Farm and Ranch Inc., a farming and ranching operation. He is chairman of the bank's compensation committee and is a member of the bank's audit committee. Mr.

Cortese also is vice chairman of the Tenth District Farm Credit Council board. He currently serves on the board of the Federal Farm Credit Banks Funding Corporation. Mr. Cortese served as chairman of the board of directors of the bank from 2000 through 2011. He is a member of the Texas Agricultural Cooperative Council board of directors, an industry association. From 2003 to 2008, he served on the Federal Agricultural Mortgage Corporation (Farmer Mac) board of directors, a government agency chartered to create a secondary market for agricultural loans, and is a former board member of the American Land Foundation, a property rights organization. Prior to joining the bank board, he was chairman of the PCA of Eastern New Mexico board of directors. Mr. Cortese became a director in 1995 and his term expires at the end of 2016.

Elizabeth G. “Betty” Flores, 71, is from Laredo, Texas, where she served as city mayor from 1998 to 2006. Ms. Flores is one of the two appointed members on the board and serves on the bank’s audit and compensation committees. She is also a member of the Tenth District Farm Credit Council. Previously, she was senior vice president of the Laredo National Bank. Ms. Flores serves on the boards of the Texas Agricultural Cooperative Council, an industry association; Mercy Ministries of Laredo, a domestic violence nonprofit corporation; Laredo Main Street, a nonprofit organization; and Texas A&M International University Dustdevils, an athletics promotion organization. She is a graduate of Leadership Texas 1995, a leadership program for women professional and community leaders for the state of Texas, and Leadership America 2008, a national leadership program for women professional and community leaders. In 2010, she was appointed to serve as a member of the Farm Credit System Diversity Workgroup. Ms. Flores is a partner in a ranching and real estate partnership, E.G. Ranch, Ltd. She is a former member of the Federal Reserve Board Consumer Advisory Council. Ms. Flores became a director in 2006 and her term expired at the end of 2015. She was re-appointed to a new three-year term effective January 1, 2016.

Jon M. “Mike” Garnett, 71, is from Spearman, Texas. Mr. Garnett raises grain and forage crops and runs stocker cattle, and is president of Garnett Farms, Inc., a farming operation. He is vice chairman of the bank’s compensation committee and a member of the bank’s audit committee. He is also a member of the Tenth District Farm Credit Council. In January 2003, Garnett joined the National Farm Credit Council (FCC) Board of Directors as a district representative, became vice chairman of the FCC Board of Directors in 2009 and served as chairman from 2011 to 2013. In addition, he was vice chairman of the FCC Board’s compensation and benefits committee and a member of the board’s executive, governance and coordinating committees. He also is vice chairman of the Hansford County Soil and Water Conservation District, a county organization in Texas with the role of conservation of natural resources. Mr. Garnett is a former director of a consumer cooperative; a director on the Spearman Chamber of Commerce, a trade organization; and a former member of the Spearman Independent School District Board of Trustees. Prior to joining the bank board, he was chairman of the Panhandle-Plains Land Bank, FLCA board of directors from 1995 to 1998. Mr. Garnett became a director in 1999 and his term expires at the end of 2016.

M. Phillip Guthrie, 70, was appointed effective July 1, 2015, to a term on the board expiring at the end of 2017. In January 2016, he was elected vice chairman of the bank’s audit committee. He

also serves on the bank’s compensation committee. Mr. Guthrie is the chief executive officer of Denham Partners LLC, a Dallas-based private investment firm, and the chief executive officer and director for Neuro Holdings International LLC, which is a medical devices firm. He also serves as a director for Neuro Resources Group, a medical devices firm, and as a director for Direct General Corporation, an insurance firm. Early in his career, he was chief financial officer of Southwest Airlines, and later served as chief financial officer of Braniff International during that airline’s reorganization. Mr. Guthrie also was managing director of Mason Best Co., a Dallas-based investment firm, for 10 years, and has served as chairman, director or chief executive officer of several private and public financial service companies, both in banking and insurance. A Certified Public Accountant and a Chartered Global Management Accountant, Mr. Guthrie is audit committee-qualified under the guidelines of the Securities and Exchange Commission, the New York Stock Exchange and Nasdaq. He earned his bachelor’s degree in accounting from Louisiana Tech University and his MBA from the University of Michigan. Mr. Guthrie is a stockholder of his family-managed 125-year-old livestock and crop operation in northern Louisiana.

Committees

The board of directors has established an audit committee and a compensation committee. All members of the board serve on both the audit committee and the compensation committee. As the need arises, a member of the board of directors will also participate in the functions of the bank’s credit review committee. The responsibilities of each board committee are set forth in its respective approved charter.

The disclosure of director and senior officer information included in this disclosure information and index was reviewed by the compensation committee prior to the annual report’s issuance (including the disclosure information and index) on March 11, 2016.

Compensation of Directors

Directors of the bank are compensated in cash for service on the bank’s board. An annual compensation amount is considered as a retainer for all services performed by the director in an official capacity during the year except for extraordinary services for which additional compensation may be paid. The annual retainer fee is to be paid in equal monthly installments. Compensation for 2015 was paid at the rate of \$57,323 per year, payable at \$4,776.94 per month. In addition to days served at board meetings, directors may serve additional days on other official assignments and under exceptional circumstances where extraordinary time and effort are involved, the board may approve additional compensation, not to exceed 30 percent of the annual maximum allowable by FCA regulations. During 2015, additional compensation of \$5,000 was paid to Ms. Flores due to speaking engagements and representation at two events, the Latinos in Agriculture Conference and the Austin Hispanic Chamber of Commerce meeting. No director received non-cash compensation exceeding \$5,000 in 2015. Total cash compensation paid to all directors as a group during 2015 was \$377,600.

Information for each director for the year ended December 31, 2015, is provided below:

Board Member	Days Served at Board Meetings*	Days Served on Other Official Assignments**	Total Compensation Paid
James F. Dodson	27.25	27.75	\$ 57,323
Lester Little	27.25	27.75	57,323
Brad C. Bean	27.25	24.75	57,323
Ralph W. Cortese	27.25	24.75	57,323
Elizabeth G. Flores	27.25	31.25	62,323
Jon M. Garnett	27.25	24.75	57,323
M. Philip Guthrie	13.75	11.75	28,662
			<u>\$ 377,600</u>

* Includes travel time, but does not include time required to prepare for board meetings.

** Includes audit committee meetings, compensation committee meetings, credit review committee meetings, special assignments, training and travel time.

Directors are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. The aggregate amount of expenses reimbursed to directors in 2015, 2014 and 2013 totaled \$139,053, \$119,718 and \$140,401, respectively. A copy of the bank's travel policy is available to shareholders upon request.

Senior Officers of the Bank

Name and Title	Time in Position	Experience – Past Five Years	Other Business Interests – Past Five Years
Larry R. Doyle, <i>Chief Executive Officer</i>	12.5 years		He served as a member of the board of directors for the Federal Farm Credit Banks Funding Corporation, with his term expiring in 2011. He was chairman of the Farm Credit System Presidents Planning Committee (PPC) and currently serves on the PPC executive and business practices committees. He serves on the National Council of Farmer Cooperatives Executive Council. He is the managing member of Lone Star Plantation, LLC, a family-owned farming and land ownership operation, K&R Farm, LLC, a family-owned farming operation and K&R Land Holdings, a family-owned land ownership operation.
Kurt Thomas, <i>Senior Vice President, Chief Credit Officer</i>	5.6 years		He served as a member of the board of governors for the Farm Credit System Captive Insurance Corporation with his term expiring in February 2011 and serves as a member of the Farm Credit System Credit Workgroup. He is the managing partner of Thomas-Martin Partnership, a family-owned hunting and ranching partnership.
Carolyn Owen, <i>Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary</i>	2.8 years	Vice President, Corporate Affairs, Deputy General Counsel, FCBT	She serves as a member of the Farm Credit System Capital Workgroup.
Amie Pala, <i>Chief Financial Officer</i>	5.4 years		She serves as a member of the Farm Credit System Capital Workgroup and of the Farm Credit System Disclosure Committee.
Michael Elliott, <i>Chief Information Officer</i>	2 years	Vice President of Information Technology, FCBT 2011-2013	
Stan Ray, <i>Chief Administrative Officer</i>	5.4 years		He serves on the AgFirst/FCBT Plan Sponsor Committee, the Texas District Benefits Administration Committee, the Farm Credit System's Reputation Management Committee and is president of the Tenth District Farm Credit Council, a trade organization. He is a member of the board of directors for the following organizations: Texas FFA Foundation, a nonprofit organization promoting youth in agriculture; Grow Texas Foundation, a nonprofit organization providing scholarships to students in agriculture; Texas Agricultural Cooperative Council, an industry association; and Rodeo Austin, a nonprofit organization promoting youth education and western heritage.
Susan Wallar, <i>Chief Audit Executive</i>	4 years	Vice President of Internal Audit, FCBT	She serves as a member of the board of governors and is chairman of the audit committee for the Farm Credit System Captive Insurance Corporation. She is a member of the Farm Credit System Review, Audit and Appraisal Workgroup (RAAW).

Compensation Discussion and Analysis — Senior Officers

Overview

The board of directors of the Farm Credit Bank of Texas, through its compensation committee, has pursued a compensation philosophy for the bank that promotes leadership in the adoption and administration of a comprehensive compensation program.

A description of the bank's compensation plans is as follows.

Base Pay:

Market-based salaries along with the other incentive and benefits described below are critical to attracting and retaining needed talent in a highly competitive job market and at a time of high retirement risks.

Defined Benefit Pension Plan:

The Defined Benefit Pension Plan (Pension Plan) is a final average pay plan which was closed to new participants in 1996, and later fully closed to all participants, including rehires who had formerly participated in the plan. The Pension Plan benefits are based on the average monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35).

The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the employee's retirement age is 65, that the employee is married on the date the annuity begins, that the spouse is exactly 2 years younger than the employee and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Pension Plan benefit is offset by the pension benefits any employee may have from another Farm Credit System institution.

The Pension Plan was amended in 2013 to allow those retiring after September 1, 2013, to elect a lump-sum distribution option. The plan was also amended to allow participating employers to exclude from pension compensation new long-term incentive plans which began after January 1, 2014.

In 2014 the plan was amended to allow terminated employees with a vested benefit to also elect a lump-sum distribution beginning January 1, 2015.

401(k) Plan – Elective:

Farm Credit Benefits Alliance (FCBA) 401(k) Plan is open to all bank employees and includes up to a 4 percent employer match on employee deferrals up to Internal Revenue Service (IRS) directed limits. Employees become fully vested in the plan upon participation. The plan allows for self-directed investment choices by participants.

401K Plan – Non-Elective Defined Contribution Plan:

FCBA 401(k) Plan's Defined Contribution component is open to employees not participating in the Defined Benefit Pension Plan. Employees become fully vested in the plan upon participation and receive a 5 percent employer contribution each pay period up to

IRS-directed limits to the participant's account which is invested in the self-directed investment choices available.

Nonqualified Supplemental 401(k) Plan:

With the exception of the CEO, this plan is open to all employees who meet the minimum salary requirements set by the IRS. It has three features: elective deferral of employee compensation; discretionary employer contributions; and restored employer contributions that make an employee "whole" when 401(k) IRS limitations are met. Deferred money is invested with similar investment fund choices as the qualified 401(k) Plan at the participant's direction.

Success Sharing Plan:

The purpose of the Farm Credit Bank of Texas Success Sharing Plan (SSP) is to advance the mission of the bank by recognizing employees with variable pay through a discretionary bonus. The SSP (also categorized as a bonus or profit-sharing plan), rewards employees as the overall organization experiences success and performs within the realities of the current market environment and in accordance with business planning goals and objectives. Additionally, it is expected to help to attract, motivate and retain bank staff.

The SSP provides an annual award that is paid after the bank's operational results and strategic objectives are reported and assessed by the compensation committee of the board. The compensation committee has the final authority to determine if a success sharing award is to be paid and what percentage of the award target will be funded. The CEO does not participate in this plan; otherwise, all employees are eligible to participate in the SSP for that year (formerly employees hired after the third quarter were excluded from the plan). This program applies the concept of differential factors for all eligible bank participants, and is tiered into five groups according to employee job grades and their accountability level inside the entire organization. Each employee group has its own Success Sharing Award Factor for this plan. This factor is multiplied by the employee's December 31st annualized base salary to arrive at the Success Sharing Plan award target for the year.

An additional modification in 2014 included the following change. When a promotion or salary adjustment occurs during the year that elevates an employee's job grade into a higher employee group in the plan, the plan's award calculation will be prorated and paid at the separate employee group percentages for the periods the employee was in each of the employee groups. Additionally, when a salary adjustment occurs, the plan's award calculation will be prorated and paid at the separate employee salaries for the periods the employee was at each salary.

FCBT Retention Plan:

This is a nonqualified plan for bank employees that provides dollar incentives to remain employed for specific time periods to accomplish important bank initiatives or to aid in leadership succession. It is paid according to the agreement arranged for each participant. The CEO approves and recommends participants to the compensation committee, which approves plan provisions and participant agreements. Several employees were offered and accepted three-year retention plans in 2015. These employees have expertise with current software and systems that the bank is transitioning

from, to new software/system solutions. In order to retain these employees with critical knowledge, the bank offered retention plans that were accepted by the employees. The three-year retention plans are back loaded. The employees will receive 15 percent payout at the end of the first and second year if employed on December 31 each year. At the end of the third and final year, the employees will receive the last payment of 70 percent of the agreed-upon amount.

Spot Awards Program:

This bank program allows for discretionary awards to be paid to employees throughout the year in recognition of outstanding performance events or service provided to the bank's customers. Senior officers do not participate in this program.

Bank-Owned Vehicle Program:

Use of bank-owned vehicles is provided to three groups within the bank: the executive group is comprised of voting members of the bank's executive committee; the senior management group, which includes members defined by the CEO exclusive of the voting members of the executive committee; and the other group consisting of employees who have been identified by executive committee members as requiring a vehicle for job performance. Any current employee who was in possession of a bank-provided vehicle when vehicle eligibility guidelines were set was grandfathered for their remaining uninterrupted employment term at the bank. Employees assigned use of a bank-owned vehicle are required to maintain written records of their business and personal use. This data is used to annually impute to the employee's taxable wages the personal use value of the vehicle following the IRS lease value rule.

Educational and Training Program:

This program was established in recognition that ongoing enrichment of employees' skills, knowledge and expertise is essential not only for the success of the bank and the retention of key employees, but for the realization of employees' personal growth and achievement.

This program is directed to employees at all levels and includes formal orientation of new hires, a continuing education and degree program, and a licensing and certification program. The degree program reimbursement is open to full-time employees who have been with the bank at least six months. This program covers tuition, lab fees, books and registration fees if the employee receives a grade of C or better in undergraduate courses and B or better in graduate-level courses and expenses are in excess of those reimbursable by a scholarship or other sources.

Tuition reimbursement will not normally exceed the cost per semester hour charged at state-supported universities. Expenses incurred above the state-supported university baseline are the responsibility of the employee. Certain positions in the bank must be staffed by employees who hold professional licenses and/or certifications. In these instances, the membership and license fees, training and educational expenses for obtaining and maintaining professional status, licenses, and certifications are reimbursable.

Compensation, Risk and Performance:

One of the critical strategic goals of the bank is to provide market-driven financial products and support services to add value to our association customers. The bank succeeds at this through robust customer communications and relationships to stay aware of their

business needs. Our staff provides technical, credit, operational and marketing support, and offers leadership in talent acquisition, retention and development. Our ability to succeed in these areas is dependent upon having a knowledgeable and experienced customer-service-focused workforce that is responsive but also proactive in meeting our district's business challenges and recognizing and taking advantage of opportunities, including promoting the bank's mission as a government-sponsored enterprise.

Market and higher compensation programs are required to keep Farm Credit competitive in the talent war currently being waged in Austin, Texas. The bank is located in one of the nation's top economic markets. It has become known as the "Silicon Hills" for the large number of technology firms located here that pay top salaries to IT professionals as well as many other employee classifications. The unemployment rate has for years been lower than the national average (currently about 3 percent compared to 5 percent nationally), which makes attracting talent a struggle with not only the aggressive tech sector, but also with competition from major medical, real estate and government employers. Austin is one of the country's fastest growing regions bringing new talent into the market, but also attracts new employers seeking those same resources. All these factors exert an upward pressure on all aspects of the employee value proposition and stress in acquiring and retaining the skilled workforce needed to achieve the bank's goals.

While external factors impact compensation programs, internal measures are in place to make certain there is alignment with the bank's performance. Market-driven base salaries are combined with a bonus program that is at risk each year. The compensation committee of the district board annually determines the structure and the award for the Success Sharing Plan (SSP), a short-term bonus plan. This gives them the agility to modify or discontinue the plan in response to changing circumstances. The bank is not locked into an incentive program for any extended period of time.

The SSP in regard to the total compensation mix is not overly significant or significantly larger than the market practice. Multiple performance measures are considered, which include financial and operational metrics. Although awards are based on a single year's performance, because the bank's customers are its cooperative associations, performance in the time period measured is less uncertain than in businesses with larger and lesser known customer bases. The board and compensation committee review the bank's financial and operational performance at each meeting, so SSP decisions are reviewed by the same centralized group who hear those reports all year. Additionally, the compensation committee has external resources to support its oversight and uses that independent compensation consultant to review SSP awards with its annual executive compensation update.

In making its decision on the SSP award at year end, the compensation committee analyzes the bank's performance against the business plan for the year. The business plan is approved by the full composition of the board at the beginning of the year and is monitored all year as the CEO and senior team members deliver management and other reporting on bank performance and respond to director questions. Financial metrics include net income, the associations' direct note volume, allowance for loan losses, nonaccrual loans, capital market and investment income, total asset growth, credit quality, permanent capital ratios, and at

year end, the association patronage. Operational accomplishments considered vary but typically include staff outreach to associations, participation and leadership in System workgroups and initiatives, debt issuances, credit and technology products and services delivered, marketing support, talent acquisition and talent management support, and continued progress in diversity and inclusion efforts.

Chief Executive Officer (CEO) Compensation Table and Policy

In December 2013, a memorandum of understanding between the bank and the CEO was executed with an effective date of January 1, 2014, which supersedes the previous memorandum of understanding effective January 2, 2011. The memorandum of understanding is effective for a term of three years, until December 31, 2016. The base salary for each year of the three-year term for the CEO will be \$1,250,000. Bonus payments, if any, are at the sole discretion of the compensation committee. The employment relationship between the bank and CEO remains

at-will, meaning the bank may terminate the CEO's employment at any time, and the CEO may choose to leave at any time.

As previously mentioned, the CEO bonus is discretionary and subject to the approval of the bank's compensation committee. The compensation committee reviews the same bank financial performance and operational metrics that the committee evaluates for purposes of the SSP. Additionally, for both the CEO and senior officer group, the compensation committee has annual peer market data it reviews with its third-party consultant before making CEO base and bonus pay decisions. The compensation committee also reviews seven dimensions of CEO performance and has discussions about goals set for the current year and successes in meeting those goals. The seven dimensions of CEO performance are: strategy and vision; leadership; innovation/technology; operating metrics; risk management; people management; and external relationships.

The following table summarizes the compensation paid to the CEO of the bank during 2015, 2014 and 2013.

Summary Compensation Table for the CEO							
Name of Chief Executive Officer	Year	Annual					Total
		Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	
Larry R. Doyle	2015	\$ 1,250,048	\$ 1,250,000	\$ (29,609)	\$ 9,294	\$ —	\$ 2,479,733
Larry R. Doyle	2014	1,250,048	1,250,000	274,628	21,523	—	2,796,199
Larry R. Doyle	2013	1,250,048	1,000,000	(29,879)	17,543	—	2,237,712

(a) Gross salary for year presented.

(b) Bonus compensation is presented in the year earned, and bonuses are paid within the first 30 days of the subsequent calendar year. For 2015 and 2014, bonus compensation was paid in January 2016 and January 2015 of \$1,250,000 for each year based on the performance of the bank during 2015 and 2014. For 2013, bonus compensation was paid in January 2014 of \$1,000,000 based on the performance of the bank during 2013.

(c) For 2015, 2014 and 2013, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. For 2015, the negative (or decrease) change in pension value is due to the increase in the accounting disclosure rate for 2015 as compared to 2014. For 2014, the increase in the change in pension value is associated with a decline in the discount rate and a change in the mortality table used to calculate the present value of the pension plan as compared to 2013. For 2013, the negative (or decrease) change in pension value is due to the increase in the accounting disclosure rate for 2013 as compared to 2012.

(d) Deferred/Perquisites include contributions to a 401(k) plan, automobile benefits and premiums paid for life insurance.

(e) No values to disclose.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the aggregate number of officers of the bank during 2015, 2014 and 2013. Amounts reflected in the table are presented in the year the compensation is earned.

Summary Compensation Table for Other Officers							
Aggregate Number in Group (excludes CEO)	Year	Annual					Total
		Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	
8 Officers	2015	\$1,939,518	\$ 925,184	\$ 135,850	\$ 260,208	\$ —	\$ 3,260,760
9 Officers	2014	1,936,172	887,312	1,410,779	264,664	33,420	4,532,347
8 Officers	2013	1,750,320	806,698	68,493	199,059	—	2,824,570

(a) Gross salary for year presented.

(b) Bonuses paid within the first 30 days of the subsequent calendar year.

(c) For 2015, 2014 and 2013, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. The significant increase in the change in pension value for 2014 is due to a decline in the discount rate and a change in the mortality table used to calculate the present value of the pension plan as compared to 2013.

(d) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance.

(e) For 2014, other represents payments to one senior officer for their remaining annual leave hours at retirement. For 2015 and 2013, there were no values to disclose.

For 2014, the aggregate number of officers includes one senior officer who retired from the bank during 2014.

Disclosure of the compensation paid during 2015 to any senior officer or officer included in the table is available and will be disclosed to shareholders of the institution and stockholders of the district's associations upon written request.

Neither the CEO nor any other senior officer received non-cash compensation exceeding \$5,000 in 2015.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting

bank business. A copy of the bank's travel policy is available to shareholders upon request.

Pension Benefits Table for the CEO and Senior Officers as a Group

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO and senior officers as a group for the year ended December 31, 2015:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2015
Larry R. Doyle	Farm Credit Bank of Texas Pension Plan	42.119	\$ 1,640,354	\$ —
Name	Plan Name	Average Years Credited Service	Present Value of Accumulated Benefit	Payments During 2015
Officers, including Other Highly Compensated Employees	Farm Credit Bank of Texas Pension Plan	33.247	\$ 4,363,674	\$ —

Description of Property

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility located at 4801 Plaza on the Lake Drive, Austin, Texas. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space and an "early out" option to terminate the lease in 2020. The district associations own 11 headquarter locations and lease six locations. There are 127 owned and 60 leased association branch locations. The bank's and associations' investment in property is further detailed in Note 5, "Premises and Equipment," to the accompanying combined financial statements.

Legal Proceedings

There were no matters that came to the attention of the board of directors or management regarding the involvement of current directors or senior officers in specified legal proceedings which are required to be disclosed.

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 12, "Commitments and Contingencies," to the accompanying financial statements outlines the bank's position with regard to possible contingencies at December 31, 2015.

Description of Capital Structure

The bank and associations are authorized to issue and retire certain classes of capital stock and retained earnings in the management of their capital structures. Details of the capital structures are described in Note 9, "Members' Equity," to the accompanying combined financial statements, and in the "Management's

Discussion and Analysis" of the district included in this annual report to stockholders.

Description of Liabilities

The district's debt outstanding is described in Note 8, "Bonds and Notes," to the accompanying combined financial statements. The district's contingent liabilities are described in Note 13, "Commitments and Contingencies," to the accompanying combined financial statements. See also Note 11, "Employee Benefit Plans," with regard to obligations related to employee retirement plans.

Selected Financial Data

The selected financial data for the five years ended December 31, 2015, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Combined Financial Data" included in this annual report to stockholders.

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

"Management's Discussion and Analysis," which precedes the combined financial statements in this annual report, is incorporated herein by reference.

Transactions With Senior Officers and Directors

The policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 12, "Related Party Transactions," to the accompanying financial statements.

Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was \$213,802, \$188,732 and \$175,115 for 2015, 2014 and 2013, respectively. Further disclosure regarding these related

party transactions is found in Note 4, “Loans and Allowance for Loan Losses,” and Note 9, “Members’ Equity.”

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was \$4,150, \$3,806 and \$3,273 for 2015, 2014 and 2013, respectively, and was included in the bank’s noninterest income.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2015, 2014 or 2013.

Relationship With Public Accountants

There were no changes in independent qualified public accountants since the prior annual report to shareholders, and there were no material disagreements with our independent qualified public accountants on any matter of accounting principles or financial statement disclosure during the period.

Fees for professional services paid by the bank during 2015 by PricewaterhouseCoopers LLP, the bank’s independent qualified public accountants, were as follows.

- Audit services of \$404 thousand related to annual audits of the financial statements for the bank and district, of which \$169 thousand was associated with the completion of the 2014 annual audit of the financial statements and \$24 thousand related to out-of-pocket expenses for 2014 and 2015. Engagement letters for audit services for 2015 annual audit of the financial statements reflect an estimated fee of \$342 thousand for the bank and district, plus reasonable out-of-pocket expenses.
- Audit-related services of \$164 thousand of which \$39 thousand was associated with the completion of agreed-upon procedures relating to certain business application activities performed by FCBT on behalf of our affiliated associations for 2014 and 2015. An engagement letter estimated the fees for the agreed-upon procedures engagement for 2015 to be \$35 to \$40 thousand, plus any out-of-pocket expenses. The remaining \$125 thousand of the total was related to procedures completed for the bank’s SOC2 (Service Organization Control 2) assessment, specifically directed at evaluating the suitability of design and operating effectiveness of controls related to credit delivery, accounting, processing and related application hosting system to meet the criteria for the security and availability principles set forth in SOC2. An engagement letter estimated the fees for the SOC2 engagement for 2015 to be \$110 to \$120 thousand, plus any out-of-pocket expenses.
- Non-audit services associated with the tabulation of ballots for the elections of the FCBT Board of Directors and bank nominating committee members and reporting of the results to the bank was completed by PricewaterhouseCoopers LLP with no fee paid.

- FCBT is exempt from federal and certain other income taxes as provided in the Farm Credit Act. No tax services were provided by PricewaterhouseCoopers LLP.

Fees paid for the audit of the Farm Credit Benefits Alliance (FCBA) 401(k) plan for 2014 as engaged by the AgFirst/FCBT Plan Fiduciary Committee totaled \$15 thousand and represented the bank’s proportionate share of fees paid.

With the exception of the audit of the FCBA 401(k) plan, the non-audit services for the bank listed above required pre-approval of the bank’s audit committee, which was obtained.

Information regarding the fees for services rendered by the qualified public accountants for the district associations is disclosed in the individual association annual reports.

Relationships With Unincorporated Business Entities (UBEs)

The bank has relationships with the following three UBEs, which are all limited liability companies organized for the purpose of acquiring and managing unusual or complex collateral associated with loans:

- FCBT BioStar A LLC
- FCBT BioStar B LLC
- MB/BP Properties Joint Venture LLC

The bank and a district association are among the forming limited partners for a \$154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC will facilitate private equity investments in agriculture-related businesses that will create growth and job opportunities in rural America. Each limited partner has a commitment to contribute up to \$20.0 million over a 10-year period and, as of December 31, 2015, FCBT has invested \$3.8 million, included in “Other assets” on the Balance Sheets.

Information regarding UBEs for district associations is disclosed in the individual association annual reports.

Financial Statements

The combined financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 11, 2016, and the report of management in this annual report to stockholders, are incorporated herein by reference.

The Farm Credit Bank of Texas’ and its affiliated associations’ (district) annual and quarterly reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720 or by calling (512) 483-9204. Copies of the district’s quarterly and annual stockholder reports can be requested by e-mailing fcb@farmcreditbank.com. The district’s quarterly reports

are available approximately 40 days after the end of each fiscal quarter. The district's annual report will be posted on the bank's website (at www.farmcreditbank.com), within 75 calendar days of the end of the district fiscal year. This posting coincides with an electronic version of the report being provided to its regulator, the Farm Credit Administration. Within 90 calendar days of the end of the district fiscal year, a copy of the district's annual report will be provided to its stockholders.

Borrower Information Regulations

Farm Credit Administration (FCA) regulations require that borrower information be held in strict confidence by Farm Credit institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA board adopted a policy that requires Farm Credit institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products (YBS)

In line with our mission, we have policies and programs for making credit available to young, beginning and small farmers and ranchers.

The definitions for YBS, as prescribed by FCA regulations, are provided below.

Young Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.

Small Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who normally generated less than \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

For the purposes of YBS, the term "loan" means an extension of, or a commitment to extend, credit authorized under the Farm Credit Act, whether it results from direct negotiations between a lender and a borrower or is purchased from, or discounted for, another lender, including participation interests. A farmer/rancher may be included in multiple categories as they are included in each category in which the definition is met.

The bank and associations' efforts to respond to the credit and related needs of YBS borrowers are evidenced by the following table:

	At December 31, 2015	
	Number of Loans	Volume
<i>(dollars in thousands)</i>		
Total loans and commitments	73,049	\$ 25,899,084
Loans and commitments to young farmers and ranchers	13,089	\$ 2,231,462
Percent of loans and commitments to young farmers and ranchers	17.9%	8.6%
Loans and commitments to beginning farmers and ranchers	37,598	\$ 8,053,869
Percent of loans and commitments to beginning farmers and ranchers	51.5%	31.1%

The following table summarizes information regarding new loans to young and beginning farmers and ranchers:

	For the Year Ended December 31, 2015	
	Number of Loans	Volume
<i>(dollars in thousands)</i>		
Total new loans and commitments	17,173	\$ 8,378,123
New loans and commitments to young farmers and ranchers	3,062	\$ 769,016
Percent of new loans and commitments to young farmers and ranchers	17.8%	9.2%
New loans and commitments to beginning farmers and ranchers	7,404	\$ 2,313,783
Percent of new loans and commitments to beginning farmers and ranchers	43.1%	27.6%

The following table summarizes information regarding loans to small farmers and ranchers:

	At December 31, 2015				
	Loan Size				Total
	\$50 Thousand or Less	\$50 to \$100 Thousand	\$100 to \$250 Thousand	More Than \$250 Thousand	
<i>(dollars in thousands)</i>					
Total number of loans and commitments	14,204	16,898	22,858	19,089	73,049
Number of loans and commitments to small farmers and ranchers	10,543	13,416	17,558	10,863	52,380
Percent of loans and commitments to small farmers and ranchers	74.2%	79.4%	76.8%	56.9%	71.7%
Total loans and commitments volume	\$ 2,698,233	\$ 960,373	\$ 2,983,983	\$ 19,256,495	\$ 25,899,084
Total loans and commitments to small farmers and ranchers volume	\$ 258,915	\$ 727,753	\$ 2,213,560	\$ 6,131,067	\$ 9,331,295
Percent of loans and commitments volume to small farmers and ranchers	9.6%	75.8%	74.2%	31.8%	36.0%

The following table summarizes information regarding new loans made to small farmers and ranchers:

	For the Year Ended December 31, 2015				
	Loan Size				Total
	\$50 Thousand or Less	\$50 to \$100 Thousand	\$100 to \$250 Thousand	More Than \$250 Thousand	
<i>(dollars in thousands)</i>					
Total number of new loans and commitments	3,800	3,153	4,600	5,620	17,173
Number of new loans and commitments to small farmers and ranchers	2,666	2,349	3,172	2,267	10,454
Percent of new loans and commitments to small farmers and ranchers	70.2%	74.5%	69.0%	40.3%	60.9%
Total new loans and commitments volume	\$ 99,538	\$ 237,315	\$ 762,330	\$ 7,278,940	\$ 8,378,123
Total new loans and commitments to small farmers and ranchers volume	\$ 74,867	\$ 177,202	\$ 517,294	\$ 1,681,752	\$ 2,451,115
Percent of loan and commitment volume to small farmers and ranchers	75.2%	74.7%	67.9%	23.1%	29.3%

Texas District Associations

The following associations were affiliated with the Farm Credit Bank of Texas at December 31, 2015:

- Ag New Mexico, Farm Credit Services, ACA
- AgTexas Farm Credit Services
- Alabama Ag Credit, ACA
- Alabama Farm Credit, ACA
- Capital Farm Credit, ACA
- Central Texas Farm Credit, ACA
- Heritage Land Bank, ACA
- Legacy Ag Credit, ACA
- Lone Star, ACA
- Louisiana Land Bank, ACA
- Mississippi Land Bank, ACA
- Plains Land Bank, FLCA
- Southern AgCredit, ACA
- Texas Farm Credit Services