ALABAMA AG CREDIT, ACA

2016
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2016

REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Ag Credit, ACA (Association) are prepared by management, who are responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's 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 of controls must be related to the benefits derived. The annual financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The audit committee of the board of directors has oversight responsibility for the Association's system of internal controls and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditor to review the scope and results of their work. The independent auditors and internal auditor have direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report reliably present the financial condition of Alabama Ag Credit, ACA and the results of its operations for the periods shown.

Douglas Thiessen, President/Chief Executive Officer
May 5, 2016

James L. Bassett, Chairman, Board of Directors
May 5, 2016

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
May 5, 2016

J.K. Love, CPA, Chairman, Audit Committee
May 5, 2016

ALABAMA AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended March 31, 2016. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2015 Annual Report to Stockholders.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Results of Operations:

The Association had net income of $3,616,073 for the three months ended March 31, 2016, as compared to net income of $3,177,187 for the same period in 2015, reflecting an increase of 13.8 percent. Net interest income was $6,297,500 for the three months ended March 31, 2016, compared to $6,048,164 for the same period in 2015.

	March 31, 2016		March 31, 2015	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 861,315,346**	**$ 9,984,788**	$ 783,036,484	$ 9,148,398
Interest-bearing liabilities	**715,141,750**	**3,687,288**	642,693,971	3,100,234
Impact of capital	**$ 146,173,596**		$ 140,342,513	
Net interest income		**$ 6,297,500**		$ 6,048,164

	2016 Average Yield	2015 Average Yield
Yield on loans	**4.66%**	4.74%
Cost of interest-bearing liabilities	**2.07%**	1.96%
Interest rate spread	**2.59%**	2.78%
Impact of capital	**0.35%**	0.35%
Net interest income as a percentage of average earning assets	**2.94%**	3.13%

	March 31, 2016 vs. March 31, 2015 Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 922,185**	**$ (85,795)**	**$ 836,390**
Interest expense	**352,388**	**234,666**	**587,054**
Net interest income	**$ 569,797**	**$ (320,461)**	**$ 249,336**

Interest income for the three months ended March 31, 2016, increased by $836,390, or 9.1 percent, respectively, from the same period of 2015, primarily due to an increase in average loan volume. Interest expense for the three months ended March 31, 2016, increased by $587,054, or 18.9 percent from the same period of 2015 due to an increase in average debt volume and an increase in the cost of debt. Average loan volume for the first quarter of 2016 was $861,315,346, compared to $783,036,484 in the first quarter of 2015. The average net interest rate spread on the loan portfolio for the first quarter of 2016 was 2.59 percent, compared to 2.78 percent in the first quarter of 2015.

Noninterest income for the three months ended March 31, 2016, increased by $241,631, or 71.0 percent, over the same period of 2015. The increase is due primarily to the net gain recognized on the sale of other property owned as opposed to a loss over the same period of 2015.

Noninterest expenses for the three months ended March 31, 2016 increased by $306,753, or 10.4 percent, as compared to the same period in 2015. The increase is primarily due to increases in salaries and benefits and Insurance Fund premiums. Salaries and benefits cost increased as a result of a net increase of employees from the first quarter of 2015 through the first quarter of 2016. Insurance Fund premiums increased as a result of increased rates from the first quarter of 2015 to the first quarter of 2016.

The Association's return on average assets for the three months ended March 31, 2016, was 1.64 percent compared to 1.60 percent for the same period in 2015. The Association's return on average equity for the three months ended March 31, 2016, was 9.29 percent, compared to 8.68 percent for the same period in 2015.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive prime- and LIBOR-based, fixed and adjustable interest rates and loan maturities ranging up to 40 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at March 31, 2016, stated at recorded investment (principal less funds held), were $871,770,291 compared to $861,660,052 at December 31, 2015, reflecting an increase of 1.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at March 31, 2016, compared to 1.0 percent at December 31, 2015.

The Association recorded $7,527 in recoveries and $4,344 in charge-offs for the quarter ended March 31, 2016, and $3,393 in recoveries and $29,801 in charge-offs for the same period in 2015. The Association's allowance for loan losses was 0.6 percent and 0.6 percent of total loans outstanding as of March 31, 2016, and December 31, 2015, respectively.

The following table reflects the credit quality of the Association's loan volume as of:

	March 31, 2016	December 31, 2015
Acceptable	**98.2** %	97.9 %
OAEM	**0.6** %	0.7 %
Substandard/doubtful	**1.2** %	1.4 %
	100.0 %	100.0 %

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	March 31, 2016		December 31, 2015	
	Amount	**%**	Amount	%
Nonaccrual	**$ 7,171,073**	**88.1%**	$ 8,685,474	90.1%
90 days past due and still accruing interest	**267,830**	**3.3%**	-	0.0%
Formally restructured	**329,275**	**4.1%**	417,777	4.3%
Other property owned, net	**369,022**	**4.5%**	541,945	5.6%
Total	**$ 8,137,200**	**100.0%**	$ 9,645,196	100.0%

At March 31, 2016, loans that were considered impaired were $7,768,178 compared to $9,103,251 at December 31, 2015. This represents 0.9 percent and 1.1 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. While the total number of nonaccrual loans as of March 31, 2016, remained relatively consistent compared to December 31, 2015, the primary reason for the decrease in volume is attributable to several large credits that were paid down during the first quarter of 2016.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the association's borrowings.

	March 31, 2016	December 31, 2015
Note payable to the Bank	$ **723,747,514**	$ 716,390,864
Accrued interest on note payable	**1,266,592**	1,211,550
Total	$ **725,014,106**	$ 717,602,414

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the association is a direct loan from the Bank. The outstanding balance of $723,747,514 as of March 31, 2016, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.02 percent at March 31, 2016. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2015, is due to increased funding needs generated by growth in the Association's loan portfolio. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $147,310,363 at March 31, 2016. The maximum amount the Association may borrow from the Bank as of March 31, 2016, was $875,505,514 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by $3,631,753 at March 31, 2016, compared to December 31, 2015. The Association's debt as a ratio of members' equity was 4.67:1 as of March 31, 2016, compared to 4.74:1 as of December 31, 2015.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2016, was 16.6 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2016, were 16.1 and 16.1 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

Information regarding significant recent accounting pronouncements, required to be disclosed, is incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report.

Regulatory Matters:

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

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

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

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

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,

- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The final rule is effective on January 1, 2017.

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2015 Annual Report of Alabama Ag Credit, ACA more fully describe the Association's relationship with the Bank.

The Texas Farm Credit District's (District) annual and quarterly stockholder reports, as well as those of the Bank, 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 also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the Bank and the District are also available on its website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. The quarterly reports will be available on the Association's website at www.AlabamaAgCredit.com approximately 40 days after quarter end and can also be obtained by writing to Alabama Ag Credit, ACA, 2660 EastChase Lane, Suite 401, Montgomery, Alabama, 36117 or calling (334) 270-8687. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Andra.Wolf@AlabamaAgCredit.com. The Association's annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

ALABAMA AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash	**$ 8,985**	$ 11,448
Loans	**871,770,291**	861,660,052
Less: allowance for loan losses	**5,395,464**	5,381,077
Net loans	**866,374,827**	856,278,975
Accrued interest receivable	**8,049,766**	7,753,533
Investment in and receivable from the Bank:		
Capital stock	**13,754,660**	13,754,660
Accrued patronage receivable	**180,000**	67,607
Other	**1,348,760**	2,362,849
Other property owned, net	**369,022**	541,945
Premises and equipment, net	**5,909,695**	5,812,914
Other assets	**921,415**	415,240
Total assets	**$ 896,917,130**	$ 886,999,171
LIABILITIES		
Note payable to Bank	**$ 723,747,514**	$ 716,390,864
Accrued interest payable	**1,266,592**	1,211,550
Drafts outstanding	**2,687,533**	1,675,992
Patronage distributions payable	**14,912**	7,400,050
Other liabilities	**11,089,778**	5,841,667
Total liabilities	**738,806,329**	732,520,123
MEMBERS' EQUITY		
Capital stock and participation certificates	**3,805,705**	3,794,955
Unallocated retained earnings	**154,692,774**	151,071,753
Accumulated other comprehensive loss	**(387,678)**	(387,660)
Total members' equity	**158,110,801**	154,479,048
Total liabilities and members' equity	**$ 896,917,130**	$ 886,999,171

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31, 2016	Quarter Ended March 31, 2015
INTEREST INCOME		
Loans	**$ 9,984,788**	$ 9,148,398
INTEREST EXPENSE		
Note payable to the Bank	**3,687,288**	3,100,234
Net interest income	**6,297,500**	6,048,164
PROVISION FOR LOAN LOSSES		
Provision for loan losses	**10,674**	265,346
Net interest income after provision for loan losses	**6,286,826**	5,782,818
NONINTEREST INCOME		
Patronage income from the Bank	**248,300**	228,784
Loan fees	**129,776**	32,071
Financially related services income	**274**	245
Gain (loss) on other property owned, net	**77,168**	(23,491)
Gain on sale of premises and equipment, net	**58,113**	34,288
Other noninterest income	**68,540**	68,643
Total noninterest income	**582,171**	340,540
NONINTEREST EXPENSES		
Salaries and employee benefits	**1,964,124**	1,819,629
Directors' expense	**134,070**	91,177
Purchased services	**67,315**	75,916
Travel	**133,282**	141,886
Occupancy and equipment	**202,689**	192,156
Communications	**69,644**	75,144
Advertising	**99,063**	86,085
Public and member relations	**90,102**	92,291
Supervisory and exam expense	**66,547**	60,905
Insurance Fund premiums	**372,134**	257,558
Other noninterest expense	**53,954**	53,424
Total noninterest expenses	**3,252,924**	2,946,171
NET INCOME	**3,616,073**	3,177,187
Other comprehensive income:		
Change in postretirement benefit plans	**(18)**	8,970
COMPREHENSIVE INCOME	**$ 3,616,055**	$ 3,186,157

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2014	$ 3,642,100	$ 143,465,233	$ (693,286)	$ 146,414,047
Net income	-	3,177,187	-	3,177,187
Other comprehensive income	-	-	8,970	8,970
Capital stock/participation certificates issued	129,330	-	-	129,330
Capital stock/participation certificates retired	(86,255)	-	-	(86,255)
Patronage refunds:				
Change in patronage declared and paid	-	677	-	677
Balance at March 31, 2015	$ 3,685,175	$ 146,643,097	$ (684,316)	$ 149,643,956
Balance at December 31, 2015	$ 3,794,955	$ 151,071,753	$ (387,660)	$ 154,479,048
Net income	-	3,616,073	-	3,616,073
Other comprehensive income	-	-	(18)	(18)
Capital stock/participation certificates issued	117,270	-	-	117,270
Capital stock/participation certificates retired	(106,520)	-	-	(106,520)
Patronage refunds:				
Change in patronage declared and paid	-	4,948	-	4,948
Balance at March 31, 2016	$ 3,805,705	$ 154,692,774	$ (387,678)	$ 158,110,801

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015, as contained in the 2015 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by the Farm Credit Administration (FCA), associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015, as contained in the 2015 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2016. Descriptions of the significant accounting policies are included in the 2015 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

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 Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’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 Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2016, are not necessarily indicative of the results to be expected for the year ended December 31, 2016. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2016 Amount**	December 31, 2015 Amount
Production agriculture:		
Real estate mortgage	**$ 725,702,634**	$ 721,039,611
Production and intermediate term	**83,998,352**	85,015,442
Agribusiness:		
Loans to cooperatives	**2,025,861**	2,066,798
Processing and marketing	**38,918,047**	32,790,793
Farm-related business	**3,435,196**	3,471,484
Communication	**1,500,769**	1,524,369
Water and waste water	**333,862**	317,579
Rural residential real estate	**15,855,570**	15,433,976
Total	**$ 871,770,291**	$ 861,660,052

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,259,334	$ 9,411,856	$ -	$ -	$ 9,259,334	$ 9,411,856
Production and intermediate term	13,222,956	767,627	-	-	13,222,956	767,627
Agribusiness	42,675,678	-	-	-	42,675,678	-
Communication	1,500,769	-	-	-	1,500,769	-
Water and waste water	333,862	-	-	-	333,862	-
Total	$ 66,992,599	$ 10,179,483	$ -	$ -	$ 66,992,599	$ 10,179,483

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $25,781,679 and $18,658,291 at March 31, 2016, and December 31, 2015, respectively.

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

	March 31, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	**$ 6,832,279**	$ 7,554,697
Production and intermediate term	**171,315**	971,708
Agribusiness	**42,043**	51,909
Rural residential real estate	**125,436**	107,160
Total nonaccrual loans	**7,171,073**	8,685,474
Accruing restructured loans:		
Real estate mortgage	**329,275**	417,777
Total accruing restructured loans	**329,275**	417,777
Accruing loans 90 days or more past due:		
Real estate mortgage	**267,830**	-
Total accruing loans 90 days or more past due	**267,830**	-
Total nonperforming loans	**7,768,178**	9,103,251
Other property owned	**369,022**	541,945
Total nonperforming assets	**$ 8,137,200**	$ 9,645,196

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

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

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

	March 31, 2016		December 31, 2015	
Real estate mortgage				
Acceptable	**98.0**	%	97.2	%
OAEM	**0.7**		0.8	
Substandard/doubtful	**1.3**		2.0	
	100.0		100.0	
Production and intermediate term				
Acceptable	**98.6**		99.9	
OAEM	**0.1**		-	
Substandard/doubtful	**1.3**		0.1	
	100.0		100.0	
Agribusiness				
Acceptable	**99.9**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**0.1**		-	
	100.0		100.0	
Water/waste water				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Communication				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Rural residential real estate				
Acceptable	**98.7**		96.6	
OAEM	**0.1**		2.1	
Substandard/doubtful	**1.2**		1.3	
	100.0		100.0	
Total loans				
Acceptable	**98.2**		97.9	
OAEM	**0.6**		0.7	
Substandard/doubtful	**1.2**		1.4	
	100.0	%	100.0	%

The following tables provide an age analysis of past due loans (including accrued interest) as of:

March 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	**$ 1,960,476**	**$ 1,487,954**	**$ 3,448,430**	**$ 729,314,720**	**$ 732,763,150**	**$ 267,830**
Production and intermediate term	**811,103**	**1,140**	**812,243**	**84,050,302**	**84,862,545**	**-**
Loans to cooperatives	**-**	**-**	**-**	**2,042,416**	**2,042,416**	**-**
Processing and marketing	**-**	**-**	**-**	**38,966,699**	**38,966,699**	**-**
Farm-related business	**-**	**-**	**-**	**3,436,890**	**3,436,890**	**-**
Communication	**-**	**-**	**-**	**1,501,089**	**1,501,089**	**-**
Water and waste water	**-**	**-**	**-**	**333,984**	**333,984**	**-**
Rural residential real estate	**134,683**	**-**	**134,683**	**15,778,601**	**15,913,284**	**-**
Total	**$ 2,906,262**	**$ 1,489,094**	**$ 4,395,356**	**$ 875,424,701**	**$ 879,820,057**	**$ 267,830**

December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 2,817,903	$ 1,136,139	$ 3,954,042	$ 723,623,429	$ 727,577,471	$ -
Production and intermediate term	80	15,110	15,190	86,050,145	86,065,335	-
Loans to cooperatives	-	-	-	2,074,843	2,074,843	-
Processing and marketing	-	-	-	32,880,353	32,880,353	-
Farm-related business	-	-	-	3,474,585	3,474,585	-
Communication	-	-	-	1,524,689	1,524,689	-
Water and waste water	-	-	-	317,670	317,670	-
Rural residential real estate	31,206	-	31,206	15,467,433	15,498,639	-
Total	$ 2,849,189	$ 1,151,249	$ 4,000,438	$ 865,413,147	$ 869,413,585	$ -

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

As of March 31, 2016, the total recorded investment of TDR loans was $3,600,785, including $3,271,510 classified as nonaccrual and $329,275 classified as accrual, with specific allowance for loan losses of $359,774. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of March 31, 2016, the Association had no commitments to lend funds to borrowers whose loan terms have been modified in a TDR.

The following tables present additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the three months ended March 31, 2016. 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. Loans formally restructured prior to January 1, 2016, were $3,316,860.

For the Three Months Ended March 31, 2016	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 294,900	$ 283,925
Total	$ 294,900	$ 283,925

During the three months ended March 31, 2015, there were no loans which were modified in a TDR.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded at the modification date for the quarter ending March 31, 2016.

The predominant form of concession granted for TDRs includes extension of the term and/or delayed payments. Other types of modifications include principal or accrued interest reductions and interest rate decreases, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a TDR. No loans modified in a TDR in the last 12 months have subsequently defaulted as of March 31, 2016.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Real estate mortgage	$ 3,430,610	$ 3,466,147	$ 3,101,335	$ 3,048,370
Production and intermediate term	170,175	206,471	170,175	206,471
Total	$ 3,600,785	$ 3,672,618	$ 3,271,510	$ 3,254,841

Additional impaired loan information is as follows:

	March 31, 2016			December 31, 2015		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 4,038,349**	**$ 4,139,745**	**$ 578,574**	$ 4,250,354	$ 4,492,885	$ 534,147
Production and intermediate term	**77,370**	**143,451**	**34,070**	93,370	155,335	44,570
Farm-related business	**42,043**	**42,043**	**19,317**	51,909	51,909	19,317
Rural residential real estate	**-**	**-**	**-**	-	-	-
Total	**$ 4,157,762**	**$ 4,325,239**	**$ 631,961**	$ 4,395,633	$ 4,700,129	$ 598,034
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,391,037**	**$ 3,651,366**	**$ -**	$ 3,722,120	$ 3,858,437	$ -
Production and intermediate term	**93,945**	**238,736**	**-**	878,338	1,023,373	-
Farm-related business	**-**	**-**	**-**	-	-	-
Rural residential real estate	**125,436**	**125,436**	**-**	107,160	107,160	-
Total	**$ 3,610,418**	**$ 4,015,538**	**$ -**	$ 4,707,618	$ 4,988,970	$ -
Total impaired loans:						
Real estate mortgage	**$ 7,429,386**	**$ 7,791,111**	**$ 578,574**	$ 7,972,474	$ 8,351,322	$ 534,147
Production and intermediate term	**171,315**	**382,187**	**34,070**	971,708	1,178,708	44,570
Farm-related business	**42,043**	**42,043**	**19,317**	51,909	51,909	19,317
Rural residential real estate	**125,436**	**125,436**	**-**	107,160	107,160	-
Total	**$ 7,768,180**	**$ 8,340,777**	**$ 631,961**	$ 9,103,251	$ 9,689,099	$ 598,034

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Quarter Ended March 31, 2016		For the Quarter Ended March 31, 2015	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 4,199,607**	**$ 5,294**	$ 5,010,778	$ -
Production and intermediate term	**88,633**	**-**	52,928	2,156
Farm-related business	**50,174**	**-**	-	-
Rural residential real estate	**-**	**-**	-	-
Total	**$ 4,338,414**	**$ 5,294**	$ 5,063,706	$ 2,156
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 3,588,831**	**$ 4,242**	$ 5,038,770	$ 19,164
Production and intermediate term	**127,908**	**-**	718,889	268
Farm-related business	**-**	**-**	-	-
Rural residential real estate	**120,731**	**88**	103,978	-
Total	**$ 3,837,470**	**$ 4,330**	$ 5,861,637	$ 19,432
Total impaired loans:				
Real estate mortgage	**$ 7,788,438**	**$ 9,536**	$ 10,049,548	$ 19,164
Production and intermediate term	**216,541**	**-**	771,817	2,424
Farm-related business	**50,174**	**-**	-	-
Rural residential real estate	**120,731**	**88**	103,978	-
Total	**$ 8,175,884**	**$ 9,624**	$ 10,925,343	$ 21,588

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2015	$ 5,113,387	$ 183,005	$ 58,299	$ 1,230	$ 1,014	$ 24,142	$ 5,381,077
Charge-offs	(228)	(4,116)	-	-	-	-	(4,344)
Recoveries	7,527	-	-	-	-	-	7,527
Provision for loan losses	(334)	280	11,341	(30)	(32)	(551)	10,674
Other	92	(1,694)	2,112	-	(18)	38	530
Balance at March 31, 2016	$ 5,120,444	$ 177,475	$ 71,752	$ 1,200	$ 964	$ 23,629	$ 5,395,464
Ending Balance:							
Individually evaluated for impairment	$ 776,644	$ 34,070	$ 19,317	$ -	$ -	$ 133	$ 830,164
Collectively evaluated for impairment	4,343,800	143,405	52,435	1,200	964	43,496	4,585,300
Balance at March 31, 2016	$ 5,120,444	$ 177,475	$ 71,752	$ 1,200	$ 964	$ 43,629	$ 5,415,464
Balance at December 31, 2014	$ 4,570,064	$ 70,062	$ 48,083	$ 971	$ 604	$ 29,327	$ 4,719,111
Charge-offs	(29,801)	-	-	-	-	-	(29,801)
Recoveries	3,393	-	-	-	-	-	3,393
Provision for loan losses	124,106	148,299	(1,033)	(19)	(100)	(5,907)	265,346
Balance at March 31, 2015	$ 4,667,762	$ 218,361	$ 47,050	$ 952	$ 504	$ 23,420	$ 4,958,049
Ending Balance:							
Individually evaluated for impairment	$ 1,112,955	$ 131,221	$ -	$ -	$ -	$ 5,499	$ 1,249,675
Collectively evaluated for impairment	3,554,807	87,140	47,050	952	504	17,921	3,708,374
Balance at March 31, 2015	$ 4,667,762	$ 218,361	$ 47,050	$ 952	$ 504	$ 23,420	$ 4,958,049

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at March 31, 2016	$ 732,763,150	$ 84,862,545	$ 44,446,005	$ 1,501,089	$ 333,984	$ 15,913,284	$ 879,820,057
Individually evaluated for impairment	$ 9,595,926	$ 1,124,850	$ 42,043	$ -	$ -	$ 190,756	$ 10,953,575
Collectively evaluated for impairment	$ 723,167,224	$ 83,737,695	$ 44,403,962	$ 1,501,089	$ 333,984	$ 15,722,528	$ 868,866,482
Ending Balance at March 31, 2015	$ 699,647,469	$ 61,937,833	$ 39,090,670	$ 1,595,428	$ 462,863	$ 13,686,271	$ 816,420,534
Individually evaluated for impairment	$ 14,282,942	$ 1,890,938	$ -		$ -	$ 183,105	$ 16,356,985
Collectively evaluated for impairment	$ 685,364,527	$ 60,046,895	$ 39,090,670	$ 1,595,428	$ 462,863	$ 13,503,166	$ 800,063,549

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan portfolio; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

An additional component of equity is accumulated other comprehensive income. The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the three months ended March 31:

	2016	2015
Accumulated other comprehensive loss at January 1	**$ (387,660)**	$ (693,286)
Amortization of prior service credit included in salaries and employee benefits	**(5,766)**	(5,918)
Amortization of actuarial loss included in net periodic postretirement benefit cost	**5,748**	14,888
Other comprehensive income (loss), net of tax	**(18)**	8,970
Accumulated other comprehensive income at March 31	**$ (387,678)**	$ (684,316)

NOTE 4 — INCOME TAXES:

Alabama Ag Credit, ACA and its PCA subsidiary, Alabama Ag Credit, PCA (Associations) are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at 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. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association has recorded a full valuation allowance against its deferred tax asset as of March 30, 2016 based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the three months ended March 31, 2016 and 2015, the Associations had no taxable income. The subsidiary, Alabama Ag Credit, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2015 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

March 31, 2016	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 37,717**	**$ -**	**$ -**	**$ 37,717**

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 29,625	$ -	$ -	$ 29,625

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

March 31, 2016	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$4,626,652**	**$4,626,652**
Other property owned	**-**	**-**	**409,188**	**409,188**

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 5,599,681	$ 5,599,681
Other property owned	-	-	716,901	716,901

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for 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.

Valuation Techniques

As more fully discussed in Note 13 to the 2015 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities.

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.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and 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. As of March 31, 2016, other property owned, net is reported at $369,022 in the consolidated balance sheet.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: As discussed in Note 2 and Note 11 to the 2015 Annual Report to Stockholders, employees of the Association participate in either the District's defined benefit pension plan (DB Plan) or the District's defined contribution plan (DC Plan).

The structure of the DB Plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The annual contribution is paid in January of each year, and amortized into expense on a monthly basis; unamortized contributions are included in "Other Assets" in the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense, and the remaining unamortized contributions amounts as of March 31:

	2016	2015
DB Contribution	**$ 577,997**	$ 510,757
YTD Amortization	**144,499**	127,689
Unamortized contributions	**$ 433,498**	$ 383,068

Association contributions to the DC Plan are expensed as incurred. For the three months ended March 31, 2016 and 2015, the Association recognized pension costs for the DC Plan of $78,228 and $70,977, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. The Association's contributions to the 401(k) plan were $50,479 and $54,074 for the three months ended March 31, 2016 and 2015, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer, and consequently, the liability for these benefits is included in the consolidated balance sheet. The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2016	2015
Service cost	**$ 15,342**	$ 18,302
Interest cost	**29,762**	30,432
Expected return on plan assets	**-**	-
Amortization of prior service credits	**(5,766)**	(5,918)
Amortization of net actuarial loss	**5,748**	14,888
Net periodic benefit cost	**$ 45,086**	$ 57,704

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2016, was $2,584,301 and is included in "Other Liabilities" in the balance sheet.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events May 5, 2016 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 5, 2016.