FARM CREDIT OF
SOUTHWEST KANSAS, ACA

QUARTERLY REPORT TO STOCKHOLDERS

AS OF MARCH 31, 2016

Farm Credit of Southwest Kansas, ACA

DISCLOSURE OF IMPACT OF BANK OPERATIONS ON SHAREHOLDERS' INVESTMENT IN THE ASSOCIATION

The shareholders' investment in Farm Credit of Southwest Kansas, ACA, is materially affected by the financial condition and results of operations of CoBank, ACB (CoBank). The 2015 CoBank Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's web site, www.cobank.com, or may be obtained at no charge by contacting us at:

FARM CREDIT OF SOUTHWEST KANSAS, ACA

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Southwest Kansas, ACA, for the three months ended March 31, 2016, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2015 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

LOAN PORTFOLIO

Loans outstanding at March 31, 2016 totaled $719.1 million, a decrease of $9.3 million, or 1.3%, from loans of $728.4 million at December 31, 2015. The decrease was primarily due to an industry wide slowing in demand for machinery and equipment financing in the short-term loan portfolio, partially offset by an increase in real estate mortgage loans.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2016 was $2.5 million, a decrease of $1.0 million or 28% when compared to $3.5 million for the same period one year ago. The decrease is primarily attributed to nonrecurring costs related to merger activities and other non-controllable costs.

Net interest income for the three months ended March 31, 2016 was $4.5 million, an increase of $253 thousand, or 6.01%, compared with March 31, 2015. Net interest income earned on the loan portfolio was up $441 thousand partially offset by an increase in interest expense of $188 thousand.

During the three months ended March 31, 2016, the Association recorded a provision for credit losses of $63 thousand, as compared to a credit loss reversal of $22 thousand, for the same period one year ago.

Noninterest income decreased $155 thousand during the first three months of 2016 compared with the first three months in 2015. The decrease can be attributed to a $182 thousand decrease in mineral income distributions from CoBank, a $36 thousand decrease in financially related services income, and a $59 thousand decrease in loan fees and other noninterest income. The decreased fee income was partially offset by $122 thousand in increased patronage distribution income from CoBank.

During the first three months of 2016, noninterest expenses increased $1.0 million to $3.3 million compared to $2.3 million for the same period in 2015. The increase in expenses is primarily due to merger related expenses, increased costs for purchased services from AgVantis, increases in Farm Credit insurance fund premiums and increased property taxes paid on the Association's new office building in Dodge City, Kansas.

CAPITAL RESOURCES

Shareholders' equity at March 31, 2016 was $172.5 million, an increase of $2.5 million from $170.0 million at December 31, 2015. This increase is due to net income offset by minimal stock reductions.

REGULATORY MATTERS

On March 10, 2016, the Farm Credit Administration (FCA) approved new rules ("New Capital Regulations") relating to regulatory capital requirements for System Banks, including CoBank, and Associations. The new capital regulations are scheduled to become effective January 1, 2017. The date the New Capital Regulations become effective is referred to herein as the "Effective Date." The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as government-sponsored enterprises;
- 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 certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

The FCA has not yet made public the text of the New Capital Regulations. The description below is based on the news release and fact sheet (the "Available New Capital Regulations Information") that the FCA released on March 10, 2016 when it adopted the new Capital Regulations.

The New Capital Regulations, among other things, replace existing core surplus and total surplus requirements with common equity tier 1 ("CET1"), tier 1 and total capital (tier 1 + tier 2) risk-based capital ratio requirements. The New Capital Regulations also add a tier 1 leverage ratio for all System institutions, which replaces the existing net collateral ratio for System Banks. In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public disclosures. The revisions to the risk weightings include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5 percent;
- A Tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 plus tier 2) of 8 percent

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings ("URE") and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.

The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirements. If capital ratios fall below these buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations establish a three-year phase-in of the capital conservation buffer, expected to begin on January 1, 2017. There will be no phase-in of the leverage buffer.

On February 29, 2016, the boards of directors of American AgCredit, ACA and Farm Credit of Southwest Kansas, ACA approved a letter of intent to pursue a merger. Both boards also approved a transition management agreement where American AgCredit's President and CEO, Byron Enix was appointed chief executive officer for both Associations. The transition management agreement was effective April 1, 2016. The Association anticipates a merger date of January 1, 2017 or as soon as practicable thereafter, subject to receiving all regulatory and shareholder approvals required. The Association does not expect there to be any material negative impact to its operations as a result of the merger.

The Association is completing construction of a 13,650 square-foot office building in Dodge City, Kansas. This facility replaces the Association's existing Dodge City facility. The new facility's estimated cost including land, building, furniture, and equipment is $3.9 million. Construction is expected to be completed in the second quarter of 2016. Construction expenses will be funded from capital.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his knowledge and belief.

Jason Ochs
Chairman of the Board
May 5, 2016

Byron Enix
Chief Executive Officer
May 5, 2016

Vernon Zander
Chief Financial Officer
May 5, 2016

Consolidated Statement of Condition

(Dollars in Thousands)

	March 31 2016	December 31 2015
	UNAUDITED	AUDITED
ASSETS		
Loans	**$ 719,138**	$ 728,437
Less allowance for loan losses	**3,213**	3,110
Net loans	**715,925**	725,327
Cash	**2,928**	10,604
Accrued interest receivable	**8,199**	8,284
Investment in CoBank	**25,162**	24,952
Premises and equipment, net	**7,111**	6,833
Prepaid benefit expense	**248**	426
Other assets	**2,088**	3,783
Total assets	**$ 761,661**	$ 780,209
LIABILITIES		
Note payable to CoBank, ACB	**$ 574,201**	$ 592,470
Advance conditional payments	**8,667**	9,638
Accrued interest payable	**896**	895
Patronage distributions payable	**3,110**	4,000
Accrued benefits liability	**216**	227
Reserve for unfunded commitments	**271**	296
Other liabilities	**1,826**	2,729
Total liabilities	**589,187**	610,255
SHAREHOLDERS' EQUITY		
Protected borrower stock	**38**	38
Capital stock	**979**	989
Unallocated retained earnings	**171,453**	168,923
Accumulated other comprehensive income	**4**	4
Total shareholders' equity	**172,474**	169,954
Total liabilities and shareholders' equity	**$ 761,661**	$ 780,209

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended March 31 2016	2015
INTEREST INCOME		
Loans	**$ 7,059**	$ 6,618
Total interest income	**7,059**	6,618
INTEREST EXPENSE		
Note payable to CoBank	**2,590**	2,395
Other	**10**	17
Total interest expense	**2,600**	2,412
Net interest income	**4,459**	4,206
Provision for credit losses/(Credit loss reversals)	**63**	(22)
Net interest income after provision for credit losses/credit loss reversals	**4,396**	4,228
NONINTEREST INCOME		
Financially related services income	**151**	187
Loan fees	**106**	125
Patronage refund from Farm Credit Institutions	**927**	805
Mineral income	**121**	303
Other noninterest income	**104**	144
Total noninterest income	**1,409**	1,564
NONINTEREST EXPENSE		
Salaries and employee benefits	**1,283**	1,400
Occupancy and equipment	**171**	118
Purchased services from AgVantis, Inc.	**299**	230
Farm Credit Insurance Fund premium	**217**	165
Merger-implementation costs	**115**	-
Supervisory and examination costs	**64**	60
Other noninterest expense	**1,126**	300
Total noninterest expense	**3,275**	2,273
Net income	**2,530**	3,519
OTHER COMPREHENSIVE INCOME		
Amortization of retirement credits	-	(1)
Total comprehensive income	**$ 2,530**	$ 3,518

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2014	$ 38	$ 1,010	$ 160,245	$ 26	$ 161,319
Comprehensive income			3,519	(1)	3,518
Stock issued	-	18			18
Stock retired	-	(29)			(29)
Patronage Distributions: Cash			(156)		(156)
Balance at March 31, 2015	$ 38	$ 999	$ 163,608	$ 25	$ 164,670
Balance at December 31, 2015	$ 38	$ 989	$ 168,923	$ 4	$ 169,954
Comprehensive income			2,530	-	2,530
Stock issued	-	8			8
Stock retired	-	(18)			(18)
Balance at March 31, 2016	**$ 38**	**$ 979**	**$ 171,453**	**$ 4**	**$ 172,474**

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

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Southwest Kansas, ACA, (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited first quarter 2016 financial statements should be read in conjunction with the 2015 Annual Report to Shareholders.

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 Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. 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 Shareholders. 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.

Certain amounts in the prior period 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.

	March 31, 2016	December 31, 2015
Real estate mortgage	**$ 452,298**	$ 459,277
Production and intermediate-term	**168,854**	189,045
Agribusiness:		
Loans to cooperatives	**12,991**	7,486
Processing and marketing	**49,364**	38,068
Farm-related business	**10,593**	7,355
Rural infrastructure:		
Communication	**8,662**	11,158
Energy	**8,585**	8,912
Water and waste water	**2,312**	2,312
Rural residential real estate	**161**	161
Agricultural export finance	**5,318**	4,663
Total loans	**$ 719,138**	$ 728,437

The Association purchases or sells 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 regarding the balances of participations purchased and sold at March 31, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 48,690	$ 48,515	$ –	$ –	$ 48,690	$ 48,515
Production and intermediate-term	37,058	130,728	–	–	37,058	130,728
Agribusiness	67,667	–	879	–	68,546	–
Rural infrastructure	19,559	–	–	–	19,559	–
Agricultural export finance	5,318	–	–	–	5,318	–
Total	$ 178,292	$ 179,243	$ 879	$ –	$ 179,171	$ 179,243

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System 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	**94.14%**	98.12%
OAEM	**4.22%**	0.90%
Substandard	**1.64%**	0.98%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**86.54%**	90.64%
OAEM	**7.05%**	4.16%
Substandard	**6.41%**	5.20%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**96.13%**	94.57%
OAEM	**3.87%**	5.43%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**88.48%**	90.05%
OAEM	**11.52%**	9.95%
Total	**100.00%**	100.00%
Rural residential real estate		
Substandard	**100.00%**	100.00%
Total	**100.00%**	100.00%
Agricultural export finance		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total loans		
Acceptable	**92.42%**	95.66%
OAEM	**5.02%**	2.35%
Substandard	**2.56%**	1.99%
Total	**100.00%**	100.00%

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

(dollars in thousands)	**March 31, 2016**	December 31, 2015
Nonaccrual loans		
Real estate mortgage	**$ 803**	$ 322
Production and intermediate-term	**561**	629
Total nonaccrual loans	**1,364**	951
Total high risk assets	**$ 1,364**	$ 951

Additional impaired loan information is as follows:

	March 31, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for credit losses:						
Production and intermediate-term	**$ 431**	**$ 449**	**$ 94**	$ 500	$ 512	$ 94
Total	**$ 431**	**$ 449**	**$ 94**	$ 500	$ 512	$ 94
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 803**	**$ 1,147**	**$ –**	$ 322	$ 678	$ –
Production and intermediate-term	**129**	**1,860**	**–**	129	1,860	–
Agribusiness:						
Farm-related business	**–**	**2,681**	**–**	–	2,681	–
Total	**$ 932**	**$ 5,688**	**$ –**	$ 451	$ 5,219	$ –
Total impaired loans:						
Real estate mortgage	**$ 803**	**$ 1,147**	**$ –**	$ 322	$ 678	$ –
Production and intermediate-term	**561**	**2,309**	**94**	629	2,372	94
Agribusiness:						
Farm-related business	**–**	**2,681**	**–**	–	2,681	–
Total	**$ 1,364**	**$ 6,137**	**$ 94**	$ 951	$ 5,731	$ 94

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.

	For the Three Months Ended March 31, 2016		For the Three Months 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:				
Production and intermediate-term	**$ 460**	**$ –**	$ –	$ –
Total	**$ 460**	**$ –**	$ –	$ –
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 327**	**$ –**	$ 2,065	$ 27
Production and intermediate-term	**130**		179	1
Total	**$ 457**	**$ –**	$ 2,244	$ 28
Total impaired loans:				
Real estate mortgage	**$ 327**	**$ –**	$ 2,065	$ 27
Production and intermediate-term	**590**	**–**	179	1
Total	**$ 917**	**$ –**	$ 2,244	$ 28

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

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	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 829	$ 791	$ 1,620	$ 455,970	$ 457,590	$ -
Production and intermediate-term	485	129	615	170,797	171,412	-
Agribusiness	-	-	-	73,261	73,261	-
Rural infrastructure	-	-	-	19,586	19,586	-
Rural residential real estate	-	-	-	164	164	-
Agricultural export finance	-	-	-	5,324	5,324	-
Total	$ 1,314	$ 921	$ 2,235	$ 725,103	$ 727,337	$ -

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	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 410	$ -	$ 410	$ 464,455	$ 464,865	$ -
Production and intermediate-term	314	130	444	190,934	191,378	-
Agribusiness	-	-	-	53,247	53,247	-
Rural infrastructure	-	-	-	22,400	22,400	-
Rural residential real estate	-	-	-	163	163	-
Agricultural export finance	-	-	-	4,668	4,668	-
Total	$ 724	$ 130	$ 854	$ 735,867	$ 736,721	$ -

In 2015, the Association revised its methodology for determining the allowance for credit losses. The new methodology takes into consideration potential losses related to unfunded commitments, and as a result, we have established a separate reserve for unfunded commitments, which is included in Liabilities on the Association's balance sheet. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the income statement, along with the provision for loan losses.

A summary of changes in the allowance for loan losses is as follows:

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2016
Real estate mortgage	$ 783	$ –	$ 15	$ 104	$ 902
Production and intermediate-term	1,583	–	–	113	1,696
Agribusiness	355	–	–	(33)	322
Rural infrastructure	376	–	–	(94)	282
Rural residential real estate	2	–	–	–	2
Agricultural export finance	11	–	–	(2)	9
Total	$ 3,110	$ –	$ 15	$ 88	$ 3,213

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2015
Real estate mortgage	$ 267	$ –	$ –	$ 151	$ 418
Production and intermediate-term	1,412	–	–	428	1,840
Agribusiness	834	–	–	(376)	458
Rural infrastructure	532	–	–	(230)	302
Rural residential real estate	–	–	–	2	2
Agricultural export finance	9	–	–	3	12
Total	$ 3,054	$ –	$ –	$ (22)	$ 3,032

A summary of changes in the reserve for unfunded commitments follows:

	For the Three Months Ended March 31, 2016	**For the Three Months Ended March 31, 2015**
Balance at beginning of period	$ 296	$ –
Provision of unfunded commitments	(25)	–
Total	$ 271	$ –

	Allowance for Credit Losses Ending Balance at March 31, 2016		Recorded Investments in Loans Outstanding Ending Balance at March 31, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ —	$ 902	$ 932	$ 456,659
Production and intermediate-term	94	1,602	591	170,821
Agribusiness	—	322	—	73,261
Rural infrastructure	—	282	—	19,586
Rural residential real estate	—	2	—	164
Agricultural export finance	—	9	—	5,324
Total	$ 94	$ 3,119	$ 1,523	$ 725,815

	Allowance for Credit Losses Ending Balance at December 31, 2015		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2015	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ —	$ 783	$ 322	$ 464,543
Production and intermediate-term	94	1,489	629	190,749
Agribusiness	—	355	—	53,247
Rural infrastructure	—	376	—	22,400
Rural residential real estate	—	2	—	163
Agricultural export finance	—	11	—	4,668
Total	$ 94	$ 3,016	$ 951	$ 735,770

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider.

The Association recorded no TDRs during the three months ended March 31, 2016.

The Association had no TDRs within the previous 12 months for which there were subsequent payment defaults during the period.

There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructures at March 31, 2016.

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.

	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Production and intermediate-term	$ 45	$ 46	$ 45	$ 46
Total	$ 45	$ 46	$ 45	$ 46

* Represents the portion of loans modified as TDRs (first column) that are in nonaccrual status.

NOTE 3 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2015 Annual Report to Shareholders for a more complete description.

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
March 31, 2016	**$ 288**	**$ -**	**$ -**	**$ 288**
December 31, 2015	$ 328	$ -	$ -	$ 328

During the first three months of 2016, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association had no liabilities measured at fair value on a recurring basis at March 31, 2016 or December 31, 2015.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Gains/(Losses)
	Level 1	Level 2	Level 3		
March 31, 2016 **Loans**	**$ -**	**$ -**	**$ 788**	**$ 788**	**$ -**
December 31, 2015 Loans	$ -	$ -	$ 535	$ 535	$ (94)

With regard to impaired loans, 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 takes into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

The Association had no liabilities measured at fair value on a non-recurring basis at March 31, 2016 or December 31, 2015.

Valuation Techniques

As more fully discussed in Note 2 to the 2015 Annual Report to Shareholders, 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 presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

Loans

For certain loans evaluated for impairment under accounting guidance, the fair value is based upon the underlying collateral since the loans were 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 and the net loan is reported at its fair value.

Assets Held in Non-Qualified 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.

NOTE 4 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 5, 2016 which is the date the financial statements were issued, and no material subsequent events were identified.

Farm Credit of Southwest Kansas, ACA

Part of the Farm Credit System