Farm Credit Midsouth, ACA

Quarterly Report
March 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Midsouth, ACA (the parent) and Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2015 (2015 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Farm Credit Midsouth, ACA. To request free copies of the AgriBank and combined AgriBank and affiliated Associations' financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2015 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

According to the United States Department of Agriculture's (USDA) Arkansas Crop Progress and Condition Report issued March 27, 2016, weather in general was average throughout our region – temperature during the previous four weeks of the report date in West Memphis, Arkansas showed an average departure from the norm of -2.8 degrees, and rainfall showed a departure from the norm that ranged from -0.22% to +8.00%. The area did, however, subsequently have several inches of rain in a 24-hour period, which caused some flooding.

According to the same report, during the week prior to the report date: only 8% of the corn crop had been planted compared to the 5-year average of 20%; corn emerging was 1% compared to the 5-year average of 2%; and rice planted was 2% compared to the 5-year average of 4%. According to the USDA's Arkansas Prospective Planting Report issued March 31, 2016, comparatively to 2015: corn acres are expected to be up 72% to 790,000 acres; cotton acres are expected to be up 57% to 330,000 acres; rice acres are up 21%, primarily due to long-grain rice plantings; and soybean acres are expected to be down 5%.

Crop prices remained steady to slightly declined from year-end according to the World Agricultural Supply and Demand Estimates. Unemployment rates have declined in our territory from the prior year.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $783.9 million at March 31, 2016, a decrease of $31.9 million from December 31, 2015. This decrease was primarily due to the commercial side of our business, which saw typical repayments offset by approximately $18.0 million in new loan growth for a net reduction since year-end of $40.0 million. We also made $25.0 million in new real estate loans during the first quarter of the year, which were offset by normal repayments to net an increase of $8.1 million.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2015. Adversely classified loans increased to 1.6% of the portfolio at March 31, 2016 from 1.1% of the portfolio at December 31, 2015. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. The decline in our portfolio was primarily due to the commercial side of our business from a loss of working capital due to lower prices and reduced government payments. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At March 31, 2016, $6.6 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Risk assets are comprised of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due, and other property owned.

Components of Risk Assets

(dollars in thousands) As of:	**March 31 2016**	December 31 2015
Loans:		
Nonaccrual	**$ 4,086**	$ 4,583
Accruing restructured	**75**	50
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**4,161**	4,633
Other property owned	**--**	--
Total risk assets	**$ 4,161**	$ 4,633
Total risk loans as a percentage of total loans	**0.5%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**10.6%**	40.3%
Total delinquencies as a percentage of total loans	**2.5%**	0.5%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2015 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The decrease in nonaccrual loans was due to normal repayments. Nonaccrual loans remained at an acceptable level at March 31, 2016.

The increase in total delinquencies as a percentage of total loans was primarily due to the majority of our payments being due during the first quarter of the year, of which18.0% of loans past due were in nonaccrual status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**March 31 2016**	December 31 2015
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**44.7%**	40.0%
Total risk loans	**43.9%**	39.5%

We held the allowance for loan losses steady after preparation of the first quarter analysis. The ratio of allowance to loan volume remained at 0.2% with first quarter repayments. While we are seeing some stress in the portfolio and crop prices have declined slightly since year-end, we have determined that the allowance set aside is sufficient to cover losses inherent in the portfolio.

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2016.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31		2016		2015
Net income	**$**	**2,762**	$	2,937
Return on average assets		**1.4%**		1.5%
Return on average members' equity		**5.9%**		6.6%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section, and changes in capital discussed in the Funding, Liquidity, and Capital section.

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31		2016		2015		Increase (decrease) in net income
Net interest income	**$**	**5,733**	$	5,366	**$**	**367**
Provision for loan losses		**--**		164		**164**
Patronage income		**571**		563		**8**
Other (loss) income, net		**(192)**		409		**(601)**
Operating expenses		**3,245**		3,259		**14**
Provision for (benefit from) income taxes		**105**		(22)		**(127)**
Net income	**$**	**2,762**	$	2,937	**$**	**(175)**

The following table quantifies changes in net interest income for the three months ended March 31, 2016 compared to the same period in 2015.

Changes in Net Interest Income

(in thousands)		2016 vs 2015
Changes in volume	**$**	**352**
Changes in interest rates		**(109)**
Changes in nonaccrual income and other		**124**
Net change	**$**	**367**

After careful evaluation of the portfolio, no additional provision for loan losses was required.

The change in other (loss) income, net was primarily related to additional funds booked for the contingent lawsuit liability discussed in Note 3 of the accompanying Consolidated Financial Statements.

The change in provision for (benefit from) income taxes was primarily related to our estimate of taxes based on taxable income.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures April 30, 2016, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at March 31, 2016 or December 31, 2015.

Total members’ equity increased $1.7 million from December 31, 2015 primarily due to net income for the period, which was partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a certain level for our permanent capital ratio, total surplus ratio, and core surplus ratio. Refer to Note 6 in our 2015 Annual Report for a more complete description of these ratios.

Select Capital Ratios

As of	Regulatory Minimums	**March 31 2016**	December 31 2015
Permanent capital ratio	7.0%	**19.6%**	18.2%
Total surplus ratio	7.0%	**19.3%**	18.0%
Core surplus ratio	3.5%	**19.3%**	18.0%

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

REGULATORY MATTERS

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the rule are to:

- Modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise
- 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
- Make System regulatory capital requirements more transparent
- Meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act

The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1, and total capital risk-based capital ratio requirements. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule.

The effective date of the new capital requirements is January 1, 2017. We are currently evaluating the impact of the recently announced changes.

CERTIFICATION

The undersigned have reviewed the March 31, 2016 Quarterly Report of Farm Credit Midsouth, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jane Pirani

Jane Pirani
Chairperson of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Shari J. Wilson

Shari J. Wilson
Senior Vice President of Finance, Chief Financial Officer
Farm Credit Midsouth, ACA

May 9, 2016

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

As of:		March 31 2016		December 31 2015
ASSETS				
Loans	**$**	**783,912**	$	815,770
Allowance for loan losses		**1,826**		1,832
Net loans		**782,086**		813,938
Investment in AgriBank, FCB		**15,999**		17,747
Accrued interest receivable		**9,978**		16,407
Deferred tax assets, net		**657**		866
Other assets		**6,326**		6,863
Total assets	**$**	**815,046**	$	855,821
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**618,324**	$	656,818
Accrued interest payable		**2,873**		2,747
Patronage distribution payable		**1,051**		4,200
Other liabilities		**3,956**		4,901
Total liabilities		**626,204**		668,666
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Protected members' equity		**3**		3
Capital stock and participation certificates		**2,009**		2,033
Unallocated surplus		**186,830**		185,119
Total members' equity		**188,842**		187,155
Total liabilities and members' equity	**$**	**815,046**	$	855,821

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

For the period ended March 31	*Three Months Ended* **2016**	2015
Interest income	**$ 8,606**	$ 7,649
Interest expense	**2,873**	2,283
Net interest income	**5,733**	5,366
Provision for loan losses	**--**	164
Net interest income after provision for loan losses	**5,733**	5,202
Other income		
Patronage income	**571**	563
Financially related services income	**39**	49
Fee income	**176**	260
Miscellaneous (loss) income, net	**(407)**	100
Total other income	**379**	972
Operating expenses		
Salaries and employee benefits	**2,077**	2,199
Other operating expenses	**1,168**	1,060
Total operating expenses	**3,245**	3,259
Income before income taxes	**2,867**	2,915
Provision for (benefit from) income taxes	**105**	(22)
Net income	**$ 2,762**	$ 2,937

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA

(in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2014	$ 4	$ 2,070	$ 175,393	$ 177,467
Net income	--	--	2,937	2,937
Unallocated surplus designated for patronage distributions	--	--	(1,050)	(1,050)
Capital stock and participation certificates issued	--	41	--	41
Capital stock and participation certificates retired	(1)	(73)	--	(74)
Balance at March 31, 2015	$ 3	$ 2,038	$ 177,280	$ 179,321
Balance at December 31, 2015	$ 3	$ 2,033	$ 185,119	$ 187,155
Net income	**--**	**--**	**2,762**	**2,762**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(1,051)**	**(1,051)**
Capital stock and participation certificates issued	**--**	**35**	**--**	**35**
Capital stock and participation certificates retired	**--**	**(59)**	**--**	**(59)**
Balance at March 31, 2016	**$ 3**	**$ 2,009**	**$ 186,830**	**$ 188,842**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2015 (2015 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Midsouth, ACA (the parent) and Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We are currently evaluating the impact of accounting standards that have been issued, but are not yet effective on our Consolidated Financial Statements. Refer to Note 2 in our 2015 Annual Report for additional information.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	March 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Real estate mortgage	**$ 449,695**	**57.4%**	$ 441,326	54.1%
Production and intermediate term	**311,706**	**39.8%**	353,771	43.4%
Agribusiness	**22,123**	**2.8%**	20,277	2.5%
Other	**388**	**0.0%**	396	0.0%
Total	**$ 783,912**	**100.0%**	$ 815,770	100.0%

The other category is primarily comprised of rural residential real estate loans as well as certain assets originated under the Mission Related Investment authority.

Delinquency

Aging Analysis of Loans

(in thousands)

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
Real estate mortgage	**$ 5,513**	**$ 192**	**$ 5,705**	**$ 449,749**	**$ 455,454**
Production and intermediate term	**12,471**	**1,920**	**14,391**	**301,211**	**315,602**
Agribusiness	**--**	**--**	**--**	**22,442**	**22,442**
Other	**--**	**--**	**--**	**392**	**392**
Total	**$ 17,984**	**$ 2,112**	**$ 20,096**	**$ 773,794**	**$ 793,890**

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
Real estate mortgage	$ 75	$ 116	$ 191	$ 449,711	$ 449,902
Production and intermediate term	3,042	783	3,825	357,528	361,353
Agribusiness	--	--	--	20,524	20,524
Other	--	--	--	398	398
Total	$ 3,117	$ 899	$ 4,016	$ 828,161	$ 832,177

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at March 31, 2016 and December 31, 2015.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	**March 31 2016**	December 31 2015
Volume with specific reserves	**$ 742**	$ 1,636
Volume without specific reserves	**3,419**	2,997
Total risk loans	**$ 4,161**	$ 4,633
Total specific reserves	**$ 451**	$ 540
For the three months ended March 31	**2016**	2015
Income on accrual risk loans	**$ 4**	$ 3
Income on nonaccrual loans	**120**	--
Total income on risk loans	**$ 124**	$ 3
Average risk loans	**$ 5,036**	$ 1,762

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at March 31, 2016.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

We completed TDRs of certain production and intermediate term loans during the three months ended March 31, 2016. Our recorded investment in these loans just prior to and immediately following restructuring was $28 thousand. The recorded investment of the loan is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off. The primary type of modification was extension of maturity. There were no TDRs completed during the three months ended March 31, 2015.

There were no TDRs that defaulted during the three months ended March 31, 2016 or 2015 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	March 31 2016	December 31 2015
Accrual status:		
Real estate mortgage	**$ 29**	$ 30
Production and intermediate term	**46**	20
Total TDRs in accrual status	**$ 75**	$ 50
Nonaccrual status:		
Production and intermediate term	**$ 13**	$ 14
Total TDRs in nonaccrual status	**$ 13**	$ 14
Total TDRs status:		
Real estate mortgage	**$ 29**	$ 30
Production and intermediate term	**59**	34
Total TDRs	**$ 88**	$ 64

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

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Three months ended March 31	2016	2015
Balance at beginning of period	**$ 1,832**	$ 1,452
Provision for loan losses	**--**	164
Loan charge-offs	**(6)**	--
Balance at end of period	**$ 1,826**	$ 1,616

NOTE 3: MEMBERS' EQUITY

Regulatory Capitalization Requirements

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1, and total capital risk-based capital ratio requirements. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. The effective date of the new capital requirements is January 1, 2017.

FCA Revised Capital Requirements

	Regulatory Minimums	Capital Conservation Buffer	Total
Risk adjusted:			
Common equity Tier 1 ratio	4.5%	2.5%	7.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%
Total capital ratio	8.0%	2.5%	10.5%
Non-risk adjusted:			
Tier 1 leverage ratio	4.0%	1.0%	5.0%

If capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have contingent liabilities and outstanding commitments, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in lawsuits or legal actions in the normal course of business. In 2009, we were named as a counter-defendant in an on-going lawsuit. We recorded $1.6 million of loss contingency related to this litigation matter in 2015, and an additional $506 thousand in the first quarter of 2016. As additional information becomes available, the potential liability related to this pending litigation will be assessed and estimates will be revised as necessary. At the date of these Consolidated Financial Statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2015 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2016 or December 31, 2015.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	**As of March 31, 2016**				**Three months ended March 31, 2016**
	Fair Value Measurement Using			Total Fair Value	
	Level 1	Level 2	Level 3		Total Gains
Impaired loans	**$ --**	**$ 305**	**$ --**	**$ 305**	**$ 83**
	As of December 31, 2015				Three months ended March 31, 2015
	Fair Value Measurement Using			Total Fair Value	
	Level 1	Level 2	Level 3		Total Losses
Impaired loans	$ --	$ 1,150	$ --	$ 1,150	$ (833)

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 9, 2016, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.