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Supporting Farm Credit Associations that serve rural communities and agriculture.

AGRIBANK DISTRICT
2016 ANNUAL REPORT
AGRIBANK, FCB AND DISTRICT ASSOCIATIONS

AgriBank
FARM CREDIT BANK

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AgriBank, FCB and District Associations

Combined Five-Year Summary of Selected Financial Data

AgriBank, FCB and District Associations

(Dollars in thousands)

	2016	2015	2014	2013	2012
Combined Statement of Condition Data					
Loans	**$99,069,239**	$94,944,379	$88,498,435	$82,770,309	$77,089,134
Allowance for loan losses	**386,754**	285,711	248,081	236,312	262,930
Net loans	**98,682,485**	94,658,668	88,250,354	82,533,997	76,826,204
Investment securities - AgriBank, FCB	**14,897,252**	14,262,883	14,294,777	11,555,272	10,987,313
Investment securities - District Associations	**1,938,980**	1,712,097	1,747,957	1,968,260	2,275,266
Other property owned	**14,530**	13,051	22,284	33,379	67,836
Other assets	**3,474,041**	4,286,303	4,271,572	4,201,468	3,296,980
Total assets	**$119,007,288**	$114,933,002	$108,586,944	$100,292,376	$93,453,599
Obligations with maturities of one year or less	**$35,873,086**	$32,771,588	$29,299,783	$25,327,384	$25,863,061
Subordinated notes with maturities greater than one year	**--**	597,775	597,268	596,794	596,350
Other obligations with maturities greater than one year	**62,342,139**	62,278,870	60,840,811	57,854,176	52,665,725
Total liabilities	**98,215,225**	95,648,233	90,737,862	83,778,354	79,125,136
Perpetual preferred stock	**350,000**	350,000	350,000	350,000	--
Capital stock and participation certificates	**272,034**	268,697	266,420	265,473	262,123
Allocated surplus	**531,150**	406,758	371,004	339,360	302,789
Unallocated surplus	**20,145,063**	18,824,372	17,368,747	15,838,875	14,324,793
Accumulated other comprehensive loss	**(566,831)**	(616,099)	(549,705)	(314,550)	(583,324)
Noncontrolling interest	**60,647**	51,041	42,616	34,864	22,082
Total shareholders' equity	**20,792,063**	19,284,769	17,849,082	16,514,022	14,328,463
Total liabilities and shareholders' equity	**$119,007,288**	$114,933,002	108,586,944	100,292,376	93,453,599
Combined Statement of Income Data					
Net interest income	**$2,868,915**	$2,694,861	$2,630,793	$2,512,287	$2,311,454
Provision for (reversal of) credit losses	**141,837**	71,894	25,399	(28,537)	33,907
Provision for income taxes	**10,997**	19,258	45,627	50,145	39,116
Other expenses, net	**884,182**	771,306	671,377	660,289	519,042
Net income	**$1,831,899**	$1,832,403	$1,888,390	$1,830,390	$1,719,389
Combined Key Financial Ratios					
Return on average assets	**1.57%**	1.68%	1.85%	1.93%	1.98%
Return on average shareholders' equity	**9.13%**	9.87%	10.88%	11.93%	12.56%
Net interest income as a percentage of average earning assets	**2.51%**	2.52%	2.64%	2.71%	2.73%
Shareholders' equity as a percentage of total assets	**17.47%**	16.78%	16.43%	16.46%	15.32%
Net charge-offs (recoveries) as a percentage of average loans	**0.03%**	0.03%	0.02%	(0.00%)	0.09%
Allowance for loan losses as a percentage of loans	**0.39%**	0.30%	0.28%	0.29%	0.34%
Debt to shareholders' equity (:1)	**4.7**	5.0	5.1	5.1	5.5
Permanent capital ratio (AgriBank only)	**20.6%**	20.8%	20.8%	22.1%	21.1%
Total surplus ratio (AgriBank only)	**17.2%**	17.9%	18.1%	18.5%	17.4%
Core surplus ratio (AgriBank only)	**12.6%**	12.1%	11.8%	11.4%	10.4%
Net collateral ratio (AgriBank only)	**105.5%**	105.8%	105.9%	106.4%	106.0%
Net Income Distributed					
Patronage distributions:					
Cash	**$330,173**	$289,929	$274,529	$240,435	$214,586
Common stock	**--**	--	--	913	826
Allocated surplus	**157,097**	62,911	60,003	61,598	54,967
Total patronage distributions	**$487,270**	$352,840	$334,532	$302,946	$270,379
Preferred stock dividends	**$23,938**	$23,938	$23,938	$5,806	$ --

Management's Discussion and Analysis

AgriBank, FCB and District Associations

The following commentary reviews the financial condition and results of operations of AgriBank, FCB (AgriBank) and District Associations and provides additional specific information. AgriBank and District Associations are collectively referred to as the District. The accompanying Combined Financial Statements and Notes to the Combined Financial Statements also contain important information about the District's financial condition and results of operations.

The Farm Credit System

The Farm Credit System (the System) supports rural communities and agriculture with reliable and consistent credit, today and tomorrow.

The System provides loans, leases and financial services to farmers, ranchers and rural businesses across the United States and Puerto Rico. This focus on rural communities and agriculture is the reason Farm Credit was established over 100 years ago, and the System has been delivering on that mission ever since – helping fund America's food, fuel and fiber and supporting the thriving rural communities America's farmers and ranchers call home.

While the System has a national footprint, lenders are local – as of January 1, 2017, 73 independently owned and operated Farm Credit Associations provide services in the communities where they live and work. Each local Farm Credit Association is a cooperative that is owned by its local members and has employees and a Board of Directors that have a deep understanding of agriculture in its area. This expertise enables them to understand the industry sectors they finance and provide an unparalleled level of knowledge and service to its member-owners.

Combined, Farm Credit organizations provide $249 billion in loans, leases and related services, which is more than a third of the credit needed by U.S. agriculture. This capital helps over 550,000 borrower-owners plant and nurture seeds; purchase and care for livestock; buy land and equipment such as harvesters and combines; build barns and milking parlors; and expand storage, packing and processing facilities. Farm Credit also finances agricultural cooperatives and communications, electric, power and water providers, which deliver essential infrastructure services to maintain vibrant rural communities.

Farm Credit Associations receive funding through one of four regional Banks, including AgriBank. System entities have specific lending authorities within their chartered territories. Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (the Insurance Corporation). The Funding Corporation issues a variety of Federal Farm Credit Banks Combined Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System Banks. The Insurance Corporation insures the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of System Banks.

System Banks and Associations are subject to examination and regulation by an independent federal agency, the Farm Credit Administration (FCA).

The Farm Credit System 2016 Annual Information Statement, issued by the Funding Corporation, includes additional information about the System, its funding activities and its combined financial results. You can obtain a copy of that report by contacting the Funding Corporation or visiting www.farmcreditfunding.com.

AgriBank and District Associations

AgriBank is a funding Bank that supports and is primarily owned by 17 Farm Credit Associations. The District has nearly $120 billion in assets. The District covers America's Midwest, a 15-state area stretching from Wyoming to Ohio and Minnesota to Arkansas. With about half of the nation's cropland located in the AgriBank District and over 100 years of experience, AgriBank and District Associations have significant expertise in providing financial products and services for rural communities and agriculture.

In June 2016, the Boards of Directors of two District Associations, AgCountry Farm Credit Services, ACA and United FCS, ACA, made a strategic decision to pursue a merger of the organizations. A merger application was filed with the FCA in the fourth quarter of 2016. The merger is pending approval from the Associations' shareholders and the FCA.

In August 2016, the Boards of Directors of three District Associations, 1st Farm Credit Services, ACA, AgStar Financial Services, ACA (AgStar), and Badgerland Financial, ACA, made a strategic decision to pursue a merger of the organizations. A merger application was filed with the FCA in the third quarter 2016. The merger has been preliminarily approved by the FCA, and is subject to approval from the Associations' shareholders.

During 2016, District Associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity may allow AgriBank and District Associations to develop and maintain long-term, cost-effective technology and business services. If pursued, the service entity formation would require approval by the FCA and would be owned by AgriBank and certain District Associations that purchase its services. An application is expected to be submitted to the FCA during the second quarter of 2017.

Basis of Presentation

The accompanying Combined Financial Statements and related financial information found in this Annual Report include the accounts of AgriBank and District Associations and related entities. These Combined Financial Statements are presented on a combined basis due to the financial and operational interdependence of the District entities. This interdependence results, in part, from the fact that AgriBank serves as an intermediary between the financial markets and the retail lending activities of District Associations. As a result, the loans made by District Associations to their borrowers are substantially funded by Systemwide Debt Securities. AgriBank's ability to repay the Systemwide Debt Securities is dependent upon the ability of the District Associations' borrowers to repay their loans. In the Combined Financial Statements, the accounts of the individual District entities are combined and all significant intra-District transactions and balances are eliminated.

Risk Management

Risk is inherent in agricultural lending, necessitating that sound risk management practices be a fundamental component of operations across the District. Some of the major types of risk in the business operations at AgriBank and District Associations are:

- Credit risk is the risk of loss arising from a borrower or counterparty failing to perform on an obligation
- Interest rate risk is the risk that changes in interest rates may adversely affect operating results and financial condition
- Liquidity risk is the risk of loss arising from the inability to timely meet operating and funding needs without incurring excessive costs
- Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events
- Reputation risk is the risk of loss resulting from events, real or perceived, that shape the image of the Farm Credit System or any of its entities

These risks, and the methods used to manage them, are discussed throughout this Annual Report.

While practices vary by entity, the overarching goals of AgriBank and District Association's enterprise risk management practices are to:

- Effectively assess, prioritize, monitor and report key organizational risks, enhancing the ability to achieve business objectives
- Embed a risk-aware culture throughout the District
- Identify and implement strategies to mitigate risk where appropriate
- Ensure adequate compensation for risks that are taken

AgriBank and District Associations are engaged in risk management as individual entities, as a combined District, and as part of the System as a whole. The Board of Directors of each entity oversees risk management by adopting policies to guide the organization's risk governance framework and by monitoring performance against established risk limits. As the first line of defense, management establishes controls to guide the day-to-day risk management activities of the organization within the risk limits and framework approved by each entity's Board. The various risk and compliance oversight functions established by management are the second line of defense and independent assurance that these functions are operating within the Board approved policies is the third line. Each Board, through various committees, monitors this risk framework. This structure and Board oversight, promotes effective risk management of all risks and fosters the establishment and maintenance of an effective risk culture throughout the District. Additionally, each entity utilizes, to varying degrees, independent audit and credit review functions to monitor risk management and policy compliance.

Forward-Looking Information

This Annual Report includes, and representations may from time to time make, projections regarding financial information and statements concerning future economic performance and events, plans and objectives relating to management, operations, products and services and assumptions underlying these projections and statements. These projections and statements represent only the belief regarding future events, many of which, by their nature, are inherently uncertain and outside the control of AgriBank and District Associations. These projections and statements may address, among other things, business strategy, competitive strengths, goals, market and industry developments and businesses growth and operations. The words "anticipate," "believe," "estimate," "expect," "intend," "outlook" and similar expressions, as they relate to AgriBank or its management, or any District Association or its management, are intended to identify forward-looking statements. Such statements reflect the current views of AgriBank and District Associations with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outlook may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. The information contained in this Annual Report, including without limitation, the information under "Management's Discussion and Analysis" identifies important factors that could cause such differences, including but not limited to a change in the U.S. agricultural economy, overall economic conditions, changes in market rates of interest, and the effect of new legislation or government regulations or directives. However, actual results and developments may differ materially from AgriBank's and District Associations' expectations and predictions due to a number of risks and uncertainties, many of which are beyond the control of AgriBank and District Associations. These risks and uncertainties include, but are not limited to:

- Political (including trade policies), legal, regulatory, financial markets and economic conditions and developments in the United States and abroad
- Economic fluctuations in the agricultural, international and farm-related business sectors
- Weather-related, disease and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate and liquidity risk inherent in lending activities
- Changes in assumptions for determining the allowance for loan losses, other than temporary impairment and fair value measurements
- Industry outlooks for agricultural conditions
- Outlook for the gas and oil industry

Refer to additional discussion in the Risk Factors section at the end of this report.

Financial Overview

The District's financial strength is evidenced by its financial performance in 2016. This translates into lasting value for customer-owners and reflects the District's commitment to the Farm Credit mission to serve rural communities and agriculture.

Net income remained stable at $1.8 billion for the year ended December 31, 2016.

Net interest income (NII) increased 6.5 percent to $2.9 billion for the year ended December 31, 2016. Overall, retail credit net interest margins continued to compress slightly as a result of increasing interest rates and competition throughout the District. Interest income increased primarily due to higher loan volume compared to the prior year, and to a lesser extent, higher rates received on production and intermediate term loans and investments. The increase in interest expense outpaced interest income due to higher interest rates paid on debt as well as additional debt volume compared to prior year.

Provision for credit losses increased 97.3 percent to $141.8 million for the year ended December 31, 2016, primarily related to a decline in credit quality driven by lower net farm income levels in certain agricultural production sectors. The provision for credit losses required is based on management's allowance for loan loss analysis. Management of AgriBank and each District Association believe the allowance for loan losses is reasonable in relation to the risk in the portfolios at December 31, 2016.

Non-interest expense increased 6.1 percent to $1.2 billion primarily related to increased Farm Credit System Insurance Corporation premiums paid.

Refer to the Results of Operations section for further discussion.

District loans totaled $99.1 billion at December 31, 2016, a $4.1 billion, or 4.3 percent, increase from December 31, 2015. The increase in total loans was primarily due to growth in real estate mortgage and agribusiness sectors at District Associations.

The credit quality of the District's loan portfolio declined to 93.2 percent acceptable under the FCA's Uniform Classification System at December 31, 2016. Overall stable credit quality is primarily due to sound underwriting practices, as well as adequate liquidity and strong equity positions of many borrowers.

Refer to the Loan Portfolio section for further discussion.

Total shareholders' equity for the District remains very strong at $20.8 billion as of December 31, 2016, compared to $19.3 billion at December 31, 2015. This increase resulted primarily from net income for the year, partially offset by patronage distributions declared and redemptions of allocated equities.

Refer to the Shareholders' Equity section for further discussion.

Economic Conditions

Interest Rate Environment

U.S. economic activity is expected to continue advancing at a steady pace as consumer spending remains resilient and investment spending rebounds from its negative growth rate in 2016. For 2017, the U.S. economy is forecasted to grow at 2.3 percent due to continued growth in consumer spending as a result of labor market improvements. However, a strong dollar is reducing demand for U.S. exports and could be a hindrance to economic growth if the dollar continues to strengthen.

In both December 2015 and December 2016, the Federal Open Market Committee (FOMC) of the Federal Reserve raised the target range for the federal funds rate by 25 basis points (bps), in an effort to kick-start the process toward normalization in the level of interest rates. The path for federal funds rates is expected to remain data-dependent and, according to Federal Reserve communications, anticipated economic conditions will warrant only gradual increases in policy rates. The consensus forecast of economists suggests that the FOMC will increase the federal funds rate from 50 to 75 bps in 2017 to a target range of 1 to 1.50 percent. Accommodative monetary policies by central banks are constraining longer-term interest rates in developed markets. Therefore, the 10-year U.S. Treasury rate is expected to climb by a lesser amount of 30 bps and end 2017 at 2.75 percent.

AgriBank manages interest rate risk consistent with policies established by the Board of Directors and limits established by AgriBank's Asset/Liability Committee (ALCO) (refer to Interest Rate Risk Management section). While many factors can impact net interest income, AgriBank management expects that financial performance will remain relatively consistent under most interest rate environments over the next 12 months.

Agricultural Conditions

The U.S. Department of Agriculture's Economic Research Service (USDA) projects 2016 net farm income to be $68.3 billion, a decline of 15.6 percent from 2015 levels. A further downward adjustment in net farm income is expected for 2017, 8.7 percent from estimated 2016 levels, to $62.3 billion. This decrease is primarily attributable to downward adjustments in the market value of unsold crop inventories and held livestock.

Based on USDA information, the aggregate equity position of U.S. agriculture decreased 2.4 percent compared to 2015. Current forecasts indicate that U.S. farmers are likely to see further deterioration in equity positions in 2017, marking three consecutive years of small declines. Asset value deterioration due to lower valuations on farm machinery as producers hold on to older equipment as well as declines in stored crop inventories and declining real estate values are all contributing factors to the lower projected aggregate farm equity. Despite 2017 being the fifth straight year of expected overall U.S. farm debt-to-asset ratio increases and above the low of approximately 11 percent in 2012, the 2017 forecasted ratio of approximately 14 percent remains well below the all-time highs of over 20 percent in the 1980s.

An improving outlook for the U.S. economy is expected to support domestic demand for most agricultural commodities in 2017. However, the relative strength of the U.S. dollar has reduced competitiveness versus international competitors. In addition, uncertain trade policy future weighs negatively upon export demand for U.S. commodities. Of the major cash crops, wheat is likely in the

weakest position from a supply-demand perspective entering 2017. Of the sectors excluding major cash crops, pork, poultry and dairy are most heavily dependent upon exports and will be at the highest risk of volatility in 2017; however, historically low feed costs should continue to support livestock and dairy margins. A full year of much lower feeder cattle prices should support margins in the cattle feedlot sector.

Producers who are able to realize cost and marketing efficiencies are most likely to weather the current low price environment. Optimal input usage, adoption of cost-saving technologies and effective utilization of hedging and other price risk management strategies are all critical in yielding positive net income for producers.

Land Values

The AgriBank District continues to monitor agricultural land values. AgriBank conducts an annual Benchmark Survey, completed by licensed real estate appraisers, of a sample of benchmark farms selected to represent the lending footprint of District Associations throughout the District. The District's most recent real estate market value survey indicated that District real estate value changes ranged from negative 10.5 percent to positive 10.6 percent over the 12-month period ending June 30, 2016. Land value increases were generally concentrated in areas heavily influenced by livestock operations, off-farm income and areas with crop production other than the major crops of corn, soybeans and wheat. Conversely, softening of values were concentrated primarily in areas of corn and soybean production.

Qualitative surveys of lending officers compiled by the Federal Reserve Banks of Chicago, Kansas City, Minneapolis, and St. Louis as of the end of the fourth quarter 2016 indicated declining farmland values. The Federal Reserve Banks surveys cited a year-over-year change in the average value of non-irrigated farmland of a decrease of 8 percent to a decrease of 1 percent.

The USDA 2016 land value survey, based primarily on agricultural producer opinions, indicated a 0.3 percent decrease in farmland values and a 1.0 percent decrease in cropland values in the AgriBank District. States heavily concentrated in corn, soybeans and wheat production experienced declines in cropland values.

Declining agriculture land values are a potential lending risk, especially following periods of sustained, rapid land value increases. Agriculture land values have generally shown significant increases during the period of the mid-2000s through 2013. These increases were driven by a significant improvement in net farm income, especially within crop production and, to a lesser extent, livestock production operations. In addition, historically low interest rates were a driver in land value increases. Since the 2013 timeframe, agriculture land values have generally stabilized. Land values are expected to remain stable or soften over the next year, primarily due to anticipated continued lower levels of net farm income in 2017 and beyond and, to a lesser extent, expected interest rates increases.

Industry Conditions

AgriBank assesses the outlook for commodities with the largest concentrations in the District-wide portfolio. These outlooks are for the industry in general, and individual producers may perform better or worse than the industry as a whole. The categories for the outlook are defined as follows:

- Positive – Industry participants are generally profitable with margins above historic norms. Credit quality for borrowers in this segment is expected to improve or remain very strong.
- Positive-to-Neutral – Industry participants are generally profitable with margins at or above historic norms. Credit quality for borrowers in this segment is expected to be maintained with moderate levels of improvement.
- Neutral – Industry participants are generally profitable, but participants may experience additional financial stress if they are highly leveraged, lack economies of scale or fail to manage risk or operate efficiently. Credit quality for borrowers in this segment is generally expected to be maintained.
- Neutral-to-Negative – Industry participants are profitable or operating at breakeven levels, but participants may experience additional financial stress if they are highly leveraged, lack economies of scale or fail to manage risk or operate efficiently. Credit quality for most borrowers in this segment is expected to be maintained; however, a portion will be subject to downgrades.
- Negative – Industry participants are operating at breakeven or loss levels, with participants experiencing financial stress if they are highly leveraged, lack economies of scale or fail to manage risk or operate efficiently. Credit quality for many borrowers is expected to be downgraded if negative market conditions persist.

AgriBank Outlook for Commodities in the Next 12 Months

As of December 31,	2016	2015
Corn	Negative	Negative
Soybeans	Neutral	Negative
Wheat	Negative	Negative
Cow-Calf	Neutral	Positive
Cattle Feedlots	Neutral	Negative
Dairy	Neutral	Neutral-to-Negative
Pork	Neutral	Neutral
Timber	Positive-to-Neutral	Neutral
Poultry	Neutral	Neutral

Corn

The February 2017 USDA World Agricultural Supply and Demand Estimates (WASDE) report projected continued lower prices and a decline of 5.8 percent to $3.40 per bushel for the average corn price for the 2016-2017 marketing year. U.S. corn production for 2016 is estimated to surpass the all-time record resulting in the highest stocks-to-use ratio since the 2005 crop year and is the primary driver of the lower price projection. While feed and ethanol are expected to continue to be heavy users of corn in the coming year, the record 2016 crop, large domestic and global inventories and the relative strength of the U.S. dollar are expected to result in continued low prices. Many producers of major annual field crops continue to make reductions in their cost per bushel of production based on the expectation of continued lower commodity prices over the next multiple years.

Soybeans

The February 2017 WASDE projected an increase in prices of 6.1 percent to $9.50 per bushel for the average soybean price for the 2016-2017 marketing year. Despite record yields in 2016 and increases in ending inventories resulting in more than double the domestic stocks-to-use ratio compared to 2015, prices are expected to increase slightly due to a minimal decline in the world's stocks-to-use ratio and increased U.S. competitiveness due to production issues with the 2016 South American crop. The

increase in prices will have a direct impact on margins and, therefore, the outlook for this commodity has improved compared to the prior year.

Wheat

The February 2017 WASDE projected a decrease in prices of 21.3 percent, down to $3.85 per bushel for the average wheat price for the 2016-2017 marketing year. Despite the smallest U.S. planted acreage to wheat since the 1940s, estimated 2016 production increased 12.0 percent resulting in higher ending 2016 inventory levels compared to the prior year. The increased inventory coupled with the continued strength of the U.S. dollar dampening export demand are the primary drivers of the price decline year over year.

Cow-Calf

The February 2017 WASDE estimates the U.S. beef cow herd has increased 3.0 percent compared to the prior year as a result of capacity added by cow-calf operations in recent years to meet feedlot demand. We expect the credit quality of the District's cow-calf portfolio will remain strong due to slight improvement in the outlook for margins as a result of modest increases in feeder cattle prices, reasonable feed cost and generally good pasture conditions, slightly offset by recent price declines.

Cattle Feedlots

The February 2017 WASDE report projected continued declines in the average steer price, down 18.4 percent in 2016 and a further decline of 6.9 percent in 2017 to $112.50/cwt. This reduction in price has been driven by continued beef production increases outpacing beef consumption increases as well as an abundance of cheaper protein options. Despite the price declines, the combination of lower projected feed costs in 2017 as well as lower feeder calf prices should generally result in positive margins for cattle feedlots. While the credit quality in the AgriBank District's cattle feedlot portfolio experienced some deterioration in 2016, the longer-term outlook for 2017 has improved due to anticipated profits in 2017.

Dairy

After a significant decline in average milk price in 2015 and continued price deterioration in 2016, the February 2016 WASDE report projected average milk price increases of 13.0 percent to $16.80/cwt in 2017. While production increases continue to place pressure on milk and milk-product prices, margins recovered in the last half of 2016 as a result of lower feed costs and increasing domestic demand. Margins are expected to stabilize during 2017 providing limited net income for many dairy producers, resulting in an improved outlook over the prior year.

Pork

The February 2017 WASDE report projected continued declines in the average hog price, down 8.1 percent in 2016 and a further decline of 5.8 percent in 2017 to $43.50/cwt. The reduction in price has been driven by increasing supply of market hogs due to ongoing improvement in production practices, genetics and less impact from disease. This decline in pork prices has been partially offset by the lower feed costs. Operating margins declined in 2016, but are expected to be near or above break-even levels for 2017. Risk management strategies are common across the industry and may help mitigate the negative impact of declining pork prices on operating margins. Many pork producers maintain a strong financial profile, with strong working capital going into 2017.

Timber
Housing starts have improved significantly since the low in 2009 with seasonally adjusted housing starts up 10.3 percent from December 2015. Housing affordability has decreased slightly, but remains at a favorable level. Interest rates on conventional mortgages remain near historic lows, consumer confidence remains cautiously optimistic and the U.S. labor market has continued to improve, all of which have contributed to timber customers, especially mills, showing strong profits. While the improved U.S. labor market has led to increased timber demand, the strength of the U.S. dollar has resulted in decreased timber exports and increased timber imports. Timberland owners will continue to see soft prices while processors should see improvement in margins.

Poultry
The February 2017 WASDE estimated overall prices for turkeys were stable and broilers declined in 2016 by 6.9 percent. A decline of 8.6 percent is expected for turkeys in 2017, while prices are expected to stabilize for broilers. The reduction in average prices in 2016 and 2017 is attributed to increased production and a slow recovery in export levels following the outbreak of Highly Pathogenic Avian Influenza (HPAI) in the U.S. in 2015. No additional cases of HPAI have been reported in the U.S. since January 2016. Overall demand for broilers and turkeys remains high due to higher competing meat prices as well as released restrictions on exports. The improved demand as well as favorable feed costs are expected to more than offset the impact of price declines.

With domestic supply and demand in balance for many egg producers, prices are expected to improve 11.4 percent to 95.5 cents per dozen in 2017; however, prices remain well below the most recent 10-year average. Feed costs are expected to remain favorable over the next year. A small portion of the portfolio with significant production levels subject to open market prices may experience some credit quality deterioration over the next year. However, for egg layer producers in the AgriBank District that utilize cost-plus or grain-based contracts for a majority of their production, credit quality is expected to remain stable in 2017.

Loan Portfolio

Components of Loans

(in thousands)

As of December 31,	**2016**	2015	2014	2013	2012
Accrual loans:					
Real estate mortgage	**$55,776,558**	$52,884,754	$49,422,414	$47,314,689	$43,388,331
Production and intermediate term	**25,418,995**	25,472,419	24,240,411	21,959,582	21,121,933
Agribusiness	**10,162,217**	8,772,555	7,518,822	6,975,211	6,363,969
Rural residential real estate	**2,760,906**	2,797,025	2,696,098	2,583,121	2,450,731
Other	**4,272,355**	4,500,617	4,139,281	3,311,302	3,063,341
Nonaccrual loans	**678,208**	517,009	481,409	626,404	700,829
Total loans	**$99,069,239**	$94,944,379	$88,498,435	$82,770,309	$77,089,134

The Other category is primarily comprised of communication and energy-related loans, certain assets originated under the Mission Related Investment authority and loans to other financing institutions, as well as finance leases.

District loans totaled $99.1 billion at December 31, 2016, a $4.1 billion, or 4.3 percent, increase from December 31, 2015. The increase in total loans was primarily due to growth in the real estate mortgage sector as well as activity in the large multiple lender segment within the agribusiness sector. Production and intermediate term loans increased in December 2016 as certain borrowers purchased inputs for tax planning purposes; however, this growth was noticeably lower than the same period of the prior year, driven primarily by lower taxable income of certain borrowers.

The loan portfolio exhibits some seasonality relating to the patterns of operating loans made to crop producers. Operating loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs. The degree of seasonality exhibited by the loan portfolio is diminished primarily due to growth in real estate mortgage, agribusiness and part-time farmer sectors.

AgriBank and certain District Associations, as well as Associations outside the District, participate in the AgDirect program, which is included within the production and intermediate term sector. Under this program, AgriBank purchases 100 percent loan participation interests in retail equipment financing loans from AgDirect LLP (LLP), a limited liability partnership. At December 31, 2016, the LLP was owned by nine District Associations and eight Associations outside the District. The District had $3.4 billion, $3.2 billion and $3.0 billion of these participation interests outstanding at December 31, 2016, 2015 and 2014, respectively. The LLP is included within the accompanying Combined Financial Statements.

Portfolio Diversification

Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, or within close proximity, which could cause them to be similarly impacted by economic or other conditions. The table below illustrates commodity and geographic distribution of the District's $99.1 billion loan portfolio as of December 31, 2016:

District Portfolio

Commodity Distribution		Geographic Distribution	
Crops	**46%**	Iowa	**11%**
Cattle	**9%**	Illinois	**10%**
Dairy	**7%**	Minnesota	**9%**
Investor real estate	**7%**	Nebraska	**8%**
Food Products	**5%**	Indiana	**6%**
Other	**26%**	Michigan	**6%**
Total	**100%**	Ohio	**6%**
		Wisconsin	**6%**
		South Dakota	**5%**
		Other	**33%**
		Total	**100%**

Other commodities consist primarily of loans in the pork, timber, poultry and rural residential real estate sectors, none of which represented more than 5 percent of the District loan portfolio. Other states consist primarily of loans in Missouri, Tennessee, North Dakota, Arkansas, Kentucky and Wyoming, none of which

represented more than 5 percent of the District loan portfolio. The commodity and geographic concentrations have not changed materially from prior years.

While the District has concentrations in crops, these crops represent staple commodities of agriculture – corn, soybeans and wheat. To some extent, there is further concentration in crops related to the investor real estate sector, as these loans are typically made for the purchase of land that is rented for crop production. However, the concentration in crops is geographically diverse, with multiple states being significant producers of these important commodities. While the commodity distribution represents the primary commodity of the borrower, many of the crop producers may also have livestock operations or other forms of diversification.

Certain District Associations have diversified the concentration in agricultural production loans through rural residential real estate and part-time farmer loans, as well as agribusiness loans. Rural residential real estate, investor real estate and part-time farmer borrowers generally have significant off-farm sources of income, and, therefore, are less subject to cycles in agriculture. These borrowers are typically more susceptible to changes in the general economy, and the condition of the general economy will influence the credit quality of these segments of the portfolio. Credit quality in these sectors has remained strong as of December 31, 2016, 2015 and 2014.

Grain and livestock producers are somewhat subject to a counter-cyclical diversification effect. High grain prices are generally favorable to crop producers; however, livestock producers are adversely affected through higher feed costs. Conversely, low grain prices are generally negative to crop producers, but tend to improve the profitability for those livestock producers who purchase most or all of their feed. Extreme fluctuations in commodity prices can negatively impact all District producers. Lower net farm income across the District has resulted in additional stress in certain agricultural production sectors.

Portfolio Maturities

Contractual Maturities of Loans

(in thousands) As of December 31, 2016	One Year or Less	Over One Through Five Years	Over Five Years	Total
Real estate mortgage	$6,117,426	$19,109,981	$30,914,911	$56,142,318
Production and intermediate term	12,378,456	11,909,935	1,388,733	25,677,124
Agribusiness	5,670,011	2,334,874	2,171,450	10,176,335
Rural residential real estate	180,802	701,194	1,914,944	2,796,940
Other	2,341,578	935,102	999,842	4,276,522
Total loans	$26,688,273	$34,991,086	$37,389,880	$99,069,239
Total of loans due after one year with:				
Fixed interest rates				$40,752,928
Variable and adjustable interest rates				31,628,038

Credit Risk Management

AgriBank and District Associations are authorized to make loans, or participate in loans, to eligible borrowers as specified in the Farm Credit Act. As a result, the loan portfolio is concentrated in the agricultural industry. Earnings, loan growth and credit quality of the loan portfolio can be affected

significantly by the general state of the economy, primarily as it affects agriculture and users of agricultural products.

AgriBank and District Associations actively manage credit risk through various policies and standards, including loan committees reviewing significant loan transactions. Underwriting standards include analysis of five credit factors: repayment capacity, capital position, collateral, management ability and loan terms. These standards vary by agricultural industry and are updated to reflect current market conditions.

Borrower and commodity concentration lending limits are also used to manage credit exposure. As required by FCA regulations, the lending limit to a single borrower is generally 15 percent of each Association's lending and leasing limit base. Similarly, AgriBank's retail participation lending limit is 15 percent of AgriBank's lending and leasing limit base. The lending and leasing limit base is generally calculated as permanent capital with certain adjustments as allowed by FCA regulation. Although not required by FCA regulations, AgriBank and District Associations generally have established single borrower lending limits below the FCA regulatory limits. In addition, AgriBank and District Associations have established and utilize single borrower lending limits on a combined District basis. AgriBank and District Associations also manage credit risk through loan participations. AgriBank and District Associations diversify the portfolio and limit exposure to an individual borrower or commodity through buying and selling loans to other institutions within or outside of the Farm Credit System. Managing concentration risk through participations also provides the ability to manage growth and capital, primarily to improve geographic or commodity diversification.

Many of the credits in the portfolio are large and complex and AgriBank and District Associations do not use standardized credit scoring on these loans. The ten largest customers as of December 31, 2016 represented 2.8 percent of total loans (including accrued interest receivable). Of the ten largest customers, all were classified as acceptable. Within these ten largest customers, there are concentrations in four significant industries, including:

- Timber at 22.4 percent
- Processing and marketing at 21.3 percent
- Food products at 17.9 percent and
- Dairy at 8.9 percent.

Small loans (less than $250 thousand) account for 88.0 percent by number of District customers and 33.7 percent by dollar amount of District loans as of December 31, 2016. Credit risk on small loans is usually reduced by non-farm income sources. Associations generally use statistically validated scorecards to evaluate smaller credits. The scorecards widely used by District Associations are related to operating, intermediate term (generally for farm equipment), agricultural mortgage and home mortgage loans. Scored loans account for 56.9 percent by number of District customers and 16.8 percent of total loans by dollar amount of District loans (including accrued interest receivable), of which only 0.1 percent were delinquent as of December 31, 2016.

The credit quality of the District loan portfolio has been sound over the past three-year period, despite a decline during 2016, with 93.2 percent of the portfolio in the acceptable category at December 31, 2016. This was compared to 95.8 percent and 97.0 percent acceptable at December 31, 2015 and 2014, respectively. Acceptable loans represent the highest quality and are expected to be fully collectible. This credit quality is primarily due to sound underwriting practices, and generally, the adequate liquidity and

strong equity positions of borrowers. Substandard and doubtful loans, collectively called adverse loans, are loans AgriBank and District Associations have identified as showing some credit weakness outside the credit standards. While acceptable percentage remains strong, special mention and adverse loan volume has continued to increase as the District moves through the current agricultural efficiency cycle whereby producers strive to lower operating costs to align with continued low commodity price forecasts. This increase in adverse credit quality across the District has been driven by lower net farm income that has created additional stress in certain agricultural production sectors.

Percentage of Adverse Loans by Commodity

As of December 31,	**2016**	2015	2014
District retail portfolio:			
Crops	**4.7%**	2.8%	1.4%
Cattle	**4.8%**	2.1%	1.7%
Dairy	**3.2%**	1.5%	2.1%
Other	**1.9%**	1.4%	2.0%
Total	**3.5%**	2.1%	1.7%

Overall, District credit quality is expected to remain at acceptable levels in 2017, despite increases in adverse credit quality in 2016. Agriculture has experienced mostly positive economic conditions over the past decade. However, agriculture is a cyclical industry, and due to continued low net farm income levels throughout 2015 and 2016, credit quality continued to experience some downturn within many sectors of the District portfolio. Given projected continued low net farm income levels in certain agricultural production sectors, adverse credit quality and related allowance for loan losses and provision for loan losses are expected to continue to increase.

AgriBank and District Associations use a two-dimensional loan rating model that incorporates a 14-point probability of default scale to identify and track the probability of borrower default and a separate six-tier scale addressing loss given default over a period of time. Each of the probability of default rating categories carries a distinct percentage of default probability.

The 14-point probability of default scale provides for granularity of the probability of default, especially in the acceptable ratings. Generally, there are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The range of probabilities of default between one and nine is very narrow and would reflect almost no default to a minimal default percentage.

The six-tier scale for loss given default (LGD) measures the expected loss severity based upon the adequacy of the collateral supporting the loan. The scale ranges from A, with no loss expected, to F, with an anticipated significant loan loss. A substantial portion of the loan portfolio is collateralized, which reduces the exposure to credit loss. Well collateralized loans, those loans in the LGD A or B tier, make up 60.3 percent of the District portfolio as of December 31, 2016.

Total Loans Outstanding by Probability of Default and Loss Given Default Code
As of December 31, 2016

(in thousands)	Loss Given Default						
Probability of Default	**A**	**B**	**C**	**D**	**E**	**F**	**Total**
1	$584,227	$2,851	$ --	$ --	$ --	$ --	$587,078
2	--	--	--	20,353	--	--	20,353
3	14,910	3,577	80,120	6,360	36,469	148	141,584
4	2,896,888	1,478,507	802,117	428,511	162,921	152,461	5,921,405
5	5,387,408	3,827,117	2,380,885	3,611,711	692,080	305,510	16,204,711
6	6,695,398	5,644,019	3,289,410	3,805,201	1,293,525	281,981	21,009,534
7	6,813,161	6,373,276	3,001,467	5,432,853	1,660,473	236,223	23,517,453
8	4,913,673	5,250,052	2,433,455	2,702,057	856,942	180,767	16,336,946
9	2,490,594	2,627,117	1,170,084	1,128,062	661,821	77,661	8,155,339
10	1,068,675	1,158,419	485,134	524,817	114,558	62,004	3,413,607
11	835,631	1,098,688	377,553	250,322	286,443	30,934	2,879,571
12	259,510	286,091	89,373	85,729	68,968	80,010	869,681
13	2	527	39	4	6,036	5,369	11,977
	$31,960,077	$27,750,241	$14,109,637	$17,995,980	$5,840,236	$1,413,068	$99,069,239

There were no loans classified as 14 on the probability of default scale as of December 31, 2016.

A substantial portion of the loan portfolio is collateralized, which reduces exposure to credit losses. Collateral held varies, but may include real estate, equipment, inventory, livestock and income-producing properties. An estimate of credit risk exposure is considered in the allowance for loan losses. Additionally, credit policies reduce credit risk with emphasis placed on repayment capacity rather than exclusively on the underlying collateral. The District has an internally maintained database that uses market data to estimate market values of collateral for a significant portion of the real estate mortgage portfolio. Although FCA regulations allow real estate mortgage loans of up to 85 percent of appraised value, AgriBank and District Associations' underwriting standards generally limit lending to no more than 65 to 75 percent at origination. Some District Associations have also implemented risk management practices that incorporate loan-to-appraised value limits below these thresholds. In addition, most District lenders impose lending caps per acre based on the land's sustainable income-producing capacity. While underwriting exceptions on loan-to-appraised-value are sometimes granted, in such cases loans are typically structured with shorter amortization schedules and/or additional principal payments in the early years to reduce risk. In addition to sound underwriting standards, the District also has hold restrictions to limit the District's credit exposure to any one borrower.

AgriBank and District Associations also reduce credit risk in the loan portfolio through government guarantee programs. At December 31, 2016, $2.2 billion of loans contained various levels of guarantees under such programs, compared to $1.9 billion and $1.8 billion as of December 31, 2015 and 2014, respectively.

Certain District Associations have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, District Associations have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The net investment of loans subject to the purchase agreement was $649.6 million, $683.6 million and $697.6 million at December 31, 2016, 2015 and 2014, respectively. The District Associations paid Farmer

Mac commitment fees totaling $2.8 million, $3.0 million and $3.4 million in 2016, 2015 and 2014, respectively. These amounts are included in “Other operating expenses” on the Combined Statements of Comprehensive Income. No loans were sold to Farmer Mac under these agreements in 2016 or 2014. There were $13.5 million of loans sold to Farmer Mac under these agreements in 2015.

One District Association utilized a credit default swap (CDS) in connection with synthetic securitizations to reduce risk in the loan portfolio. The loans under the CDS were $220.6 million and $279.2 million at December 31, 2015, and 2014, respectively. No loans were subject to the CDS agreement at December 31, 2016 as a result of the CDS agreement being cancelled.

One District Association may hold loans for sale under a rural residential mortgage program to provide qualified borrowers with additional options for financing rural properties at competitive interest rates. Loans held for sale, including related accrued interest receivable, were, $27.4 million, $35.5 million and $7.9 million at December 31, 2016, 2015 and 2014, respectively. Loans held for sale are included in “Other assets” on the Combined Statements of Condition.

Competitive Conditions

Competition historically is from community banks, insurance companies, large banks, manufacturers/suppliers and captive finance companies. Market share varies greatly across the District. In general, community banks continue to be very competitive, and insurance companies and regional/national banks are increasingly more competitive, particularly on the highest quality larger credits.

In traditional agriculture lending markets, District Associations have historically been most competitive in falling interest rate environments because Farm Credit cost of funds declines more rapidly than that of competitors. In a rising rate environment, Farm Credit cost of funds tends to increase more quickly than competitors, resulting in significant competitive pressure and narrowing spreads. Most District Associations anticipate narrower spreads will continue in 2017 from increased competition which may be exacerbated by increased interest rates. Increased interest rates may sustain a challenging competitive environment in which the District Associations may not be able, or may choose not, to maintain current spreads. Refer to the Results of Operations - Net Interest Income section for further discussion.

Risk Assets

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

Components of Risk Assets

(in thousands)

As of December 31,	2016	2015	2014	2013	2012
Nonaccrual loans	**$678,208**	$517,009	$481,409	$626,404	$700,829
Accruing restructured loans	**89,800**	65,233	75,398	53,250	45,565
Accruing loans 90 days or more past due	**12,123**	11,096	8,082	2,222	20,501
Total risk loans	**780,131**	593,338	564,889	681,876	766,895
Other property owned	**14,530**	13,051	22,284	33,379	67,836
Total risk assets	**$794,661**	$606,389	$587,173	$715,255	$834,731
Risk loans as a % of total loans	**0.79%**	0.62%	0.64%	0.82%	0.99%
Nonaccrual loans as a % of total loans	**0.68%**	0.54%	0.54%	0.76%	0.91%
Delinquencies as a % of total loans	**0.56%**	0.44%	0.42%	0.44%	0.65%

Note: Accruing loans include accrued interest receivable.

Total risk assets increased during 2016 from the historically low levels observed in recent years, and remain at an acceptable level. This increase in risk assets was driven primarily by declines in net farm income levels for certain borrowers within the District. Based on current forecasts for net farm income levels in certain agricultural production sectors, risk assets are expected to continue to rise.

Total risk loans as a percentage of total loans remains at acceptable levels. At December 31, 2016, 59.9 percent of nonaccrual loans were current as to principal and interest.

AgriBank's and District Associations' policies require loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on AgriBank's and District Associations' analyses, all accruing loans 90 days or more past due were eligible to remain in accruing status.

The following table sets forth interest income that would have been recognized if nonaccrual and restructured loans had been fully performing:

(in thousands)

For the year ended December 31,	2016
Interest income that would have been recognized under original contract terms	**$46,535**
Less: interest income recognized	**42,965**
Interest income not recognized	**$3,570**

Cash received on nonaccrual loans is applied to reduce the recorded investment in the loan asset, except in those cases where the collection of the recorded investment is fully expected and the loan has no unrecovered prior charge-offs.

Allowance for Loan Losses

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

and each District Association believe the allowance for loan losses is reasonable in relation to the risk in the portfolios at December 31, 2016.

Allowance for Loan Losses by Loan Category

(in thousands)	**2016**		2015		2014		2013		2012	
As of December 31,	**Amount**	**%**	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$158,779**	**41.1%**	$111,000	38.9%	$88,542	35.7%	$85,573	36.2%	$94,385	36.0%
Production and intermediate term	**154,488**	**39.9%**	118,409	41.4%	101,976	41.1%	87,261	36.9%	91,565	34.8%
Agribusiness	**47,067**	**12.2%**	32,166	11.3%	30,790	12.4%	37,409	15.8%	48,434	18.4%
Rural residential real estate	**10,220**	**2.6%**	8,986	3.1%	9,673	3.9%	8,864	3.8%	11,683	4.4%
Other	**16,200**	**4.2%**	15,150	5.3%	17,100	6.9%	17,205	7.3%	16,863	6.4%
Total allowance for loan losses	**$386,754**	**100.0%**	$285,711	100.0%	$248,081	100.0%	$236,312	100.0%	$262,930	100.0%

Allowance Coverage Ratios

As of December 31,	**2016**	2015	2014
Allowance as a % of:			
Loans	**0.39%**	0.30%	0.28%
Nonaccrual loans	**57.03%**	55.26%	51.53%
Total risk loans	**49.58%**	48.15%	43.92%
Adverse loans as a % of risk funds*	**16.74%**	10.37%	8.28%

*Risk funds includes total capital and allowance for loan losses.

AgriBank and District Associations determine the amount of allowance that is required by analyzing risk loans individually and all other loans by grouping them into loan segments sharing similar risk characteristics. An allowance is recorded for the loan segments collectively evaluated using the combination of estimated probability of default and estimated loss given default assumptions. These estimated losses may be adjusted for relevant current environmental factors. These factors may vary by the different segments reflecting the risk characteristics of each segment. As these factors change, earnings are impacted. When risk loans are analyzed, AgriBank and District Associations may record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral.

Allowance for Loan Losses Activity

(in thousands) **For the year ended December 31,**	**2016**	2015	2014	2013	2012
Balance at beginning of year	**$285,711**	$248,081	$236,312	$262,930	$300,508
Charge-offs:					
Real estate mortgage	**(5,494)**	(9,453)	(15,688)	(21,246)	(28,538)
Production and intermediate term	**(34,386)**	(27,393)	(11,259)	(12,620)	(46,079)
Agribusiness	**(3,139)**	(441)	(250)	(900)	(1,036)
Rural residential real estate	**(2,175)**	(2,466)	(2,936)	(6,293)	(7,038)
Other	**--**	(2,277)	(2,106)	(1,723)	(260)
Total charge-offs	**(45,194)**	(42,030)	(32,239)	(42,782)	(82,951)
Recoveries:					
Real estate mortgage	**4,229**	3,473	6,113	9,303	8,477
Production and intermediate term	**6,172**	6,896	6,693	31,122	9,141
Agribusiness	**851**	1,179	983	2,366	368
Rural residential real estate	**868**	826	846	519	220
Other	**1**	447	4	--	10
Total recoveries	**12,121**	12,821	14,639	43,310	18,216
Net (charge-offs) recoveries	**(33,073)**	(29,209)	(17,600)	528	(64,735)
Provision for (reversal of) loan losses	**134,116**	66,839	29,369	(27,146)	27,157
Balance at end of year	**$386,754**	$285,711	$248,081	$236,312	$262,930
Net charge-offs as a % of average loans	**0.03%**	0.03%	0.02%	0.00%	0.09%

The District's loan portfolio is primarily made up of real estate mortgage and production intermediate term loans which, due to disciplined underwriting standards, generally have strong collateral. The decline in credit quality in the District portfolio, driven primarily by a decline in net farm income levels, has led to additional stress for certain grain and livestock producers, which has contributed to an increase in the allowance for loan losses during 2016. Based on current forecasts for net farm income, the allowance for loan losses is expected to continue to increase.

The provision for credit losses for the year ended December 31, 2016 reported in the Combined Statements of Comprehensive Income includes provision for credit losses for unfunded commitments and unfunded letters of credit of $7.7 million. Any reserves for unfunded commitments and letters of credit are recorded in "Other liabilities" on the Combined Statements of Condition.

Refer to the Results of Operations – Provision for Credit Losses section for further discussion of provision for loan loss changes.

Investment Portfolio and Liquidity

Liquidity Risk Management

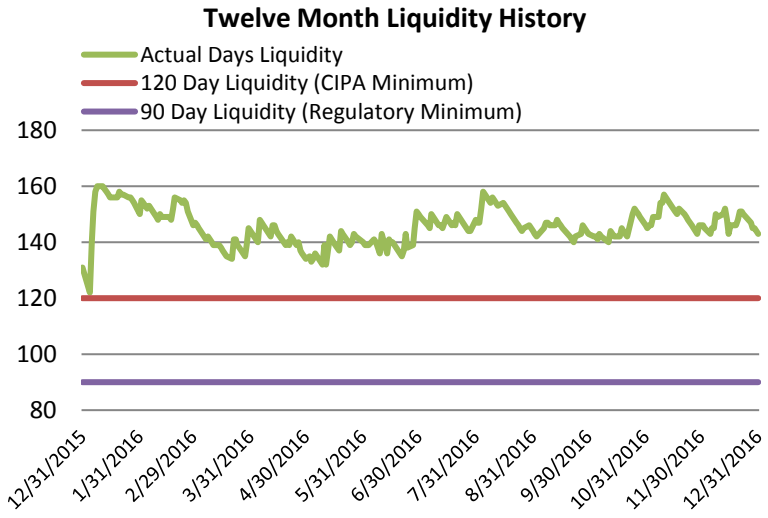
AgriBank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Access to the unsecured debt capital markets remains the District's primary source of liquidity. The System continues to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. During the year ended December 31, 2016, investor demand for Systemwide Debt Securities has remained favorable.

AgriBank also maintains a secondary source of liquidity through a high-quality investment portfolio and other short-term liquid assets. AgriBank manages liquidity for operating and debt repayment needs by forecasting and anticipating seasonal demands, as well as through managing debt maturities. AgriBank manages short-term liquidity needs by maintaining maturing investments and Bank balances of at least $500 million on hand each day to meet cash management and loan disbursement needs in the normal course of business.

AgriBank manages intermediate and longer-term liquidity needs through the composition of the liquidity investment portfolio, which is structured to meet both regulatory requirements and operational demands. Specifically, AgriBank provides at least 15 days of liquidity coverage from cash, overnight investments and U.S. Treasury securities less than three years in maturity. Other short-term money market investments, as well as government and agency mortgage-backed securities (MBS), are positioned to cover regulatory requirements for 30- and 90-day intervals. Additionally, a supplemental liquidity buffer provides days coverage in excess of 90 days from money market instruments greater than 90 days in maturity and asset-backed securities (ABS). At December 31, 2016, AgriBank held qualifying assets in excess of each incremental level to meet the liquidity coverage intervals.

AgriBank's liquidity policy and FCA regulations require maintaining a minimum of 90 days of liquidity on a continuous basis. In addition, the Contractual Interbank Performance Agreement (CIPA) between all System Banks requires AgriBank to maintain a minimum of 120 days of liquidity. The days of liquidity measurement refers to the number of days that maturing debt is covered by liquid investments. During 2016, AgriBank had a liquidity operating target between 135 and 185 days. As of December 31, 2016, AgriBank had sufficient liquidity to fund all debt maturing within 143 days, compared to 136 days as of December 31, 2015.

AgriBank maintains a contingency funding plan (CFP) that helps inform operating and funding needs and addresses actions that would be considered in the event that there is not ready access to traditional funding sources. These potential actions include borrowing overnight via federal funds, using investment securities as collateral to borrow, using the proceeds from maturing investments and selling liquid investments. AgriBank sizes the investment portfolio using the CFP to cover all operating and funding needs for a minimum of 30 days with a targeted $500 million buffer.



District Cumulative Debt Maturities

(in thousands) As of December 31, 2016	Bonds and Notes Amount
Cumulative debt maturing in:	
15 days	**$3,491,091**
45 days	**7,841,360**
90 days	**11,681,524**
120 days	**14,197,876**
One year	**34,291,292**
One to five years	**78,805,268**
Five to ten years	**90,091,659**
More than ten years	**96,633,431**

During 2016, AgriBank and AgStar Financial Services, ACA (AgStar) redeemed all $500 million and $100 million, respectively, of outstanding subordinated notes at par value. Refer to the Shareholder's Equity section for additional discussion related to the redemption of subordinated notes.

AgriBank Investment Securities

All investment securities held by AgriBank are classified as available-for-sale (AFS).

Composition of AgriBank AFS Investment Securities

(in thousands) As of December 31,	2016	2015	2014
Mortgage-backed securities:			
Government collateralized mortgage obligations	**$2,722,396**	$3,008,410	$2,902,030
Agency collateralized mortgage obligations	**2,707,901**	2,519,560	2,193,842
Agency pass through	**125,462**	158,603	193,775
Non-agency	**--**	70,438	124,890
Total mortgage-backed securities	**5,555,759**	5,757,011	5,414,537
Commercial paper and other	**4,786,782**	4,914,385	5,345,820
U.S. Treasury securities	**3,811,798**	2,815,257	2,564,877
Asset-backed securities:			
Automobile	**656,400**	724,680	739,075
Equipment	**86,513**	43,592	94,498
Home equity	**--**	7,958	33,716
Total asset-backed securities	**742,913**	776,230	867,289
U.S. Agencies	**--**	--	102,254
Total	**$14,897,252**	$14,262,883	$14,294,777

AgriBank's ALCO and Counterparty Risk Committee (CRC) oversee the credit risk in AgriBank's investment portfolio. AgriBank manages investment portfolio credit risk by investing only in securities that are liquid, of high quality and whose risks are well understood. At purchase, all securities must meet eligibility requirements as permitted by FCA regulations and related to rating categories assigned by one or more Nationally Recognized Statistical Rating Organizations.

Fair Value of AgriBank Eligible AFS Investment Securities by Credit Rating

(in thousands)	Eligible			
As of December 31, 2016	**AAA/Aaa**	**A1/P1/F1**	**Split Rated [1]**	**Total**
Mortgage-backed securities	**$ --**	**$ --**	**$5,555,759**	**$5,555,759**
Commercial paper and other	**--**	**3,136,730**	**1,650,052**	**4,786,782**
U.S. Treasury securities	**--**	**--**	**3,811,798**	**3,811,798**
Asset-backed securities	**742,913**	**--**	**--**	**742,913**
Total	**$742,913**	**$3,136,730**	**$11,017,609**	**$14,897,252**

[1]Investments that received the highest credit rating from at least one rating organization.

Holdings of split-rated U.S. government securities are due to the 2011 downgrade of the U.S. government. AgriBank does not believe the downgrades of these securities reflect deterioration in credit quality. At December 31, 2016, AgriBank held no ineligible securities.

All investment securities in an unrealized loss position are evaluated for other-than-temporary impairment (OTTI) on a quarterly basis. AgriBank continually evaluates assumptions used in estimating fair value and impairment and adjusts those assumptions as appropriate. As a result of AgriBank's evaluations, no impairment losses were recorded during 2016, and all remaining securities on which OTTI had previously been recorded were sold during 2016.

Refer to Note 4 of the accompanying Combined Financial Statements for further discussion on impairment losses.

AgriBank AFS Investment Securities Sold

(in thousands)			
For the year ended December 31,	**2016**	2015	2014
Non-OTTI AFS investment securities sold	**$207,502**	$30,502	$17,358
OTTI AFS investment securities sold	**27,771**	17,552	101,490
Total AFS investment securities sold	**$235,273**	$48,054	$118,848
Losses on sales of non-OTTI AFS investment securities, net	**$(393)**	$(2,258)	$(1,675)
Gains on sales of OTTI AFS investment securities, net	**10,559**	4,864	21,643
Gains on sales of AFS investment securities, net	**$10,166**	$2,606	$19,968
Impairment previously recognized on OTTI AFS investment securities sold	**$24,696**	$12,633	$84,431

Refer to the Results of Operations section for further discussion on sales of AFS investment securities.

District Association Investment Securities

Periodically, one District Association may sell loans held for sale to a third party and purchase back securities collateralized by the loans sold. As the District Association may not hold the investments to maturity, all or a portion of these securities are classified as AFS and have contractual maturities greater than ten years. No District Association held AFS investment securities as of December 31, 2016 or 2015. The fair value of District Association AFS investment securities was $21.0 million as of December 31, 2014.

The District Association sold AFS investment securities with sales proceeds of $102.8 million and $53.7 million, resulting in gains of $659 thousand and $355 thousand during 2016 and 2015, respectively. No District Association sold AFS investment securities during the year ended December 31, 2014.

All other investment securities held by the District Associations are classified as held-to-maturity (HTM), primarily consisting of government guaranteed instruments and Farmer Mac mortgage-backed securities.

No HTM securities were other-than-temporarily impaired during any of the years presented.

Other Investments

AgriBank and certain District Associations are among the limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC facilitates equity and debt investments in agriculture-related businesses that creates growth and job opportunities in rural America. The total multi-year commitment by District institutions is $90.0 million.

The RBIC was evaluated for impairment. No impairments were recognized on these investments during the years ended December 31, 2016, 2015 and 2014.

As of December 31, 2016, AgriBank and certain District Associations have committed to another RBIC limited partnership, which will have aggregate capital commitments of $31.3 million. The commitment to this RBIC has been approved by the governing bodies of the various partners and awaits USDA approval.

Refer to Note 4 of the accompanying Combined Financial Statements for additional information regarding other investments.

Shareholders' Equity

AgriBank and District Associations believe a sound capital position is critical to long-term financial stability. AgriBank and District Associations maintain adequate capital to protect against unanticipated losses as well as to meet the District's growth needs. Total shareholders' equity was $20.8 billion, $19.3 billion and $17.8 billion at December 31, 2016, 2015 and 2014, respectively. This increase resulted primarily from net income for the year, partially offset by patronage distributions declared.

Select Capital Ratios

As of December 31,	Regulatory minimums	2016	2015	2014
Shareholders' equity to assets		**17.47%**	16.78%	16.43%
Surplus and allowance to risk loans (:1)		**27.0**	32.9	31.8
Surplus to total shareholders' equity		**99.44%**	99.72%	99.39%
Permanent capital ratio (AgriBank only)	7.0%	**20.6%**	20.8%	20.8%
Total surplus ratio (AgriBank only)	7.0%	**17.2%**	17.9%	18.1%
Core surplus ratio (AgriBank only)	3.5%	**12.6%**	12.1%	11.8%
Net collateral ratio (AgriBank only)*	103.0%	**105.5%**	105.8%	105.9%

* FCA regulations require AgriBank to maintain a net collateral ratio of at least 103.0%. However, AgriBank was required by the FCA to maintain a higher minimum of 104.0% during any period in which AgriBank had subordinated notes outstanding.

At December 31, 2016, AgriBank and each District Association exceeded all required regulatory minimum capital ratios, which are further discussed in Note 7 to the accompanying Combined Financial Statements. Strong earnings, issuances of non-cumulative perpetual preferred stock in 2013, and stock investments allowed AgriBank and District Associations to maintain strong regulatory capital ratios while efficiently leveraging existing District capital. Refer to Capital Plan and Regulatory Requirements section for discussion related to the new regulatory capital ratios effective January 1, 2017.

District shareholders' equity includes $250 million of AgriBank Series A Non-cumulative Perpetual Preferred Stock and $100 million of AgStar Series A-1 Non-cumulative Perpetual Preferred Stock, collectively Preferred Stock. Dividends on Preferred Stock, if declared by the respective institution's board in its sole discretion, are non-cumulative and are payable quarterly in arrears.

For regulatory capital purposes, perpetual preferred stock is included in permanent capital, total surplus and core surplus, subject to certain limitations as defined by the FCA as of December 31, 2016. Refer to Note 7 in the accompanying Combined Financial Statements for further discussion.

During 2016, AgriBank and AgStar redeemed all $500 million and $100 million, respectively, of outstanding subordinated notes at par value, which were redeemable on any interest payment date at any time following FCA notification of certain changes to regulatory capital requirements. Subordinated notes were allowed to be counted as capital in certain risk-adjusted ratios. Additionally, as required to be calculated by AgriBank, the subordinated notes were excluded from liabilities in the net collateral ratio. All subordinated notes included in the ratios were subject to certain limitations as defined by FCA. The limitations on the treatment of subordinated notes in the regulatory capital ratios are discussed further in Note 7 to the accompanying Combined Financial Statements.

Refer to Note 7 of the accompanying Combined Financial Statements for further information regarding investment requirements of borrowers.

Capital Plan and Regulatory Requirements

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The stated objectives of the revised requirements 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 replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The final rule also replaced the existing net collateral ratio for System Banks with the tier 1 leverage and unallocated retained earnings equivalents ratios (both non-risk-adjusted), which will apply to both System Banks and Associations. The permanent capital ratio remains in effect with the final rule and continues to exclude allocated investments held by Associations in excess of the AgriBank capital requirement. The new capital requirements also include capital conservation buffers, effective January 1, 2017 for non-risk-adjusted ratios and effective over a three-year phase-in for risk-adjusted capital ratios. Based on preliminary analysis, we anticipate that we will exceed all regulatory capital requirements in 2017, including the capital conservation buffers. Refer to Note 7 for additional information regarding the revised capital ratios.

Each institution's Board of Directors establishes a formal capital plan that addresses its capital targets in relation to its risks and establishes the required investment levels. The plans assess the capital level and composition necessary to support financial viability and growth. These plans are updated at least annually and are approved by each institution's Board of Directors. The plans consider factors such as credit risk and allowance levels, quality and quantity of earnings, sufficiency of liquid funds, operational risk, interest rate risk and growth in determining optimal capital levels.

AgriBank and District Associations model economic capital requirements and perform stress testing. Economic capital measures total enterprise risk looking at credit, interest rate and operational risk.

Patronage Programs and Dividend Distributions

Payment of patronage and/or dividends is solely at the discretion of each board and is generally allowed under AgriBank and District Associations' bylaws if the distribution is in accordance with applicable laws and regulations, including the FCA capital adequacy regulations.

The District Associations designated $322.0 million, $282.9 million and $268.7 million of earnings for patronage during 2016, 2015 and 2014, respectively. Refer to Note 7 of the accompanying Combined Financial Statements for further detail of patronage programs.

AgriBank and AgStar declared preferred stock dividends of $17.2 million and $6.8 million, respectively, during each year ended 2016, 2015 and 2014.

Accumulated Other Comprehensive Loss

AgriBank's investment portfolio is held primarily for liquidity purposes; accordingly, it is considered available-for-sale and is carried at fair value. Unrealized gains and losses on investment securities that are not other-than-temporarily impaired are reported as a separate component of shareholders' equity. Unrealized gains and losses related to the non-credit component of other-than-temporarily impaired investment securities are also reported as a separate component of shareholders' equity. Other

comprehensive loss on investment securities totaled $42.4 million for the year ended December 31, 2016, primarily driven by changes in net unrealized losses of $32.2 million due to increases in interest rates. In addition, $10.8 million was reclassified from other comprehensive income to miscellaneous income and other gains, net as a result of the AFS investment securities sold during 2016.

AgriBank's derivative portfolio includes certain derivatives designated as cash flow hedges. Unrealized gains and losses on the effective portion of cash flow hedges are reported as a separate component of shareholders' equity. The majority of cash flow derivatives are hedging rising long-term interest rates. Due to increasing interest rates during 2016, the fair value of certain cash flow derivatives increased, resulting in $47.3 million of other comprehensive income for the year ended December 31, 2016.

The unfunded status of the District pension and post-employment benefit plans is recognized as a liability on the Combined Statements of Condition. During 2016, the change in net unrealized losses recognized in accumulated other comprehensive income for pension and post-employment liabilities was driven by amortization of actuarial losses from prior periods and a 2016 plan amendment offset by actuarial losses related to 2016. Refer to Notes 2, 9 and 15 to the accompanying Combined Financial Statements for further discussion.

Results of Operations

Income levels remained stable, driven by strong net interest income despite increased provision for credit losses, reduced mineral income and increased Farm Credit System insurance fund expense.

Profitability Information

(in thousands)

For the year ended December 31,	**2016**	2015	2014
Net income	**$1,831,899**	$1,832,403	$1,888,390
Return on average assets	**1.57%**	1.68%	1.85%
Return on average shareholders' equity	**9.13%**	9.87%	10.88%

Changes in Significant Components of Net Income

(in thousands)

For the year ended December 31,	**2016**	2015	2014	Increase (Decrease) in Net Income	Prior Year Increase (Decrease) in Net Income
Net interest income	**$2,868,915**	$2,694,861	$2,630,793	$174,054	$64,068
Provision for credit losses	**141,837**	71,894	25,399	(69,943)	(46,495)
Non-interest income	**305,000**	349,050	396,665	(44,050)	(47,615)
Non-interest expense	**1,189,182**	1,120,356	1,068,042	(68,826)	(52,314)
Provision for income taxes	**10,997**	19,258	45,627	8,261	26,369
Net income	**$1,831,899**	$1,832,403	$1,888,390	$(504)	$(55,987)

Net Interest Income

Changes in Net Interest Income

(in thousands) **For the year ended December 31,**	**2016 vs 2015**			2015 vs 2014		
Increase (decrease) due to:	**Volume**	**Rate**	**Total**	Volume	Rate	Total
Interest income:						
Loans	**$263,984**	**$63,069**	**$327,053**	$221,864	$(70,385)	$151,479
Investments	**3,120**	**48,915**	**52,035**	10,650	9,263	19,913
Other earning assets	**424**	**(53)**	**371**	634	(97)	537
Total interest income	**267,528**	**111,931**	**379,459**	233,148	(61,219)	171,929
Interest expense:						
Systemwide debt securities and other	**(69,194)**	**(136,211)**	**(205,405)**	(61,606)	(46,255)	(107,861)
Net change in net interest income	**$198,334**	**$(24,280)**	**$174,054**	$171,542	$(107,474)	$64,068

Information regarding the average daily balances (ADB), average rates earned and components of NII on the portfolio follows:

(in thousands) **For the year ended December 31,**	**2016**		
	ADB	**Rate**	**NII**
Interest earning assets:			
Accrual loans	**$95,726,991**	**4.01%**	**$3,835,529**
Nonaccrual loans	**621,272**	**6.11%**	**37,954**
Investment securities and federal funds	**17,732,769**	**1.11%**	**196,427**
Other earning assets	**31,293**	**4.26%**	**1,524**
Total earning assets	**114,112,325**	**3.57%**	**4,071,434**
Interest bearing liabilities	**94,741,775**	**1.27%**	**1,202,519**
Interest rate spread	**$19,370,550**	**2.30%**	
Impact of equity financing		**0.21%**	
Net interest margin		**2.51%**	
Net interest income			**$2,868,915**

(in thousands) For the year ended December 31,	2015		
	ADB	Rate	NII
Interest earning assets:			
Accrual loans	$88,837,229	3.96%	$3,516,203
Nonaccrual loans	530,952	5.83%	30,952
Investment securities and federal funds	17,411,880	0.83%	144,391
Other earning assets	21,882	4.50%	428
Total earning assets	$106,801,943	3.46%	$3,691,974
Interest bearing liabilities	89,019,478	1.12%	997,113
Interest rate spread	$17,782,465	2.34%	
Impact of equity financing		0.18%	
Net interest margin		2.52%	
Net interest income			$2,694,861

(in thousands) For the year ended December 31,	2014		
	ADB	Rate	NII
Interest earning assets:			
Accrual loans	$83,028,127	4.05%	$3,361,139
Nonaccrual loans	575,369	5.95%	34,229
Investment securities and federal funds	16,099,244	0.77%	124,479
Other earning assets	2,437	8.21%	200
Total earning assets	$99,705,177	3.53%	$3,520,047
Interest bearing liabilities	83,437,700	1.07%	889,254
Interest rate spread	$16,267,477	2.46%	
Impact of equity financing		0.18%	
Net interest margin		2.64%	
Net interest income			$2,630,793

Net interest income increased primarily due to increases in loan volume compared to the prior year and, to a lesser extent, higher rates received on production and intermediate term loans and investments. Increased interest expense due to higher debt levels and rates partially offset the positive impact of higher interest income.

Overall, interest rate spreads continue to compress slightly. In general, operating loans, which are typically variable rate, have the highest spreads. Longer term fixed-rate loans generally carry narrower spreads. As the product mix between operating and real estate or intermediate term loans changes, and as competition increases, the interest rate spreads earned may change accordingly. Operating loans and real estate loans (typically longer term fixed-rate loans) volume increased at similar rates year over year. The decrease in spread has been substantially driven by competitive pressures.

During the past several years, falling interest rates and an upward sloping yield curve created the opportunity to refinance callable bonds ahead of, and at times, in greater quantities than, loans that have refinanced or converted, contributing favorably to net interest income. Furthermore, funding longer term fixed-rate loans results in a greater contribution to net interest income during the first few years loans are outstanding, but the spread declines and becomes unfavorable in later years of the loan. The benefit of equity financing is greater when interest rates are higher as this equity allows AgriBank to fund higher earning assets with equity rather than higher rate funding. In the current interest rate environment, the positive contribution from funding actions is expected to continue to decline.

Changes in loans are further discussed in the Loan Portfolio section of this report.

Provision for Credit Losses

The year-over-year fluctuations for the District's provision for loan losses can be impacted by economic stress in individual agricultural sectors. Lower net farm income and credit quality deterioration has resulted in higher provision for loan losses year over year. Prolonged low commodity prices, reduced net farm income and other economic factors could contribute to further declines in credit quality, which may increase provision for loan losses across the District.

The provision for credit losses was $141.8 million for the year ended December 31, 2016, which includes provision of $7.7 million for unfunded commitments and letters of credit. Any reserves for

unfunded commitments and letters of credit are recorded in “Other liabilities” on the Combined Statements of Condition.

Refer to the Loan Portfolio - Allowance for Loan Losses section for further discussion of allowance for loan losses changes.

Non-interest Income

Components of Non-Interest Income

(in thousands)

For the year ended December 31,	2016	2015	2014
Financially related services	**$167,772**	$168,392	$156,794
Loan prepayment and fee income	**67,652**	87,078	61,614
Mineral income	**36,351**	56,535	105,896
Miscellaneous income and other gains, net:			
Operating lease income	**3,156**	17,030	17,610
Loan servicing fee income	**5,352**	5,834	6,035
Other property owned (losses) gains, net	**(861)**	(2,417)	10,319
Derivative fair value adjustments	**81**	(648)	(170)
Other	**25,497**	17,246	38,567
Total	**$305,000**	$349,050	$396,665

Mineral income was earned primarily from royalties received on mineral rights, predominantly in the Williston Basin in western North Dakota. Toward the latter part of 2014 and continuing throughout 2015 and into 2016, oil prices dropped significantly. While prices began to rise in the latter part of 2016, mineral income for the year reflects lower oil prices relative to 2015 and 2014. AgriBank anticipates 2017 oil prices to increase slightly from 2016 levels, but to remain well below the high levels experienced during 2014.

Non-interest Expense

Components of Non-interest Expense

(in thousands)

For the year ended December 31,	2016	2015	2014
Salaries and employee benefits	**$693,566**	$678,867	$653,221
Occupancy expense	**47,227**	45,002	43,212
Other operating expenses	**303,688**	292,085	281,755
Farm Credit System insurance expense	**144,701**	103,709	89,704
Net impairment losses recognized in earnings	**--**	693	150
Total	**$1,189,182**	$1,120,356	$1,068,042
Operating rate	**1.0%**	1.1%	1.1%

Farm Credit System insurance fund expense is directly impacted by the premium rate AgriBank is assessed. Premiums were 16 basis points for the first half of 2016 and 18 basis points for the second half of 2016, compared to 13 basis points and 12 basis points in, 2015 and 2014, respectively. The Insurance Corporation has announced premiums will decrease to 15 basis points for 2017.

Provision for Income Taxes
The decrease in provision for income taxes from the prior year was primarily related to a decrease in taxable income primarily due to an increase provision for loan losses. Refer to Note 8 of the accompanying Combined Financial Statements for further information.

Interest Rate Risk Management

Interest rate risk is the risk that changes in interest rates may adversely affect operating results and financial condition. Interest rate risk arises primarily from funding fixed rate loans that can be prepaid, adjustable rate loans with interest rate caps and decisions related to the investment of equity. AgriBank manages substantially all of the District's interest rate risk. AgriBank's ability to effectively manage interest rate risk relies on the ability to issue debt with terms and structures that match asset terms and structures. Because a substantial portion of those assets are prepayable, AgriBank issues a significant amount of callable debt. AgriBank also uses derivatives to manage interest rate risk and reduce funding costs.

AgriBank manages exposure to changes in interest rates under policies established by the Board and limits established by the ALCO. Policies and limits regulate maximum exposure to net interest income and economic value of equity changes for specified changes in market interest rates. A full analysis of interest rate risk is completed monthly. Through these analyses, appropriate funding strategies are developed to manage the sensitivity of net interest income and economic value of equity to changes in interest rates.

Primary techniques used to analyze interest rate risk are:

- Interest rate gap analysis, which compares the amount of interest-sensitive assets to interest-sensitive liabilities repricing in selected time periods under various interest rate and prepayment assumptions.
- Net interest income sensitivity analysis, which projects net interest income in each of the next three years given various rate scenarios.
- Economic value of equity sensitivity analysis, which estimates the economic value of assets, liabilities and equity given various rate scenarios.

The assumptions used in these analyses are monitored routinely and adjusted as necessary. Assumptions about loan prepayment behavior are the most significant to the results. Prepayment speeds are estimated as a function of rate levels, age and seasoning. AgriBank monitors and tracks prepayment history and consider adjustments to assumed prepayment speeds based on historical experience observed. AgriBank uses third-party prepayment models for MBS investments.

Interest Rate Gap Analysis
The following table is based on the known repricing dates of certain assets and liabilities and the assumed or estimated repricing dates of others under an implied forward rate scenario. Prepayment estimates for loans are assumed consistent with standard prepayment assumptions. Callable debt is shown at the first call date it is expected to be exercised given implied forward rates. Various assets and liabilities may not reprice according to the assumptions and estimates used. The analysis provides a static view of interest rate sensitivity position and does not capture the dynamics of an evolving balance sheet, interest rate and

spread changes in different interest rate environments, and the active role of asset and liability management.

Interest Rate Gap Position

(in thousands) AgriBank, FCB (Bank Only) As of December 31, 2016	Repricing Intervals Year 1	Year 2	Year 3	Year 4	Year 5	Over 5 Years	Total
Earning assets:							
Prepayable loans	$42,241,254	$7,802,601	$6,350,267	$4,837,067	$4,262,727	$17,361,153	$82,855,069
Other loans	545,819	297,448	439,457	279,501	202,349	1,458,759	3,223,333
Investments and federal funds	10,965,210	2,378,314	938,778	331,264	233,127	641,859	15,488,552
Total earning assets	$53,752,283	$10,478,363	$7,728,502	$5,447,832	$4,698,203	$19,461,771	$101,566,954
Callable debt	$1,107,874	$2,260,935	$4,262,422	$4,022,000	$3,221,059	$17,107,834	$31,982,124
Other debt	52,618,534	7,523,274	2,733,660	515,881	465,562	794,396	64,651,307
Effect of interest rate swaps and other derivatives	(347,815)	(888,992)	(264,100)	40,399	94,001	1,366,507	--
Total rate-sensitive liabilities	$53,378,593	$8,895,217	$6,731,982	$4,578,280	$3,780,622	$19,268,737	$96,633,431
Interest rate sensitivity gap	$373,690	$1,583,146	$996,520	$869,552	$917,581	$193,034	$4,933,523
Cumulative gap	$373,690	$1,956,836	$2,953,356	$3,822,908	$4,740,489	$4,933,523	
Cumulative gap as a % of earning assets	0.7%	3.0%	4.1%	4.9%	5.8%	4.9%	

Net Interest Income and Economic Value of Equity (EVE) Sensitivity Analysis

The economic value of equity sensitivity analysis provides a static view of interest rate sensitivity position, commensurate with the interest rate gap analysis. Net interest income projections and sensitivity analysis incorporate assumptions to capture the dynamics of an evolving balance sheet. Policy limits related to interest rate sensitivity assume interest rates for all maturities change immediately in the same direction and amount (a parallel shock). AgriBank also routinely reviews the impact of a gradual change over one year in interest rates in the same direction and same amount (a parallel ramp). Periodically, AgriBank reviews multi-year net interest income projections and the impact of varying the amount of change in rates at different maturities (a twist, flattening or steepening of the yield curve). AgriBank's policies establish a maximum variance from a base case in a plus or minus 200 basis point change in rates, except when the U.S. Treasury three-month rate is below 4 percent, at which time the minus scenario is limited to one-half of the U.S. Treasury three-month rate.

Because of the low interest rates at December 31, 2016, the down scenario is limited to a down 25 basis point change.

NII Sensitivity Analysis

As of December 31, 2016	Basis Point Interest Rate Change Down 25	Up 100	Up 200
Immediate Change (Shock):			
District NII sensitivity	(0.6%)	(0.1%)	0.7%
AgriBank NII sensitivity	(1.0%)	(1.0%)	(3.8%)
AgriBank Board policy	(15.0%)		(15.0%)
Gradual Change (Ramp):			
AgriBank NII sensitivity		1.0%	0.4%

EVE Sensitivity Analysis

	Basis Point Interest Rate Change		
As of December 31, 2016	**Down 25**	**Up 100**	**Up 200**
Immediate Change (Shock):			
AgriBank EVE sensitivity	**1.0%**	**(3.8%)**	**(7.4%)**
AgriBank Board policy	**(12.0%)**		**(12.0%)**

AgriBank Derivative Financial Instruments

AgriBank primarily uses derivative financial instruments to reduce funding costs, improve liquidity and manage interest rate sensitivity. AgriBank does not hold or issue derivatives for trading purposes. The types and uses of derivatives AgriBank may use are:

- Receive-fixed swaps to convert interest payments on fixed rate bonds into floating rates. These transactions enable AgriBank to improve liquidity, obtain lower funding cost or to hedge basis risk.
- Pay-fixed swaps primarily to create lower cost synthetic fixed rate funding, to hedge future debt issuance costs or to manage interest rate sensitivity.
- Swaps with floors to hedge cash flow exposure to falling rates on floating rate assets.
- Caps and swaps with caps to hedge cash flow risk in caps sold with retail loans or embedded in investments or to cap interest rates on floating rate debt.
- Pay-fixed swaptions (option to enter into a pay-fixed swap) to hedge future debt issuance costs.
- Corridors to limit net interest costs on floating rate or rolling short-term debt in rising rate scenarios by using a purchased cap and a sold cap with a higher strike rate.
- Interest rate swaps with retail borrowers, including pay-fixed and receive-fixed swaps, to create product offerings to qualified borrowers of District Associations. Typically AgriBank would enter into an offsetting swap with a third party.

Derivative activities are guided by Board policy and monitored by AgriBank's ALCO and CRC, who are responsible for approving strategies that are developed through analysis of data derived from financial simulation models and other internal and industry sources. The resulting strategies are incorporated into AgriBank's overall interest rate risk management strategies.

By using derivative instruments, AgriBank is subject to credit and market risk. If a counterparty is unable to perform under a derivative contract, credit risk equals the net amount due to AgriBank. Generally, when the fair value of a derivative contract is positive, AgriBank has credit exposure to the counterparty, creating credit risk for AgriBank. When the fair value of the derivative contract is negative, AgriBank does not have credit exposure; however, there is a risk of AgriBank's nonperformance under the terms of the derivative transaction. The fair value of derivatives includes credit valuation adjustments (CVA), which resulted in a decrease in the fair value of derivative assets of $198 thousand, at December 31, 2016, and increases of $71 thousand and $82 thousand at December 31, 2015 and 2014, respectively. The CVA reflects credit risk of each derivative counterparty to which AgriBank has exposure, net of any collateral posted by the counterparty and an adjustment for AgriBank's creditworthiness where the counterparty has exposure to AgriBank. The change in the CVA for the year is included in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

AgriBank also facilitates interest rate swaps to qualified borrowers of District Associations. These swaps allow qualified borrowers to manage their interest rate risk and lock in a fixed interest rate similar to a fixed rate loan. AgriBank manages the interest rate risk from customer swaps with the execution of offsetting interest rate swap transactions. AgriBank receives an appropriate risk adjusted spread on swaps with the retail swap customer.

AgriBank may enter into over-the-counter (OTC) derivative transactions directly with a counterparty or AgriBank may also clear such transactions through a futures commission merchant (FCM) with a clearinghouse or a central counterparty (CCP). When the swap is cleared by the two parties, the single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including margin, member capital contributions and FCM guarantees of their customers' transactions with the CCP. FCMs also pre-qualify the counterparties to all swaps that are sent to the CCP from a credit perspective, setting limits for each counterparty and collecting initial and variation margin daily from each counterparty for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. The initial and variation margin requirements are set by and held for the benefit of the CCP. Additional initial margin may be required and held by the FCM, due to its guarantees of its customers' trades with the CCP.

The Dodd-Frank Act requires the centralized clearing of certain OTC swaps by swap dealers and major swap participants, as well as certain other market participants, including financial institutions. Currently, instrument types that must be cleared will primarily be interest rate swaps and credit default swaps. Many end users of swaps, including certain banks, credit unions and Farm Credit System institutions with less than $10 billion in assets, qualify for an exemption from clearing if the swap is used to hedge commercial risk. The U.S. Commodity Futures Trading Commission has also established a clearing exemption for certain swaps entered into by cooperatives. All Farm Credit System institutions qualify for this Cooperative Exemption, and, therefore, are able to elect the clearing exemption for any swap that meets the criteria stipulated in the exemption. This exemption does not cover all swaps that are executed by Farm Credit System institutions and is generally limited to transactions entered into in connection with loans to members.

AgriBank Centrally Cleared Interest Rate Swaps

(in thousands)

As of December 31,	**2016**	2015	2014
Notional Amount	**$2,279,396**	$723,000	$305,000
Initial margin pledged to counterparties	**$27,856**	$17,769	$8,020
Variation margin pledged (by) to counterparties	**(6,679)**	14,254	13,998
Total margin pledged to counterparties, net	**$21,177**	$32,023	$22,018

For OTC derivative transactions entered into before mandatory clearing, and for derivative transactions that qualify for the Cooperative Exemption, AgriBank may enter into derivative transactions directly with counterparties under bilateral master agreements. With the exception of interest rate swaps with retail borrowers, AgriBank executes bilateral derivative transactions only with non-customer counterparties that have an investment-grade or better credit rating from a rating agency. AgriBank manages credit risk by monitoring the credit standing and managing levels of exposure to individual counterparties. As

counterparty credit ratings are downgraded, AgriBank lowers the credit exposure level at which collateral must be pledged thereby reducing exposure to counterparty risk. AgriBank anticipates performance by all of its counterparties. AgriBank enters into master agreements that contain netting provisions, which allow them to offset amounts they owe the counterparty on one derivative contract to amounts owed to them by the same counterparty on another derivative contract. These provisions allow AgriBank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. All of AgriBank's derivative transactions are supported by collateral arrangements with counterparties. AgriBank had cash collateral pledged to counterparties of $10.0 million as of December 31, 2016 for OTC transaction. AgriBank had no cash collateral pledged as of December 31, 2015 for OTC transactions. As of December 31, 2014, AgriBank had cash collateral pledged by counterparties of $7.3 million for OTC transactions. AgriBank had no securities posted as collateral from counterparties at December 31, 2016, 2015 and 2014.

AgriBank Derivative Credit Loss Exposure by Credit Rating

(in thousands)	Years to maturity			Maturity			Exposure
	Less Than	One to	Over	Distribution		Collateral	Net of
As of December 31, 2016	**One Year**	**Five Years**	**Five Years**	**Netting**	**Exposure**	**Pledged**	**Collateral**
Moody's Credit Rating							
Aa2	**$1,190**	**$99**	**$15,970**	**$(6,272)**	**$10,987**	**$ --**	**$10,987**
Aa3	**3,030**	**--**	**710**	**(3,740)**	**--**	**--**	**--**
Cleared derivatives	**--**	**--**	**7,141**	**(5,145)**	**1,996**	**6,679**	**--**
Total	**$4,220**	**$99**	**$23,821**	**$(15,157)**	**$12,983**	**$6,679**	**$10,987**

Derivative credit loss exposure is estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts in a gain position. Within each maturity category, contracts in a loss position are netted against contracts in a gain position with the same counterparty. If the net position within a maturity category with a particular counterparty is a loss, no amount is reported. Maturity distribution netting represents the impact of netting of derivatives in a gain position and derivatives in a loss position for the same counterparty across different maturity categories.

Derivative instruments are discussed further in Notes 2, 13 and 14 to the accompanying Combined Financial Statements.

Expected Maturities of AgriBank Derivative Products and Other Financial Instruments

(in thousands) As of December 31, 2016	2017	2018	2019	2020	2021	2022 and thereafter	Total	Fair Value
Bonds and Notes:								
Fixed rate	$16,052,559	$9,772,729	$6,986,091	$4,536,155	$3,670,000	$17,828,164	$58,845,698	$58,227,034
Average interest rate	1.0%	1.1%	1.2%	1.4%	1.6%	2.5%	1.6%	
Variable rate	18,238,733	18,350,000	1,199,000	--	--	--	37,787,733	37,884,363
Average interest rate	0.5%	0.6%	0.7%	--	--	--	0.6%	
Total bonds and notes	$34,291,292	$28,122,729	$8,185,091	$4,536,155	$3,670,000	$17,828,164	$96,633,431	$96,111,397
Derivative Instruments:								
Receive-fixed swaps								
Notional value	$950,000	$945,000	$671,000	$ --	$ --	$ --	$2,566,000	$(4,647)
Weighted average receive rate	1.5%	1.0%	1.4%	--	--	--	1.3%	
Weighted average pay rate	1.5%	2.0%	2.2%	--	--	--	1.9%	
Pay-fixed swaps								
Notional value	--	50,000	115,000	104,000	170,000	1,598,000	2,037,000	(17,256)
Weighted average receive rate	--	2.0%	2.0%	2.3%	2.4%	2.5%	2.4%	
Weighted average pay rate	--	4.3%	3.3%	3.3%	2.5%	2.2%	2.4%	
Amortizing pay-fixed swaps								
Notional value	--	--	--	--	--	51,396	51,396	3,418
Weighted average receive rate	--	--	--	--	--	2.5%	2.5%	
Weighted average pay rate	--	--	--	--	--	1.2%	1.2%	
Floating for floating swaps								
Notional value	400,000	200,000	200,000	300,000	600,000	1,400,000	3,100,000	119
Weighted average receive rate	1.4%	1.8%	2.1%	2.3%	2.4%	2.5%	2.2%	
Weighted average pay rate	1.5%	2.1%	2.1%	2.3%	2.4%	2.5%	2.3%	
Customer swaps								
Notional value	--	--	15,000	4,000	--	71,396	90,396	(2,718)
Weighted average receive rate	--	--	1.4%	1.2%	--	1.6%	1.5%	
Weighted average pay rate	--	--	2.1%	2.3%	--	2.5%	2.4%	
Credit valuation adjustment								(198)
Total derivative instruments	$1,350,000	$1,195,000	$1,001,000	$408,000	$770,000	$3,120,792	$7,844,792	$(21,282)
Total weighted average rates on swaps:								
Receive rate	1.5%	1.2%	1.6%	2.3%	2.4%	2.5%	2.0%	
Pay rate	1.5%	2.1%	2.3%	2.6%	2.4%	2.3%	2.2%	

The table was prepared based on implied forward variable interest rates as of December 31, 2016 and, accordingly, the actual interest rates to be received or paid will be different to the extent that the variable rates fluctuate from December 31, 2016 implied forward rates.

District Association Derivative Products

One District Association uses forward commitments to sell to-be-announced (TBAs) securities at specified prices to economically hedge the interest rate risk on interest rate lock commitments, loans held for sale and available for sale investment securities. The TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined. The margin pledged to the counterparty under a bilateral agreement was $2.0 million, $1.3 million and $650 thousand as of December 31, 2016, 2015 and 2014, respectively.

Other Risks

Operational Risk

Operational risk represents the risk of loss resulting from operations. Operational risk includes risks related to fraud, processing errors, breaches of internal controls, cybersecurity and natural disasters. Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of objectives. AgriBank and District Associations manage operational risk through established internal control processes and disaster recovery plans. AgriBank and District Associations maintain systems of controls with the objectives of providing appropriate transaction authorization and execution, proper system operations, safeguarding of assets and reliability of financial and other data. AgriBank and District Associations have a strong control environment, that may include independent audit committees, codes of ethics for senior officers and key financial personnel, and anonymous whistleblower programs. AgriBank and District Associations have developed and regularly update comprehensive business continuity and disaster recovery plans and routinely test these plans with the goal of ensuring ongoing operations under a variety of adverse scenarios. AgriBank and District Associations maintain sound security infrastructure, which are periodically tested. AgriBank and District Associations also provide privacy and cybersecurity awareness training to staff.

AgriBank and District Associations document, test and evaluate internal control over financial reporting (ICFR) to support the Farm Credit System-level attestation for ICFR and internal management assessments over ICFR consistent with that required by Sarbanes-Oxley Section 404. All significant processes supporting ICFR are covered by this effort. This effort supports a strong control environment through increased awareness, documentation and testing of key controls. AgriBank and District Associations also receive Service Organization Control Type 1 (SOC 1) reports covering ICFR for various service providers. These reports are analyzed to ensure appropriate ICFR controls are operating at the service provider, as well as ensuring user controls and compensating controls, if needed, are operating at AgriBank and District Associations to support ICFR structure.

Reputation Risk

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the Farm Credit System or any of its entities. Such risks include impacts related to investors' perceptions about agriculture, the reliability of the System financial information or business practices by any System institution which may appear to conflict with the System mission. The Farm Credit System Business Practices Committee is responsible for reviewing business practices and, where appropriate, risk mitigation efforts, as well as providing strategic direction on System reputation management initiatives.

Credit Risk Related to Joint and Several Liability

AgriBank has exposure to System-wide credit risk because AgriBank is jointly and severally liable for all Systemwide debt issued. Under joint and several liability, if a System Bank is unable to pay its obligations as they come due, the other Banks in the System would ultimately be called upon to fulfill those obligations. Total Systemwide debt at December 31, 2016 was $257.8 billion. The existence of the Farm Credit Insurance Fund (Insurance Fund), the CIPA and the Market Access Agreement (MAA) help to mitigate this risk.

Refer to Note 11 of the accompanying Combined Financial Statements for additional information related to the CIPA and MAA.

The Farm Credit Act established the Insurance Corporation to administer the Insurance Fund. The Insurance Fund is used for:

- Insuring the timely payment of principal and interest on Farm Credit Systemwide debt obligations
- Insuring the retirement of protected borrower capital at par or stated value
- Other specified purposes

Refer to Note 1 of the accompanying Combined Financial Statements for further information on the Insurance Fund.

The basis for assessing premiums is insured debt outstanding. Nonaccrual loans and impaired investments are assessed a surcharge, while guaranteed loans and investments are deductions from the premium base.

The Insurance Corporation does not insure any payments on preferred stock, common stock or risk participation certificates. To the extent AgriBank must fund the allocated portion of another System Bank's portion of the Systemwide Debt Securities due to default, AgriBank's earnings and total shareholders' equity would be negatively impacted.

Unincorporated Business Entities (UBEs)

Certain circumstances, including the limitation of legal liability, may warrant the need for certain District Associations to establish separate entities to acquire and manage complex collateral. A more detailed discussion of District Associations' UBEs can be found in their respective annual reports.

Additional Regulatory Information

Investment Securities Eligibility

On June 12, 2014, the FCA Board approved a proposed rule to revise the requirements governing the eligibility of investment securities for System Banks and Associations. The stated objectives of the proposed rule are to:

- Strengthen the safety and soundness of System Banks and Associations
- Ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption
- Enhance the ability of the System Banks to supply credit to agricultural and aquatic producers
- Comply with the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act
- Modernize the investment eligibility criteria for System Banks
- 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. The proposed rule is currently on FCA's Unified Agenda of Regulations and Reviews for 2017.

Critical Accounting Policies

The Combined Financial Statements are reported based on accounting principles generally accepted in the United States of America (GAAP) and require that significant judgment be applied to various accounting, reporting and disclosure matters. Assumptions and estimates are used to apply these principles where actual measurement is not possible or practical. For a complete discussion of significant accounting policies, refer to Note 2 of the accompanying Combined Financial Statements. The following is a summary of certain critical accounting policies:

- Allowance for Loan Losses — The allowance for loan losses is the best estimate of the amount of losses on loans in AgriBank's and District Associations' portfolios as of the date of the Combined Financial Statements. AgriBank and District Associations determine the allowance for loan losses based on a periodic evaluation of each loan portfolio, which considers loan loss history, estimated probability of default, estimated loss severity, portfolio quality and current economic and environmental conditions. Refer to the Loan Portfolio – Analysis of the Allowance for Loan Losses section for further discussion.

- Fair Value Measurements — AgriBank and District Associations apply various valuation methods to assets and liabilities that often involve judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as certain investment securities. However, for those items for which an observable active market does not exist, management utilizes significant estimates and assumptions to value such items. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, loss severity rates and third-party prices. The use of different assumptions could produce significantly different results.

Other District Information

AgriBank named William J. Thone as chief executive officer effective December 1, 2016. Most recently Mr. Thone had served as interim chief executive officer of AgriBank effective August 1, 2016, following L. William York's departure. Prior to that, Mr. Thone served as vice president and general counsel of AgriBank until his retirement in 2015.

Report of Management

AgriBank, FCB and District Associations

AgriBank, FCB prepares the accompanying Combined Financial Statements of AgriBank, FCB and District Associations and is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. AgriBank management has relied upon the Associations' management to advise us of all material transactions, events and commitments. The Combined Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Combined Financial Statements, in the opinion of management, present fairly the financial condition of AgriBank, FCB and District Associations. Other financial information included in the Annual Report is consistent with that in the Combined Financial Statements.

To meet its responsibility for reliable financial information, management depends on the accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, the independent auditors, audit the Combined Financial Statements. They also conduct a review of internal control to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

AgriBank's Board of Directors has overall responsibility for AgriBank's system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with management and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of AgriBank or District Associations.

The undersigned certify that they have reviewed the combined AgriBank, FCB and District Associations' December 31, 2016 Annual Report and it has been prepared in accordance with all applicable statutory and regulatory requirements and the information contained herein is true, accurate and complete to the best of their knowledge and belief.

Matthew D. Walther
Chair of the Board
AgriBank, FCB

William J. Thone
Chief Executive Officer
AgriBank, FCB

Brian J. O'Keane
Executive Vice President, Banking and Finance and Chief Financial Officer
AgriBank, FCB

March 15, 2017

Report of Independent Auditors

To the Boards of Directors of AgriBank, FCB and District Associations:

We have audited the accompanying Combined Financial Statements of AgriBank, FCB and District Associations (the District), which comprise the combined statements of condition as of December 31, 2016, 2015 and 2014, and the related combined statements of comprehensive income, of changes in shareholders' equity and of cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the Combined Financial Statements referred to above present fairly, in all material respects, the combined financial position of AgriBank, FCB and District Associations as of December 31, 2016, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 15, 2017

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

Combined Statements of Condition

AgriBank, FCB and District Associations

(Dollars in thousands)

As of December 31,	2016	2015	2014
Assets			
Loans	**$99,069,239**	$94,944,379	$88,498,435
Allowance for loan losses	**386,754**	285,711	248,081
Net loans	**98,682,485**	94,658,668	88,250,354
Investment securities - AgriBank, FCB	**14,897,252**	14,262,883	14,294,777
Investment securities - District Associations	**1,938,980**	1,704,160	1,741,232
Cash	**559,760**	596,730	831,269
Federal funds	**591,300**	1,427,125	1,336,780
Accrued interest receivable	**1,046,835**	974,722	892,214
Premises and equipment, net	**512,832**	484,646	451,030
Deferred tax assets, net	**17,920**	16,543	14,393
Assets held for lease, net	**290,863**	514,461	559,272
Derivative assets	**13,344**	777	15,400
Other property owned	**14,530**	13,051	22,284
Cash collateral pledged to counterparties	**33,128**	33,323	22,018
Other assets	**408,059**	245,913	155,921
Total assets	**$119,007,288**	114,933,002	108,586,944
Liabilities			
Bonds and notes	**$96,633,431**	$93,404,251	$88,552,711
Subordinated notes	**--**	597,775	597,268
Accrued interest payable	**223,023**	231,858	205,054
Derivative liabilities	**34,637**	52,034	44,562
Deferred tax liabilities, net	**106,986**	142,059	153,286
Accounts payable	**216,537**	191,841	182,334
Patronage and dividends payable	**325,605**	287,687	273,751
Post-employment liability	**432,517**	515,954	486,628
Cash collateral pledged by counterparties	**--**	--	7,280
Other liabilities	**242,489**	224,774	234,988
Total liabilities	**98,215,225**	95,648,233	90,737,862
Commitments and contingencies (Note 12)			
Shareholders' equity			
Perpetual preferred stock	**350,000**	350,000	350,000
Capital stock and participation certificates	**272,034**	268,697	266,420
Allocated surplus	**531,150**	406,758	371,004
Unallocated surplus	**20,145,063**	18,824,372	17,368,747
Accumulated other comprehensive loss	**(566,831)**	(616,099)	(549,705)
Noncontrolling interest	**60,647**	51,041	42,616
Total shareholders' equity	**20,792,063**	19,284,769	17,849,082
Total liabilities and shareholders' equity	**$119,007,288**	$114,933,002	$108,586,944

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

Combined Statements of Comprehensive Income

AgriBank, FCB and District Associations

(Dollars in thousands)

For the year ended December 31,	2016	2015	2014
Interest income			
Loans	**$3,874,815**	$3,547,154	$3,395,368
Investment securities and other earning assets	**196,619**	144,821	124,680
Total interest income	**4,071,434**	3,691,975	3,520,048
Interest expense	**1,202,519**	997,114	889,255
Net interest income	**2,868,915**	2,694,861	2,630,793
Provision for credit losses	**141,837**	71,894	25,399
Net interest income after provision for credit losses	**2,727,078**	2,622,967	2,605,394
Non-interest income			
Financially related services	**167,772**	168,392	156,794
Mineral income	**36,351**	56,535	105,896
Loan prepayment and fee income	**67,652**	87,078	61,614
Miscellaneous income and other gains, net	**33,225**	37,045	72,361
Total non-interest income	**305,000**	349,050	396,665
Non-interest expense			
Salaries and employee benefits	**693,566**	678,867	653,221
Occupancy expense	**47,227**	45,002	43,212
Other operating expenses	**303,688**	292,085	281,755
Farm Credit System insurance expense	**144,701**	103,709	89,704
Net impairment losses recognized in earnings	**--**	693	150
Total non-interest expense	**1,189,182**	1,120,356	1,068,042
Income before income taxes	**1,842,896**	1,851,661	1,934,017
Provision for income taxes	**10,997**	19,258	45,627
Net income	**$1,831,899**	$1,832,403	$1,888,390
Other comprehensive income (loss)			
Investments available-for-sale:			
Not-other-than-temporarily-impaired investments	**$(31,871)**	$(35,689)	$5,932
Other-than-temporarily-impaired investments	**(10,561)**	(4,630)	4,939
Derivatives and hedging activity	**47,267**	437	(65,324)
Employee benefit plans activity	**44,433**	(26,512)	(180,702)
Total other comprehensive income (loss)	**49,268**	(66,394)	(235,155)
Comprehensive income	**$1,881,167**	$1,766,009	$1,653,235

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

Combined Statements of Changes in Shareholders' Equity

AgriBank, FCB and District Associations

(Dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total
Balance at December 31, 2013	$350,000	$265,473	$339,360	$15,838,875	$(314,550)	$34,864	$16,514,022
Noncontrolling interest equity investment						7,752	7,752
Net income				1,888,390			1,888,390
Other comprehensive income					(235,155)		(235,155)
Patronage				(274,529)			(274,529)
Surplus allocated under nonqualified patronage program			60,003	(60,003)			--
Redemption of allocated surplus under nonqualified patronage program			(28,359)				(28,359)
Perpetual preferred stock issued				(48)			(48)
Perpetual preferred stock dividends				(23,938)			(23,938)
Capital stock/participation certificates issued		38,092					38,092
Capital stock/participation certificates retired		(37,145)					(37,145)
Balance at December 31, 2014	$350,000	$266,420	$371,004	$17,368,747	$(549,705)	$42,616	$17,849,082
Noncontrolling interest equity investment						8,425	8,425
Net income				1,832,403			1,832,403
Other comprehensive loss					(66,394)		(66,394)
Patronage				(289,929)			(289,929)
Surplus allocated under nonqualified patronage program			62,911	(62,911)			--
Redemption of surplus allocated under nonqualified patronage program			(27,157)				(27,157)
Perpetual preferred stock dividends				(23,938)			(23,938)
Capital stock/participation certificates issued		20,776					20,776
Capital stock/participation certificates retired		(18,499)					(18,499)
Balance at December 31, 2015	$350,000	$268,697	$406,758	$18,824,372	$(616,099)	$51,041	$19,284,769
Noncontrolling interest equity investment						**9,606**	**9,606**
Net income				**1,831,899**			**1,831,899**
Other comprehensive income					**49,268**		**49,268**
Patronage				**(330,173)**			**(330,173)**
Surplus allocated under nonqualified patronage program			**$157,097**	**(157,097)**			**--**
Redemption of surplus allocated under nonqualified patronage program			**($32,705)**				**(32,705)**
Perpetual preferred stock dividends				**(23,938)**			**(23,938)**
Capital stock/participation certificates issued		**24,507**					**24,507**
Capital stock/participation certificates retired		**(21,170)**					**(21,170)**
Balance at December 31, 2016	**$350,000**	**$272,034**	**$531,150**	**$20,145,063**	**$(566,831)**	**$60,647**	**$20,792,063**

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

Combined Statements of Cash Flows

AgriBank, FCB and District Associations

(Dollars in thousands)

For the year ended December 31,	2016	2015	2014
Cash flows from operating activities			
Net income	**$1,831,899**	$1,832,403	$1,888,390
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	**43,823**	41,026	38,905
Gain on sales of premises and equipment	**(3,499)**	(2,335)	(1,867)
Depreciation on assets held for lease	**92,289**	103,164	101,360
(Gain) loss on disposal of assets held for lease	**(2,046)**	484	(1,232)
Provision for credit losses	**141,837**	71,894	25,399
Loss (gain) on other property owned, net	**861**	2,417	(10,319)
Gain on derivative activities	**140**	(213)	(752)
Net impairment losses recognized in earnings	**--**	693	150
Gain on sale of investment securities, net	**(10,825)**	(2,961)	(19,968)
Amortization of premiums, discounts and deferred debt issuance costs, net	**100,786**	39,553	28,125
Amortization of premiums and discounts on loans and investment, net	**7,135**	30,420	34,414
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(72,113)**	(85,761)	(67,925)
Increase in other assets	**(163,523)**	(98,869)	(37,871)
(Decrease) increase in accrued interest payable	**(8,835)**	26,804	7,214
(Decrease) increase in other liabilities	**(39,440)**	(10,839)	19,477
Net cash provided by operating activities	**1,918,489**	1,947,881	2,003,500
Cash flows from investing activities			
Increase in loans, net	**(4,176,261)**	(6,490,050)	(5,755,976)
Proceeds from sales of other property owned	**11,435**	18,690	30,379
Decrease in other earning assets, net	**--**	--	74,048
Increase in investment securities, net	**(1,251,640)**	(90,833)	(2,653,733)
Proceeds from the sale of investment securities	**348,262**	104,330	138,816
Proceeds from the sale of (purchases of) assets held for lease, net	**133,355**	(58,837)	(50,552)
Purchases of premises and equipment, net	**(68,510)**	(72,307)	(79,378)
Net cash used in investing activities	**(5,003,359)**	(6,589,007)	(8,296,396)
Cash flows from financing activities			
Consolidated bonds and notes issued	**229,146,168**	218,646,549	238,882,874
Consolidated bonds and notes retired	**(225,998,333)**	(213,814,646)	(232,175,092)
Subordinated notes retired	**(600,000)**	--	--
Decrease in cash collateral pledged by counterparties	**--**	(7,280)	(16,890)
Decrease (increase) in cash collateral pledged to counterparties	**195**	(11,305)	(17,764)
Patronage distribution paid	**(292,255)**	(275,993)	(244,023)
Redemption of surplus allocated under nonqualified patronage program	**(32,705)**	(27,157)	(28,359)
Capital stock/participation certificates issued, net	**3,337**	2,277	531
Costs from issuance of preferred stock, net	**--**	--	(48)
Preferred stock dividends paid	**(23,938)**	(23,938)	(22,316)
Increase in noncontrolling interest	**9,606**	8,425	7,752
Net cash provided by financing activities	**2,212,075**	4,496,932	6,386,665
Net (decrease) increase in cash and federal funds	**(872,795)**	(144,194)	93,769
Cash and federal funds at beginning of year	**2,023,855**	2,168,049	2,074,280
Cash and federal funds at end of year	**1,151,060**	2,023,855	$2,168,049
Supplemental schedule of non-cash activities			
(Increase) decrease in derivative assets	**$(12,567)**	$14,623	$59,306
(Decrease) increase in derivative liabilities	**(17,344)**	7,448	44,381
Decrease in bonds from derivative activity	**(17,216)**	(22,721)	(39,115)
Increase (decrease) in shareholders' equity from cash flow derivatives	**47,267**	437	(65,324)
(Decrease) increase in shareholders' equity from investment securities	**(42,432)**	(40,319)	10,871
Increase (decrease) in shareholders' equity from employee benefits	**44,433**	(26,512)	(180,702)
Loans transferred to other property owned	**15,576**	13,620	26,356
Preferred stock dividends accrued but not paid	**4,297**	4,297	4,297
Cash patronage distributions payable to members	**321,308**	283,390	269,454
Financed sales of other property owned	**(1,801)**	(1,746)	(17,391)
Stock patronage issued	**--**	--	416
Supplemental Information			
Interest paid	**$1,110,568**	$970,310	$882,041
Taxes paid	**$38,228**	$89,761	$57,686

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

Notes to Combined Financial Statements

AgriBank, FCB and District Associations

NOTE 1

Organization and Operations

Farm Credit System and District Organization

AgriBank, FCB (AgriBank) and District Associations (the District) comprise one of the four Districts of the Farm Credit System (the System), a nationwide system of cooperatively owned Banks and Associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

At January 1, 2017, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank and 73 Associations across the nation. System entities have specific lending authorities within their chartered territories. AgriBank and District Associations are chartered to provide agricultural financing in substantially all of Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin and Wyoming.

At December 31, 2016, the District had 17 Agricultural Credit Association (ACA) parent Associations, each of which has wholly owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. These 17 District Associations primarily own AgriBank. FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their FLCA and PCA subsidiaries. District Associations are also authorized to provide lease financing options for agricultural purposes and to purchase and hold certain types of investments. AgriBank is the primary funding source for all District Associations. AgriBank raises funds principally through the sale of consolidated Systemwide bonds and notes to the public through the Federal Farm Credit Banks Funding Corporation (the Funding Corporation).

The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that AgriBank and District Associations can offer. AgriBank and District Associations are authorized to provide, in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. The Farm Credit Act, as amended, also allows AgriBank and District Associations to participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

District Associations offer credit life, term life, credit disability, crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. Certain District Associations also offer farm records, fee appraisals, income tax planning and preparation services, retirement and succession planning and producer education services to their members.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The activities of the System Banks and Associations are examined by the FCA and certain actions by these entities require prior approval from the FCA.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used for:

- Insuring the timely payment of principal and interest on Farm Credit Systemwide debt obligations
- Insuring the retirement of protected borrower capital at par or stated value
- Other specified purposes

At the discretion of the Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2 percent (the secure base amount) of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. The percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and under certain circumstances is required to transfer excess funds to establish Allocated Insurance Reserves Accounts (AIRAs). The Insurance Corporation may also distribute all or a portion of these reserve accounts to the System Banks.

The basis for assessing premiums is insured debt outstanding. Nonaccrual loans and impaired investment securities are assessed a surcharge, while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to the District Associations each year based on similar factors.

Service Organizations

System institutions jointly own several service organizations. These organizations were created to provide a variety of services for the System. AgriBank and/or District Associations have ownership interests in the following service organizations:

- **Federal Farm Credit Banks Funding Corporation** provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks and financial management and reporting services
- **Farm Credit Services Building Association** owns and leases premises and equipment to the System's regulator, the FCA
- **Farm Credit System Association Captive Insurance Company** provides corporate insurance coverage to member organizations
- **Farm Credit Foundations (Foundations)** provides benefits and payroll services to AgriBank and District Associations as well as certain other System entities

In addition, the Farm Credit Council acts as a full-service federated trade association that represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

NOTE 2

Summary of Significant Accounting Policies

AgriBank's and District Associations' accounting policies conform to generally accepted accounting principles (GAAP) in the United States of America and prevailing practices within the financial services industry. The preparation of Combined Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Combined Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

AgriBank and District Associations adopted Accounting Standards Update (ASU) 2015-07 "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share," which required retroactive reclassification of investments for which fair value is measured using the net asset value per share practical expedient, consistent with current year presentation. These assets are no longer required to be categorized within the fair value hierarchy and only certain assets in the qualified pension plan were impacted. Pension assets of $136.7 million and $129.3 million were reclassified as of December 31, 2015 and 2014, respectively. Refer to Note 9 for additional disclosure regarding this change.

Certain amounts in the prior years' Combined Financial Statements have been reclassified to conform to current year presentation.

Principles of Combination: The Combined Financial Statements include the accounts of AgriBank and District Associations and reflect the investments in service organizations in which AgriBank and District Associations have partial ownership interests. These investments are carried on a cost plus allocated equities basis. No quoted market value is available for the investments in service organizations. All significant transactions and balances between AgriBank and District Associations have been eliminated in combination. The Combined Financial Statements of the District are presented because of the financial and operational interdependence of AgriBank and District Associations.

Loans: Loans are carried at their principal amount outstanding, net of any unearned income, cumulative charge-offs and unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs are deferred and recognized over the life of the loan as a yield adjustment in net interest income.

Loans are placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless well secured and in the process of collection) or circumstances indicate that full collection is not expected. When a loan is placed in nonaccrual status, unpaid interest accrued in the current year is reversed to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment in the loan, unless the net realizable value is less than the recorded investment in the loan, in which case it is charged-off against the allowance for loan losses. Cash received on nonaccrual loans is applied to reduce the recorded investment in the loan asset except in those cases where the collection of the recorded investment is fully expected and the loan has no unrecovered prior charge-offs. Nonaccrual

loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected because the borrower has demonstrated payment performance and the loan is not classified doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, a concession is granted for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. 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 troubled debt restructurings are considered risk loans (as defined in the Allowance for Loan Losses section).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

District Association Loans Held for Sale: One District Association has loans held for sale that include rural residential mortgages originated for sale. Loans held for sale are recorded at fair value under the fair value option election and are included in "Other assets" on the Combined Statements of Condition. Loans are valued on an individual basis and gains or losses are recorded in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income. Direct loan origination costs and fees for loans held for sale are recognized in income at origination. Interest income on loans held for sale is calculated based upon the note rate of the loan and recorded in "Interest income" on the Combined Statements of Comprehensive Income.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in the loan portfolios as of the financial statement date. The appropriate level of allowance for loan losses is 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.

Loans in the portfolios that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Impairment is generally measured based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

A specific allowance is recorded to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When a loan is deemed to be uncollectible, the loan principal and prior year(s) accrued interest are charged against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. A two-dimensional loan risk rating model is used that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for (reversal of) loan losses" on the Combined Statements of Comprehensive Income, recoveries and charge-offs.

Investment Securities Available-for-Sale: AgriBank and one District Association hold investment securities that may not necessarily be held-to-maturity and, accordingly, have been classified as available-for-sale (AFS). These investments are reported at fair value, and unrealized holding gains and losses on investments that are not other-than-temporarily impaired are netted and reported as a separate component of shareholders' equity ("Accumulated other comprehensive loss"). Changes in the fair value of investment securities are reflected as direct charges or credits to other comprehensive income (loss), unless the security is deemed to be other-than-temporarily impaired. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities.

Investment Securities Held-to-Maturity: When District Associations have the positive intent and ability to hold investments to maturity, they have been classified as held-to-maturity (HTM) and are carried at cost adjusted for the amortization of premiums and accretion of discounts. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities. Realized gains and losses are determined using the specific identification method and are recognized in current operations.

Other-than-temporarily Impaired (OTTI) Investment Securities:
AgriBank and the District Association evaluate investment securities for OTTI on a quarterly basis. Factors considered in determining whether an impairment is other-than-temporary include: the financial condition and near-term prospects of the issuer, the financial condition of any financial guarantor, if applicable, a current projection of expected cash flow compared to current net carrying value and contractual cash flow, the intent to sell the impaired security and whether the entity holding the security will more likely than not to be required to sell the security before recovery and qualitative consideration of other available information when assessing whether impairment is other-than-temporary.

When other-than-temporary impairment exists and AgriBank and District Associations do not intend to sell the impaired debt security, nor are they more likely than not to be required to sell the security before recovery, the loss is separated into credit-related and non-credit-related components. If a security is deemed to be other-than-temporarily impaired, the security is written down to fair value, the credit-related component is recognized through earnings and the non-credit-related component is recognized in other comprehensive income (loss). Realized gains and losses are determined using the specific identification method and are recognized in current operations.

Other Investments: AgriBank and certain District Associations are limited partners and hold a non-controlling interests in other investments which are accounted for under the equity method when an investee is considered to have significant influence; otherwise, they are accounted for at cost. All other investments are included in "Other assets" in the Combined Statements of Condition. The investments are assessed for impairment. If impairment exists, losses are included in "Miscellaneous income and other gains, net" in the Combined Statements of Income in the year of impairment.

Cash: Cash, as included on the Combined Financial Statements, represents cash on hand and deposits in banks.

Federal Funds: Federal funds, as included on the Combined Financial Statements, represent excess reserve funds on deposit at the Federal Reserve banks that are lent to other commercial banks. These transactions represent an investment of cash balances overnight in other financial institutions at the federal funds rate. Term federal funds would be a similar investment held for a period longer than overnight.

Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Depreciation is generally provided on the straight-line method over the estimated useful life of the asset. Gains or losses on disposition are reflected in current operations and are included in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income. Maintenance and repairs are charged to other operating expenses and improvements are capitalized. Internally developed software costs are capitalized and amortized over their estimated useful life.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

In connection with past foreclosure and sale proceedings, AgriBank has retained certain mineral interests and equity positions in land from which income is received from lease bonuses, rentals and leasing and production royalties. These intangible assets have no recorded value on the Combined Statements of Condition. AgriBank receives income from mineral and royalty holdings. All income received on these mineral rights is recognized in the period received and is included in "Mineral income" on the Combined Statements of Comprehensive Income. The Farm Credit Act requires that mineral rights acquired after 1985 through foreclosure be sold to the buyer of the surface rights in the land.

Leases: Certain District Associations have finance and operating leases. For finance leases, unearned finance lease income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. Net unearned finance income is amortized to earnings using the interest method. The carrying amount of finance leases is presented in "Loans" on the Combined Statements of Condition and represents lease rent receivables net of the unearned income plus the estimated residual value. For operating leases, revenue is recognized as earned ratably over the

term of the lease and depreciation and other expenses are charged against such revenue as incurred. The amortized cost of operating leases is presented as “Assets held for lease, net” on the Combined Statements of Condition and represents the asset cost net of accumulated depreciation.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which employees participate. Expenses related to these plans are included in “Salaries and employee benefits” on the Combined Statements of Comprehensive Income.

Certain employees participate in the defined benefit retirement plan of the District. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. New benefits-eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the non-qualified defined benefit Pension Restoration Plan of the AgriBank District. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, Roth after-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. Benefits are provided under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

AgriBank and District Associations also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

Income Taxes: AgriBank and the FLCAs are exempt from federal and other income taxes as provided in the Farm Credit Act. The ACAs and PCAs accrue federal and state income taxes where applicable. The ACAs and PCAs are exempt from certain state taxes. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance.

Certain District Associations have patronage programs. Provisions for income taxes are made only on the earnings not distributed as qualified patronage distributions.

Patronage Program: AgriBank and certain District Associations accrue patronage distributions according to a prescribed formula approved by their Boards of Directors. Generally, District Associations with patronage programs pay the accrued patronage during the first quarter after year end. AgriBank pays its refunds in accordance with the declarations of its Board of Directors, generally within 15 days after each

quarter end for which the patronage was declared. Accrued patronage is included in “Patronage and dividends payable” on the Combined Statements of Condition.

Preferred Stock Dividends: AgriBank accrues non-cumulative perpetual preferred stock dividends quarterly as declared by the Board of Directors. Dividends on non-cumulative perpetual preferred stock are payable quarterly in arrears on the first day of January, April, July and October.

A District Association, AgStar Financial Services, ACA (AgStar) distributes dividends on non-cumulative perpetual preferred stock and they are payable quarterly in arrears on the fifteenth day of February, May, August and November, if declared by the Board of Directors in its sole discretion.

Accrued dividends are included in “Patronage and dividends payable” on the Combined Statements of Condition.

Noncontrolling Interest: Non-controlling interests are reported as a component of total equity. The noncontrolling interest represents the equity investments of Farm Credit entities outside the AgriBank District in the AgDirect program and Foundations.

Under the AgDirect program, AgriBank purchases 100 percent loan participation interests in retail equipment financing loans from AgDirect LLP (LLP), a limited liability partnership. A District Association in the AgDirect program first purchases a participation interest in a retail installment sales contract originated by an equipment dealer at the point of sale. The District Association sells a 100 percent participation interest to the LLP, which immediately sells a 100 percent participation interest to AgriBank. The LLP purchases an initial investment in AgriBank stock equal to 6 percent of the participation loan balance. The LLP does not hold any assets other than its investment in AgriBank which is eliminated in combination. The source of earnings for the LLP is from patronage paid by AgriBank, if any. Such patronage is paid at the sole discretion of the AgriBank Board of Directors.

Refer to Note 1 for further discussion of Foundations.

Derivative Instruments and Hedging Activity: AgriBank is party to derivative financial instruments, primarily interest rate swaps, interest rate caps, interest rate floors and swaptions, which are used to manage interest rate risk on assets, liabilities and anticipated transactions. Derivatives are recorded on the Combined Statements of Condition as assets or liabilities, measured at fair value and netted by counterparties pursuant to the provisions of master netting agreements.

Changes in the fair values of derivatives are recorded as gains or losses through earnings or as a component of other comprehensive income (loss), on the Combined Statements of Comprehensive Income, depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. For fair value hedge transactions in which AgriBank is hedging changes in the fair value of an asset or liability, changes in the fair value of the derivative instrument are offset in net income on the Combined Statements of Comprehensive Income by changes in the fair value of the hedged item. For cash flow hedge transactions hedging the variability of cash flows related to a variable-rate asset or liability, changes in the fair value of the derivative instrument are reported in other comprehensive income (loss) on the Combined Statements of Comprehensive Income. To the extent the hedge is effective, the gains and losses on the derivative instruments are reported in other comprehensive income (loss), until earnings are impacted by the variability of the cash flows of the hedged item. The

ineffective portion of all hedges is recognized in current period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings.

AgriBank documents all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to:

- Specific assets or liabilities on the Combined Statements of Condition
- Firm commitments
- Forecasted transactions

For hedging relationships, AgriBank assesses effectiveness of the hedging relationships through prospective effectiveness tests at inception and retrospective tests on an ongoing basis until the maturity or termination of the hedge. For prospective testing, AgriBank performs a shock test of interest rate movements. Alternative tests may be performed if those tests appear to be reasonable relative to the hedge relationship that is being evaluated. For retrospective testing, AgriBank performs correlation and regression tests of the value change of the hedge versus the value change of the hedged item using weekly data. If the hedge relationship does not pass the minimum levels established for effectiveness tests, hedge accounting will be discontinued.

AgriBank discontinues hedge accounting prospectively when it is determined that:

- A derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item
- The derivative expires or is sold, terminated, exercised or de-designated as a hedge
- It is no longer probable that the forecasted transaction will occur
- A hedged firm commitment no longer meets the definition of a firm commitment
- Management determines that designating the derivative as a hedging instrument is no longer appropriate

When AgriBank discontinues hedge accounting for cash flow hedges, any remaining accumulated other comprehensive income or loss is amortized into earnings over the remaining life of the original hedged item. When AgriBank discontinues hedge accounting for fair value hedges, changes in the fair value of the derivative will be recorded in current period earnings, and the basis adjustment to the previously hedged item will be taken into earnings using the interest method over the remaining life of the hedged item. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the derivative is carried at its fair value on the Combined Statements of Condition, recognizing changes in fair value in current period earnings. Refer to further discussion in Note 14.

One District Association is party to derivative financial instruments called to-be-announced securities (TBAs) to manage exposure to interest rate risk and changes in the fair value of investments available for sale, loans held for sale and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined. The derivatives are recorded on the Combined Statements of Condition as assets or liabilities on a net basis measured at fair value.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of

credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management's best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on management's assessment, any reserve is recorded in "Other liabilities" on the Combined Statements of Condition and a corresponding loss is recorded in "Provision for credit losses" on the Combined Statements of Comprehensive Income.

Combined Statements of Cash Flows: For purposes of reporting cash flows, cash includes cash and overnight federal funds. Cash flows on hedges are classified in the same category as the items being hedged.

Fair Value Measurements: AgriBank and District Associations utilize a hierarchy to disclose the fair value measurement of financial instruments. A financial instrument's categorization within the valuation hierarchy is based upon the least transparent input that is significant to the fair value measurement.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

AgriBank and District Associations may use various acceptable valuation techniques to determine fair value. The primary techniques used include:

- Market Approach uses prices and other relevant information generated by market transactions involving identical or comparable assets to derive a fair value amount
- Income Approach uses various valuation methods to convert future cash flows to a single discounted present value, which becomes the applicable fair value amount
- Cost Approach is based on the current cost to acquire a substitute asset of comparable utility

For certain financial instruments presented at fair value, net asset value per share is used as a practical expedient. AgriBank and District Associations monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy and transfer between Level 1, Level 2 and Level 3 accordingly. Generally, transfers are reported as of the beginning of the quarter in which the transfer occurred.

Refer to Note 13 for further discussion on the fair value measurements.

Recently Issued or Adopted Accounting Pronouncements

Management has assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to the Combined Financial Statements:

Standard	Description	Effective date and financial statement impact
In August 2016, the FASB issued ASU 2016-15 “Classification of Certain Cash Receipts and Cash Payments.”	The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.	This guidance is effective for public entities for interim and annual periods beginning after December 15, 2017. This guidance is effective for nonpublic entities for annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of this guidance is not expected to impact the combined financial condition or results of operations, but could change the classification of certain items in the combined statement of cash flows.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses."	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	The guidance is effective for non-U.S. Securities Exchange Commission filers for annual reporting periods beginning after December 15, 2020 including interim periods within those annual periods. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. AgriBank and District Associations are currently evaluating the impact of the guidance on the combined financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In February 2016, the FASB issued ASU 2016-02 "Leases."	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2018 including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019 and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. AgriBank and District Associations' are currently evaluating the impact of the guidance on the combined financial condition, results of operations, and financial statement disclosures. There will be no impact on cash flows.
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities."	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure in financial statements.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2017 including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15, 2019. Early adoption is permitted for only a portion of the guidance, but that guidance does not apply to the Combined District Financial Statements. AgriBank and District Associations are currently evaluating the impact of the remaining guidance on the combined financial condition, results of operations, cash flows, and financial statement disclosures.
In May 2015, the FASB issued ASU 2015-07 "Disclosures of Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)."	The guidance removes the requirements to categorize assets valued using net asset value per share within the fair value hierarchy (Levels 1 - 3) as well as certain other disclosures.	The guidance was effective for public entities for interim and annual reporting periods beginning after December 15, 2015. AgriBank and District Associations adopted this standard in 2016 and had no impact on the combined financial condition, results of operations or cash flows. The District pension plan assets include certain investments which are valued using the Net Asset Value practical expedient provided for under this guidance. The adoption of this guidance had minimal impact on the fair value disclosures of District pension plan assets presented in Note 9.

Standard	Description	Effective date and financial statement impact
In February 2015, the FASB issued ASU 2015-02 “Consolidation-Amendments to the Consolidation Analysis.”	The guidance modifies the assessment of Variable Interest Entity (VIE) characteristics as well as the assessment of related parties.	The guidance is effective for public entities for annual periods beginning after December 15, 2015. The guidance is effective for nonpublic entities for annual reporting after December 15, 2016 and interim periods beginning after December 15, 2017. Early adoption is allowed, including in any interim period. The adoption of this guidance had no material impact on the combined financial condition, results of operations, cash flows and financial statement disclosures.
In August 2014, the FASB issued ASU 2014-15 “Presentation of Financial Statements-Going Concern.”	The 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 to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations for the assessed period.	This guidance became effective for all entities for interim and annual periods ending after December 15, 2016. AgriBank and District Associations completed initial assessments with regard to their ability to continue as a going concern in adopting this standard; therefore, there was no additional impact on the combined financial statement disclosures.
In May 2014, the FASB issued ASU 2014-09 “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 contracts within the District would be excluded from the scope of this new guidance.	The guidance is effective for public entities for the first interim reporting period within the annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. AgriBank and District Associations are in the process of reviewing contracts to determine the effect, if any, on the combined financial condition, results of operations and cash flows.

NOTE 3

Loans and Allowance for Loan Losses

Loans by Type

(in thousands) **As of December 31,**	**2016**		2015		2014	
	Amount	**%**	Amount	%	Amount	%
Real estate mortgage	**$56,142,318**	**56.7%**	$53,163,216	56.0%	$49,693,266	56.2%
Production and intermediate term	**25,677,124**	**25.9%**	25,626,860	27.0%	24,375,786	27.5%
Agribusiness	**10,176,335**	**10.3%**	8,799,656	9.3%	7,529,039	8.5%
Rural residential real estate	**2,796,940**	**2.8%**	2,839,004	3.0%	2,735,976	3.1%
Other	**4,276,522**	**4.3%**	4,515,643	4.7%	4,164,368	4.7%
Total loans	**$99,069,239**	**100.0%**	$94,944,379	100.0%	$88,498,435	100.0%

The Other category is primarily comprised of communication and energy related loans, certain assets originated under the Mission Related Investment authority and loans to other financing institutions (OFIs), as well as finance leases.

Participations

AgriBank and District Associations may purchase or sell participation interests with other parties in order to diversify concentration risk and manage loan volume.

Participations Purchased and Sold

(in thousands) **As of December 31, 2016**	**Other Farm Credit Institutions** **Participations Purchased**	**Participations Sold**	**Non-Farm Credit Institutions** **Participations Purchased**	**Participations Sold**	**Total** **Participations Purchased**	**Participations Sold**
Real estate mortgage	**$1,358,833**	**$294,947**	**$2,897,972**	**$64,503**	**$4,256,805**	**$359,450**
Production and intermediate term	**1,813,161**	**498,247**	**3,810,822**	**35,208**	**5,623,983**	**533,455**
Agribusiness	**4,730,254**	**1,185,808**	**688,395**	**116,840**	**5,418,649**	**1,302,648**
Rural residential real estate	**79**	**--**	**11,117**	**--**	**11,196**	**--**
Other	**2,682,523**	**128,476**	**14,155**	**--**	**2,696,678**	**128,476**
Total loans	**$10,584,850**	**$2,107,478**	**$7,422,461**	**$216,551**	**$18,007,311**	**$2,324,029**

(in thousands) As of December 31, 2015	Other Farm Credit Institutions Participations Purchased	Participations Sold	Non-Farm Credit Institutions Participations Purchased	Participations Sold	Total Participations Purchased	Participations Sold
Real estate mortgage	$1,092,943	$245,742	$2,571,879	$57,250	$3,664,822	$302,992
Production and intermediate term	1,452,221	544,141	4,020,889	55,102	5,473,110	599,243
Agribusiness	4,136,700	879,557	525,225	163,740	4,661,925	1,043,297
Rural residential real estate	91	--	21,215	373	21,306	373
Other	2,722,551	136,097	13,017	--	2,735,568	136,097
Total loans	$9,404,506	$1,805,537	$7,152,225	$276,465	$16,556,731	$2,082,002

(in thousands) As of December 31, 2014	Other Farm Credit Institutions Participations Purchased	Participations Sold	Non-Farm Credit Institutions Participations Purchased	Participations Sold	Total Participations Purchased	Participations Sold
Real estate mortgage	$878,155	$203,685	$2,416,510	$45,764	$3,294,665	$249,449
Production and intermediate term	1,240,901	621,529	3,960,340	58,637	5,201,241	680,166
Agribusiness	3,417,830	809,845	574,661	110,601	3,992,491	920,446
Rural residential real estate	98	--	17,549	401	17,647	401
Other	2,403,364	129,518	12,624	--	2,415,988	129,518
Total loans	$7,940,348	$1,764,577	$6,981,684	$215,403	$14,922,032	$1,979,980

Information in the preceding chart excludes loans entered into under the Mission Related Investment and leasing authorities.

Portfolio Diversification

Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic or other conditions.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk; however, substantial portions of lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

Portfolio Performance

One credit quality indicator that is utilized by management is the FCA Uniform Loan Classification System, which categorizes loans into five categories. The categories are:

- Acceptable – assets are non-criticized assets representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other Assets Especially Mentioned (Special Mention) – are currently collectible, but exhibit some potential weakness. These assets involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- Loss – assets are considered uncollectible.

Credit Quality of Loans

(in thousands)

As of December 31, 2016	Acceptable		Special mention		Substandard/Doubtful		Total	
Real estate mortgage	**$53,209,717**	**93.7%**	**$1,699,557**	**3.0%**	**$1,852,227**	**3.3%**	**$56,761,501**	**100.0%**
Production and intermediate term	**23,238,381**	**89.4%**	**1,353,933**	**5.2%**	**1,408,405**	**5.4%**	**26,000,719**	**100.0%**
Agribusiness	**9,970,333**	**97.6%**	**95,704**	**0.9%**	**148,617**	**1.5%**	**10,214,654**	**100.0%**
Rural residential real estate	**2,653,559**	**94.4%**	**54,470**	**1.9%**	**105,401**	**3.7%**	**2,813,430**	**100.0%**
Other	**4,169,916**	**97.3%**	**100,095**	**2.3%**	**16,812**	**0.4%**	**4,286,823**	**100.0%**
Total loans	**$93,241,906**	**93.2%**	**$3,303,759**	**3.3%**	**$3,531,462**	**3.5%**	**$100,077,127**	**100.0%**

(in thousands)

As of December 31, 2015	Acceptable		Special mention		Substandard/Doubtful		Total	
Real estate mortgage	$51,703,832	96.2%	$1,019,026	1.9%	$1,016,500	1.9%	$53,739,358	100.0%
Production and intermediate term	24,430,268	94.2%	731,410	2.8%	772,619	3.0%	25,934,297	100.0%
Agribusiness	8,585,744	97.3%	136,666	1.5%	109,636	1.2%	8,832,046	100.0%
Rural residential real estate	2,728,644	95.5%	36,894	1.3%	90,535	3.2%	2,856,073	100.0%
Other	4,432,089	98.0%	64,687	1.4%	27,496	0.6%	4,524,272	100.0%
Total loans	$91,880,577	95.8%	$1,988,683	2.1%	$2,016,786	2.1%	$95,886,046	100.0%

(in thousands)

As of December 31, 2014	Acceptable		Special mention		Substandard/Doubtful		Total	
Real estate mortgage	$48,826,327	97.2%	$646,050	1.3%	$745,732	1.5%	$50,218,109	100.0%
Production and intermediate term	23,781,887	96.4%	421,834	1.7%	457,662	1.9%	24,661,383	100.0%
Agribusiness	7,341,387	97.1%	54,188	0.7%	163,270	2.2%	7,558,845	100.0%
Rural residential real estate	2,640,048	96.0%	28,249	1.0%	83,113	3.0%	2,751,410	100.0%
Other	4,098,622	98.3%	47,046	1.1%	26,532	0.6%	4,172,200	100.0%
Total loans	$86,688,271	97.0%	$1,197,367	1.3%	$1,476,309	1.7%	$89,361,947	100.0%

Note: Accruing loans include accrued interest receivable.

There were no loans categorized as Loss at December 31, 2016, 2015 or 2014.

Aging Analysis of Loans

(in thousands) As of December 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	Accruing loans 90 days or more past due
Real estate mortgage	$152,444	$77,863	$230,307	$56,531,194	$56,761,501	$3,949
Production and intermediate term	145,970	111,201	257,171	25,743,548	26,000,719	4,893
Agribusiness	7,168	4,279	11,447	10,203,207	10,214,654	--
Rural residential real estate	22,377	10,296	32,673	2,780,757	2,813,430	64
Other	18,510	4,704	23,214	4,263,609	4,286,823	3,217
Total loans	$346,469	$208,343	$554,812	$99,522,315	$100,077,127	$12,123

(in thousands) As of December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Accruing loans 90 days or more past due
Real estate mortgage	$122,241	$61,015	$183,256	$53,556,102	$53,739,358	$1,998
Production and intermediate term	95,252	61,614	156,866	25,777,431	25,934,297	2,981
Agribusiness	5,808	18,668	24,476	8,807,570	8,832,046	--
Rural residential real estate	23,290	11,645	34,935	2,821,138	2,856,073	--
Other	11,379	6,259	17,638	4,506,634	4,524,272	6,117
Total loans	$257,970	$159,201	$417,171	$95,468,875	$95,886,046	$11,096

(in thousands) As of December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Accruing loans 90 days or more past due
Real estate mortgage	$161,438	$59,718	$221,156	$49,996,953	$50,218,109	$873
Production and intermediate term	63,570	28,413	91,983	24,569,400	24,661,383	697
Agribusiness	8,764	3,413	12,177	7,546,668	7,558,845	--
Rural residential real estate	21,901	8,769	30,670	2,720,740	2,751,410	--
Other	9,350	7,235	16,585	4,155,615	4,172,200	6,512
Total loans	$265,023	$107,548	$372,571	$88,989,376	$89,361,947	$8,082

Note: Accruing loans include accrued interest receivable.

Risk Assets

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands)

As of December 31,	**2016**	2015	2014
Nonaccrual loans:			
Current as to principal and interest	**$406,559**	$317,596	$325,218
Past due	**271,649**	199,413	156,191
Total nonaccrual loans	**678,208**	517,009	481,409
Accruing restructured loans	**89,800**	65,233	75,398
Accruing loans 90 days or more past due	**12,123**	11,096	8,082
Total risk loans	**$780,131**	$593,338	$564,889
Volume with specific reserves	**$135,187**	$129,524	$125,181
Volume without specific reserves	**644,944**	463,814	439,708
Total risk loans	**$780,131**	$593,338	$564,889
Specific reserves	**$40,452**	$40,890	$49,506

For the year ended December 31,	**2016**	2015	2014
Income on accrual risk loans	**$4,710**	$4,172	$3,624
Income on nonaccrual loans	**37,954**	30,952	34,229
Total income on risk loans	**$42,664**	$35,124	$37,853
Average risk loans	**$727,536**	$615,379	$652,461

Note: Accruing loans include accrued interest receivable.

Risk Assets by Type

(in thousands) **As of December 31,**	**2016**	2015	2014
Nonaccrual loans:			
Real estate mortgage	**$365,760**	$278,463	$270,884
Production and intermediate term	**258,129**	154,440	135,364
Agribusiness	**14,117**	27,100	10,278
Rural residential real estate	**36,034**	41,979	39,915
Other	**4,168**	15,027	24,968
Total nonaccrual loans	**$678,208**	$517,009	$481,409
Accruing restructured loans:			
Real estate mortgage	**$54,786**	$49,501	$62,281
Production and intermediate term	**19,320**	14,964	11,697
Agribusiness	**14**	214	477
Rural residential real estate	**1,640**	554	943
Other	**14,040**	--	--
Total accruing restructured loans	**$89,800**	$65,233	$75,398
Accruing loans 90 days or more past due:			
Real estate mortgage	**$3,949**	$1,998	$873
Production and intermediate term	**4,893**	2,981	697
Rural residential real estate	**64**	--	--
Other	**3,217**	6,117	6,512
Total accruing loans 90 days or more past due	**$12,123**	$11,096	$8,082
Total risk loans	**$780,131**	$593,338	$564,889
Other property owned	**$14,530**	$13,051	$22,284
Total risk assets	**$794,661**	$606,389	$587,173

Note: Accruing loans include accrued interest receivable.

Total risk assets increased during 2016 from the historically low levels observed in recent years, and remain at an acceptable level. This increase in risk assets was primarily due to declines in net farm income levels for certain agricultural production sectors within the District.

Nonaccrual loans represented 0.7 percent of total loans at December 31, 2016, of which 59.9 percent were current as to principal and interest.

AgriBank's and District Associations' policies require loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

All risk loans are considered to be impaired loans.

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2016 Recorded Investment*	Unpaid Principal Balance**	Related Allowance	For the year ended December 31, 2016 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$44,954	$52,612	$7,442	$39,848	$ --
Production and intermediate term	83,498	96,770	30,513	73,925	--
Agribusiness	490	495	327	878	--
Rural residential real estate	3,663	4,348	1,173	3,904	--
Other	2,582	2,582	997	1,658	--
Total	$135,187	$156,807	$40,452	$120,213	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$379,541	$467,790	$ --	$353,735	$23,174
Production and intermediate term	198,844	268,023	--	186,753	14,534
Agribusiness	13,641	19,025	--	12,816	2,524
Rural residential real estate	34,075	43,919	--	37,620	2,152
Other	18,843	21,333	--	16,399	280
Total	$644,944	$820,090	$ --	$607,323	$42,664
Total impaired loans:					
Real estate mortgage	$424,495	$520,402	$7,442	$393,583	$23,174
Production and intermediate term	282,342	364,793	30,513	260,678	14,534
Agribusiness	14,131	19,520	327	13,694	2,524
Rural residential real estate	37,738	48,267	1,173	41,524	2,152
Other	21,425	23,915	997	18,057	280
Total	$780,131	$976,897	$40,452	$727,536	$42,664

(in thousands)	As of December 31, 2015 Recorded Investment*	Unpaid Principal Balance**	Related Allowance	For the year ended December 31, 2015 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$42,611	$52,354	$10,462	$43,920	$ --
Production and intermediate term	64,081	69,938	25,324	68,618	--
Agribusiness	17,062	18,455	3,339	17,737	--
Rural residential real estate	5,008	5,928	1,486	5,050	--
Other	762	762	279	739	--
Total	$129,524	$147,437	$40,890	$136,064	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$287,352	$377,470	$ --	$289,639	$21,767
Production and intermediate term	108,305	174,647	--	118,374	9,804
Agribusiness	10,252	17,204	--	10,244	1,182
Rural residential real estate	37,525	48,451	--	37,160	2,048
Other	20,380	23,380	--	23,898	323
Total	$463,814	$641,152	$ --	$479,315	$35,124
Total impaired loans:					
Real estate mortgage	$329,963	$429,824	$10,462	$333,559	$21,767
Production and intermediate term	172,386	244,585	25,324	186,992	$9,804
Agribusiness	27,314	35,659	3,339	27,981	$1,182
Rural residential real estate	42,533	54,379	1,486	42,210	$2,048
Other	21,142	24,142	279	24,637	$323
Total	$593,338	$788,589	$40,890	$615,379	$35,124

(in thousands)	As of December 31, 2014 Recorded Investment*	Unpaid Principal Balance**	Related Allowance	For the As of December 31, 2014 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$50,695	$57,607	$15,975	$58,340	$ --
Production and intermediate term	56,979	62,698	25,919	56,378	--
Agribusiness	912	985	163	6,921	--
Rural residential real estate	6,547	8,026	1,924	7,057	--
Other	10,048	10,693	5,525	7,371	--
Total	$125,181	$140,009	$49,506	$136,067	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$283,343	$383,077	$ --	$321,491	$22,452
Production and intermediate term	90,779	150,002	--	121,281	11,563
Agribusiness	9,843	17,192	--	17,271	1,725
Rural residential real estate	34,311	45,753	--	34,964	1,836
Other	21,432	23,336	--	21,387	277
Total	$439,708	$619,360	$ --	$516,394	$37,853
Total impaired loans:					
Real estate mortgage	$334,038	$440,684	$15,975	$379,831	$22,452
Production and intermediate term	147,758	212,700	25,919	177,659	11,563
Agribusiness	10,755	18,177	163	24,192	1,725
Rural residential real estate	40,858	53,779	1,924	42,021	1,836
Other	31,480	34,029	5,525	28,758	277
Total	$564,889	$759,369	$49,506	$652,461	$37,853

*The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct write-down of the investment. The recorded investment may be less than the unpaid principal balance as payments on non-cash basis nonaccrual loans reduce the recorded investment.

**Unpaid principal balance represents the contractual principal balance of the loan.

AgriBank and District Associations did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2016.

Troubled Debt Restructurings

Included within loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within the allowance for loan losses.

TDR Activity

(in thousands) **For the year ended December 31, 2016**	**Pre-modification Outstanding Recorded Investment***	**Post-modification Outstanding Recorded Investment***
TDRs:		
Real estate mortgage	**$8,452**	**$8,639**
Production and intermediate term	**31,111**	**30,826**
Agribusiness	**3,329**	**3,329**
Rural residential real estate	**331**	**299**
Total loans	**$43,223**	**$43,093**

(in thousands) For the year ended December 31, 2015	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
TDRs:		
Real estate mortgage	$6,444	$6,449
Production and intermediate term	12,245	11,258
Agribusiness	31,393	31,393
Rural residential real estate	842	740
Total loans	$50,924	$49,840

(in thousands) For the year ended December 31, 2014	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
TDRs:		
Real estate mortgage	$12,021	$11,895
Production and intermediate term	4,978	4,697
Rural residential real estate	727	681
Total loans	$17,726	$17,273

*Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. 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 types of modification typically include interest rate reduction below market, extension of maturity, deferral of principal or forgiveness of interest.

TDRs that Subsequently Defaulted within the Previous 12 Months

(in thousands)	Recorded Investment		
As of December 31,	**2016**	2015	2014
TDRs that subsequently defaulted:			
Real estate mortgage	**$272**	$163	$1,103
Production and intermediate term	**2,647**	389	43
Agribusiness	**--**	15,733	--
Rural residential real estate	**--**	303	267
Total	**$2,919**	$16,588	$1,413

TDRs Outstanding

(in thousands)			
As of December 31,	**2016**	2015	2014
Accrual Status			
Real estate mortgage	**$54,786**	$49,501	$62,281
Production and intermediate term	**19,320**	14,964	11,697
Agribusiness	**14**	214	477
Rural residential real estate	**1,640**	554	943
Other	**14,040**	--	--
Total TDRs in accrual status	**$89,800**	$65,233	$75,398
Nonaccrual Status			
Real estate mortgage	**$28,489**	$36,619	$42,961
Production and intermediate term	**25,369**	21,825	20,726
Agribusiness	**5,949**	24,708	9,776
Rural residential real estate	**1,774**	3,138	2,562
Other	**--**	13,964	14,623
Total TDRs in nonaccrual status	**$61,581**	$100,254	$90,648
Total TDRs	**$151,381**	$165,487	$166,046

There were no material unfunded loan commitments to borrowers whose loans have been modified in a TDR at December 31, 2016.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)			
For the year ended December 31,	**2016**	2015	2014
Balance at beginning of year	**$285,711**	$248,081	$236,312
Provision for loan losses	**134,116**	66,839	29,369
Charge-offs	**(45,194)**	(42,030)	(32,239)
Recoveries	**12,121**	12,821	14,639
Balance at end of period	**$386,754**	$285,711	$248,081

The allowance for loan losses increased to $386.8 million at December 31, 2016, reflecting $134.1 million of provision for loan losses (not including net provision of $7.7 million on unfunded commitments and letters of credit) recorded for the year, substantially offset by net charge-offs of $33.1 million. The amounts reflect the change in the estimated losses in the loan portfolio during the year, which were

primarily due to declines in net farm income across the District. Reserves for unfunded commitments and letters of credit are recorded in "Other liabilities" on the Combined Statements of Condition.

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real estate mortgage	Production and intermediate term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance at December 31, 2015	$111,000	$118,409	$32,166	$8,986	$15,150	$285,711
Provision for loan losses	49,044	64,293	17,189	2,541	1,049	134,116
Charge-offs	(5,494)	(34,386)	(3,139)	(2,175)	--	(45,194)
Recoveries	4,229	6,172	851	868	1	12,121
Balance at December 31, 2016	$158,779	$154,488	$47,067	$10,220	$16,200	$386,754
At December 31, 2016:						
Ending balance: individually evaluated for impairment	$7,442	$30,513	$327	$1,173	$997	$40,452
Ending balance: collectively evaluated for impairment	$151,337	$123,975	$46,740	$9,047	$15,203	$346,302
Recorded investments in loans outstanding:						
Ending balance at December 31, 2016	$56,761,501	$26,000,719	$10,214,654	$2,813,430	$4,286,823	$100,077,127
Ending balance for loans individually evaluated for impairment	$424,495	$282,342	$14,131	$37,738	$21,425	$780,131
Ending balance for loans collectively evaluated for impairment	$56,337,006	$25,718,377	$10,200,523	$2,775,692	$4,265,398	$99,296,996

(in thousands)	Real estate mortgage	Production and intermediate term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance at December 31, 2014	$88,542	$101,976	$30,790	$9,673	$17,100	$248,081
Provision for (reversal of) loan losses	28,438	36,930	638	953	(120)	66,839
Charge-offs	(9,453)	(27,393)	(441)	(2,466)	(2,277)	(42,030)
Recoveries	3,473	6,896	1,179	826	447	12,821
Balance at December 31, 2015	$111,000	$118,409	$32,166	$8,986	$15,150	$285,711
At December 31, 2015:						
Ending balance: individually evaluated for impairment	$10,462	$25,324	$3,339	$1,486	$279	$40,890
Ending balance: collectively evaluated for impairment	$100,538	$93,085	$28,827	$7,500	$14,871	$244,821
Recorded investments in loans outstanding:						
Ending balance at December 31, 2015	$53,739,358	$25,934,297	$8,832,046	$2,856,073	$4,524,272	$95,886,046
Ending balance for loans individually evaluated for impairment	$329,963	$172,386	$27,314	$42,533	$21,142	$593,338
Ending balance for loans collectively evaluated for impairment	$53,409,395	$25,761,911	$8,804,732	$2,813,540	$4,503,130	$95,292,708

(in thousands)	Real estate mortgage	Production and intermediate term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance at December 31, 2013	$85,573	$87,261	$37,409	$8,864	$17,205	$236,312
Provision for (reversal of) loan losses	12,544	19,281	(7,352)	2,899	1,997	29,369
Charge-offs	(15,688)	(11,259)	(250)	(2,936)	(2,106)	(32,239)
Recoveries	6,113	6,693	983	846	4	14,639
Balance at December 31, 2014	$88,542	$101,976	$30,790	$9,673	$17,100	$248,081
At December 31, 2014:						
Ending balance: individually evaluated for impairment	$15,975	$25,919	$163	$1,924	$5,525	$49,506
Ending balance: collectively evaluated for impairment	$72,567	$76,057	$30,627	$7,749	$11,575	$198,575
Recorded investments in loans outstanding:						
Ending balance at December 31, 2014	$50,218,109	$24,661,383	$7,558,845	$2,751,410	$4,172,200	$89,361,947
Ending balance for loans individually evaluated for impairment	$334,038	$147,758	$10,755	$40,858	$31,480	$564,889
Ending balance for loans collectively evaluated for impairment	$49,884,071	$24,513,625	$7,548,090	$2,710,552	$4,140,720	$88,797,058

Note: Accruing loans include accrued interest receivable.

NOTE 4

Investment Securities

AgriBank Investment Securities

All AgriBank investment securities are classified as AFS.

AgriBank AFS Investment Securities

(in thousands) **As of December 31, 2016**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Mortgage-backed securities	**$5,607,671**	**$7,012**	**$58,924**	**$5,555,759**	**1.3%**
Commercial paper and other	**4,786,207**	**794**	**219**	**4,786,782**	**1.0%**
U.S. Treasury securities	**3,823,520**	**576**	**12,298**	**3,811,798**	**1.1%**
Asset-backed securities	**742,728**	**289**	**104**	**742,913**	**1.1%**
Total	**$14,960,126**	**$8,671**	**$71,545**	**$14,897,252**	**1.2%**

(in thousands) As of December 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$5,774,742	$15,807	$33,538	$5,757,011	1.1%
Commercial paper and other	4,914,613	213	441	4,914,385	0.5%
U.S. Treasury securities	2,822,368	129	7,240	2,815,257	1.1%
Asset-backed securities	771,602	6,036	1,408	776,230	0.8%
Total	$14,283,325	$22,185	$42,627	$14,262,883	0.9%

(in thousands) As of December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$5,403,078	$30,632	$19,173	$5,414,537	1.0%
Commercial paper and other	5,345,722	326	228	5,345,820	0.3%
U.S. Treasury securities	2,564,962	1,054	1,139	2,564,877	1.2%
Asset-backed securities	861,166	7,763	1,640	867,289	0.5%
U.S. Agencies	100,053	2,201	--	102,254	4.4%
Total	$14,274,981	$41,976	$22,180	$14,294,777	0.8%

Commercial paper and other is primarily corporate commercial paper, certificates of deposit and term federal funds.

As of December 31, 2016, 2015 and 2014, AgriBank had not pledged any investment securities or federal funds as collateral.

Contractual Maturities of AgriBank AFS Investment Securities

(in thousands) As of December 31, 2016	Year of Maturity One Year or Less	One to Five Years	Five to Ten Years	More Than Ten Years	Total
Mortgage-backed securities	$71	$14,299	$117,930	$5,423,459	$5,555,759
Commercial paper and other	4,786,782	--	--	--	4,786,782
U.S. Treasury securities	1,358,750	2,453,048	--	--	3,811,798
Asset-backed securities	--	742,913	--	--	742,913
Total	$6,145,603	$3,210,260	$117,930	$5,423,459	$14,897,252
Weighted average yield	1.0%	1.2%	1.6%	1.3%	1.2%

Expected maturities differ from contractual maturities because borrowers may have the right to prepay these obligations. The remaining expected average life is 0.6 years for asset-backed securities (ABS) and 3.6 years for mortgage-backed securities (MBS) at December 31, 2016.

A summary of the AgriBank investment securities in an unrealized loss position presented by the length of time that the securities have been in a continuous unrealized loss position follows:

(in thousands) As of December 31, 2016	Less than 12 months Fair Value	Unrealized Losses	More than 12 months Fair Value	Unrealized Losses
Mortgage-backed securities	$3,375,456	$39,175	$1,784,315	$19,749
Commercial paper and other	713,576	219	--	--
U.S. Treasury securities	2,955,305	12,298	--	--
Asset-backed securities	246,081	102	6,897	2
Total	$7,290,418	$51,794	$1,791,212	$19,751

(in thousands) As of December 31, 2015	Less than 12 months Fair Value	Unrealized Losses	More than 12 months Fair Value	Unrealized Losses
Mortgage-backed securities	$3,484,228	$21,377	$693,595	$12,161
Commercial paper and other	2,461,453	441	--	--
U.S. Treasury securities	2,413,587	7,240	--	--
Asset-backed securities	709,820	1,254	59,641	154
Total	$9,069,088	$30,312	$753,236	$12,315

(in thousands) As of December 31, 2014	Less than 12 months Fair Value	Unrealized Losses	More than 12 months Fair Value	Unrealized Losses
Mortgage-backed securities	$1,667,257	$7,405	$711,946	$11,768
Commercial paper and other	1,240,551	228	--	--
U.S. Treasury securities	1,062,841	1,139	--	--
Asset-backed securities	805,207	618	24,114	1,022
Total	$4,775,856	$9,390	$736,060	$12,790

Additional AgriBank AFS Investment Security Information

(in thousands)

For the year ended December 31,	2016	2015	2014
Proceeds from sales	**$245,439**	$50,660	$138,816
Realized gross gains on sales	**11,009**	4,864	21,643
Realized gross losses on sales	**843**	2,258	1,675
Impairment losses	**--**	693	150

The proceeds from sales in 2016, 2015 and 2014 were related to the sales of short-term commercial paper, home-equity ABS and non-agency MBS investment securities. AgriBank utilizes specific identification to determine the basis of the cost of securities sold. The 2016 sales included all remaining OTTI AFS securities.

Investment securities are evaluated for OTTI on a quarterly basis.

AgriBank has determined no securities were in an OTTI loss position at December 31, 2016. Refer to Note 2 for additional information regarding fair value measurements and the accounting policy for assessing OTTI.

The following chart presents information about OTTI securities in prior years.

AgriBank OTTI AFS Investment Securities

(in thousands)

As of December 31,	2015	2014
Fair Value of OTTI Investment securities	$41,848	$68,166

For the year ended December 31,	2015	2014
Gross impairment charges on OTTI Investment securities	$748	$391
Non-credit component recognized in other comprehensive income	(55)	(241)
Net impairment charges on OTTI investment securities	$693	$150

AgriBank OTTI AFS Investment Securities Sold

(in thousands)

For the year ended December 31,	2016	2015	2014
OTTI AFS investment securities sold	**$27,771**	$17,552	$101,490
Gains on sales of OTTI AFS investment securities, net	**10,559**	4,864	21,643
Total impairment previously recognized on OTTI AFS investment securities sold	**24,696**	12,633	84,431

The following represents the activity related to the credit-loss component for investment securities that have been written down for OTTI that has been recognized in earnings:

(in thousands) **For the year ended December 31,**	**2016**	2015	2014
Credit-loss component, beginning of year	**$25,160**	$42,062	$127,947
Additions:			
Initial credit impairment	**--**	73	--
Subsequent credit impairments	**--**	620	150
Reductions:			
Gains on securities sold	**(10,559)**	(4,864)	(21,643)
Incremental impairment previously recognized on securities sold	**(14,137)**	(7,769)	(62,788)
Increases in expected cash flows	**(464)**	(4,962)	(1,604)
Credit-loss component, end of year	**$ --**	$25,160	$42,062

District Associations Investment Securities

One District Association manages a portfolio of loans held for sale. The portfolio balance builds and is then sold to a third party after which investment securities collateralized by these loans may be purchased, actively marketed and sold by the District Association. As the District Association may not hold the investments to maturity, all or a portion of these securities are classified as AFS and have contractual maturities greater than ten years. There were no District Association investment securities available-for-sale as of December 31, 2016 or 2015.The fair value of District Association AFS investment securities was $21.0 million as of December 31, 2014.

The District Association sold AFS investment securities with sales proceeds of $102.8 million and $53.7 million, resulting in gains of $659 thousand and $355 thousand during the years ended December 31, 2016 and 2015, respectively. No District Association sold AFS investment securities during the year ended December 31, 2014.

All other investments held by District Associations are classified as HTM.

HTM Investment Securities

(in thousands) **As of December 31, 2016**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Government guaranteed instruments	**$1,466,460**	**$9,202**	**$56,125**	**$1,419,537**	**2.4%**
Farmer Mac mortgage-backed securities	**465,294**	**787**	**12,986**	**453,095**	**4.0%**
Agricultural and rural community bonds	**7,226**	**--**	**2**	**7,224**	**2.0%**
Total	**$1,938,980**	**$9,989**	**$69,113**	**$1,879,856**	**2.8%**

(in thousands) As of December 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Government guaranteed instruments	$1,420,940	$12,351	$43,507	$1,389,784	2.3%
Farmer Mac mortgage-backed securities	275,990	1,338	2,115	275,213	4.3%
Agricultural and rural community bonds	7,230	--	4	7,226	1.8%
Total	$1,704,160	$13,689	$45,626	$1,672,223	2.6%

(in thousands) As of December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Government guaranteed instruments	$1,425,175	$15,407	$25,255	$1,415,327	2.3%
Farmer Mac mortgage-backed securities	287,842	2,400	1,186	289,056	4.4%
Agricultural and rural community bonds	7,219	--	--	7,219	1.7%
Total	$1,720,236	$17,807	$26,441	$1,711,602	2.6%

* Not applicable due to the nature of the investment

The investment portfolios were evaluated for OTTI. No securities were other-than-temporarily impaired in any of the periods presented.

Other Investments

One District Association holds non-controlling investments in venture capital equity funds of $9.0 million, $7.9 million and $6.7 million at December 31, 2016, 2015 and 2014, respectively. These investments represent the stake in venture capital equity funds focused on the needs of rural start-up companies. The remaining commitment to the funds at December 31, 2016 was $800 thousand over six years.

AgriBank and certain District Associations are among the limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC facilitates equity and debt investments in agriculture-related businesses that will create growth and job opportunities in rural America. The total multi-year commitment in the District is $90.0 million. The total investment by District entities was $33.5 million, $19.0 million and $3.4 million as of December 31, 2016, 2015 and 2014, respectively, and is included in “Other Assets” on the Combined Statements of Condition.

All Other investments were evaluated for impairment. No impairments were recognized on these investments during any of the periods presented.

NOTE 5

Bonds and Notes

The System obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued by the System Banks through the Funding Corporation. Systemwide bonds and discount notes are joint and several obligations of the System Banks (refer to Note 11 for further discussion).

AgriBank's Participation in Systemwide Bonds and Notes

(in thousands) As of December 31,	2016	2015	2014
Systemwide obligations:			
Bonds	**$87,677,387**	$83,156,562	$81,167,190
Discount notes	**8,017,311**	9,192,397	6,283,953
Member investment bonds	**938,733**	1,055,292	1,101,568
Total	**$96,633,431**	$93,404,251	$88,552,711

Maturities and Weighted Average Interest Rate of AgriBank's Bonds and Notes

(in thousands)	Systemwide Obligations				Member			
As of December 31, 2016	Bonds		Discount notes		investment bonds		Total	
Year of maturity	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
2017	$25,335,248	0.7%	$8,017,311	0.5%	$938,733	0.2%	$34,291,292	0.6%
2018	28,122,729	0.8%	--	--	--	--	28,122,729	0.8%
2019	8,185,091	1.1%	--	--	--	--	8,185,091	1.1%
2020	4,536,155	1.4%	--	--	--	--	4,536,155	1.4%
2021	3,670,000	1.6%	--	--	--	--	3,670,000	1.6%
2022 and thereafter	17,828,164	2.5%	--	--	--	--	17,828,164	2.5%
Total	$87,677,387	1.2%	$8,017,311	0.5%	$938,733	0.2%	$96,633,431	1.1%

Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2016 was 82 days.

Callable debt may be called on the first call date and generally is continuously callable thereafter.

AgriBank's Bonds and Notes with Call Options

(in millions) As of December 31, 2016	Maturing Amount	Callable Amount
Year of maturity / next call:		
2017	$1,040.0	$30,459.1
2018	2,260.0	628.0
2019	4,260.0	875.0
2020	4,022.0	--
2021	3,221.0	20.0
2022	2,590.0	--
2023	2,760.0	--
Thereafter	11,829.1	--
Total	$31,982.1	$31,982.1

Participation in Systemwide Debt Securities

Certain conditions must be met before System Banks can participate in the issuance of Systemwide Debt Securities. As one condition of participation, System Banks are required by the Farm Credit Act and FCA regulation to maintain specified eligible assets at least equal in value to the total amount of debt securities outstanding for which they are primarily liable. This requirement does not provide holders of Systemwide Debt Securities or bank bonds with a security interest in any assets of the System Banks. However, System Banks and the Funding Corporation have entered into a Market Access Agreement (MAA), which established criteria and procedures for the System Banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual System Bank's participation in Systemwide debt issuances, thereby reducing other System Banks' exposure to statutory joint and several liability. At December 31, 2016, AgriBank was, and as of the date of this report remains, in compliance with the conditions of participation in the issuance of Systemwide Debt Securities. As discussed in Note 11, only System Banks are statutorily liable for the payment of principal and interest on Systemwide bonds and notes. Refer to Note 16 for AgriBank-only financial data.

Member Investment Bonds

Member investment bonds, specifically authorized by the Farm Credit Act, are an alternative source of funding in which AgriBank sells bonds directly to District members and employees. Member investment bonds issued by AgriBank are offered primarily through the Farm Cash Management program, which links a District Association members' revolving line of credit with an AgriBank investment bond to optimize the members' use of their funds. Member investment bonds are an unsecured obligation of AgriBank and are not insured or guaranteed by any other entity.

Insurance Fund

The Farm Credit Insurance Fund (Insurance Fund) is available to insure the timely payment of principal and interest on consolidated bonds and notes of System Banks to the extent net assets are available in the Insurance Fund. At December 31, 2016, the assets of the Insurance Fund were $4.5 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal, or interest on, insured debt securities in the event of default by any System Bank having primary liability for repayment of the debt. Refer to Note 1 for further information about the Insurance Fund.

Short-term Borrowings

AgriBank uses short-term borrowings as a source of funds.

AgriBank's Short-term Borrowings by Category

	2016		2015		2014	
(in thousands)	**Amount**	**Weighted average interest rate**	Amount	Weighted average interest rate	Amount	Weighted average interest rate
Systemwide discount notes:						
Outstanding as of December 31	**$8,017,311**	**0.5%**	$9,192,397	0.2%	$6,283,953	0.1%
Average during year	**8,930,845**	**0.3%**	5,587,113	0.2%	4,070,914	0.1%
Maximum month-end balance during the year	**10,132,493**		9,192,397		6,283,953	
Systemwide bonds*:						
Outstanding as of December 31	**1,495,615**	**0.6%**	1,022,594	0.3%	1,118,129	0.2%
Average during year	**1,609,281**	**0.4%**	889,644	0.1%	1,758,707	0.3%
Maximum month-end balance during the year	**2,006,794**		1,142,594		2,390,619	

* Represents bonds issued with an original maturity of one year or less.

NOTE 6

Subordinated Notes

On July 15, 2016, AgriBank redeemed all $500 million of outstanding subordinated notes at par value, which were redeemable on any interest payment date at any time following FCA notification of certain changes to FCA regulatory capital requirements.

On December 15, 2016, AgStar redeemed all $100 million of outstanding subordinated notes at par value, which were redeemable on any interest payment date at any time following FCA notification of certain changes to FCA regulatory capital requirements.

The inclusion of subordinated notes in regulatory capital ratios was subject to certain limitations as defined by the FCA for the years ended December 31, 2015 and 2014. Refer to Note 7 for further discussion.

NOTE 7

Shareholders' Equity

Description of Equities
All shares and participation certificates are $5 par value, except the Series A and Series A-1 Perpetual Preferred Stock, which have a par value of $100 and $1,000, respectively:

(in whole numbers)	Number of Shares		
As of December 31,	**2016**	2015	2014
Series A Perpetual Preferred Stock	**2,500,000**	2,500,000	2,500,000
Series A-1 Perpetual Preferred Stock	**100,000**	100,000	100,000
Protected Common Stock	**5,739**	7,870	10,002
At-risk Voting Common Stock	**44,722,701**	44,160,416	43,694,117
At-risk Nonvoting Common Stock	**314,873**	233,044	222,484
Protected Participation Certificates	**36,261**	48,462	48,462
At-risk Participation Certificates	**9,327,231**	9,289,656	9,309,025

AgriBank and District Associations may be authorized to issue additional forms of stock. Refer to the AgriBank's and District Associations' 2016 annual reports for additional information about stock.

Perpetual Preferred Stock
AgStar has $100 million of Series A-1 Non-Cumulative Perpetual Preferred Stock (Series A-1 Preferred Stock) outstanding, representing 100 thousand shares at $1,000 thousand per share par value. This series may be held or transferred in blocks having an aggregate par value of not less than $250 thousand and an investor must hold at least 250 shares. The net proceeds from the issuance were used to increase regulatory capital, pursuant to FCA regulations at the time of issuance, for continued business development and general corporate purposes. For regulatory capital purposes, the Series A-1 Preferred Stock is included in permanent capital, total surplus and core surplus, subject to certain limitations as defined by the FCA.

Dividends on the Series A-1 Preferred Stock, if declared by AgStar's Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the fifteenth day of February, May, August and November. Dividends accrue at a fixed annual rate of 6.75 percent from the date of issuance through August 14, 2023, and beginning on August 15, 2023 accrue at an annual rate equal to the three-month United States Dollar LIBOR rate, reset quarterly, plus 4.58 percent.

The Series A-1 Preferred Stock is not mandatorily redeemable at any time. However, Series A-1 Preferred Stock will be redeemable at par value, in whole or in part, at AgStar's option, quarterly beginning on August 15, 2023. In addition, the Series A-1 Preferred Stock will be redeemable in whole, at AgStar's option, at any time upon the occurrence of certain defined regulatory events. The Series A-1 Preferred Stockholders do not have any voting rights, but may appoint two Board observers after six unpaid dividend payments.

AgStar's Series A-1 Preferred Stock is junior to any subordinated notes, existing and future debt obligations and any series of preferred stock issued in the future with priority rights. The Series A-1 Preferred Stock is senior to AgStar's outstanding common stock, participation certificates, preferred stock and patronage equities.

AgriBank has $250 million of Series A Non-Cumulative Perpetual Preferred Stock (Series A Preferred Stock) outstanding, representing 2.5 million shares at $100 per share par value. This series may be held or transferred in blocks having an aggregate par value of $25 thousand to investors meeting the eligibility requirements and an investor must hold at least 250 shares. The net proceeds from the issuance were used for general corporate purposes. For regulatory capital purposes, AgriBank's Series A Preferred Stock is included in permanent capital, total surplus and core surplus, subject to certain limitations as defined by the FCA.

Dividends on the Series A Preferred Stock, if declared by AgriBank's Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the first day of January, April, July and October. Dividends accrue at a fixed annual rate of 6.875 percent from the date of issuance through December 31, 2023, and beginning January 1, 2024 will accrue at an annual rate equal to the three-month United States Dollar LIBOR rate, reset quarterly, plus 4.225 percent.

The Series A Preferred Stock is not mandatorily redeemable at any time. However, the Series A Preferred Stock will be redeemable at par value plus accrued and unpaid dividends, in whole or in part, at AgriBank's option, quarterly beginning January 1, 2024. In addition, the Series A Preferred Stock will be redeemable in whole, at AgriBank's option, at any time upon the occurrence of certain defined regulatory events.

The Series A Preferred Stock is junior to any series of preferred stock AgriBank may issue in the future with priority rights. The Series A Preferred Stock is senior to AgriBank's outstanding capital stock.

Member Stock

At-risk stock and participation certificates, which include all equities issued on or after October 6, 1988, may be retired only at the discretion of the Boards of Directors. Such equities are retired at the lower of book value or par value. The bylaws of the District Associations generally permit stock and participation certificates to be retired at the discretion of the Boards of Directors in accordance with the District

Associations' capitalization plan provided prescribed capital standards have been met. At December 31, 2016, all District Associations exceeded these prescribed standards. Management at the District Associations does not anticipate any significant changes in capital that would impact the normal retirement of stock.

Protected stock and participation certificates of $210 thousand, $282 thousand and $292 thousand, are included in Capital Stock and Participation Certificates on the Statements of Changes in Shareholders' Equity as of December 31, 2016, 2015 and 2014, respectively.

Stock preference upon liquidation or impairment follows the respective entities' bylaws; however, protected stock will be retired at par value regardless of impairment.

Each holder of voting common stock is entitled to a single vote in matters affecting their respective Association. Holders of nonvoting common stock and participation certificates have no voting rights. Stock is generally transferable to other members eligible to own such stock as long as allowed for in the bylaws of the respective entities, provided that the regulatory minimum capital requirements are met.

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in capital stock (in the case of agricultural loans) or participation certificates (in the case of rural residence, farm related business or leases) of the respective District Association as a condition of borrowing. The initial investment requirement varies by District Association and ranges from the statutory minimum of 2 percent of the loan amount or one thousand dollars per borrower, whichever is less, to 5 percent of the loan amount. In addition, District Associations generally require the purchase of one participation certificate by each lease customer and non-stockholder customers who purchase financial services. Each District Association's Board of Directors may increase, within the range outlined in their bylaws, the amount of initial investment, if necessary, to meet the District Associations' capital needs.

The borrower of a District Association acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is generally added to the principal amount of the related obligation. A first lien is held on the stock or participation certificates owned by the borrowers.

As a condition of borrowing from AgriBank, OFIs are required to maintain an investment in AgriBank. As of December 31, 2016, this required investment was 2.25 percent of their quarter-end loan commitment plus an additional 1 percent on increases in their commitments that exceeded a targeted rate. AgriBank's bylaws permit increasing the investment up to 4 percent with Board of Directors approval. These required Series A Participation Certificate investments are purchased in cash.

In December 2016, AgriBank's Board approved the 2017 capital plan, which amended the required stock investments for OFIs, effective January 1, 2017. The new required investment will be the lesser of 4 percent based on a percentage of loan commitments with a higher percentage on commitments above a sustainable growth rate. The 2017 component requirements are currently 2.25 percent on average loan commitments, with an additional amount on growth in excess of a sustainable growth rate.

District Associations are also required to invest in AgriBank as a condition of borrowing; however, these stock purchases are eliminated in the Combined Financial Statements presented in this Annual Report.

Protection Mechanisms

Protection of certain borrower capital is provided under the Farm Credit Act, which requires AgriBank and District Associations to retire protected capital at par or stated value regardless of its book value at the time of retirement. Protected borrower capital includes capital stock, participation certificates and allocated equities that were outstanding at January 6, 1988 or were issued or allocated before October 6, 1988. Borrower stock issued after October 5, 1988 is not subject to these protection provisions. If AgriBank or District Associations are unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

Regulatory Capitalization Requirements and Restrictions

FCA regulations require each institution to maintain certain minimum capital ratios. AgriBank and District Associations are prohibited from reducing capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. No such prohibitions were in effect as of December 31, 2016, and AgriBank and District Associations do not foresee any events that would result in this prohibition during 2017.

Regulatory Capital Requirements and Ratios

As of December 31,	Regulatory Minimums	2016	2015	2014
Permanent capital ratio	7.0%			
AgriBank		**20.6%**	20.8%	20.8%
District Associations		**14.2% - 22.5%**	14.8% - 21.0%	15.0% - 23.3%
District Association weighted average		**16.5%**	16.2%	16.2%
Total surplus ratio	7.0%			
AgriBank		**17.2%**	17.9%	18.1%
District Associations		**14.0% - 19.8%**	14.6% - 19.6%	14.8% - 20.0%
District Association weighted average		**16.2%**	16.0%	15.9%
Core surplus ratio	3.5%			
AgriBank		**12.6%**	12.1%	11.8%
District Associations		**12.1% - 19.8%**	12.3% - 19.6%	12.9% - 19.9%
District Association weighted average		**16.1%**	15.8%	15.7%
AgriBank net collateral ratio*	103.0%	**105.5%**	105.8%	105.9%

* FCA requires AgriBank to maintain a higher minimum of 104.0% during any period in which AgriBank has subordinated notes outstanding. Concurrent with the redemption of AgriBank's subordinated notes on July 15, 2016 FCA's regulatory minimum requirement reverted to 103.0%.

These ratios are calculated in accordance with FCA regulations and are discussed below:

- Permanent capital ratio is the quarterly average permanent capital (generally shareholders' equity and subordinated notes subject to certain limitations, excluding accumulated other comprehensive income (loss) and other deductions) as a percentage of quarterly average risk-adjusted assets
- Total surplus ratio is the quarterly average total unallocated surplus (permanent capital less purchased stock) as a percentage of quarterly average risk-adjusted assets
- Core surplus ratio, is the quarterly average core surplus (generally unallocated surplus and perpetual preferred stock subject to certain limitations) as a percentage of quarterly average risk-adjusted assets
- Net collateral ratio is the net collateral (generally net loans and investments) less an amount equal to that portion of the allocated investments of District Associations that is not counted as

permanent capital by AgriBank, divided by total liabilities as adjusted to exclude subordinated notes (subject to certain limitations) and the fair value adjustment impact of certain derivatives

Risk-adjusted assets have been defined by FCA regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

The inclusion of Series A Preferred Stock and Series A-1 Preferred Stock in regulatory capital ratios is subject to certain limitations as defined by FCA. For 2016, the limit to be counted as core surplus is equal to the greater of the then-existing limit or one-third of the average of the four quarters of core surplus outstanding for the previous year. For 2016, the Series A Preferred Stock and Series A-1 Preferred Stock was not subject to any limitations.

The inclusion of subordinated notes in AgriBank's regulatory capital ratios as of December 31, 2015 and 2014 was subject to certain limitations as defined by the FCA. The amount of subordinated notes eligible to be counted as permanent capital and total surplus was not to exceed 50 percent of core surplus, and beginning in July 2014, was reduced by 20 percent of the original amount at the beginning of each of the last five years of the term of the notes.

The amount of third-party capital instruments, including preferred stock and subordinated notes, that may be counted in total surplus must not exceed the lower of 40 percent of permanent capital outstanding or 100 percent of core surplus outstanding, whichever is less. Third-party capital instruments that are not included in permanent capital and total surplus due to these limitations are required to be included as liabilities for the purpose of calculating the net collateral ratio.

FCA regulations require Associations and System Banks to agree upon a plan for allocating the Associations' investments in System Banks for calculation of all regulatory capital ratios effective prior to January 1, 2017 and the permanent capital ratio in 2017 and beyond. For the calculation of regulatory capital ratios at December 31, 2016, AgriBank's agreement with District Associations is, generally, each District Association would count in its ratios any excess allocated investment over that required by AgriBank unless there is a specific agreement to count the investment differently.

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 ratios with common equity tier 1, tier 1 and total capital risk-based capital ratios. The final rule also replaces the existing net collateral ratio for System Banks with the tier 1 leverage and unallocated retained earnings equivalents ratios (both non-risk-adjusted), which will apply to both System Banks and Associations. The permanent capital ratio continues to remain in effect with the final rule. The new capital requirements became effective January 1, 2017.

FCA Revised Capital Requirements

	Regulatory Minimums	Capital Conservation Buffer	Total
Risk adjusted:			
Common equity tier 1 capital 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%
UREE leverage ratio	1.5%	0.0%	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over 3 years under the FCA revised capital requirements.

If the 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.

Patronage Distributions and Dividends

Payment of discretionary patronage and/or dividends is allowed under AgriBank and District Associations bylaws if the distribution is in accordance with applicable laws and regulations, including the FCA capital adequacy regulations.

The District Associations designated $322.0 million, $282.9 million and $268.7 million of earnings for patronage during 2016, 2015 and 2014, respectively. AgriBank also pays patronage, substantially all of which was paid to District Associations and was eliminated in combination. Patronage designated by AgriBank that was not eliminated in combination was $8.2 million, $7.0 million and $5.8 million at December 31, 2016, 2015 and 2014, respectively.

One District Association has a nonqualified patronage program that allocated surplus of $67.1 million, $62.9 million and $60.0 million in 2016, 2015 and 2014, respectively. Nonqualified patronage of $32.7 million, $27.2 million and $28.4 million was redeemed during 2016, 2015 and 2014, respectively.

Additionally, two District Associations made nonqualified patronage allocations totaling $90.0 million in 2016. The nonqualified patronage allocation is based on a determination by the respective Boards of Directors that surplus from 2015 patronage-sourced earnings can be allocated to eligible borrowers while still maintaining a sound capital position at each District Association. The timing and amounts of all future allocated surplus redemptions is at the discretion of the Boards of Directors, subject to compliance with applicable regulatory requirements. These patronage equities have no voting rights and are only transferable if specifically authorized by the Boards of Directors.

Certain District Associations have attributed and may continue to attribute to shareholders all patronage sourced income in excess of the qualified patronage program distributions to shareholders. It is communicated to shareholders that this amount will not be redeemed and as such, is not considered allocated surplus.

AgriBank and AgStar declared preferred stock dividends of $17.2 million and $6.8 million, respectively, during each year ended 2016, 2015 and 2014.

In the event preferred stock dividends for the current dividend period have not been declared, the issuing entity may not declare or pay any dividends, patronage refunds or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, any shares of capital stock (including borrower stock, participation certificates and preferred stock), other than exercising their statutory lien under the Farm Credit Act, which allows them to apply member stock and/or participation certificates to reduce the aggregate principal amount of outstanding loans. AgriBank and AgStar have declared dividends as scheduled since issuing preferred stock.

Noncontrolling Interest

The noncontrolling interest represents the equity investment by institutions outside the AgriBank District in AgDirect LLP and Foundations, as described in Note 2.

NOTE 8

Income Taxes

Provision for Income Taxes

(in thousands)

For the year ended December 31,	2016	2015	2014
Current:			
Federal	**$44,525**	$29,986	$45,643
State	**2,923**	2,650	5,654
Total current	**47,448**	32,636	51,297
Deferred:			
Federal	**(38,394)**	(11,228)	(6,894)
State	**(2,087)**	(1,677)	(581)
Increase (decrease) in valuation allowances	**4,030**	(473)	1,805
Total deferred	**(36,451)**	(13,378)	(5,670)
Total provision for income taxes	**$10,997**	$19,258	$45,627

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands)

For the year ended December 31,	2016	2015	2014
Federal tax at statutory rate	**$645,014**	$648,082	$676,907
State tax, net	**1,012**	3,233	5,032
Effect of non-taxable entities	**(560,952)**	(558,660)	(569,883)
Patronage distributions	**(81,326)**	(65,752)	(67,486)
Increase (decrease) in valuation allowances	**4,030**	(473)	1,806
Other, net	**3,219**	(7,172)	(749)
Total provision for income taxes	**$10,997**	$19,258	$45,627

Deferred Income Taxes

Tax laws require certain items to be included in each entity's tax returns at different times than the items are reflected on the Combined Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. The tax effect of temporary differences are recorded as deferred tax assets and liabilities netted on the Combined Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands) **As of December 31,**	**2016**	2015	2014
Allowance for loan losses	**$55,984**	$41,155	$36,897
Post-employment benefits accrual	**6,157**	6,224	6,130
Accrued pension asset	**(12,922)**	(8,023)	(8,464)
Leasing related, net	**(125,923)**	(155,851)	(167,653)
Accrued patronage income not received	**(4,692)**	(2,753)	(4,365)
AgriBank 2002 allocated stock	**(10,041)**	(10,122)	(10,192)
Depreciation	**(892)**	(1,310)	(1,525)
Valuation allowance	**(16,932)**	(12,903)	(13,376)
Net operating loss carryforwards	**905**	194	7,409
Other assets	**21,627**	20,292	18,889
Other liabilities	**(2,337)**	(2,419)	(2,643)
Net deferred tax liabilities	**$(89,066)**	$(125,516)	$(138,893)
Gross deferred:			
Tax assets	**$84,673**	$67,865	$62,741
Tax liabilities	**(173,739)**	(193,381)	(201,634)

Deferred tax assets and liabilities are presented on the Combined Statements of Condition as $17.9 million of net deferred tax assets, representing the amount of deferred tax assets for District Associations in a deferred tax asset position and $107.0 million of net deferred tax liabilities, representing the amount of deferred tax liabilities for District Associations in a net deferred tax liability position at December 31, 2016.

Under the current standards of accounting for income taxes, any deferred tax asset must be evaluated as to its realizable value. At December 31, 2016, 2015 and 2014, certain District Associations have determined that, primarily due to the effect of patronage programs, there is insufficient certainty of having future taxable income and tax liabilities with which to realize tax savings from the reversal of these deferred tax assets. As a result, these District Associations have booked valuation allowances against those deferred tax assets which reflect the current year's adjustments related to those allowances.

Deferred income taxes have not been provided by the PCAs and ACAs on approximately $525.3 million of patronage distributions allocated from AgriBank before January 1, 1993. Such allocations, distributed in the form of stock, are subject to income tax only upon conversion to cash. District Associations' management intent is to permanently maintain these investments in AgriBank. Additionally, deferred income taxes have not been provided by certain District Associations on approximately $6.6 million of 2002 patronage allocations received from AgriBank. Those District Associations' Boards of Directors passed resolutions that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under the Associations' patronage programs. Deferred income taxes have also not been provided on accumulated District Associations FLCA subsidiary earnings of $15.1 billion as it is the intention of the ACAs' management to permanently maintain their investments in the FLCA subsidiaries or to distribute the earnings to members in a manner that results in no additional tax liability to the District Associations.

Other than distributions made under AgriBank's patronage programs, AgriBank has no plans to make distributions of unallocated retained earnings to District Associations. Therefore, deferred taxes have not been provided by any District Association on AgriBank's retained earnings.

Income tax returns are subject to review by various U.S. taxing authorities. District Associations record accruals for items they believe may be challenged by these taxing authorizes. However, there were no uncertain income tax positions at December 31, 2016. In addition, District Associations believe they are no longer subject to income tax examinations for years prior to 2013.

At various times, District Associations receive assessment letters from the IRS as a result of audits of prior year tax returns. There were no material assessments outstanding at December 31, 2016.

NOTE 9

Employee Benefit Plans

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Boards of Director members) from the participating organizations. The Coordinating Committee (a subset of the Plan Sponsor Committee comprised of AgriBank District representatives) is responsible for decisions regarding retirement benefits at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

All District employers, with the exception of one District Association, participate in the defined benefit retirement plan. Certain District employers also participate in the nonqualified retirement plan. Additionally, District employers provide certain health insurance benefits to eligible retired employees in the District. Expenses related to these plans are included in “Salaries and employee benefits” on the Combined Statements of Comprehensive Income. The current measurement date is December 31 for the defined benefit and other post-employment benefit plans. The funded status of the post-employment benefit plans is recorded at the District level only.

Pension Benefit Plans

Pension Plan: Certain employees at AgriBank and District Associations, with the exception of one District Association, participate in the AgriBank District Retirement Plan, a District-wide defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan’s benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan’s termination is contingent on the sufficiency of the plan’s net assets to provide benefits at that time. This Plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers’ retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if an entity chooses to stop participating in the plan, it may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. Each employer recognizes their proportional share of expense and contributes a proportional share of funding. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the Combined Financial Statements.

Pension Restoration Plan: AgriBank and certain District Associations also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

The Pension Restoration Plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. The Pension Restoration Plan is unfunded, and participating institutions make annual contributions to fund benefits paid to retirees covered by the plan. Cash contributions were equal to the benefits paid. Restoration Plan benefits paid to AgriBank and District Association senior officers is included in the Additional Regulatory Information and Disclosure Information Required by Regulations section of the Annual Reports, respectively.

Other Post-Employment Benefit Plans

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status.

Obligations and Funded Status

(in thousands)	Pension Benefits			Other Benefits		
As of December 31,	**2016**	2015	2014	**2016**	2015	2014
Change in benefit obligation						
Benefit obligation at beginning of year	**$1,286,909**	$1,262,655	$1,039,912	**$30,479**	$35,051	$30,126
Service cost	**30,606**	30,085	26,452	**452**	559	490
Interest cost	**46,335**	50,594	50,226	**1,083**	1,392	1,434
Plan amendments	**(27,632)**	430	--	**--**	--	--
Actuarial loss (gain)	**25,508**	1,396	190,157	**(902)**	(5,120)	4,476
Benefits paid	**(63,587)**	(58,251)	(44,092)	**(1,415)**	(1,403)	(1,475)
Benefit obligation at end of year	**$1,298,139**	$1,286,909	$1,262,655	**$29,697**	$30,479	$35,051
Change in plan assets						
Fair value of plan assets at beginning of year	**$801,434**	$811,079	$759,462	**$ --**	$ --	$ --
Actual return on plan assets	**60,332**	(16,193)	42,196	**--**	--	--
Employer contributions	**97,142**	64,799	53,513	**1,415**	1,403	1,475
Benefits, premiums and expenses paid	**(63,587)**	(58,251)	(44,092)	**(1,415)**	(1,403)	(1,475)
Fair value of plan assets at end of year	**$895,321**	$801,434	$811,079	**$ --**	$ --	$ --
Unfunded liability	**$(402,818)**	$(485,475)	$(451,576)	**$(29,697)**	$(30,479)	$(35,051)
Accumulated benefit obligation	**$1,119,690**	$1,090,457	$1,074,760	**n/a**	n/a	n/a

(in thousands)	Pension Benefits			Other Benefits		
As of December 31,	**2016**	2015	2014	**2016**	2015	2014
Amounts recognized in the Combined Statements of Condition consist of:						
Pension liabilities	**$402,818**	$485,475	$451,576	**$29,697**	$30,479	$35,051
Net amount recognized	**$(402,818)**	$(485,475)	$(451,576)	**$(29,697)**	$(30,479)	$(35,051)
Amounts recognized in accumulated other comprehensive income consist of:						
Net loss (gain)	**$523,798**	$541,704	$512,276	**$(7,203)**	$(6,744)	$(1,673)
Prior service credit	**(29,410)**	(2,898)	(4,592)	**(384)**	(828)	(1,289)
Total recognized in other comprehensive loss (income)	**$494,388**	$538,806	$507,684	**$(7,587)**	$(7,572)	$(2,962)
Weighted-average assumptions used to determine benefit obligations						
Discount rate	**4.25%**	4.51%	4.10%	**4.25%**	4.51%	4.10%
Rate of compensation increase	**5.25%**	5.25%	4.50%	**n/a**	n/a	n/a

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Combined Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation, which is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation, exceeds pension plan assets. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

During 2016, the pension plan was amended to change the discount rate basis for a certain distribution option utilizing a graduated increase from treasury rates to corporate bond rates. The plan amendment resulted in a reduction of the benefit obligation.

Components of Net Periodic Benefit Cost

(in thousands)	Pension Benefits			Other Benefits		
For the year ended December 31,	**2016**	2015	2014	**2016**	2015	2014
Net periodic benefit cost						
Service cost	**$30,606**	$30,085	$26,452	**$452**	$559	$490
Interest cost	**46,335**	50,594	50,226	**1,083**	1,392	1,434
Expected return on plan assets	**(59,335)**	(55,632)	(55,381)	**--**	--	--
Amortization of prior service credit	**(1,119)**	(1,264)	(1,267)	**(444)**	(461)	(720)
Recognized net actuarial loss (gain)	**40,087**	43,780	29,449	**(442)**	(21)	(352)
Settlements	**2,330**	--	--	**--**	--	--
Net periodic benefit cost	**$58,904**	$67,563	$49,479	**$649**	$1,469	$852
Other changes in plan assets and benefit obligations recognized in other comprehensive income						
Net loss (gain)	**$24,511**	$73,208	$203,342	**$(901)**	$(5,092)	$4,470
Prior service cost	**(27,631)**	430	--	**--**	--	--
Amortization of prior service credit	**1,119**	1,264	1,267	**444**	461	720
Amortization of net (loss) gain	**(42,417)**	(43,780)	(29,449)	**442**	21	352
Total recognized in other comprehensive income	**$(44,418)**	$31,122	$175,160	**$(15)**	$(4,610)	$5,542
Total recognized in net periodic benefit cost and other comprehensive income	**$14,486**	$98,685	$224,639	**$634**	$(3,141)	$6,394
Weighted-average assumptions used to determine net costs						
Discount rate:						
Spot yield curve	**n/a**	4.10%	4.95%	**n/a**	4.10%	4.95%
Projected benefit obligation	**4.51%**	n/a	n/a	**4.49%**	n/a	n/a
Service cost	**4.67%**	n/a	n/a	**4.84%**	n/a	n/a
Interest cost	**3.73%**	n/a	n/a	**3.67%**	n/a	n/a
Expected return on plan assets	**7.25%**	7.25%	8.00%	**n/a**	n/a	n/a
Rate of compensation increase	**5.25%**	4.50%	4.50%	**n/a**	n/a	n/a

The estimated net loss and prior service credit for the Pension Benefits plans that will be amortized from District accumulated other comprehensive income into net periodic benefit cost over the next year is an expense of $35.3 million. The estimated net gain and prior service credit for the Other Benefits plans that will be amortized from District accumulated other comprehensive income into net periodic benefit cost over the next year is income of $920 thousand.

Assumptions

Benefit obligations and net periodic benefit costs are measured using assumptions designed to reflect future economic conditions. The most significant assumptions used in calculating the benefit obligations are discount rates, mortality rates and compensation rate increases. In addition to these assumptions, expected return on plan assets is also a significant driver in the measurement of net periodic benefit cost.

Beginning in 2016, the discount rates used to estimate service and interest components of net period benefit cost are calculated using a full yield curve method developed by an independent actuary. The approach maps a high-quality bond yield curve to the duration of the plans' liabilities, thus approximating each cash flow of the liability stream to be discounted at an interest rate specifically applicable to its

respective period in time. Previously, a single weighted-average discount rate was used to estimate the service and interest components of net periodic benefit cost.

In 2016, the Plan Sponsor Committee approved to update the mortality improvement assumptions when new tables are issued by the Society of Actuaries. The adoption of the most recent tables did not have a significant impact to the projected benefit obligation as of December 31, 2016.

Periodically, independent actuaries perform an assumption study based on actual plan participants' results over the past three years. Assumptions in this study include, but are not limited to: rates of termination, retirement age, and benefit form elected. The most recent study was completed in 2015.

The expected long-term rate of return assumption is determined by the Coordinating Committee with input from the Trust Committee. Historical return information is used to establish a best-estimate range for each asset class in which the plans are invested. The most appropriate rate is selected from the best-estimate range, taking into consideration the duration of plan benefit liabilities and Coordinating Committee investment policies. Generally, a lower rate of return assumption correlates to an increase in the net periodic benefit cost.

For measurement purposes, a 7.75 percent rate of increase in the per capita cost of covered health care benefits is assumed for 2017. The rate is assumed to decrease gradually to 5.0 percent by the year 2023 and remain at that level thereafter.

Assumed health care cost trend rates effect the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have minimal effect for the District.

Estimated Future Contributions and Benefit Payments

The amount of total District employer contributions expected to be paid into the plans during 2017 is $93.0 million for Pension Benefits and $1.5 million for Other Benefits.

The following benefit payments are expected to be paid by the District plans and reflect expected future service, as appropriate:

(in thousands) **As of December 31, 2016**	**Pension Benefits**	**Other Benefits**
Year:		
2017	**$65,090**	**$1,599**
2018	**70,510**	**1,719**
2019	**74,460**	**1,809**
2020	**78,360**	**1,883**
2021	**87,590**	**1,941**
2022 to 2026	**458,750**	**9,968**

Plan Assets

The overall objective of the investment policy is intended to meet the benefit obligations for the plan beneficiaries and to earn a long-term rate of return consistent with the related cash flow profile of the underlying benefit obligations.

The policy uses a risk management strategy designed to reduce investment risks as the funded status improves. To implement the policy, the plan has adopted a diversified set of portfolio management strategies to optimize the risk reward profile of the plan. Plan assets are divided into two primary component portfolios:

- A return-seeking portfolio that is invested in a diversified set of assets designed to deliver performance in excess of the underlying liability growth rate coupled with diversification controls regarding the level of risk. Equity exposures are expected to be the primary drivers of excess returns, but also introduce the greatest level of volatility of returns. Accordingly, the return-seeking portfolio contains additional asset classes that are intended to diversify equity risk as well as contribute to excess return.

  The largest subset contains U.S. equities including securities that are both actively and passively managed to their benchmarks across a full spectrum of capitalization and styles. Non-U.S. equities contain securities in both passively and actively managed strategies. Currency futures and forward contracts may be held for the sole purpose of hedging existing currency risk in the portfolio. Other investments that serve as equity diversifiers include:
    - High yield bonds: fixed income portfolio of securities below investment grade including up to 30 percent of the portfolio in non-U.S. issuers,
    - Global real estate: portfolio of diversified real estate investment trusts and private direct real estate and
    - Hedge fund of funds.

  These portfolios combine income generation and capital appreciation opportunities from developed markets globally. Other investment strategies may be employed to gain certain market exposures, reduce portfolio risk and to further diversify portfolio assets.

- A liability hedging portfolio that is primarily invested in intermediate-term and long-term investment grade corporate bonds in actively managed strategies that are intended to hedge interest rate risk. The portfolio will progressively increase in size as the plan's funded ratio improves. The use of selected portfolio strategies incorporating derivatives may be employed to improve the liability hedging characteristics or reduce risk. Finally, there is a managed liquidity portfolio that is comprised of short-term assets intended to pay periodic plan benefits and expenses.

Portfolios are measured and monitored daily to ensure compliance with the investment policy. Tactical tilts will be employed based on medium term views and capital market assumptions, but will remain within stated policy ranges. For 2017, the asset allocation policy of the pension plan provides a target of 75 percent of assets in return seeking investments and 25 percent of assets in liability hedging investments. Specifically, return seeking investments include: global equity securities, global

real estate investment trust securities, hedge funds, and high yield bonds; and liability hedging investments include high quality credit debt securities.

AgriBank and District Associations adopted ASU 2015-07 "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share," which required retroactive reclassification of investments for which fair value is measured using the net asset value per share practical expedient, consistent with current year presentation. These assets are no longer required to be categorized within the fair value hierarchy and only certain assets in the qualified pension plan were impacted.

Fair Value of Pension Plan Assets

	Fair Value Measurements as of December 31, 2016			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	**$60,424**	**$ --**	**$ --**	**$60,424**
Mutual funds:				
International funds	**--**	**236,938**	**--**	**236,938**
Fixed income funds	**--**	**187,105**	**--**	**187,105**
Domestic funds	**--**	**143,933**	**--**	**143,933**
Bond funds	**--**	**96,503**	**--**	**96,503**
Real estate equity funds	**--**	**20,246**	**--**	**20,246**
Investment insurance contracts	**--**	**--**	**5,917**	**5,917**
Total	**$60,424**	**$684,725**	**$5,917**	**$751,066**
Investments measured at net asset value*				**144,255**
Total assets at fair value				**$895,321**

	Fair Value Measurements as of December 31, 2015			
(in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$25,347	$ --	$ --	$25,347
Mutual funds:				
International funds	--	221,260	--	221,260
Domestic funds	--	127,944	--	127,944
Fixed income funds	--	176,130	--	176,130
Bond funds	--	88,191	--	88,191
Real estate equity funds	--	19,580	--	19,580
Investment insurance contracts	--	--	6,303	6,303
Total	$25,347	$633,105	$6,303	$664,755
Investments measured at net asset value*				136,679
Total assets at fair value				$801,434

(in thousands)	Fair Value Measurements as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$15,210	$ --	$ --	$15,210
Mutual funds:				
Domestic funds	--	196,641	--	196,641
Bond funds	--	182,369	--	182,369
International funds	--	168,946	--	168,946
Bond funds	--	88,589	--	88,589
Real estate equity funds	--	23,319	--	23,319
Investment insurance contracts	--	--	6,736	6,736
Total	$15,210	$659,864	$6,736	$681,810
Investments measured at net asset value*				129,269
				$811,079

*Certain investments that are measured at fair value using the net asset value per share as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the net assets in the pension plans.

Fair Value Measurements using Level 3 Investment Insurance Contracts	
Balance at December 31, 2013	$7,236
Actual return on plan assets:	
Still held at the reporting date	115
Sales	(615)
Balance at December 31, 2014	$6,736
Actual return on plan assets:	
Still held at the reporting date	106
Sales	(539)
Balance at December 31, 2015	$6,303
Actual return on plan assets:	
Still held at the reporting date	**99**
Sales	**(485)**
Balance at December 31, 2016	**$5,917**

There were no assets transferred out of Level 2 or Level 3 in 2016, 2015 or 2014.

Valuation Techniques

Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets would be classified as Level 1. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with observable market data would be classified as Level 2. In addition, assets measured at Net Asset Value (NAV) per share and that can be redeemed at NAV per share at the measurement date are classified as Level 2. Assets valued using unobservable inputs (e.g., a company's own assumptions and data) would be classified as Level 3. All assets are evaluated at the fund level. Refer to Note 13 for a complete description of fair value measurements.

Defined Contribution Plans

AgriBank and all District Associations also participate in a District-wide defined contribution retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0 percent and 50 cents on the dollar on the next 4.0 percent on both pre-tax and post-

tax contributions. The maximum employer match is 4.0 percent. For employees hired after December 31, 2006, District employers contribute 3.0 percent of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0 percent on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0 percent.

AgriBank and certain District Associations also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, be either a Chief Executive Officer or President of a participating employer or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan were $37.9 million, $36.8 million and $32.4 million in 2016, 2015, and 2014, respectively. These expenses were equal to the cash contributions for each year.

Additionally, AgriBank and certain District Associations participate in the Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purpose as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions will be made to the plan.

NOTE 10

Related Party Transactions

In the ordinary course of business, District Associations may enter into loan transactions with their Senior Officers, Directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In the opinion of management at the respective District entities, none of these loans outstanding at December 31, 2016, involved more than the normal risk of collectability.

Related Party Loans and Leases Information

(in thousands)

As of December 31,	**2016**	2015	2014
Total related party loans and leases	**$ 414,763**	$ 387,766	$ 343,720
For the year ended December 31:			
Advances to related parties	**$ 252,051**	$ 297,820	$ 259,724
Repayments by related parties	**272,550**	329,136	280,271

The related parties can be different each year end primarily due to changes in the composition of the Boards of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans and leases in the preceding chart are related to those considered related parties at year end.

Elected members of AgriBank's Board of Directors are District Association borrowers. AgriBank has no direct lending relationships with any of its Board of Directors or Senior Officers. In the ordinary course of business, AgriBank's Directors, Senior Officers and District Association Directors are eligible to hold member investment bonds under the same terms and conditions as all other District Association borrowers and AgriBank employees. The amount held by AgriBank's Directors, Senior Officers and District Association Directors was immaterial to the Combined Statements of Condition. Refer to Note 5 for additional information regarding member investment bonds.

Additional transactions in the ordinary course of business involving Directors, Senior Officers and District Association Directors, if material, are disclosed in the AgriBank and District Associations 2016 respective annual reports.

NOTE 11

Commitments and Contingencies

In the normal course of business, AgriBank and District Associations have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Combined Financial Statements. AgriBank and District Associations do not anticipate any material losses because of the contingencies or commitments.

On November 4, 2016 an alleged class action complaint was filed in the Supreme Court of the State of New York against AgriBank by a purported beneficial owner of AgriBank's Subordinated Notes. The plaintiff has asserted a breach of contract claim and a breach of implied covenant of good faith and fair dealing claim alleging that we impermissibly redeemed the Notes. The plaintiff has requested damages in an amount to be determined at trial, reasonable attorneys' fees and other relief. On December 14, 2016, the case was moved to federal court and is pending in the Southern District of New York. The case is in the early pleading stage, and AgriBank intends to vigorously defend against these allegations. As of the date of these financial statements, the likelihood of any outcome of this proceeding cannot be determined.

As of December 31, 2016 one District Association had a contingent liability of $2.1 million related to an ongoing litigation in which they are involved.

Additionally, from time to time AgriBank and District Associations may be named as defendants in certain lawsuits or legal actions in the normal course of business. At the date of these Combined Financial Statements, AgriBank's and District Associations' respective management teams were not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

While primarily liable for its portion of Systemwide bonds and notes, AgriBank is jointly and severally liable for the Systemwide bonds and notes of the other System Banks. The total bonds and notes of the System at December 31, 2016 were $257.8 billion.

AgriBank, together with all System Banks and the Funding Corporation, have entered into the Contractual Interbank Performance Agreement (CIPA). This agreement establishes agreed-upon standards of District financial condition and performance to achieve and maintain. AgriBank, and each of the other System Banks, exceeded the minimum performance measures at December 31, 2016.

AgriBank, together with all System Banks and the Funding Corporation, have entered into the MAA. This agreement establishes criteria and procedures for the System Banks to provide information and, under specific circumstances, restricting or prohibiting participation in issuances of Systemwide Debt Securities. The agreement is intended to identify and resolve individual System Bank financial problems in a timely manner. AgriBank, and each of the other System Banks, is in compliance with all aspects of the agreement at December 31, 2016.

If a System Bank fails to meet the MAA performance criteria, it will be placed into one of three categories. Each category gives the other System Banks progressively more control over a System Bank that has declining financial performance under the MAA performance criteria. A “Category I” Bank is subject to additional monitoring and reporting requirements; a “Category II” Bank’s ability to participate in issuances of Systemwide Debt Securities may be limited to refinancing maturing debt obligations; and a “Category III” Bank may not be permitted to participate in issuances of Systemwide Debt Securities.

NOTE 12

Financial Instruments with Off-Balance Sheet Risk

AgriBank and District Associations participate in financial instruments with off-balance sheet risk to satisfy the financing needs of borrowers. These financial instruments are in the form of commitments to extend credit and letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the Combined Financial Statements. Commitments to extend credit are agreements to lend to a borrower as long as they are in compliance with conditions established in the contract. At December 31, 2016, AgriBank and District Associations had commitments to extend credit of $31.7 billion, $24.2 million of which was included in “Other liabilities” on the Combined Statements of Condition at December 31, 2016. Standby letters of credit are agreements to pay a beneficiary if there is default on a contractual arrangement. At December 31, 2016, AgriBank and District Associations had issued standby letters of credit of $380.1 million and unexercised commitments related to standby letters of credit of $816.2 million, none of which was included in “Other liabilities” on the Combined Statements of Condition at December 31, 2016. Refer to Note 13 for further discussion regarding standby letters of credit included on the Combined Statements of Condition. Commercial letters of credit are agreements to pay a beneficiary under specific conditions.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses, and payment of a fee may be required. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized on the Combined Financial Statements. Many of the commitments to extend credit and letters of credit will expire without being fully

drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable AgriBank and/or a District Association, as a guarantor, to recover from third parties amounts paid under guarantees, thereby limiting its maximum potential exposures. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers, and the same credit policies are applied by management. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 13

Fair Value Measurements

The fair value of financial instruments is 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. AgriBank and District Associations utilize a fair value hierarchy intended to maximize the use of observable inputs and is based upon the transparency of inputs used in the valuation of an asset or liability. A financial instrument’s categorization within the valuation hierarchy is based upon the least transparent input that is significant to the fair value measurement. Refer to Note 2 for additional discussion of fair value measurement policy.

Recurring Measurements
The following is a list of financial instruments each with a summary of the methods, valuation techniques and inputs used to measure fair value on a recurring basis:

Federal Funds: The fair value of federal funds is generally their face value, plus accrued interest, as these instruments are readily convertible to cash due to their next business day maturity.

Investments Available-for-Sale: The fair value of nearly all investment securities is determined from third-party valuation services that estimate current market prices using discounted cash flow models. Level 2 inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Level 3 inputs are based on the relatively illiquid marketplace for some investments and the lack of marketplace information available for significant inputs and assumptions to the valuation process. Third-party provided prices are compared against publicly available benchmarks and/or dealer quotes from time to time. In an illiquid marketplace and when the price variance between third parties is greater than 5 percent, an average price from two pricing services is used to determine fair value.

Significant increases in volatilities, market spreads, default probabilities, loss severities and possibly prepayment speeds could result in significantly lower fair value measurements. Conversely, significant decreases in those same elements could result in significantly higher fair value measurements. Generally, a change in the assumption used for the probability of default may be accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

As the fair value is determined by third-party valuation services without adjustment by management, quantitative information about significant unobservable inputs used in the fair value measurement are not reasonably available to AgriBank.

Derivative Assets and Liabilities: The fair value of AgriBank's and District Associations' derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models and inputs are observable directly or indirectly in the marketplace. Internally calculated derivative valuations are compared to broker/dealer quotes to substantiate the results.

Cash Collateral Pledged To/By Counterparties: Derivative contracts are supported by bilateral collateral agreements with counterparties requiring AgriBank/them to post either cash or investment securities as collateral in the event certain dollar thresholds of credit exposure are reached or in the case of cleared derivatives, the posting of initial and variation margins. The market value of cash collateral pledged to counterparties and by counterparties is the face value of the collateral pledged, as that approximates fair value.

Standby Letters of Credit: Estimating the fair value of letters of credit is determined by the inherent credit loss in such instruments.

Valuation Techniques and Significant Inputs Used to Measure Fair Value on a Recurring Basis

	Source	Valuation Technique	Inputs
Federal Funds	Counterparty report	Cost approach	Principal plus accrued interest
Mortgage-backed securities	Third party pricing service	Income approach	Benchmark yield curves Volatilities Market spreads Prepayment speeds Quoted prices
Commercial paper and other	Third party pricing service	Market approach	Benchmark yield curves
U.S. Treasury securities	Third party pricing service	Income approach	Benchmark yield curves Quoted prices Bid prices Trade prices, yields, spreads Other observable market information
Asset-backed securities	Third party pricing service	Income approach	Benchmark yield curves Volatilities Market spreads Prepayment speeds Quoted prices
U.S. Agencies	Third party pricing service	Income approach	Benchmark yield curves Quoted prices Bid prices Trade prices, yields, spreads Other observable market information
Cash collateral pledged to counterparties	Counterparty report	Cost approach	Principal plus accrued interest
Derivative assets	Internally developed	Market approach	LIBOR swap curves Volatilities Quoted prices
Cash collateral pledged by counterparties	Counterparty report	Cost approach	Principal plus accrued interest
Derivative liabilities	Internally developed	Market approach	LIBOR swap curves Volatilities Quoted prices
Standby letters of credit	Internally developed	Income approach	Borrower probability of default Funding rate

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(in thousands)	Fair Value Measurement Using			Total Fair
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets:				
Federal funds	**$ --**	**$591,300**	**$ --**	**$591,300**
Investments available-for-sale:				
Mortgage-backed securities	**--**	**5,555,759**	**--**	**5,555,759**
Commercial paper and other	**--**	**4,786,782**	**--**	**4,786,782**
U.S. Treasury securities	**--**	**3,811,798**	**--**	**3,811,798**
Asset-backed securities	**--**	**742,913**	**--**	**742,913**
Total investments available-for-sale	**--**	**14,897,252**	**--**	**14,897,252**
Cash collateral pledged to counterparties	**33,128**	**--**	**--**	**33,128**
Derivative assets	**219**	**13,125**	**--**	**13,344**
Total assets	**$33,347**	**$15,501,677**	**$ --**	**$15,535,024**
Liabilities:				
Derivative liabilities	**$ --**	**$34,637**	**$ --**	**$34,637**
Total liabilities	**$ --**	**$34,637**	**$ --**	**$34,637**

(in thousands)	Fair Value Measurement Using			Total Fair
As of December 31, 2015	Level 1	Level 2	Level 3	Value
Assets:				
Federal funds	$ --	$1,427,125	$ --	$1,427,125
Investments available-for-sale:				
Mortgage-backed securities	--	5,686,573	70,438	5,757,011
Commercial paper and other	--	4,914,385	--	4,914,385
U.S. Treasury securities	--	2,815,257	--	2,815,257
Asset-backed securities	--	768,272	7,958	776,230
Total investments available-for-sale	--	14,184,487	78,396	14,262,883
Cash collateral pledged to counterparties	33,323	--	--	33,323
Derivative assets	--	777	--	777
Total assets	$33,323	$15,612,389	$78,396	$15,724,108
Liabilities:				
Derivative liabilities	$32	$52,002	$ --	$52,034
Total liabilities	$32	$52,002	$ --	$52,034

(in thousands)	Fair Value Measurement Using			Total Fair
As of December 31, 2014	Level 1	Level 2	Level 3	Value
Assets:				
Federal funds	$ --	$1,336,780	$ --	$1,336,780
Investments available-for-sale:				
Mortgage-backed securities	--	5,289,647	124,890	5,414,537
Commercial paper and other	--	5,345,820	--	5,345,820
U.S. Treasury securities	--	2,564,877	--	2,564,877
Asset-backed securities	--	833,573	33,716	867,289
U.S. Agency securities	--	102,254	--	102,254
District Association investments available-for-sale:				
Mortgage-backed securities	--	20,997	--	20,997
Total investments available-for-sale	--	14,157,168	158,606	14,315,774
Cash collateral pledged to counterparties	22,018	--	--	22,018
Derivative assets	--	15,400	--	15,400
Total assets	$22,018	$15,509,348	$158,606	$15,689,972
Liabilities:				
Cash collateral pledged by counterparties	$7,280	$ --	$ --	$7,280
Derivative liabilities	--	44,562	--	44,562
Total liabilities	$7,280	$44,562	$ --	$51,842

Fair Value Measurement Activity of Level 3 Instruments

(in thousands)	Investments Available-For-Sale			Standby letters of credit
	Mortgage-backed securities	Asset-backed securities	Total	
Balance at December 31, 2013	$208,801	$107,954	$316,755	$(2,951)
Total (losses) gains realized/unrealized:				
Included in earnings	11,853	7,965	19,818	2,951
Included in other comprehensive income	(900)	10,325	9,425	--
Sales	(63,476)	(75,340)	(138,816)	--
Settlements	(31,388)	(17,188)	(48,576)	--
Balance at December 31, 2014	$124,890	$33,716	$158,606	$ --
Total gains realized/unrealized:				
Included in earnings	2,141	(228)	1,913	--
Included in other comprehensive income	(2,265)	(729)	(2,994)	--
Sales	(34,547)	(16,113)	(50,660)	--
Settlements	(19,781)	(8,688)	(28,469)	--
Balance at December 31, 2015	$70,438	$7,958	$78,396	$ --
Total gains (losses) realized/unrealized:				
Included in earnings	**4,545**	**5,573**	**10,118**	**--**
Included in other comprehensive income	**(3,610)**	**(5,957)**	**(9,567)**	**--**
Sales	**(63,093)**	**(7,325)**	**(70,418)**	**--**
Settlements	**(8,280)**	**(249)**	**(8,529)**	**--**
Balance at December 31, 2016	**$ --**	**$ --**	**$ --**	**$ --**

There were no assets or liabilities transferred between levels during 2016, 2015 or 2014.

Non-Recurring Measurements

The following represents a summary of the valuation techniques and inputs used to measure fair value on a non-recurring basis:

Impaired Loans: Certain collateral dependent loans are measured at fair value on a non-recurring basis using the market approach when they are evaluated for impairment in which fair values are based upon the underlying collateral. Costs to sell represent transaction costs and are not included as a component of the fair value. Since the value of the collateral, less estimated costs to sell, was less than the principal balance of the loan, specific reserves were established for these loans. Level 2 inputs are based on independent appraisals and other market-based information. Level 3 inputs are significantly impacted based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Other Property Owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value (market approach), which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. Level 2 inputs are based on independent appraisals and other market-based information. Level 3 inputs are significantly impacted based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	Fair Value Measurement Using			Total Fair	Total
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Value**	**Losses**
Impaired Loans	**$ --**	**$30,387**	**$69,087**	**$99,474**	**$(44,756)**
Other property owned	**--**	**--**	**15,111**	**15,111**	**(861)**

(in thousands)	Fair Value Measurement Using			Total Fair	Total
As of December 31, 2015	Level 1	Level 2	Level 3	Value	Losses
Impaired Loans	$ --	$34,441	$58,624	$93,065	$(33,414)
Other property owned	--	--	13,573	13,573	(2,417)

(in thousands)	Fair Value Measurement Using			Total Fair	Total
As of December 31, 2014	Level 1	Level 2	Level 3	Value	(Losses) Gains
Impaired Loans	$ --	$33,501	$52,925	$86,426	$(33,084)
Other property owned	--	--	23,175	23,175	11,766

Other Financial Instrument Measurements

A description of the methods and assumptions used to estimate the fair value of each class of financial instruments, measured at carrying amounts and not measured at fair value on the Combined Statements of Condition, follows:

Cash: The carrying value is a reasonable estimate of fair value.

Investments Held-to-Maturity: Investment securities held-to-maturity are valued using a discounted cash flow model either internally developed or provided by a third party.

Net Non-Impaired Loans: Because no active market exists for loans made by AgriBank and District Associations, the fair value of loans that are not individually specifically impaired is estimated by segregating the loan portfolio into pools of loans with approximate homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool which are then discounted using current interest rates to determine the fair value. In addition, loans are valued using the Farm Credit interest rate yield curve, prepayment rates, contractual loan information, credit classification and collateral values. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render portfolio assets less marketable outside the System.

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

Subordinated Notes: The fair value of obligations held by AgriBank is based on an estimated fair value using credit spreads, market trends, interest rate risks and comparisons to similar institutions which

AgriBank receives from an independent investment dealer. The fair value of obligations held by the District Association is based on a discounted cash flow model based on the Farm Credit interest rate yield curve.

Reserve for Unfunded Loan Commitments: Estimating the fair value of the reserve for unfunded loan commitments is determined by the inherent credit loss in such instruments.

Commitments to Extend Credit and Letters of Credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments based on rate of funding and credit loss factors.

Valuation Techniques and Significant Inputs Used to Measure Fair Value for Certain Financial Instruments

	Source(s)	Valuation Technique	Inputs
Cash	Counterparty report	Cost approach	Par
Investments held to maturity	Internally developed Third party pricing service	Income approach	Benchmark yield curves Volatilities Prepayment speeds Market spreads Quoted prices
Net non-impaired loans	Internally developed	Income approach	Yield curve (Farm Credit) Prepayment speeds Credit classification Contractual loan information Collateral values Discount rates
Bonds and notes	Third party pricing service	Income approach	Yield curve (Treasury) Market spreads U.S. dollar interest rate swap curve Quoted prices Discount rates
Subordinated notes	Internally developed	Income approach	Credit spreads Interest rate risks Market trends Other market information
Reserve for unfunded loan commitments	Internally developed	Income approach	Borrower probability of default Funding rate
Commitments to extend credit and letters of credit	Internally developed	Income approach	Benchmark yield curves Volatilities Market spreads Prepayment speeds Quoted prices

Financial Instruments Not Measured at Fair Value on the Combined Statements of Condition

(in thousands) **As of December 31, 2016**	**Total Carrying Amount**	**Fair Value Measurement Using**			**Total Fair Value**
		Level 1	**Level 2**	**Level 3**	
Assets:					
Cash	**$559,760**	**$559,760**	**$ --**	**$ --**	**$559,760**
Investments held-to-maturity	**1,938,980**	**--**	**305,085**	**1,574,772**	**1,879,857**
Net non-impaired loans	**98,587,750**	**--**	**--**	**97,900,467**	**97,900,467**
Total assets	**$101,086,490**	**$559,760**	**$305,085**	**$99,475,239**	**$100,340,084**
Liabilities:					
Bonds and notes	**$96,633,431**	**$ --**	**$ --**	**$96,111,397**	**$96,111,397**
Reserve for unfunded loan commitments	**24,166**	**--**	**--**	**24,166**	**24,166**
Total liabilities	**$96,657,597**	**$ --**	**$ --**	**$96,135,563**	**$96,135,563**
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		**$ --**	**$ --**	**$(29,431)**	**$(29,431)**

(in thousands) As of December 31, 2015	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	$596,730	$596,730	$ --	$ --	$596,730
Investments held-to-maturity	1,712,097	--	390,435	1,289,725	1,680,160
Net non-impaired loans	94,570,034	--	--	94,607,252	94,607,252
Total assets	$96,878,861	$596,730	$390,435	$95,896,977	$96,884,142
Liabilities:					
Bonds and notes	$93,404,251	$ --	$ --	$93,319,254	$93,319,254
Subordinated notes	597,775	--	--	713,785	713,785
Reserve for unfunded loan commitments	16,445	--	--	16,445	16,445
Total liabilities	$94,018,471	$ --	$ --	$94,049,484	$94,049,484
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		$ --	$ --	$(27,863)	$(27,863)

(in thousands) As of December 31, 2014	Total Carrying Amount	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$831,269	$831,269	$ --	$ --	$831,269
Investments held-to-maturity	1,726,960	--	508,098	1,230,841	1,738,939
Net non-impaired loans	88,174,679	--	--	88,631,042	88,631,042
Total assets	$90,732,908	$831,269	$508,098	$89,861,883	$91,201,250
Liabilities:					
Bonds and notes	$88,552,711	$ --	$ --	$88,459,535	$88,459,535
Subordinated notes	597,268	--	--	736,073	736,073
Reserve for unfunded loan commitments	11,390	--	--	11,390	11,390
Total liabilities	$89,161,369	$ --	$ --	$89,206,998	$89,206,998
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		$ --	$ --	$(23,789)	$(23,789)

NOTE 14

Derivative and Hedging Activity

Use of Derivatives

AgriBank maintains an overall interest rate risk management strategy that incorporates the use of derivative products to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. AgriBank's goals are to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect net interest margin. As a result of interest rate fluctuations, hedged fixed-rate liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. AgriBank considers the use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

AgriBank primarily enters into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities or better manage liquidity. AgriBank uses various derivative instruments as follows:

- Interest rate swaps allow AgriBank to change the characteristics of fixed or floating debt issued by swapping to a synthetic fixed or floating rate lower than those available if borrowings were made directly. Under interest rate swap arrangements, AgriBank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

- Interest rate options allow AgriBank to manage the impact of changing interest rates on certain assets and liabilities.
- AgriBank also offers interest rate swaps to qualified borrowers of District Associations. These swaps allow qualified borrowers to manage their interest rate risk and lock in a fixed interest rate similar to a fixed rate loan. AgriBank manages the interest rate risk from customer swaps with the execution of offsetting interest rate swap transactions.

AgriBank Derivative Instruments Activity (in notional amount)

(in millions)	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Floating and Amortizing Floating-for-Floating	Other Derivatives	Total
Balance at December 31, 2013	$2,150	$1,216	$1,350	$ --	$4,716
Additions	550	60	--	40	650
Maturities/amortization	(1,150)	(41)	(200)	--	(1,391)
Balance at December 31, 2014	$1,550	$1,235	$1,150	$40	$3,975
Additions	700	468	1,700	15	2,883
Maturities/amortization	(700)	(200)	(350)	--	(1,250)
Terminations	--	20	--	(20)	--
Balance at December 31, 2015	$1,550	$1,523	$2,500	$35	$5,608
Additions	**1,216**	**566**	**1,400**	**56**	**3,238**
Maturities/amortization	**(200)**	**(1)**	**(800)**	**(1)**	**(1,002)**
Balance at December 31, 2016	**$2,566**	**$2,088**	**$3,100**	**$90**	**$7,844**

Other derivatives consisted of retail customer interest rate swaps and forward starting swaps.

Credit Risk Management

By using derivative products, AgriBank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, AgriBank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes AgriBank, thus creating credit risk. When the fair value of the derivative contract is negative, AgriBank owes the counterparty and, therefore, AgriBank does not assume credit risk to that counterparty.

To minimize the risk of credit losses, for non-customer bilateral derivatives, AgriBank deals only with counterparties that have an investment-grade or better credit rating from a rating agency and AgriBank monitors the credit standing and levels of exposure to individual counterparties. At December 31, 2016 AgriBank does not anticipate nonperformance by any of these counterparties. AgriBank typically enters into master agreements that contain netting provisions. These provisions allow AgriBank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. All derivative contracts are supported by bilateral collateral agreements with counterparties requiring AgriBank or the counterparty to post collateral in the event certain dollar thresholds of exposure of one party to the other are reached. These thresholds vary depending on the counterparty's current credit rating. AgriBank had posted collateral under bilateral collateral agreements of $10.0 million as of December 31, 2016. AgriBank had no cash collateral pledged related to bilateral derivative contracts as of December 31, 2015. As of December 31, 2014, AgriBank had

cash collateral pledged by counterparties of $7.3 million related to bilateral derivative contracts. AgriBank had no securities posted as collateral from counterparties at December 31, 2016, 2015 and 2014.

AgriBank may also clear derivative transactions through a futures commission merchant (FCM) with a clearinghouse or a central counterparty (CCP). When the swap is cleared by the two parties, the single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including margin, member capital contributions and FCM guarantees of their customers' transactions with the CCP. FCMs also pre-qualify the counterparties to all swaps that are sent to the CCP from a credit perspective, setting limits for each counterparty and collecting initial and variation margin daily from each counterparty for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. The initial and variation margin requirements are set by and held for the benefit of the CCP. Additional initial margin may be required and held by the FCM, due to its guarantees of its customers' trades with the CCP. Initial margin pledged to counterparties was $27.9 million, $17.8 million and $8.0 million as of December 31, 2016, 2015 and 2014, respectively. Variation margin pledged by counterparties was $6.7 million as of December 31, 2016. Variation margin pledged to counterparties was $14.3 million and $14.0 million as of December 31, 2015 and 2014, respectively.

Certain derivative instruments contain provisions that require AgriBank to post additional collateral upon the occurrence of a specified credit risk-related event. These events, which are defined by existing derivative contracts, are downgrades in the credit rating of AgriBank or if AgriBank is no longer considered a Federally Chartered Instrumentality of the United States. The fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position at December 31, 2016 was $32.1 million. In the event that AgriBank is downgraded, a tiered collateral posting would be activated which may require AgriBank to post collateral of up to $22.1 million.

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

One District Association is party to derivative financial instruments called TBAs to manage exposure to interest rate risk and changes in the fair value of forward loans held for sale and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined. Margin pledged to counterparties was $2.0 million, $1.3 million and $650 thousand as of December 31, 2016, 2015 and 2014, respectively.

Accounting for Derivatives

Fair-Value Hedges: For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. AgriBank includes the gain or loss on the derivative in the same line item ("Interest expense") as the offsetting gain or loss on the related hedged item. Gains and losses on derivatives representing hedge components excluded from the assessment of effectiveness are recorded in current period earnings in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Cash Flow Hedges: For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss), until earnings are affected by the variability of the cash flows of the hedged transaction. Gains and losses on the derivatives representing hedge components excluded from the assessment of effectiveness are recorded in current period earnings in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Derivatives not Designated as Hedges: For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Financial Statement Impact of Derivatives

The following tables present the gross fair value, offsetting and net exposure amounts of derivative assets and derivative liabilities. The fair value of derivative contracts are presented as "Derivative assets" and "Derivative liabilities" on the Combined Statements of Condition, and are presented net for counterparties with master netting agreements.

	2016		2015		2014	
(in thousands)	**Fair Value**	**Fair Value**	Fair Value	Fair Value	Fair Value	Fair Value
As of December 31,	**Assets**	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Derivatives designated as hedging instruments:						
Receive-fixed swaps	**$2,099**	**$6,746**	$13,480	$649	$35,460	$77
Pay-fixed and amortizing pay-fixed swaps	**33,102**	**50,378**	3,380	64,587	4,102	63,787
Floating-for-floating and amortizing floating-for-floating swaps	**1,744**	**1,625**	151	3,368	--	5,114
Total derivatives designated as hedging instruments	**36,945**	**58,749**	17,011	68,604	39,562	68,978
Derivatives not designated as hedging instruments:						
Receive-fixed swaps	**--**	**--**	--	--	--	93
Pay-fixed and amortizing pay-fixed swaps	**3,568**	**130**	40	305	--	--
Other derivative products	**476**	**3,205**	562	32	265	--
Total derivatives not designated as hedging instruments	**4,044**	**3,335**	602	337	265	93
Credit valuation adjustments	**(198)**	**--**	71	--	82	--
Total gross amounts of derivatives	**$40,791**	**$62,084**	$17,684	$68,941	$39,909	$69,071
Gross amounts offset in Combined Statements of Condition	**(27,447)**	**(27,447)**	(16,907)	(16,907)	(24,509)	(24,509)
Net amounts in Combined Statements of Condition	**$13,344**	**$34,637**	$777	$52,034	$15,400	$44,562

(in thousands)			
As of December 31,	**2016**	2015	2014
Derivative assets, net	**$13,344**	$777	$15,400
Derivative liabilities, net	**(34,637)**	(52,034)	(44,562)
Accrued interest (payable) receivable on derivatives, net	**(568)**	2,426	285
Gross amounts not offset in Combined Statements of Condition:			
Cash collateral pledged by counterparties	**--**	--	(7,280)
Cash collateral pledged to counterparties	**33,128**	33,323	22,018
Net exposure amounts	**$11,267**	$(15,508)	$(14,139)

The fair value of derivatives includes credit valuation adjustments (CVA). The CVA reflects credit risk of each derivative counterparty to which AgriBank has exposure, net of any collateral posted by the counterparty, and an adjustment for AgriBank's credit worthiness where the counterparty has exposure to AgriBank. The CVA was unfavorable in 2016 due to exposure to counterparties and favorable in 2015 and 2014 due to counterparties' exposure to AgriBank. The change in the CVA for the period is included in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Fair-Value Hedges: AgriBank recorded losses related to swaps of $262 thousand in 2016 and gains of $169 thousand and $139 thousand 2015 and 2014, respectively. The gains and losses on the derivative instruments are recognized in "Interest expense" on the on the Combined Statements of Comprehensive Income.

Cash Flow Hedges: The following table presents the amount of other comprehensive income (OCI) recognized on derivatives, the amount reclassified from accumulated other comprehensive income (AOCI) into earnings on effective cash flow hedges and amounts excluded from effectiveness testing. During the next 12 months, no net losses in AOCI on derivative instruments that qualified as cash flow hedges are expected to be reclassified into earnings.

(in thousands) **For the year ended December 31, 2016** **Cash Flow Hedging Relationships**	**Amount of Gain Recognized in OCI on Derivatives (Effective Portion)**	**Amount of Gain Reclassified from AOCI into Income (Effective Portion)**	**Amount of Loss Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing**
Pay-fixed and amortizing pay-fixed swaps	**$43,931**	**$ --**	**$ --**
Floating-for-floating and amortizing floating-for-floating swaps	**3,336**	**--**	**(47)**
Total	**$47,267**	**$ --**	**$(47)**

(in thousands) For the year ended December 31, 2015 Cash Flow Hedging Relationships	Amount of (Loss) Gain Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing
Pay-fixed and amortizing pay-fixed swaps	$(1,512)	$(27)	$2
Floating-for-floating and amortizing floating-for-floating swaps	1,991	--	(20)
Other derivative products	(105)	(36)	167
Total	$374	$(63)	$149

(in thousands) For the period ended December 31, 2014 Cash Flow Hedging Relationships	Amount of (Loss) Gain Recognized in OCI on Derivatives (Effective Portion)	Amount of Loss (Gain) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing
Pay-fixed and amortizing pay-fixed swaps	$(66,946)	$515	$6
Floating-for-floating and amortizing floating-for-floating swaps	1,841	--	--
Other derivative products	--	(296)	--
Total	$(65,105)	$219	$6

Derivatives not Designated as Hedges: AgriBank and one District Association recorded net gains related to swaps of $3.5 million in 2016 and net losses of $880 thousand and $628 thousand in 2015 and 2014, respectively. The gains and losses on these derivative instruments are recognized in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

NOTE 15

Accumulated Other Comprehensive Income

Changes in Components of Accumulated Other Comprehensive Income

(in thousands)	Not-other-than-temporarily-impaired Investments	Other-than-temporarily-impaired Investments	Derivatives and Hedging Activity	Employee Benefit Plans Activity	Total
Balance at December 31, 2013	$(1,245)	$10,252	$463	$(324,020)	$(314,550)
Other comprehensive (loss) income before reclassifications	4,257	26,432	(65,105)	(207,811)	(242,227)
Amounts reclassified from accumulated other comprehensive income	1,675	(21,493)	(219)	27,109	7,072
Net other comprehensive (loss) income	5,932	4,939	(65,324)	(180,702)	(235,155)
Balance at December 31, 2014	$4,687	$15,191	$(64,861)	$(504,722)	$(549,705)
Other comprehensive income (loss) before reclassifications	(37,665)	(386)	374	(68,546)	(106,223)
Amounts reclassified from accumulated other comprehensive income	1,976	(4,244)	63	42,034	39,829
Net other comprehensive income (loss)	(35,689)	(4,630)	437	(26,512)	(66,394)
Balance at December 31, 2015	$(31,002)	$10,561	$(64,424)	$(531,234)	$(616,099)
Other comprehensive (loss) income before reclassifications	**(31,605)**	**(2)**	**47,267**	**4,021**	**19,681**
Amounts reclassified from accumulated other comprehensive income	**(266)**	**(10,559)**	**--**	**40,412**	**29,587**
Net other comprehensive (loss) income	**(31,871)**	**(10,561)**	**47,267**	**44,433**	**49,268**
Balance at December 31, 2016	**$(62,873)**	**$ --**	**$(17,157)**	**$(486,801)**	**$(566,831)**

Reclassifications Out of Accumulated Other Comprehensive Income

(in thousands) Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income			Affected Line Item in the Combined Statements of Comprehensive Income
For the year ended December 31,	**2016**	2015	2014	
Not-other-than-temporarily-impaired investments:				
Impairment losses	**$ --**	$73	$ --	Net impairment losses recognized in earnings
Realized (gain) loss on sale of investment securities, net	**(266)**	1,903	1,675	Miscellaneous income and other gains, net
	(266)	1,976	1,675	
Other-than-temporarily-impaired investments:				
Impairment losses	**--**	620	150	Net impairment losses recognized in earnings
Realized gain on sale of investment securities, net	**(10,559)**	(4,864)	(21,643)	Miscellaneous income and other gains, net
	(10,559)	(4,244)	(21,493)	
Derivatives and hedging activity:				
Interest rate contracts	**--**	63	(219)	Interest expense
Employee benefit plans activity:				
Prior service cost	**(1,563)**	(1,725)	(1,987)	Salaries and employee benefits
Actuarial loss	**41,975**	43,759	29,096	Salaries and employee benefits
	40,412	42,034	27,109	
Total reclassifications	**$29,587**	$39,829	$7,072	

NOTE 16

AgriBank Only Financial Data

(in thousands)

As of December 31,	2016	2015	2014
Loans	**$86,078,402**	$82,819,652	$77,546,155
Allowance for loan losses	**21,282**	18,076	12,520
Net loans	**86,057,120**	82,801,576	77,533,635
Cash, federal funds and investment securities	**15,958,548**	16,223,719	16,412,505
Accrued interest receivable	**420,670**	381,104	350,211
Other assets	**126,958**	100,435	96,100
Total assets	**$102,563,296**	$99,506,834	$94,392,451
Bonds and notes	**$96,633,431**	93,404,251	$88,552,711
Subordinated notes	**--**	498,283	497,899
Other liabilities	**443,762**	430,184	425,796
Total liabilities	**97,077,193**	94,332,718	89,476,406
Capital stock and participation certificates	**2,433,701**	2,313,343	2,194,292
Surplus	**3,132,432**	2,945,638	2,766,819
Accumulated other comprehensive loss	**(80,030)**	(84,865)	(45,066)
Total shareholders' equity	**5,486,103**	5,174,116	4,916,045
Total liabilities and shareholders' equity	**$102,563,296**	$99,506,834	$94,392,451

For the year ended December 31,	2016	2015	2014
Interest income	**$1,767,889**	$1,508,138	$1,405,289
Interest expense	**1,193,414**	988,136	880,256
Net interest income	**574,475**	520,002	525,033
Provision for loan losses	**6,500**	7,500	3,500
Net interest income after provision for loan losses	**567,975**	512,502	521,533
Net other expense (income)	**31,910**	32,529	(48,115)
Net income	**$536,065**	$479,973	$569,648

Payment of patronage and/or dividends is allowed under AgriBank bylaws if the distribution is in accordance with applicable laws and regulations, including FCA regulations. AgriBank's patronage distributions totaled $332.1 million, $284.0 million and $337.6 million for 2016, 2015 and 2014, respectively. Substantially all patronage is paid to the District Associations and is eliminated in combination. AgriBank preferred stock dividend distributions were $17.2 million in each 2016, 2015 and 2014.

NOTE 17

Condensed Average Daily Statements of Condition (Unaudited)

Condensed Statement of Condition on an Average Daily Balance Basis

(in thousands)

As of December 31,	2016	2015	2014
Net loans	**$96,010,547**	$89,108,705	$83,369,254
Cash, federal funds, investment securities and other earning assets	**17,984,540**	17,746,220	16,437,872
Accrued interest receivable	**1,038,750**	961,948	899,141
Other assets	**1,277,705**	1,235,862	1,213,631
Total assets	**$116,311,542**	$109,052,735	$101,919,898
Bonds and notes	**$94,378,660**	$88,385,974	$82,809,484
Subordinated notes	**363,115**	597,476	596,981
Other liabilities	**1,505,625**	1,500,653	1,164,269
Total liabilities	**96,247,400**	90,484,103	84,570,734
Shareholders' equity	**20,064,142**	18,568,632	17,349,164
Total liabilities and shareholders' equity	**$116,311,542**	$109,052,735	$101,919,898

NOTE 18

Quarterly Financial Information (Unaudited)

Select Quarterly Financial Information

(in thousands)

2016	First	Second	Third	Fourth	Total
Interest income	**$990,056**	**$1,008,612**	**$1,032,308**	**$1,040,458**	**$4,071,434**
Interest expense	**291,368**	**300,729**	**303,204**	**307,218**	**1,202,519**
Net interest income	**698,688**	**707,883**	**729,104**	**733,240**	**2,868,915**
Provision for credit losses	**40,036**	**54,859**	**25,809**	**21,133**	**141,837**
Net other expenses	**241,571**	**225,486**	**216,586**	**211,536**	**895,179**
Net income	**$417,081**	**$427,538**	**$486,709**	**$500,571**	**$1,831,899**

2015	First	Second	Third	Fourth	Total
Interest income	$896,689	$907,210	$939,077	$948,999	$3,691,975
Interest expense	236,940	243,639	253,134	263,401	997,114
Net interest income	659,749	663,571	685,943	685,598	2,694,861
Provision for credit losses	10,204	16,756	30,665	14,269	71,894
Net other expenses	219,901	221,483	190,518	158,662	790,564
Net income	$429,644	$425,332	$464,760	$512,667	$1,832,403

2014	First	Second	Third	Fourth	Total
Interest income	$855,288	$868,565	$887,827	$908,368	$3,520,048
Interest expense	216,957	218,071	224,314	229,913	889,255
Net interest income	638,331	650,494	663,513	678,455	2,630,793
(Reversal of) provision for credit losses	(5,969)	17,500	4,384	9,484	25,399
Net other expenses	208,474	195,010	149,241	164,279	717,004
Net income	$435,826	$437,984	$509,888	$504,692	$1,888,390

NOTE 19

Subsequent Events

Subsequent events have been evaluated through March 15, 2017, which is the date the Combined Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in the 2016 Combined Financial Statements or disclosure in the Notes to those Combined Financial Statements.

Additional Regulatory Information

AgriBank, FCB and District Associations
(Unaudited)

Various disclosures required by Farm Credit Administration regulations 620.3, 620.5 and 620.6 are included in the individual Institution reports. Refer to the individual District Associations' and AgriBank's 2016 annual reports for information required by these regulations. Each Institution's quarterly and annual reports are available free of charge and upon request to the respective addresses, phone numbers or websites listed at the back of this report.

Young, Beginning and Small Farmers and Ranchers

(Unaudited)

As part of the Farm Credit System's commitment to rural America, the District Associations have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers in their territories. The definitions of young, beginning and small farmers and ranchers follow:

- **Young:** A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- **Beginning:** A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- **Small:** A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

It is important to note that a farmer/rancher may be included in multiple categories based on meeting specific definitions. A more detailed discussion of District Association's programs for young, beginning and small farmers and ranchers can be found in their respective Annual Reports.

Young and Beginning Farmers and Ranchers Served by AgriBank District

(outstanding volume in thousands) **As of December 31, 2016**	**Actual Number of Loans**	**Volume**
Total District loans and commitments	**695,117**	**$117,899,979**
Loans and commitments to young farmers and ranchers	**132,362**	**$16,200,058**
% of loans and commitments to young farmers and ranchers	**19.0%**	**13.7%**
Loans and commitments to beginning farmers and ranchers	**173,373**	**$21,263,120**
% of loans and commitments to beginning farmers and ranchers	**24.9%**	**18.0%**

New Loans Made to Young and Beginning Farmers and Ranchers Served by AgriBank District

(volume in thousands) **For the year ended December 31, 2016**	**Actual Number of New Loans**	**Volume**
Total District new loans and commitments	**275,153**	**$38,694,762**
New loans and commitments to young farmers and ranchers	**45,731**	**$5,321,778**
% of new loans and commitments to young farmers and ranchers	**16.62%**	**13.75%**
New loans and commitments to beginning farmers and ranchers	**53,178**	**$6,221,232**
% of new loans and commitments to beginning farmers and ranchers	**19.3%**	**16.1%**

Small Farmers and Ranchers Served by AgriBank District

(outstanding volume in thousands) **As of December 31, 2016**	Loan Size **$50 thousand or less**	**$50 to $100 thousand**	**$100 to 250 thousand**	**Over $250 thousand**	**Total**
Total District number of loans and commitments	382,198	104,103	118,847	89,969	695,117
Number of loans and commitments to small farmers and ranchers	191,520	55,002	54,762	18,888	320,172
% of loans and commitments to small farmers and ranchers	50.1%	52.8%	46.1%	21.0%	46.1%
Total District loans and commitments	$6,536,461	$7,635,575	$19,076,019	$84,651,924	$117,899,979
Loans and commitments to small farmers and ranchers	$3,223,311	$4,011,942	$8,495,850	$8,501,755	$24,232,858
% of loan and commitment volume to small farmers and ranchers	49.3%	52.5%	44.5%	10.0%	20.6%

New Loans Made to Small Farmers and Ranchers Served by AgriBank District

(volume in thousands) **For the year ended December 31, 2016**	Loan Size **$50 thousand or less**	**$50 to $100 thousand**	**$100 to 250 thousand**	**Over $250 thousand**	**Total**
Total District number of new loans and commitments	177,963	29,765	33,001	34,424	275,153
Number of new loans and commitments to small farmers and ranchers	76,560	13,668	11,000	4,281	105,509
% of new loans and commitments to small farmers and ranchers	43.0%	45.9%	33.3%	12.4%	38.3%
Total District new loans and commitments	$2,610,589	$2,226,313	$5,462,961	$28,394,899	$38,694,762
Total new loans and commitments to small farmers and ranchers	$1,064,245	$1,006,513	$1,728,968	$2,075,745	$5,875,471
% of loans and commitments to small farmers and ranchers	40.8%	45.2%	31.6%	7.3%	15.2%

Risk Factors

AgriBank, FCB and District Associations

In the course of conducting business operations, the District is exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to its own business. The following discussion summarizes some of the more important risk factors that the District faces. This discussion is not exhaustive and there may be other risk factors that the District faces that are not described below. The risk factors described below, if realized, could negatively or positively affect the business, financial condition and future results of operations.

AgriBank, FCB (AgriBank) and the other Banks in the Farm Credit System (the System) are liable for the debt of the System.

AgriBank, along with the other Banks in the System, obtains funds for its lending activities and operations primarily from the sale by the Funding Corporation of Systemwide Debt Securities. The Systemwide Debt Securities are not obligations of and are not guaranteed by the United States of America or any agency or instrumentality thereof, other than the System Banks. Under the Farm Credit Act, each Bank is primarily liable for the portion of the Systemwide Debt Securities issued on its behalf. AgriBank is primarily liable for Systemwide Debt Securities AgriBank has issued. The Banks are also jointly and severally liable for interest payments on certain other debt securities issued individually by other Banks pursuant to Section 4.4(a)(1) of the Farm Credit Act (12 U.S.C. § 2155(a)(1)) (the "Co-Liability Statute"). However, the holders of outstanding subordinated notes that is subject to the Co-Liability Statute waived any right they may have pursuant to the Co-Liability Statute or otherwise to hold other Banks liable for interest payments on such subordinated notes. Additionally, each Bank is jointly and severally liable for the Systemwide Debt Securities issued on behalf of a Bank that is in default on its portion of the Systemwide Debt Securities and where the Farm Credit Insurance Fund (Insurance Fund) of Farm Credit System Insurance Corporation (FCSIC) is insufficient to cure the default. Although the Banks have established a system of mutual covenants and measures that are monitored on a quarterly basis, there is no assurance that these would be sufficient to protect a Bank from liability, should another Bank default and the Insurance Fund be insufficient to cure the default.

The Insurance Fund is available from the FCSIC to ensure the timely payment by each Bank of its primary obligations on the Systemwide Debt Securities, and can also be used by the FCSIC for its operating expenses and for other mandatory and permissive purposes. Under the Farm Credit Act, before joint and several liability can be invoked, available amounts in the Insurance Fund would be utilized to make the payment on such obligations. There is no assurance, however, that the Insurance Fund will have sufficient resources to fund a Bank's defaulted payment of principal and interest on its portion of the Systemwide Debt Securities. If the Insurance Fund is insufficient, then the non-defaulting Banks must pay the default amount in proportion to their respective available collateral positions. "Available collateral" is collateral in excess of the aggregate of each Bank's "collateralized" obligations and is approximately equal to AgriBank's capital. The FCSIC does not insure any payments on the Series A Preferred Stock or any class of common stock, preferred stock or subordinated notes.

To the extent AgriBank must fund its allocated portion of another Bank's portion of the Systemwide Debt Securities as a result of its default on those securities, its earnings and capital would be reduced, possibly materially.

The District is subject to regulation under the Farm Credit Act.
AgriBank, along with the ACAs, FLCAs, PCAs, FCBs and related service organizations in the System, are subject to regulatory oversight and examination by the Farm Credit Administration (FCA) under the Farm Credit Act. A number of rules and regulations are imposed on the operations of AgriBank and District Associations under the Farm Credit Act. Any change in the rules or regulations that govern the Bank's business could have a material impact on AgriBank and District Associations and their operations. Rules and regulations may change from time to time and the interpretations of the relevant rules and regulations also are subject to change.

The Banks are subject to the supervision of, and regulation by, the FCA, including with respect to complying with certain capital requirements. The FCA periodically updates and revises these requirements, including to take into account new capital requirements adopted by the U.S. banking regulators. In this regard, revised capital requirements become effective January 1, 2017, that are more consistent with those the U.S. banking regulators have adopted under the Basel Accord (Basel III) for U.S. banks. In addition, the FCA intends to complete a study by the end of 2017 to determine whether to align its liquidity requirements with those requirements of the U.S. banking regulators and Basel III. Compliance with capital requirements or proposed and adopted liquidity or other requirements, may limit the System's business activities and could adversely affect its financial performance.

As of December 31, 2016 FCA rules and regulations include requirements to maintain regulatory capital at or above minimum levels for our permanent capital ratio, total surplus ratio, core surplus ratio and net collateral ratio. Effective January 1, 2017, the revised regulatory capital rule replaces existing core surplus and total surplus ratios with common equity tier 1, tier 1 and total capital risk-based capital ratios. The final rule also replaces the existing net collateral ratio with tier 1 leverage and unallocated retained earnings equivalents ratios. The permanent capital ratio continues to remain in effect with the final rule. A capital conservation buffer was also added as part of the new requirements for risk-adjusted ratios and will be phased in over three-years. If the capital ratios fall below the total requirements, including the buffer amounts, AgriBank and District Associations would be restricted or prohibited under the Farm Credit Act and FCA regulations from paying patronage refunds or distributions, dividends on our preferred stock, including shares of Series A perpetual Preferred Stock, or discretionary senior executive bonuses without prior FCA approval. The FCA has broad discretionary authority to bring enforcement actions whenever AgriBank and District Associations fall below these prescribed standards or when the FCA otherwise determines that AgriBank and District Associations have insufficient capital, including, without limitation, the power to issue a capital directive or a cease and desist order.

The District's funding is dependent upon the System's ability to access the capital markets.
The District's ability to fund operations, meet financial obligations, including unfunded commitments to extend credit, and generate income depends on the System's ability to issue Systemwide Debt Securities in the debt markets on a regular basis with select maturities and structures at attractive rates. The System's ability to continue to issue Systemwide Debt Securities depends, in part, on the conditions in the capital markets at that time, which are outside the System's control. As a result, the System cannot make any assurances that it will be able to issue competitively priced debt or issue any debt at all. If the System cannot issue competitively priced debt or cannot access the capital markets, the System's ability to access funding would be negatively impacted, which would have a negative effect on the District's financial condition and results of operations, which could be material.

Factors which could have an adverse effect on the System's ability to issue Systemwide Debt Securities at favorable rates and terms.

The System's government-sponsored enterprise (GSE) status has been an important factor in its ability to continually access the debt capital markets. In addition, the System's funding costs historically have been below that of similar non-GSEs. However, as a direct result of the financial difficulties experienced by the housing related GSEs, with both Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Company (Freddie Mac) having been placed into conservatorship by the U.S. government, housing related GSE status reform has been and will continue to be a topic of debate by Congress and the U.S. Administration. While the status and reform debate has not to date specifically related to the System, a potential risk exists that the System, as a GSE, may directly or indirectly be impacted by the decision made as Congress addresses these and other GSEs. Any change in the System's status as a GSE or the general perception by investors of GSE status could have a significant adverse impact on the System's ability to issue debt at favorable rates and terms.

The System is also subject to periodic review by credit rating agencies. Any event that could have an adverse impact on the System's financial condition or results of operations may cause the rating agencies to downgrade, place on negative watch or change their outlook on the System's credit ratings which could have an adverse effect on the System's ability to issue Systemwide Debt Securities at favorable rates and terms and could trigger additional collateral requirements. Also, changes in the credit ratings or credit ratings outlook of the U.S. government may influence changes in the System's credit ratings and credit ratings outlook given its status as a GSE.

Any downgrades in credit ratings and outlook could result in higher funding costs or disruptions in the System's access to capital markets. To the extent that the System cannot access funding when needed on acceptable terms or is unable to effectively manage its costs of funds, its financial condition and results of operations could be negatively affected.

The System also competes for competitively priced debt funding with the U.S. Treasury, other GSEs, including Fannie Mae, Freddie Mac and the Federal Home Loan Banks, and other highly rated institutions and companies. Competition for debt funding from these entities can vary with changes in economic, financial market and regulatory environments. In addition, any change in the perceptions of GSE status may intensify competition with other highly rated institutions and companies in connection with the issuance of Systemwide Debt Securities. Increased competition for competitively priced debt funding of highly rated institutions may result in a higher cost to finance AgriBank's and District Associations' businesses, which could negatively affect the District's financial results. An inability to issue Systemwide Debt Securities at favorable rates in amounts sufficient to fund its business activities and meet its obligations could have an adverse effect on its liquidity, financial condition and results of operations.

The District is exposed to political risk.

Political risk is the risk that adverse consequences through U.S. Government actions or inactions could affect the viability of the Farm Credit System or create instability in agriculture, impacting the viability of Farm Credit System borrowers. The Farm Credit System, as a GSE, is directly at risk of changing legislation. Legislative change could inhibit our ability to fulfill the Farm Credit mission of reliably extending credit to agricultural producers and rural communities. Changes to GSE status have the potential to negatively affect Farm Credit System debt funding flexibility and costs. The System is also influenced by changes to trade policies and farm programs, including the Farm Bill and crop insurance

support. Legislative and policy changes that adversely impact the System may negatively influence our borrowers' financial results, ultimately affecting our credit quality.

AgriBank and District Associations manage political risk by monitoring and remaining abreast of pending legislative changes. When necessary AgriBank and District Associations proactively address political concerns by communicating views on positions and policies directly to congressional representatives and by supporting Farm Credit System councils and industry trade associations representing System interests before Congress.

The District is exposed to credit risk.
In the course of lending and investment activities, the District is exposed to credit risk. Credit risk arises from changes in a borrower's or counterparty's ability or willingness to repay funds borrowed or meet agreed-to obligations, changes in collateral values and changes in prevailing economic environments.

Factors that can influence AgriBank's and District Associations' credit risk exposure include, but are not limited to:

- A general slowdown in the global economy and the relationship of demand for, and supply of, U.S. agricultural commodities in a global marketplace
- Political or regulatory changes that disrupt or modify an established market
- Major international events, including a downturn in the world economy, military or other armed conflicts, political disruptions, civil unrest or trade agreements, which can affect, among other things, the price of commodities or products used or sold by the District's borrowers or their access to markets
- Changes in financial and credit markets, which could affect the ability to buy and sell loan exposures or issue debt
- Fluctuations in prices of agricultural commodities
- Weakness in the U.S. financial, housing and mortgage markets that may impact the carrying value of certain mortgage-related investment securities and the ability of the District's derivative counterparties to perform under the terms of their contracts
- Changes in the general U.S. economy that may impact the availability of off-farm sources of income and prices of real estate
- Changes in farmland values
- Extreme adverse seasonal or weather conditions (such as drought) or market-related risks that significantly affect agricultural production and commodity prices
- The deteriorating credit quality or bankruptcy of market participants
- Changes in technology, regulations or shifts in demographics
- Changes in production expenses (such as feed, fuel and fertilizer)
- An outbreak of a widespread disease in human or livestock/poultry populations
- Federal subsidies for agriculture that may be reduced or eliminated, including the federal crop insurance program
- Development of alternative uses and market for agricultural commodities, or the cessation thereof, including ethanol and other biofuel production
- Environmental conditions or laws impacting the District's lending activities

The District believes it maintains consistent and well-developed underwriting standards and industry-specific lending guidelines, which assist in managing credit risk. The District also believes AgriBank and

District Associations maintain adequate allowance for credit losses inherent in the loan portfolio. Additionally, the District is regulated by and believe it comply with standards set by the FCA. Credit risk is minimized in the liquidity investment portfolio by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies. The District employs many tools to manage credit risk exposures. While AgriBank and District Associations believe these standards and tools are appropriate to manage the District's credit risk, there is no assurance that significant deterioration in credit quality will not occur, which would reduce the earnings of AgriBank and District Associations, possibly materially.

The District is exposed to interest rate and counterparty risk.
In the course of its lending and investment activities, the District is subject to interest rate risk, which is defined as the risk of changes to future earnings or long-term market value of equity due to changes in interest rates. Interest rate risk arises from differences in timing between the contractual maturity, repricing characteristics and prepayments of its assets and the contractual maturity and repricing characteristics of the financing obtained to fund these assets. The risk can also arise from differences between the interest rate indices used to price assets and the indices used to fund those assets. While AgriBank has asset/liability management policies, including risk limits, and strategies to actively manage the District's interest rate risk, including an Asset and Liability Committee composed of a cross-functional group of senior leaders, there can be no assurance that the District's interest rate risk management procedures will be effective or that changes in interest rates will not adversely impact earnings and capital.

The District funds real estate mortgage loans and purchases mortgage-backed and asset-backed securities that are impacted by interest rates. Changes in interest rates can significantly impact the prepayment patterns of these assets and thus affect its earnings. AgriBank strives to manage or reduce this risk by "match-funding" debt securities issued to the maturities of its loans and investments and entering into interest-rate derivative transactions, and through the rebalancing of cash-flow mismatches of assets and liabilities. AgriBank's inability to "match-fund" debt securities to longer-term assets may increase the prepayment risks.

AgriBank uses derivative financial instruments to minimize the financial effects on the District's business of changes in interest rates and must determine the nature and quantity of these hedging transactions. The effectiveness of the hedging transactions depends upon management's ability to determine the appropriate hedging position, taking into consideration the District's assets, liabilities and prevailing and anticipated market conditions. In addition, the usefulness of the hedging strategy depends on the availability in the market of cost-effective hedging instruments and the ability to enter into hedging transactions with high quality counterparties. If AgriBank is unable to manage a hedging position properly it will negatively impact the District's financial condition and results of operations. AgriBank also faces the risk of operational failure of any of the clearing members, exchanges, clearinghouses, or other financial intermediaries used to facilitate such hedging transactions. If a clearing member or clearinghouse were to fail, AgriBank could experience losses related to any collateral posted with such clearing member or clearinghouse to cover initial or variation margin. A default by a counterparty with significant obligations to AgriBank could adversely affect the ability to conduct operations efficiently, which in turn could adversely affect results of operations or financial condition. To minimize the risk of credit losses, AgriBank has developed credit risk management policies and procedures as well as counterparty credit requirements.

If market interest rates move contrary to the District's interest rate risk position, earnings and the net present value of interest-sensitive assets and liabilities will be adversely affected.
The District realizes income primarily from the spread between interest earned on loans and investments and the interest paid on borrowings. Also, from time to time, it is expected that there will be interest rate risk in the form of "gaps" in the interest rate sensitivities of assets and liabilities, meaning that either interest-bearing liabilities will be more sensitive to changes in market interest rates than interest earning assets, or vice versa. In either event, if market interest rates should move contrary to a position, the "gap" will adversely affect earnings and the net present value of interest-sensitive assets and liabilities.

AgriBank and District Associations are exposed to risks associated with the agricultural industry and commodity prices.
AgriBank and District Associations are chartered to make loans as provided in the Farm Credit Act. Due to these statutory provisions, there is a significant concentration of lending to agricultural concerns in the District. Earnings, loan growth and the credit quality the District's lending portfolio can be impacted significantly by the general state of the agricultural economy. In general, the overall U.S. farm economy has experienced a sustained period of favorable conditions that has benefitted from generally strong demand for U.S. agricultural products. The District's financial results have been favorably impacted during this period of time. However, production agriculture remains a cyclical business that is heavily influenced by the demand for U.S. agricultural products and by commodity prices. Regional agricultural economies within the District's territory can be impacted by weather, domestic and international demand for food and other agricultural products and other factors. Extreme seasonal conditions can substantially impact grain harvests and commodity prices and, ultimately, impact the credit quality of agricultural borrowers. In addition, declining land values are a potential lending risk following periods of sustained, rapid land value increases.

Furthermore, the U.S. agricultural sector receives significant financial support from the U.S. government through payments authorized under federal legislation, including USDA-sponsored crop insurance programs. While U.S. government support for agriculture has historically remained consistent, congressional efforts to decrease the U.S. budget deficit likely will result in continued pressure to reduce federal spending. The significant reduction or elimination of such support programs would have a negative impact on the credit quality of certain borrowers. As a result, AgriBank's and District Associations' earnings could be reduced, possibly materially.

Fluctuations in both commodity prices and production expenses (including interest rates), may have an adverse impact on the cash flow and profitability of certain District Association borrowers as well as participations, which, in turn, may negatively affect their ability to repay their loans. While certain borrowers are negatively impacted by these conditions, other borrowers may benefit. For example, decreased prices for grains will result in lower risk profiles for livestock producers, processors and marketers of grains and oilseeds, and borrowers that purchase corn or other grains for use in their products. However, grain farmers may be negatively impacted by lower prices. Fluctuations in the agricultural commodities market and the cost of farm inputs may adversely impact the credit quality of the System's loan portfolio and, as a result, negatively affect operating results.

The volatility and prices for both crude oil and gasoline, diesel fuel and other refined petroleum products fluctuate widely and can have an adverse impact on the cash flow of District Association borrowers, as well as AgriBank's participations. Additionally, the level of mineral income generated from mineral rights

AgriBank owns is a function of oil prices. Various factors influence these prices, many of which are beyond AgriBank's control, include, but not limited to: levels of worldwide and domestic supplies, the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls, the price and level of foreign imports and exports, disruption in supply, the level of consumer demand, the price and availability of alternative fuels, the availability of pipeline capacity, and domestic and foreign governmental regulations and taxes. AgriBank's mineral income is predominantly derived from royalties received from the extraction of crude oil. Should extraction slow or stop entirely, mineral income could be severely and adversely impacted.

The District may lend only to qualified borrowers in the agricultural and rural sectors and certain related entities and are subject to geographic lending restrictions.
Unlike commercial banks and other financial institutions that lend to both the agricultural sector and other sectors of the economy, AgriBank and District Associations are restricted solely to making loans and providing financial services to qualified, eligible borrowers in the agricultural and rural sectors and to certain related entities. In addition, AgriBank and District Associations are subject to certain geographic lending restrictions. As a result, AgriBank and District Associations do not have as much flexibility in attempting to diversify loan portfolios as compared to commercial banks and other financial institutions. This concentration may limit the District's ability to offset adverse performance in one sector against positive performance in another sector like most diversified financial institutions.

AgriBank is exposed to risks associated with its investments.
AgriBank maintains a liquidity plan covering certain contingencies in the event AgriBank's access to normal funding mechanisms is not available. AgriBank purchases only high credit quality investments to best position its investment portfolio to be readily marketable and available to serve as a source of funding in the event of disruption of AgriBank's normal funding mechanisms. AgriBank's liquidity investment portfolio can also be used as collateral to borrow funds to meet obligations.

The majority of AgriBank's investment portfolio consists of securities issued or guaranteed by GSEs or the U.S. government, which remain liquid. The remainder of AgriBank's investment portfolio represents investments in commercial paper, federal funds, certificates of deposit, asset-backed securities, and non-agency mortgage-backed securities. In further support of AgriBank's liquidity, AgriBank has cash on deposit at the Federal Reserve Bank.

Uncertainty in financial markets or distressed economic conditions may significantly reduce the liquidity of AgriBank's and District Associations' investments and may make it difficult to sell such investments if the need arises. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of AgriBank's and District Associations' investments may differ significantly from the values that would have been used had a liquid market existed for the investments.

The District is subject to legal proceedings and legal compliance risks.
The District is subject to a variety of legal proceedings and legal compliance risks. District entities are at times reviewed by the FCA and other governmental authorities, which could lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages. While management believes that they have adopted appropriate risk management and compliance programs, legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time.

The District is subject to reputation risk.
Reputation risk arising from negative public opinion could adversely affect the District's ability to obtain financing, impede the ability to hire and retain qualified personnel or create exposure to greater regulatory scrutiny or adverse regulatory or legislative changes. Such risk encompasses the loss of confidence, trust and esteem among customers, investors, partners, policymakers, shareholders and other key stakeholders. Like all businesses, the District is subject to a wide variety of reputation risks both within and outside the District's control, including credit difficulties with individual customers or industries, business disputes, lawsuits, credit market disruptions, regulatory events and public allegations of misconduct against associates. As members of the System, AgriBank and District Associations could also be indirectly impacted by events that damage the reputation of another System entity. The Boards of Directors and management regard the District's reputation as a critical asset and have implemented a number of policies, procedures and programs to ensure they are well protected.

AgriBank and District Associations face intense competition from competitors, many of whom are substantially larger and have more capital and other resources than AgriBank and District Associations.
AgriBank and District Associations face intense competition, primarily from mortgage banking companies, commercial banks, thrift institutions, insurance companies and finance companies. Many of these competitors in the financial services business are substantially larger and have more capital and other resources than AgriBank or the District Associations. AgriBank's and District Associations' future results may become increasingly sensitive to fluctuations in the volume and cost of their retail lending activities resulting from competition from other lenders and purchasers of loans. There can be no assurance that AgriBank and District Associations will be able to continue to compete successfully in the markets served.

AgriBank's and District Associations' ability to attract and retain qualified employees is critical to successfully fulfilling the District's mission.
The District's continued success will largely depend on our ability to attract and retain a high caliber of talent and on the efforts and abilities of key employees. This is especially crucial as a potential agricultural credit or broader economic decline approaches. The District's business performance and ability to fulfill the District's mission could be adversely affected if AgriBank's or District Associations' ability to attract and retain key employees is negatively impacted.

The District may be subject to information technology system failures, network disruptions and breaches in data security.
The District relies to a large extent upon information technology systems and infrastructure to operate the District's business. The size and complexity of the District's computer systems make them potentially vulnerable to breakdown, malicious intrusion and random attack. While the District's systems are primarily centralized within the AgriBank District, there is de-centralization of systems across the Farm Credit System resulting in increased complexity in the technology infrastructure. Likewise, data privacy breaches by employees and others with permitted access to the District's systems may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. While the District has invested in protection of data and information technology, there can be no assurance that those efforts will prevent breakdowns or breaches in the District's systems that could adversely affect business.

A failure or circumvention of the District's controls and procedures could have an adverse effect on business, results of operations and financial condition.
AgriBank and District Associations regularly review and update internal controls, disclosure controls and procedures, and corporate governance policies and procedures. However, no control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, while AgriBank and District Associations continue to evaluate internal controls, AgriBank and District Associations cannot be certain that these measures will ensure that there will be implementation and maintenance of adequate controls over financial processes and reporting in the future. Any failure or circumvention of AgriBank's and District Associations' controls and procedures or failure to comply with regulations related to controls and procedures could have an adverse effect on business, results of operations and financial condition.

An unfavorable change in U.S. tax laws or an adverse interpretation of existing tax laws could negatively impact financial results.
AgriBank and FLCAs are statutorily exempt from federal taxes. Certain Associations affiliates operate as non-exempt cooperatives. As such, they are eligible, under Subchapter T of the Internal Revenue Code, to deduct or exclude from taxable income amounts determined to be qualified patronage dividends. A change in U.S. tax law or an adverse interpretation of existing tax laws in a manner that reduces or eliminates these tax benefits or that is different from application of such laws would negatively impact results of operations.

AgriBank and District Associations as of January 1, 2017

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Mahomet, IL 61853
(217) 590-2200
www.fcsillinois.com

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404
(870) 932-2288
www.farmcreditmidsouth.com

Farm Credit Mid-America, ACA
1601 UPS Drive
Louisville, KY 40223
(502) 420-3700
www.e-farmcredit.com

Farm Credit Services of America, ACA
5015 S. 118th St.
Omaha, NE 68137
(402) 348-3333
www.fcsamerica.com

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554
(701) 663-6487
www.farmcreditmandan.com

Farm Credit Services of North Dakota, ACA
3100 10th St. S.W.
Minot, ND 58702-0070
(701) 852-1265
www.farmcreditnd.com

Farm Credit Services of Western Arkansas, ACA
3115 W. 2nd Court
Russellville, AR 72801
(479) 968-1434
www.myaglender.com

FCS Financial, ACA
1934 E. Miller St.
Jefferson City, MO 65101-3881
(573)-635-7956
www.myfcsfinancial.com

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823
(800) 968-0061
www.greenstonefcs.com

Progressive Farm Credit Services, ACA
1116 N. Main St.
Sikeston, MO 63801
(573) 471-0342
www.progressivefcs.com

United FCS, ACA
4401 Highway 71 S.
Willmar, MN 56201-1330
(320) 235-1912
www.unitedfcs.com

AgriBank, FCB
30 East 7th Street
St. Paul, MN 55101-4914
(651) 282-8800
www.agribank.com

Federal Farm Credit Banks Funding Corporation

101 Hudson Street, Suite 3505
Jersey City, New Jersey 07302
(201) 200-8000
www.farmcredit-ffcb.com

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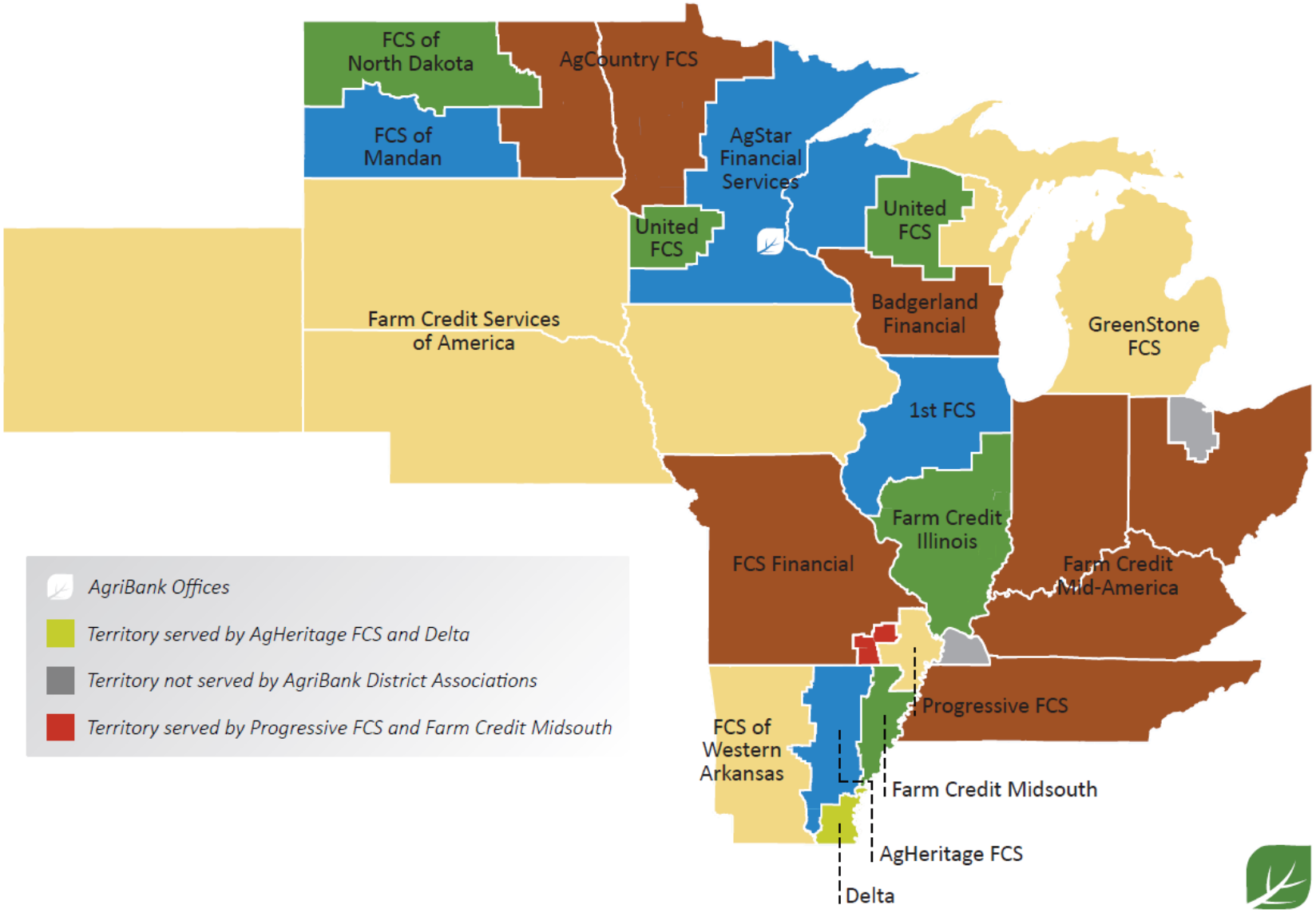
Map of Associations in the AgriBank District



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