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Supporting Farm Credit Associations that serve rural communities and agriculture.

AGRIBANK DISTRICT 2017 QUARTERLY REPORT
JUNE 30, 2017
AGRIBANK, FCB AND DISTRICT ASSOCIATIONS

AgriBank
FARM CREDIT BANK

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Management's Discussion and Analysis

AgriBank, FCB and District Associations

(Unaudited)

The following commentary is a review of the combined financial position and results of operations of AgriBank, FCB (AgriBank) and District Associations which are part of the Farm Credit System (the System). This information should be read in conjunction with the accompanying Combined Financial Statements, the Notes to the Combined Financial Statements and the 2016 Annual Report.

AgriBank is a funding Bank that supports and is primarily owned by 14 Farm Credit Associations. The District has nearly $120 billion in assets. The District Associations are chartered to serve customers in substantially all of Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin and Wyoming. In this position, with its prime location in America's agricultural heartland and 100 years of experience, AgriBank and District Associations are respected partners for rural America based on our collective expertise in providing financial products and services for rural communities and agriculture.

In April 2017, the owners of two District Associations, AgCountry Farm Credit Services, ACA and United FCS, ACA, voted in favor of merging the Associations. The Farm Credit Administration (FCA) provided final approval for the merger in the second quarter of 2017. The merger was effective July 1, 2017 and the merged Association is named AgCountry Farm Credit Services, ACA and is headquartered in Fargo, N.D.

In April 2017, the owners of three District Associations, 1st Farm Credit Services, ACA, AgStar Financial Services, ACA, and Badgerland Financial, ACA voted in favor of merging the Associations. The FCA provided final approval for the merger in the second quarter of 2017. The merger effective date was July 1, 2017, and the merged Association is named Compeer Financial and is headquartered in Sun Prairie, Wis.

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 allows AgriBank and District Associations to develop and maintain long-term, cost-effective technology and business services. The service entity would be owned by AgriBank and certain District Associations. An application to form the service entity was submitted in May 2017 to the FCA for approval with an intended first quarter of 2018 effective date.

Forward-Looking Information

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in the District's 2016 Annual Report. AgriBank and District Associations undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Financial Overview

Net interest income from core lending activities increased across the District for the six months ended June 30, 2017 resulting in net income of $887.0 million, an increase of $42.4 million, or 5.0 percent from results achieved over the same period one year ago. Refer to the Results of Operations section for further discussion.

Loan portfolio credit quality remains sound despite a decline during the first half of 2017 and robust capital levels ensure AgriBank and District Associations are well positioned to manage the cyclicality that is characteristic of the agricultural market. Refer to the Loan Portfolio and Funding, Liquidity and Shareholders' Equity sections for further discussion.

Economic Conditions

Interest Rate Environment

U.S. economic activity is expected to continue advancing at a moderate pace as consumer spending remains resilient and investment spending rebounds from its negative growth rate in 2016. For 2017, the U.S. economy is forecast to grow at 2.2 percent due to the continued growth in consumer spending as a result of labor market improvements. The U.S. dollar weakened slightly in first half of 2017, adding to demand for U.S. exports.

The Federal Open Market Committee (FOMC) of the Federal Reserve has started the process of normalizing the level of interest rates. After the 25 basis point (bps) rate increase in June 2017, the target range for the federal funds rate stands at 1.00 to 1.25 percent. The path for the 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 by an additional 25 bps in 2017 to a target range of 1.25 to 1.50 percent. The U.S. Treasury yield curve has flattened in the first half of 2017 due to the Federal Reserve's increases to short-term rates and due to a decline in inflation expectations, which has pushed long term rates lower. Economists expect an increase of approximately 30 bps in U.S. Treasury rates by the end of 2017 with the 2-year and 10-year rates approaching 1.70 and 2.65 percent, respectively.

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 of the 2016 Annual Report). While many factors can impact net interest income, AgriBank's analysis indicates that, in regard to most interest rate scenarios, financial performance will remain relatively consistent over the next 12 months.

Agricultural Conditions

The U.S. Department of Agriculture's Economic Research Service (USDA-ERS) projects net farm income for 2017 to decline $6.0 billion, or 8.8 percent, to $62.3 billion for 2017, from the revised 2016 estimate of $68.3 billion. This decline was primarily driven by a decline in the value of farm inventories of unsold crops and livestock. In addition, crop receipts are projected to decline slightly in 2017, but are expected to be more than offset by an increase in other cash farm-related income items, primarily commodity insurance indemnities.

Aggregate farm balance sheet forecasts indicate that U.S. farmers are likely to see limited deterioration in their equity position in 2017 due to slight declines in farm asset values and increasing total farm debt. The decline in farm asset values primarily relates to lower valuations on farm machinery and motor vehicles as producers hold on to older equipment, as well as a reduction in crop inventories. The increase in total farm debt is primarily related to increases in real estate debt. The overall U.S. farm debt-to-asset ratio is forecast to rise slightly to 13.9 percent, but still remains well below the record highs of over 20 percent during the 1980s.

An improving outlook for the U.S. economy is expected to support domestic demand for most agricultural commodities in 2017. The primary area of risk will remain the export side of the demand equation, with increased uncertainty surrounding the future of U.S. trade policy and currency fluctuations, to a lesser extent, having an impact. Of the major cash crops, wheat is likely in the weakest position from a supply-demand perspective entering 2017. However, specific classes of wheat have had significant price increases over the last few months because of very dry growing conditions in the northern plains. In addition to cash crops, pork, broilers and dairy are the agricultural sectors most heavily dependent upon exports and the most susceptible to foreign trade-related disruptions in 2017. Current 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 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.

For further analysis of industry conditions, refer to the Agricultural Conditions section of Management's Discussion & Analysis of the 2016 Annual Report.

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. The annual survey results will be compiled during the third quarter of 2017.

The Federal Reserve Banks of Chicago, Kansas City and St. Louis, as of the end of the first quarter of 2017, reported an overall stabilization of land values. The Federal Reserve Banks surveys cited a year-over-year change in the average value of farmland of negative 3.5 percent to positive 10 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 significant increases 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 2013, 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 increases in the level of interest rates.

Loan Portfolio

Components of Loans

(in thousands)	**June 30, 2017**	December 31, 2016
Accrual loans:		
Real estate mortgage	**$56,269,883**	$55,776,558
Production and intermediate-term	**24,801,733**	25,418,995
Agribusiness	**11,073,837**	10,162,217
Rural residential real estate	**2,709,522**	2,760,906
Other	**4,437,818**	4,272,355
Nonaccrual loans	**770,883**	678,208
Total loans	**100,063,676**	$99,069,239

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

District loans totaled $100.1 billion at June 30, 2017, a $994.4 million, or 1.0 percent, increase from December 31, 2016. Total loans increased primarily due to increases in multi-lender credits in the Agribusiness sector and real estate mortgage loans. Production and intermediate term loan volume increased during the second quarter of 2017 driven by seasonal draws to fund operations, however; overall production and intermediate term volume remains below year-end 2016 balances elevated by seasonal draws made prior to year-end for tax planning purposes and subsequent repayments made in the first quarter of 2017. Loan growth has begun to moderate consistent with expectations as a result of the current economic environment.

Credit quality across the District declined to 91.9 percent of the portfolio classified in the acceptable category, compared to 93.2 percent at December 31, 2016. The increase in special mention and adverse credit quality, delinquencies and related allowance for loan losses, compared to December 31, 2016, is primarily due to continued low net farm income across the District. Adversely classified loans were 4.4 percent at June 30, 2017, compared to 3.5 percent at December 31, 2016 and are expected to continue to increase as the District moves through this agriculture efficiency cycle. Substandard and doubtful loans, collectively called adverse loans, are loans AgriBank and District Associations have identified as showing some credit weakness outside typical credit standards.

Components of Risk Assets

(in thousands)	**June 30, 2017**	December 31, 2016
Nonaccrual loans	**$770,883**	$678,208
Accruing restructured loans	**108,548**	89,800
Accruing loans 90 days or more past due	**24,603**	12,123
Total risk loans	**904,034**	780,131
Other property owned	**10,072**	14,530
Total risk assets	**$914,106**	$794,661
Risk loans as a % of total loans	**0.90%**	0.79%
Nonaccrual loans as a % of total loans	**0.77%**	0.68%
Delinquencies as a % of total loans	**0.58%**	0.56%

Note: Accruing loans include accrued interest receivable.

Risk assets have increased from December 31, 2016, but remain at acceptable levels. At June 30, 2017, 59.7 percent of nonaccrual loans were current as to principal and interest compared to 59.9 percent at December 31, 2016. The increase in risk assets was driven primarily by declines in net farm income for certain borrowers within the district. Based on current forecasts for net farm income in certain agricultural production sectors, risk assets are expected to continue to rise.

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, loans 90 days or more past due were eligible to remain in accruing status at June 30, 2017.

Allowance Coverage Ratios

	June 30, 2017	December 31, 2016
Allowance as a % of:		
Loans	**0.44%**	0.39%
Nonaccrual loans	**57.38%**	57.03%
Total risk loans	**48.93%**	49.58%
Adverse assets as a % of risk funds*	**21.54%**	16.74%

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

The allowance for loan losses is an estimate of losses on loans in the portfolio 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. The allowance for loan losses increased from December 31, 2016, to $442.3 million as of June 30, 2017, as a result of increases in commodity related industry reserves due to low net farm income, as well as deterioration in credit quality throughout the District. The management of AgriBank and each District Association, respectively, believe the allowance for loan losses is reasonable in relation to the risk in the portfolios at June 30, 2017.

Funding, Liquidity and Shareholders' Equity

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 six months ended June 30, 2017, investor demand for System-wide debt securities 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 through managing debt maturities, as well as forecasting and anticipating seasonal demands. AgriBank maintains 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 June 30, 2017, 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. As of June 30, 2017, AgriBank had sufficient liquidity to fund all debt maturing within 144 days.

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.

Total shareholders' equity at June 30, 2017 was $21.6 billion, an $815.0 million increase from December 31, 2016. Shareholders' equity increased primarily due to comprehensive income for the period, partially offset by earnings reserved for patronage distributions.

At June 30, 2017, AgriBank and each District Association exceeded the regulatory minimum capital ratios. Refer to Note 4 in the accompanying Combined Financial Statements for further discussion of capital ratios and the recently effective regulations.

Results of Operations

District net income for the six months ended June 30, 2017 was $887.0 million, a 5.0 percent increase, compared to the same period in 2016. The annualized return on average assets was 1.5 percent for each of the six months ended June 30, 2017 and 2016.

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30,	2017	2016	Increase (Decrease) in Net Income
Net interest income	**$1,459,538**	$1,406,571	$52,967
Provision for credit losses	**68,495**	94,896	26,401
Non-interest income	**110,530**	117,688	(7,158)
Non-interest expense	**599,330**	572,033	(27,297)
Provision for income taxes	**15,274**	12,711	(2,563)
Net income	**$886,969**	$844,619	$42,350

Net interest income (NII) for the six months ended June 30, 2017 increased $53.0 million, or 3.8 percent, compared to the same period in 2016. Interest income was positively impacted primarily due to increases in loan volume compared to the prior year, while higher rates received on production and intermediate term loans and investments also contributed. Interest expense increased as a result of higher interest rates paid on debt, and to a lesser extent, additional debt volume compared to prior year.

Changes in Net Interest Income

(in thousands) **For the six months ended June 30,**	**2017 vs 2016**		
Increase (decrease) due to:	**Volume**	**Rate**	**Total**
Interest income:			
Loans	**$71,365**	**$58,295**	**$129,660**
Investments	**(2,082)**	**30,621**	**28,539**
Other earning assets	**130**	**26**	**156**
Total interest income	**69,413**	**88,942**	**158,355**
Interest expense:			
Systemwide debt securities and other	**(9,866)**	**(95,522)**	**(105,388)**
Net change in net interest income	**$59,547**	**$(6,580)**	**$52,967**

Information regarding the year-to-date average daily balances (ADBs) and annualized average rates earned and paid on the portfolio follows:

(in thousands) **For the six months ended June 30,**	**2017**			2016		
	ADB	**Rate**	**NII**	ADB	Rate	NII
Interest earning assets:						
Accrual loans	**$97,913,254**	**4.11%**	**$2,012,634**	$94,634,379	3.99%	$1,887,556
Nonaccrual loans	**724,516**	**6.19%**	**22,429**	566,269	6.30%	17,847
Investment securities and federal funds	**17,129,216**	**1.42%**	**121,209**	17,514,722	1.06%	92,670
Other earning assets	**33,535**	**4.48%**	**751**	27,694	4.30%	595
Total earning assets	**115,800,521**	**3.73%**	**2,157,023**	112,743,064	3.55%	1,998,668
Interest bearing liabilities	**95,195,181**	**1.47%**	**697,485**	93,640,864	1.26%	592,097
Interest rate spread	**$20,605,340**	**2.26%**		$19,102,200	2.29%	
Impact of equity financing		**0.26%**			0.21%	
Net interest margin		**2.52%**			2.50%	
Net interest income			**$1,459,538**			$1,406,571

Interest rate spread decreased three basis points over the same period last year. The decrease in spread has been substantially driven by asset mix and competitive pressures. The decrease in spread was offset by increased impact from equity financing during the first half of 2017, compared to the same period of the prior year, which led to a slight overall increase in net interest margin of two basis points.

The District's provision for credit losses for the six months ended June 30, 2017 was $68.5 million, compared to $94.9 million for the same period in 2016. The provision for credit losses reflects the change in the estimated losses in the loan portfolios during these periods. Refer to the Loan Portfolio section for further discussion.

The increase in non-interest expense was driven by increased salaries expense primarily due to merit increases in the District.

Certification

The undersigned have reviewed the June 30, 2017 Quarterly Report of AgriBank, FCB and District Associations, which has been prepared under the oversight of the AgriBank Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate and complete to the best of the District's knowledge and belief.

Matthew D. Walther
Chair of the Board
AgriBank, FCB
August 9, 2017

William J. Thone
Chief Executive Officer
AgriBank, FCB
August 9, 2017

Brian J. O'Keane
Executive Vice President, Banking and Finance and Chief Financial Officer
AgriBank, FCB
August 9, 2017

Combined Statements of Condition

AgriBank, FCB and District Associations

(unaudited) *(in thousands)*	**June 30, 2017**	December 31, 2016
Assets		
Loans	**$100,063,676**	$99,069,239
Allowance for loan losses	**442,330**	386,754
Net loans	**99,621,346**	98,682,485
Investment securities - AgriBank, FCB	**14,241,480**	14,897,252
Investment securities - District Associations	**2,052,216**	1,938,980
Cash	**311,182**	559,760
Federal funds	**816,400**	591,300
Accrued interest receivable	**1,002,188**	1,046,835
Premises and equipment, net	**519,677**	512,832
Deferred tax assets, net	**14,830**	17,920
Assets held for lease, net	**261,752**	290,863
Derivative assets	**5,826**	13,344
Other property owned	**10,072**	14,530
Cash collateral posted with counterparties	**37,539**	33,128
Other assets	**307,548**	408,059
Total assets	**$119,202,056**	$119,007,288
Liabilities		
Bonds and notes	**$96,339,853**	$96,633,431
Accrued interest payable	**256,220**	223,023
Derivative liabilities	**37,573**	34,637
Deferred tax liabilities, net	**68,990**	106,986
Accounts payable	**157,296**	216,537
Patronage and dividends payable	**104,773**	325,605
Post-employment liability	**400,504**	432,517
Other liabilities	**229,801**	242,489
Total liabilities	**97,595,010**	98,215,225
Commitments and contingencies (Note 6)		
Shareholders' equity		
Perpetual preferred stock	**350,000**	350,000
Capital stock and participation certificates	**286,902**	272,034
Allocated surplus	**595,924**	531,150
Unallocated surplus	**20,854,018**	20,145,063
Accumulated other comprehensive loss	**(541,150)**	(566,831)
Noncontrolling interest	**61,352**	60,647
Total shareholders' equity	**21,607,046**	20,792,063
Total liabilities and shareholders' equity	**$119,202,056**	$119,007,288

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

Combined Statements of Comprehensive Income

AgriBank, FCB and District Associations

(unaudited)
(in thousands)

	Three months		Six months	
For the period ended June 30,	**2017**	2016	**2017**	2016
Interest income				
Loans	**$1,037,286**	$960,796	**$2,035,666**	$1,905,403
Investment securities and other earning assets	**63,433**	47,816	**121,357**	93,265
Total interest income	**1,100,719**	1,008,612	**2,157,023**	1,998,668
Interest expense	**364,551**	300,729	**697,485**	592,097
Net interest income	**736,168**	707,883	**1,459,538**	1,406,571
Provision for credit losses	**49,146**	54,859	**68,495**	94,896
Net interest income after provision for credit losses	**687,022**	653,024	**1,391,043**	1,311,675
Non-interest income				
Financially related services	**23,635**	17,897	**48,370**	39,896
Mineral income	**12,215**	8,680	**22,462**	17,215
Loan prepayment and fee income	**17,044**	23,410	**32,510**	34,466
Miscellaneous income and other (losses) gains, net	**(227)**	11,274	**7,188**	26,111
Total non-interest income	**52,667**	61,261	**110,530**	117,688
Non-interest expense				
Salaries and employee benefits	**182,544**	166,177	**363,647**	339,610
Other operating expenses	**73,669**	71,658	**147,388**	142,091
Occupancy expense	**11,760**	11,570	**23,686**	23,066
Farm Credit System insurance expense	**32,469**	33,828	**64,609**	67,266
Total non-interest expense	**300,442**	283,233	**599,330**	572,033
Income before income taxes	**439,247**	431,052	**902,243**	857,330
Provision for income taxes	**2,538**	3,514	**15,274**	12,711
Net income	**$436,709**	$427,538	**$886,969**	$844,619
Other comprehensive income (loss)				
Investments available-for-sale:				
Not-other-than-temporarily-impaired investments	**$13,041**	$19,318	**$21,691**	$60,225
Other-than-temporarily-impaired investments	**--**	(6,234)	**--**	(6,316)
Derivatives and hedging activity	**(18,310)**	(43,929)	**(13,562)**	(115,261)
Employee benefit plans activity	**8,584**	9,521	**17,552**	19,041
Total other comprehensive income (loss)	**3,315**	(21,324)	**25,681**	(42,311)
Comprehensive income	**$440,024**	$406,214	**$912,650**	$802,308

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

Combined Statements of Changes in Shareholders' Equity

AgriBank, FCB and District Associations

(unaudited) (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, 2015	$350,000	$268,697	$406,758	$18,824,372	$(616,099)	$51,041	$19,284,769
Noncontrolling interest equity investment						4,303	4,303
Net income				844,619			844,619
Other comprehensive loss					(42,311)		(42,311)
Patronage				(78,011)			(78,011)
Surplus allocated under nonqualified patronage program			29,528	(29,528)			--
Redemption of surplus allocated under nonqualified patronage program			(308)				(308)
Perpetual preferred stock dividends				(11,969)			(11,969)
Capital stock/participation certificates issued		10,392					10,392
Capital stock/participation certificates retired		(10,589)					(10,589)
Balance at June 30, 2016	$350,000	$268,500	$435,978	$19,549,483	$(658,410)	$55,344	$20,000,895
Balance at December 31, 2016	**$350,000**	**$272,034**	**$531,150**	**$20,145,063**	**$(566,831)**	**$60,647**	**$20,792,063**
Noncontrolling interest equity investment						**705**	**705**
Net income				**886,969**			**886,969**
Other comprehensive income					**25,681**		**25,681**
Patronage				**(100,972)**			**(100,972)**
Surplus allocated under nonqualified patronage program			**65,117**	**(65,117)**			**--**
Redemption of surplus allocated under nonqualified patronage program			**(343)**	**44**			**(299)**
Perpetual preferred stock dividends				**(11,969)**			**(11,969)**
Capital stock and participation certificates issued		**43,281**					**43,281**
Capital stock and participation certificates retired		**(28,413)**					**(28,413)**
Balance at June 30, 2017	**$350,000**	**$286,902**	**$595,924**	**$20,854,018**	**$(541,150)**	**$61,352**	**$21,607,046**

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

Combined Statements of Cash Flows

AgriBank, FCB and District Associations

(unaudited)
(in thousands)

For the six months ended June 30,	2017	2016
Cash flows from operating activities		
Net income	**$886,969**	$844,619
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation on premises and equipment	**21,031**	21,699
Gain on sales of premises and equipment	**(1,563)**	(1,282)
Depreciation on assets held for lease	**28,526**	48,630
(Gain) loss on disposal of assets held for lease	**(848)**	285
Provision for credit losses	**68,495**	94,896
Loss on other property owned, net	**2,214**	475
(Gain) loss on derivative activities	**(1,588)**	378
Loss (gain) on sale of investment securities, net	**481**	(6,389)
Amortization of discounts on debt and deferred debt issuance costs, net	**48,728**	41,848
Amortization of premiums on loans and investments, net	**113**	3,638
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable	**44,647**	14,089
Decrease in other assets	**103,601**	30,964
Increase (decrease) in accrued interest payable	**33,197**	(997)
Decrease in other liabilities	**(127,216)**	(46,882)
Net cash provided by operating activities	**1,106,787**	1,045,971
Cash flows from investing activities		
Increase in loans, net	**(1,012,956)**	(2,213,233)
Proceeds from sales of other property owned	**7,578**	5,951
Decrease (increase) in investment securities, net	**537,894**	(1,111,434)
Proceeds from the sale of investment securities	**28,751**	57,737
Proceeds from sale of assets held for lease, net	**1,433**	11,240
Purchases of premises and equipment, net	**(26,313)**	(39,837)
Net cash used in investing activities	**(463,613)**	(3,289,576)
Cash flows from financing activities		
Bonds and notes issued	**94,892,580**	99,109,322
Bonds and notes retired	**(95,229,399)**	(97,878,993)
Decrease (increase) in cash collateral posted with counterparties, net	**2,268**	(71,982)
Variation margin settled on cleared derivatives, net	**(13,602)**	--
Patronage distribution paid	**(321,804)**	(286,453)
Redemption of surplus allocated under nonqualified patronage program	**(299)**	(308)
Capital stock and participation certificates issued (retired), net	**14,868**	(197)
Preferred stock dividends paid	**(11,969)**	(11,969)
Increase in noncontrolling interest	**705**	4,303
Net cash (used in) provided by financing activities	**(666,652)**	863,723
Net decrease in cash and federal funds	**(23,478)**	(1,379,882)
Cash and federal funds at beginning of period	**1,151,060**	2,023,855
Cash and federal funds at end of period	**$1,127,582**	$643,973
Supplemental schedule of non-cash activities		
Decrease (increase) in derivative assets	**$7,518**	$(1,125)
Increase in derivative liabilities	**9,943**	111,603
(Decrease) increase in bonds from derivative activity	**(5,487)**	5,154
Decrease in shareholders' equity from cash flow derivatives	**(13,562)**	(115,261)
Increase in shareholders' equity from investment securities	**21,691**	53,909
Increase in shareholders' equity from employee benefits	**17,552**	19,041
Loans transferred to other property owned	**5,451**	6,812
Preferred stock dividends accrued but not paid	**4,297**	4,297
Cash distributions payable to members	**100,476**	74,948
Financed sales of other property owned	**(117)**	(1,188)
Supplemental Information		
Interest paid	**$615,557**	$593,094
Taxes paid	**42,858**	22,226

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

Notes to Combined Financial Statements

AgriBank, FCB and District Associations

(Unaudited)

NOTE 1

Organization and Significant Accounting Policies

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. AgriBank and its District Associations are collectively referred to as the District. At July 1, 2017, the District had 14 Agricultural Credit Associations (ACA) following the mergers discussed in Note 11. Each parent ACA has wholly owned Federal Land Credit Association and Production Credit Association subsidiaries. AgriBank serves as the intermediary between the financial markets and the retail lending activities of the District Associations.

A description of the organization and operation of the District, significant accounting policies followed, combined financial condition and results of operations as of and for the year ended December 31, 2016 are contained in the 2016 Annual Report. These unaudited second quarter 2017 Combined Financial Statements should be read in conjunction with the Annual Report. The results for the six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ended December 31, 2017.

The Combined Financial Statements include the accounts of AgriBank combined with its 14 District Associations and certain related entities. All significant transactions and balances between AgriBank and District Associations have been eliminated in combination. The accompanying Combined Financial Statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Recently Issued or Adopted Accounting Pronouncements

AgriBank and District Associations have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB), but are not yet effective, and have determined the following standards to be applicable to the District:

Standard	Description	Effective date and financial statement impact
In March 2017, the FASB issued Accounting Standards Update (ASU) 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost."	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	This guidance is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted with certain restrictions. AgriBank and District Associations are currently evaluating the impact of the guidance on the results of operations and financial statement disclosures. This guidance will have no impact on the financial condition or cash flows.
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 financial condition or results of operations, but could change the classification of certain items in the 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 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 financial condition, results of operations, cash flows, and financial statement disclosures.
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 the 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 financial condition, results of operations, cash flows, and 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 financial condition and results of operations.

NOTE 2

Loans and Allowance for Loan Losses

Loans by Type

(in thousands)	June 30, 2017 Amount	%	December 31, 2016 Amount	%
Real estate mortgage	**$56,703,604**	**56.7%**	$56,142,318	56.7%
Production and intermediate-term	**25,080,568**	**25.1%**	25,677,124	25.9%
Agribusiness	**11,092,000**	**11.1%**	10,176,335	10.3%
Rural residential real estate	**2,744,686**	**2.7%**	2,796,940	2.8%
Other	**4,442,818**	**4.4%**	4,276,522	4.3%
Total loans	**$100,063,676**	**100.0%**	$99,069,239	100.0%

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

Participations

AgriBank and District Associations may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration (FCA) regulations or General Financing Agreement limitations.

Participations Purchased and Sold

	Other Farm Credit Institutions		**Non-Farm Credit Institutions**		**Total**	
(in thousands) **As of June 30, 2017**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**
Real estate mortgage	**$1,351,533**	**$310,535**	**$3,059,163**	**$76,785**	**$4,410,696**	**$387,320**
Production and intermediate term	**2,033,871**	**537,028**	**3,749,178**	**47,784**	**5,783,049**	**584,812**
Agribusiness	**4,802,460**	**1,199,970**	**831,064**	**99,111**	**5,633,524**	**1,299,081**
Rural residential real estate	**72**	**--**	**9,792**	**--**	**9,864**	**--**
Other	**2,878,983**	**166,026**	**10,239**	**--**	**2,889,222**	**166,026**
Total loans	**$11,066,919**	**$2,213,559**	**$7,659,436**	**$223,680**	**$18,726,355**	**$2,437,239**

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(in thousands) As of December 31, 2016	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	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

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

Portfolio Performance

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

- Acceptable – assets are non-criticized assets representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probability of default ratings.
- 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 June 30, 2017	**Acceptable**		**Special mention**		**Substandard/Doubtful**		**Total**	
Real estate mortgage	**$52,964,707**	**92.4%**	**$1,974,764**	**3.4%**	**$2,377,373**	**4.1%**	**$57,316,844**	**100.0%**
Production and intermediate term	**22,038,792**	**86.9%**	**1,580,889**	**6.2%**	**1,747,171**	**6.9%**	**25,366,852**	**100.0%**
Agribusiness	**10,887,520**	**97.8%**	**73,902**	**0.7%**	**170,117**	**1.5%**	**11,131,539**	**100.0%**
Rural residential real estate	**2,587,856**	**93.8%**	**59,255**	**2.1%**	**112,941**	**4.1%**	**2,760,052**	**100.0%**
Other	**4,356,531**	**97.8%**	**42,896**	**1.0%**	**53,254**	**1.2%**	**4,452,681**	**100.0%**
Total loans	**$92,835,406**	**91.9%**	**$3,731,706**	**3.7%**	**$4,460,856**	**4.4%**	**$101,027,968**	**100.0%**

(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%

Note: Accruing loans include accrued interest receivable.

AgriBank and District Associations had no loans categorized as loss at June 30, 2017 or December 31, 2016.

Aging Analysis of Loans

(in thousands) **As of June 30, 2017**	**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	**$133,207**	**$108,364**	**$241,571**	**$57,075,273**	**$57,316,844**	**$5,759**
Production and intermediate term	**132,957**	**137,786**	**270,743**	**25,096,109**	**25,366,852**	**15,961**
Agribusiness	**23,386**	**5,622**	**29,008**	**11,102,531**	**11,131,539**	**--**
Rural residential real estate	**15,693**	**10,301**	**25,994**	**2,734,058**	**2,760,052**	**640**
Other	**9,066**	**5,418**	**14,484**	**4,438,197**	**4,452,681**	**2,243**
Total loans	**$314,309**	**$267,491**	**$581,800**	**$100,446,168**	**$101,027,968**	**$24,603**

(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

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.

Risk Loan Information

(in thousands)	**June 30, 2017**	December 31, 2016
Nonaccrual loans:		
Current as to principal and interest	**$460,227**	$406,559
Past due	**310,656**	271,649
Total nonaccrual loans	**770,883**	678,208
Accruing restructured loans	**108,548**	89,800
Accruing loans 90 days or more past due	**24,603**	12,123
Total risk loans	**$904,034**	$780,131
Volume with specific reserves	**$169,447**	$135,187
Volume without specific reserves	**734,587**	644,944
Total risk loans	**$904,034**	$780,131
Specific reserves	**$52,940**	$40,452

Note: Accruing loans include accrued interest receivable.

Income on Risk Loans

(in thousands)

For the six months ended June 30,	**2017**	2016
Income on accrual risk loans	**$3,384**	$2,279
Income on nonaccrual loans	**22,429**	17,847
Total income on risk loans	**$25,813**	$20,126
Average risk loans	**$866,593**	$661,854

Risk Assets by Loan Type

(in thousands)	**June 30, 2017**	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	**$433,720**	$365,760
Production and intermediate term	**278,835**	258,129
Agribusiness	**18,164**	14,117
Rural residential real estate	**35,164**	36,034
Other	**5,000**	4,168
Total nonaccrual loans	**$770,883**	$678,208
Accruing restructured loans:		
Real estate mortgage	**$71,037**	$54,786
Production and intermediate term	**32,601**	19,320
Agribusiness	**3,220**	14
Rural residential real estate	**1,690**	1,640
Other	**--**	14,040
Total accruing restructured loans	**$108,548**	$89,800
Accruing loans 90 days or more past due:		
Real estate mortgage	**$5,759**	$3,949
Production and intermediate term	**15,961**	4,893
Rural residential real estate	**640**	64
Other	**2,243**	3,217
Total accruing loans 90 days or more past due	**$24,603**	$12,123
Total risk loans	**$904,034**	$780,131
Other property owned	**$10,072**	$14,530
Total risk assets	**$914,106**	$794,661

Note: Accruing loans include accrued interest receivable.

All risk loans are considered to be impaired loans.

Additional Impaired Loan Information by Loan Type

	As of June 30, 2017			For the six months ended June 30, 2017	
(in thousands)	Recorded Investment*	Unpaid Principal Balance**	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$62,521	$73,370	$14,483	$62,092	$ --
Production and intermediate term	90,354	97,794	33,919	90,316	--
Agribusiness	10,961	11,044	2,411	4,607	--
Rural residential real estate	3,884	4,516	1,339	3,796	--
Other	1,727	1,727	788	2,080	--
Total	$169,447	$188,451	$52,940	$162,891	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$447,995	$528,264	$ --	$432,841	$11,403
Production and intermediate term	237,043	309,171	--	218,402	11,169
Agribusiness	10,423	16,033	--	10,404	2,367
Rural residential real estate	33,610	42,978	--	34,482	697
Other	5,516	5,450	--	7,573	177
Total	$734,587	$901,896	$ --	$703,702	$25,813
Total impaired loans:					
Real estate mortgage	$510,516	$601,634	$14,483	$494,933	$11,403
Production and intermediate term	327,397	406,965	33,919	308,718	11,169
Agribusiness	21,384	27,077	2,411	15,011	2,367
Rural residential real estate	37,494	47,494	1,339	38,278	697
Other	7,243	7,177	788	9,653	177
Total	$904,034	$1,090,347	$52,940	$866,593	$25,813

	As of December 31, 2016			For the six months ended June 30, 2016	
(in thousands)	Recorded Investment*	Unpaid Principal Balance**	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$44,954	$52,612	$7,442	$46,170	$ --
Production and intermediate term	83,498	96,770	30,513	67,035	--
Agribusiness	490	495	327	866	--
Rural residential real estate	3,663	4,348	1,173	5,586	--
Other	2,582	2,582	997	4,561	--
Total	$135,187	$156,807	$40,452	$124,218	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$379,541	$467,790	$ --	$288,490	$9,312
Production and intermediate term	198,844	268,023	--	114,682	5,870
Agribusiness	13,641	19,025	--	10,693	827
Rural residential real estate	34,075	43,919	--	36,344	959
Other	18,843	21,333	--	25,344	248
Total	$644,944	$820,090	$ --	$475,553	$17,216
Total impaired loans:					
Real estate mortgage	$424,495	$520,402	$7,442	$334,660	$9,312
Production and intermediate term	282,342	364,793	30,513	181,717	5,870
Agribusiness	14,131	19,520	327	11,559	827
Rural residential real estate	37,738	48,267	1,173	41,930	959
Other	21,425	23,915	997	29,905	248
Total	$780,131	$976,897	$40,452	$599,771	$17,216

*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 had no material commitments to lend additional money to borrowers whose loans were at risk as of June 30, 2017.

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 District allowance for loan losses.

TDR Activity

(in thousands) **For the six months ended June 30, 2017**	**Pre-modification Outstanding Recorded Investment***	**Post-modification Outstanding Recorded Investment***
TDRs:		
Real estate mortgage	**$6,532**	**$6,480**
Production and intermediate term	**23,097**	**23,238**
Agribusiness	**1,727**	**1,329**
Rural residential real estate	**4**	**3**
Total loans	**$31,360**	**$31,050**

(in thousands) For the six months ended June 30, 2016	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
TDRs:		
Real estate mortgage	$1,446	$1,447
Production and intermediate term	22,430	22,280
Agribusiness	69	69
Rural residential real estate	277	269
Total loans	$24,222	$24,065

*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 forgiveness of interest, interest rate reduction below market or extension of maturity.

TDRs that Occurred within the Previous 12 months that Subsequently Defaulted

(in thousands)	Recorded Investment	
For the six months ended June 30,	**2017**	2016
TDRs that subsequently defaulted:		
Real estate mortgage	**$990**	$164
Production and intermediate term	**532**	281
Agribusiness	**407**	--
Rural residential real estate	**--**	107
Total	**$1,929**	$552

TDRs Outstanding

(in thousands)	June 30, 2017	December 31, 2016
Accrual Status		
Real estate mortgage	**$71,037**	$54,786
Production and intermediate term	**32,601**	19,320
Agribusiness	**3,220**	14
Rural residential real estate	**1,690**	1,640
Other	**--**	14,040
Total TDRs in accrual status	**$108,548**	$89,800
Nonaccrual Status		
Real estate mortgage	**$26,652**	$28,489
Production and intermediate term	**18,061**	25,369
Agribusiness	**6,364**	5,949
Rural residential real estate	**1,662**	1,774
Total TDRs in nonaccrual status	**$52,739**	$61,581
Total TDRs	**$161,287**	$151,381

Note: Accruing loans include accrued interest receivable.

AgriBank and District Associations had no material commitments to lend to borrowers whose loans have been modified as TDRs as of June 30, 2017.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

For the six months ended June 30,	**2017**	2016
Balance at beginning of year	**$386,754**	$285,711
Provision for loan losses	**65,751**	89,130
Charge-offs	**(19,913)**	(14,436)
Recoveries	**9,738**	6,143
Balance at end of period	**$442,330**	$366,548

The allowance for loan losses increased to $442.3 million at June 30, 2017, reflecting $65.8 million of provision for loan losses (not including provision for credit losses of $2.7 million for unfunded commitments), offset by net charge-offs of $10.2 million. The increase in allowance directly relates to increases in risk loans, adverse credit quality and industry related reserves, which are primarily due to declines in net farm income across the District.

Changes in Allowance for Loan Losses and Period 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 as of December 31, 2016	**$158,779**	**$154,488**	**$47,067**	**$10,220**	**$16,200**	**$386,754**
Provision for loan losses	**26,595**	**32,320**	**4,508**	**39**	**2,289**	**65,751**
Charge-offs	**(6,463)**	**(11,733)**	**(1,148)**	**(569)**	**--**	**(19,913)**
Recoveries	**1,369**	**4,557**	**3,498**	**314**	**--**	**9,738**
Balance as of June 30, 2017	**$180,280**	**$179,632**	**$53,925**	**$10,004**	**$18,489**	**$442,330**
At June 30, 2017:						
Ending balance: individually evaluated for impairment	**$14,483**	**$33,919**	**$2,411**	**$1,339**	**$788**	**$52,940**
Ending balance: collectively evaluated for impairment	**$165,797**	**$145,713**	**$51,514**	**$8,665**	**$17,701**	**$389,390**
Recorded investments in loans outstanding:						
Ending balance at June 30, 2017:	**$57,316,844**	**$25,366,852**	**$11,131,539**	**$2,760,052**	**$4,452,681**	**$101,027,968**
Ending balance for loans individually evaluated for impairment	**$510,516**	**$327,397**	**$21,384**	**$37,494**	**$7,243**	**$904,034**
Ending balance for loans collectively evaluated for impairment	**$56,806,328**	**$25,039,455**	**$11,110,155**	**$2,722,558**	**$4,445,438**	**$100,123,934**

(in thousands)	Real estate mortgage	Production and intermediate term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance as of December 31, 2015	$111,000	$118,409	$32,166	$8,986	$15,150	$285,711
Provision for (reversal of) loan losses	26,665	43,595	13,892	2,933	2,045	89,130
Charge-offs	(2,692)	(7,545)	(3,040)	(1,159)	--	(14,436)
Recoveries	2,000	3,047	782	314	--	6,143
Balance as of June 30, 2016	$136,973	$157,506	$43,800	$11,074	$17,195	$366,548
At June 30, 2016:						
Ending balance: individually evaluated for impairment	$8,436	$44,168	$1,760	$1,284	$493	$56,141
Ending balance: collectively evaluated for impairment	$128,537	$113,338	$42,040	$9,790	$16,702	$310,407
Recorded investments in loans outstanding:						
Ending balance at June 30, 2016:	$55,015,665	$25,308,112	$10,317,917	$2,820,133	$4,603,553	$98,065,380
Ending balance for loans individually evaluated for impairment	$395,011	$291,789	$13,781	$41,011	$5,363	$746,955
Ending balance for loans collectively evaluated for impairment	$54,620,654	$25,016,323	$10,304,136	$2,779,122	$4,598,190	$97,318,425

Note: Accruing loans include accrued interest receivable.

NOTE 3

Investment Securities

AgriBank Investment Securities

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

AgriBank AFS Investment Securities

(in thousands) As of June 30, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$5,740,996	$10,394	$40,269	$5,711,121	1.5%
Commercial paper and other	4,711,963	397	161	4,712,199	1.3%
U.S. Treasury securities	3,266,811	13	11,140	3,255,684	1.2%
Asset-backed securities	562,893	60	477	562,476	1.2%
Total	$14,282,663	$10,864	$52,047	$14,241,480	1.4%

(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%

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

Contractual Maturities of AgriBank AFS Investment Securities

	Year of Maturity				
(in thousands) As of June 30, 2017	One Year or Less	One to Five Years	Five to Ten Years	More Than Ten Years	Total
Mortgage-backed securities	$117	$8,325	$160,930	$5,541,749	$5,711,121
Commercial paper and other	4,712,199	--	--	--	4,712,199
U.S. Treasury securities	1,515,509	1,740,175	--	--	3,255,684
Asset-backed securities	6,994	555,482	--	--	562,476
Total	$6,234,819	$2,303,982	$160,930	$5,541,749	$14,241,480
Weighted average yield	1.3%	1.3%	1.7%	1.5%	1.4%

The expected average life is 0.4 years for asset-backed securities (ABS) and 3.6 years for mortgage-backed securities (MBS) at June 30, 2017. Expected maturities differ from contractual maturities because borrowers may have the right to prepay obligations.

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:

	Less than 12 months		**More than 12 months**	
(in thousands)	**Fair**	**Unrealized**	**Fair**	**Unrealized**
As of June 30, 2017	**Value**	**Losses**	**Value**	**Losses**
Mortgage-backed securities	**$2,165,434**	**$24,484**	**$1,898,452**	**$15,785**
Commercial paper and other	**2,124,380**	**161**	**--**	**--**
U.S. Treasury securities	**2,826,476**	**9,669**	**244,072**	**1,471**
Asset-backed securities	**532,133**	**477**	**--**	**--**
Total	**$7,648,423**	**$34,791**	**$2,142,524**	**$17,256**

	Less than 12 months		More than 12 months	
(in thousands)	Fair	Unrealized	Fair	Unrealized
As of December 31, 2016	Value	Losses	Value	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

There were no AgriBank AFS investment securities sold during the six months ended June 30, 2017.

AgriBank sold $8.7 million of AFS investment securities at a net gain of $6.0 million during the six months ended June 30, 2016. All securities sold during the six months ended June 30, 2016, were other-than-temporarily impaired (OTTI) securities.

AgriBank evaluates its investment securities for OTTI on a quarterly basis. AgriBank has determined no securities were in an OTTI loss position at June 30, 2017 or December 31, 2016.

There was no OTTI activity during the six months ended June 30, 2017. The following represents the activity related to the credit-loss component for AgriBank investment securities that had been written down for OTTI that had been recognized in earnings in 2016:

(in thousands)	
For the six months ended June 30,	2016
Credit-loss component, beginning of period	$25,160
Reductions:	
Gains on securities sold	(6,155)
Incremental impairment previously recognized on securities sold	(8,174)
Increases in expected cash flows	(464)
Credit-loss component, end of period	$10,367

District Associations Investment Securities

Periodically, one District Association sells loans held for sale to a third party and purchases 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. The contractual maturities for AFS securities held by the District Association are generally greater than ten years. The District Association held AFS securities with fair value of $22.3 million at June 30, 2017. The District Association held no AFS securities at December 31, 2016. The investments were evaluated for OTTI and no securities were determined to be in an OTTI loss position at June 30, 2017.

The District Association sold AFS securities with total sales proceeds of $28.8 million and $49.0 million during the six months ended June 30, 2017 and 2016, resulting in losses of $481 thousand and gains of $408 thousand, respectively.

All other investments held by District Associations are classified as held-to-maturity (HTM).

HTM Investment Securities

(in thousands) **As of June 30, 2017**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Government guaranteed instruments	**$1,418,016**	**$3,637**	**$55,895**	**$1,365,758**	**2.8%**
Farmer Mac mortgage-backed securities	**604,690**	**1,131**	**29,849**	**575,972**	**3.9%**
Agricultural and Rural Community bonds	**7,224**	**--**	**2**	**7,222**	**2.3%**
Total	**$2,029,930**	**$4,768**	**$85,746**	**$1,948,952**	**3.1%**

(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%

The investments were evaluated for OTTI. No securities were other-than-temporarily impaired as of June 30, 2017 or December 31, 2016.

Other Investments

AgriBank and certain District Associations are among the forming limited partners for certain Rural Business Investment Companies (RBICs). As of June 30, 2017 and December 31, 2016, $48.8 million and $33.5 million, respectively, were invested by AgriBank and certain District Associations.

These other investments were evaluated for impairment. No impairments were recognized on these investments during the six months ended June 30, 2017 or 2016. Other investments are included in “Other assets” on the Combined Statements of Condition.

NOTE 4

Shareholders' Equity

Regulatory Capital Requirements and Ratios

As of June 30, 2017	AgriBank	District Associations	District Associations weighted average	Regulatory Minimums	Capital Conservation Buffer *	Total
Risk adjusted:						
Common equity Tier 1 capital ratio	**18.5%**	**11.8% - 20.4%**	**16.5%**	4.5%	2.5%	7.0%
Tier 1 capital ratio	**19.3%**	**13.0% - 20.4%**	**16.6%**	6.0%	2.5%	8.5%
Total capital ratio	**19.4%**	**13.4% - 20.5%**	**17.0%**	8.0%	2.5%	10.5%
Permanent capital ratio	**19.3%**	**13.3% - 23.5%**	**16.8%**	7.0%	0.0%	7.0%
Non-risk adjusted:						
Tier 1 leverage ratio	**5.6%**	**13.1% - 21.7%**	**17.2%**	4.0%	1.0%	5.0%
Unallocated retained earnings equivalents (UREE) leverage ratio	**3.2%**	**8.4% - 21.7%**	**17.2%**	1.5%	0.0%	1.5%

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

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the net collateral ratio for System Banks with the tier 1 leverage ratio and an unallocated retained earnings and equivalents (UREE) leverage ratio (both non-risk adjusted), which apply to both System Banks and Associations. The permanent capital ratio continues to remain in effect.

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows:

- Common equity tier 1 ratio is the core capital of the Bank including all at-risk borrower stock as it is intended to be held for a minimum of 7 years, unallocated retained earnings as regulatorily prescribed, less certain regulatory required deductions including certain investments in other System institutions, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus allowance and reserve for credit losses under certain limitations, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, unallocated retained earnings as regulatorily prescribed, less certain investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, less certain regulatory required deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

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.

Protected participation certificates of $208 thousand and $210 thousand are included in Capital Stock and Participation Certificates on the Statements of Changes in Shareholders' Equity as of June 30, 2017 and December 31, 2016, respectively.

NOTE 5

Employee Benefit Plans

AgriBank and District Associations participate in District-wide employee benefit plans.

Components of Net Periodic Benefit Cost

(in thousands)	Pension Benefits		Other Benefits	
For the six months ended June 30,	**2017**	2016	**2017**	2016
Service cost	**$14,269**	$15,303	**$217**	$226
Interest cost	**23,452**	23,168	**512**	542
Expected return on plan assets	**(30,972)**	(29,668)	**--**	--
Amortization of prior service credit	**(1,945)**	(560)	**(192)**	(222)
Amortization of net loss (gain)	**19,572**	20,045	**(268)**	(221)
Settlements	**385**	2,330	**--**	--
Net periodic benefit cost	**$24,761**	$30,618	**$269**	$325

Certain employees in the AgriBank District participate in the AgriBank District Retirement Plan, a governmental defined benefit retirement plan covering most of the District. The employers contribute amounts in accordance with the governing body's funding policy to provide the plan with sufficient assets to meet the benefits to be paid to participants. Refer to Note 9 in the 2016 Annual Report for a more complete description of the Employee Benefit Plans.

For the six months ended June 30, 2017, District employers have contributed $38.8 million to fund Pension Benefits. District employers anticipate contributing an additional $54.1 million to fund Pension Benefits in 2017. District employers typically fund 40 percent of their annual contributions to the AgriBank District Retirement Plan in June and the remaining 60 percent in December. The Nonqualified Pension plan is typically funded as benefits are paid.

For the six months ended June 30, 2017, District employers have contributed $686 thousand for Other Benefits. District employers anticipate contributing an additional $913 thousand for Other Benefits in 2017.

NOTE 6

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.

At June 30, 2017, AgriBank and District Associations had commitments to extend credit of $24.7 billion, $26.9 million of which was included in “Other liabilities” on the Consolidated Statements of Condition at June 30, 2017.

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 AgriBank 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 removed to federal court and is pending in the Southern District of New York. On January 27, 2017, AgriBank filed its motion to dismiss the lawsuit. On February 17, 2017, Plaintiff filed its opposition to the motion to dismiss. On February 24, 2017, AgriBank filed its reply brief. 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 June 30, 2017 one District Association had a contingent liability of $2.3 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 System-wide bonds and notes, AgriBank is jointly and severally liable for the System-wide bonds and notes of the other System Banks. The total bonds and notes of the System at June 30, 2017 was $258.4 billion.

NOTE 7

Fair Value Measurements

AgriBank and District Associations use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Assets and liabilities measured at fair value on a recurring and non-recurring basis consist of federal funds, investments available-for-sale, derivative assets and liabilities, collateral assets and liabilities, impaired loans and other property owned. The fair value is also calculated and disclosed for other financial instruments that are not measured at fair value on the Combined Statements of Condition. These assets and liabilities consist of cash, investments held-to-maturity, loans, bonds and notes, unfunded commitments and commitments to extend credit and letters of credit. Refer to Note 13 in the District's 2016 Annual Report for descriptions of the valuation methodologies used for asset and liabilities recorded at fair value on a recurring or non-recurring basis and for estimating fair value for financial instruments not recorded at fair value.

A fair value hierarchy is used for disclosure of fair value measurements to maximize the use of observable inputs. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Refer to Note 2 within the 2016 Annual Report for a more complete description of these input levels.

Recurring Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(in thousands)	Fair Value Measurement Using			Total Fair
As of June 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets:				
Federal funds	**$ --**	**$816,400**	**$ --**	**$816,400**
AgriBank investments available-for-sale:				
Mortgage-backed securities	**--**	**5,711,121**	**--**	**5,711,121**
Commercial paper and other	**--**	**4,712,199**	**--**	**4,712,199**
U.S. Treasury securities	**--**	**3,255,684**	**--**	**3,255,684**
Asset-backed securities	**--**	**562,476**	**--**	**562,476**
District Association investments available-for-sale:				
Mortgage-backed securities	**--**	**--**	**22,286**	**22,286**
Total investments available-for-sale	**--**	**14,241,480**	**22,286**	**14,263,766**
Cash collateral posted with counterparties	**37,539**	**--**	**--**	**37,539**
Derivative assets	**294**	**5,532**	**--**	**5,826**
Total assets	**$37,833**	**$15,063,412**	**$22,286**	**$15,123,531**
Liabilities:				
Derivative liabilities	**$178**	**$37,395**	**$ --**	**$37,573**
Total liabilities	**$178**	**$37,395**	**$ --**	**$37,573**

(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
AgriBank 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 posted with 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

Fair Value Measurement Activity of Level 3 Instruments

(in thousands)	Investments Available-for-Sale: Mortgage-backed Securities	Asset-backed Securities	Total
Balance at December 31, 2016	$ --	$ --	$ --
Total gains (losses) realized/unrealized:			
Included in earnings	**481**	**--**	**481**
Purchases	**50,556**	**--**	**50,556**
Sales	**(28,751)**	**--**	**(28,751)**
Balance at June 30, 2017	**$22,286**	**$ --**	**$22,286**
Balance at December 31, 2015	$70,438	$7,958	$78,396
Total gains (losses) realized/unrealized:			
Included in earnings	415	5,566	5,981
Included in other comprehensive income	(280)	(5,957)	(6,237)
Sales	(1,417)	(7,318)	(8,735)
Settlements	(7,605)	(249)	(7,854)
Balance at June 30, 2016	$61,551	$ --	$61,551

Non-Recurring Measurements

Assets Measured at Fair Value on a Non-recurring Basis

	As of June 30, 2017				For the six months ended June 30, 2017
	Fair Value Measurement Using			Total Fair	Total
(in thousands)	Level 1	Level 2	Level 3	Value	Losses
Impaired Loans	**$ --**	**$55,396**	**$74,326**	**$129,722**	**$(32,401)**
Other property owned	**--**	**--**	**10,475**	**10,475**	**(2,214)**

	As of December 31, 2016				For the six months ended June 30, 2016
	Fair Value Measurement Using			Total Fair	Total
(in thousands)	Level 1	Level 2	Level 3	Value	Losses
Impaired Loans	$ --	$30,387	$69,087	$99,474	$(29,687)
Other property owned	--	--	15,111	15,111	(475)

Other Financial Instrument Measurements

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

(in thousands) **As of June 30, 2017**	**Total Carrying Amount**	**Fair Value Measurement Using** **Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$311,182**	**$311,182**	**$ --**	**$ --**	**$311,182**
Investments held-to-maturity	**2,029,930**	**--**	**308,725**	**1,640,227**	**1,948,952**
Net loans	**99,504,839**	**--**	**--**	**99,488,710**	**99,488,710**
Total assets	**$101,845,951**	**$311,182**	**$308,725**	**$101,128,937**	**$101,748,844**
Liabilities:					
Bonds and notes	**$96,339,853**	**$ --**	**$ --**	**$96,147,814**	**$96,147,814**
Unfunded loan commitments	**26,912**	**--**	**--**	**26,912**	**26,912**
Total liabilities	**$96,366,765**	**$ --**	**$ --**	**$96,174,726**	**$96,174,726**
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		**$ --**	**$ --**	**$(30,604)**	**$(30,604)**

(in thousands) As of December 31, 2016	Total Carrying Amount	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$559,760	$559,760	$ --	$ --	$559,760
Investments held-to-maturity	1,938,980	--	305,085	1,574,772	1,879,857
Net 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
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)

NOTE 8

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 goal is 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. 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 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 facilitates interest rate swaps to qualified borrowers of the 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
As of December 31, 2016	$2,566	$2,088	$3,100	$90	$7,844
Additions	**500**	**80**	**--**	**--**	**580**
Maturities/amortization	**(100)**	**(1)**	**(100)**	**(1)**	**(202)**
As of June 30, 2017	**$2,966**	**$2,167**	**$3,000**	**$89**	**$8,222**
As of December 31, 2015	1,550	1,523	2,500	35	$5,608
Additions	664	390	1,400	--	2,454
Maturities/amortization	--	--	(800)	--	(800)
As of June 30, 2016	$2,214	$1,913	$3,100	$35	$7,262

Other derivatives consisted of customer derivative products.

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. 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 monitors the credit standing and levels of exposure to individual counterparties. At June 30, 2017 AgriBank does not anticipate nonperformance by any of these counterparties. AgriBank typically enters into master agreements that contain netting provisions. All derivative contracts are supported by bilateral collateral agreements with counterparties. Certain derivatives were in a negative fair value position, requiring AgriBank to post cash collateral to counterparties of $15.4 million as of June 30, 2017, and $10.0 million as of December 31, 2016.

AgriBank may also clear derivative transactions through a futures commission merchant (FCM) with a clearinghouse or a central counterparty (CCP). 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 credit worthiness of counterparties to all swaps that are sent to the CCP, set limits for each counterparty, collect initial margin as well as variation margin settlements from each counterparty for changes in the value of cleared derivatives. At June 30, 2017, initial margin posted to counterparties was $20.1 million compared to $27.9 million as of December 31, 2016. In 2017, contracts with certain CCPs changed which resulted in treating daily variation margin payments as settlements rather than collateral posted. As of June 30, 2017, variation margin of $6.9 million was settled with counterparties, compared to variation margin posted as collateral by counterparties of $6.7 million as of December 31, 2016.

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 are developed within limits established by the AgriBank 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. Refer to Note 14 of the 2016 Annual Report for additional information regarding counterparty risk and AgriBank's risk mitigation practices.

One District Association is party to derivative financial instruments called to-be-announced (TBAs) securities 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. The margin posted to the counterparty was $2.0 million as of June 30, 2017 and December 31, 2016.

Financial Statement Impact of Derivatives

Refer to Notes 2 and 14 of the 2016 Annual Report for additional information regarding the accounting for 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 on a net basis for counterparties with master netting agreements.

	June 30, 2017		December 31, 2016	
(in thousands)	**Fair Value Assets**	**Fair Value Liabilities**	Fair Value Assets	Fair Value Liabilities
Derivatives designated as hedging instruments:				
Receive-fixed swaps	**$ --**	**$8,683**	$2,099	$6,746
Pay-fixed and amortizing pay-fixed swaps	**24,958**	**51,419**	33,102	50,378
Floating-for-floating and amortizing floating-for-floating swaps	**--**	**4,257**	1,744	1,625
Total derivatives designated as hedging instruments	**24,958**	**64,359**	36,945	58,749
Derivatives not designated as hedging instruments:				
Pay-fixed and amortizing pay-fixed swaps	**3,288**	**174**	3,568	130
Other derivative products	**569**	**2,907**	476	3,205
Total derivatives not designated as hedging instruments	**3,857**	**3,081**	4,044	3,335
Credit valuation adjustments	**(45)**	**--**	(198)	--
Total gross amounts of derivatives	**$28,770**	**$67,440**	$40,791	$62,084
Gross amounts offset in Combined Statements of Condition	**(22,944)**	**(22,944)**	(27,447)	(27,447)
Variation margin settled	**--**	**(6,923)**	--	--
Net amounts in Combined Statements of Condition	**$5,826**	**$37,573**	$13,344	$34,637

(in thousands)	**June 30, 2017**	December 31, 2016
Derivative assets, net	**$5,826**	$13,344
Derivative liabilities, net	**(37,573)**	(34,637)
Accrued interest payable on derivatives, net	**(2,077)**	(568)
Gross amounts not offset in Combined Statements of Condition:		
Cash collateral posted with counterparties	**37,539**	33,128
Net exposure amounts	**$3,715**	$11,267

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 change in the CVA for the period is included in "Miscellaneous income and other (losses) gains, net" on the Combined Statements of Comprehensive Income.

Fair-Value Hedges: AgriBank recorded $1.5 million of gains related to swaps for the six months ended June 30, 2017, compared to $506 thousand of losses for the same period in 2016. The gains and losses on the derivative instruments are recognized in "Interest expense" on the Combined Statements of Comprehensive Income.

Cash Flow Hedges: The following table presents the amount of other comprehensive income (OCI) recognized on derivatives and the amount excluded from effectiveness testing.

(in thousands) **For the six months ended June 30, 2017** **Cash Flow Hedging Relationships**	**Amount of Loss Recognized in OCI on Derivatives (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	**$(9,187)**	**$ --**
Floating-for-floating and amortizing floating-for-floating swaps	**(4,376)**	**--**
Total	**$(13,563)**	**$ --**

(in thousands) For the six months ended June 30, 2016 Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivatives (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	$(111,735)	$ --
Floating-for-floating and amortizing floating-for-floating swaps	(3,526)	(47)
Total	$(115,261)	$(47)

There were no amounts reclassified from AOCI into income for either six month period ended June 30, 2017 or 2016.

Derivatives not Designated as Hedges: For the six months ended June 30, 2017, AgriBank and one District Association recorded $551 thousand of net losses related to swaps and TBAs, compared to $2.5 million of net losses for the same period in 2016. The gains and losses on the derivative instruments are recognized in "Miscellaneous income and other (losses) gains, net" on the Combined Statements of Comprehensive Income.

NOTE 9

Accumulated Other Comprehensive Income

Changes in Components of Accumulated Other Comprehensive Income (Loss)

(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, 2015	$(31,002)	$10,561	$(64,424)	$(531,234)	$(616,099)
Other comprehensive income (loss) before reclassifications	60,051	(161)	(115,261)	--	(55,371)
Amounts reclassified from accumulated other comprehensive income	174	(6,155)	--	19,041	13,060
Net other comprehensive income (loss)	60,225	(6,316)	(115,261)	19,041	(42,311)
Balance at June 30, 2016	$29,223	$4,245	$(179,685)	$(512,193)	$(658,410)
Balance at December 31, 2016	$(62,873)	$ --	$(17,157)	$(486,801)	$(566,831)
Other comprehensive income before reclassifications	**21,210**	**--**	**(13,562)**	**--**	**7,648**
Amounts reclassified from accumulated other comprehensive income	**481**	**--**	**--**	**17,552**	**18,033**
Net other comprehensive income (loss)	**21,691**	**--**	**(13,562)**	**17,552**	**25,681**
Balance at June 30, 2017	**$(41,182)**	**$ --**	**$(30,719)**	**$(469,249)**	**$(541,150)**

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

(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 six months ended June 30,	**2017**	2016	
Not-other-than-temporarily-impaired investments:			
Realized loss on sale of investment securities, net	**$481**	$174	Miscellaneous income and other (losses) gains, net
Other-than-temporarily-impaired investments:			
Realized gain on sale of investment securities	**--**	(6,155)	Miscellaneous income and other (losses) gains, net
Employee benefit plans activity:			
Prior service cost	**(2,137)**	(782)	Salaries and employee benefits
Actuarial loss	**19,689**	19,823	Salaries and employee benefits
Total reclassifications	**$18,033**	$13,060	

NOTE 10

AgriBank Only Financial Data

Statements of Condition

(in thousands)	**June 30, 2017**	December 31, 2016
Net loans	**$86,523,496**	$86,057,120
Other assets	**15,911,872**	16,506,176
Total assets	**$102,435,368**	$102,563,296
Total liabilities	**96,771,138**	97,077,193
Total shareholders' equity	**5,664,230**	5,486,103
Total liabilities and shareholders' equity	**$102,435,368**	$102,563,296

Statements of Income

(in thousands) **For the six months ended June 30,**	**2017**	2016
Interest income	**$990,314**	$868,312
Interest expense	**697,482**	587,548
Net interest income	**292,832**	280,764
Provision for loan losses	**3,000**	4,500
Other expense, net	**(22,281)**	(16,066)
Net income	**$267,551**	$260,198
Patronage	**$172,700**	$146,780
Preferred stock dividends	**8,594**	8,594

Substantially all patronage is paid to District Associations and is eliminated in combination.

NOTE 11

Subsequent Events

Subsequent events have been evaluated through August 9, 2017, which is the date the Combined Financial Statements were available to be issued. Effective July 1, 2017, there were two mergers involving five District Associations:

- AgCountry Farm Credit Services, ACA and United FCS, ACA, merged and are doing business as AgCountry Farm Credit Services, ACA with headquarters in Fargo, N.D.
- 1st Farm Credit Services, ACA, AgStar Financial Services, ACA and Badgerland Financial, ACA merged and are doing business as Compeer Financial with headquarters in Sun Prairie, Wis.

There have been no other material subsequent events that would require recognition in the Quarterly Financial Statements or disclosure in the Notes to those Financial Statements.