COBANK DISTRICT

2016 FINANCIAL INFORMATION

CoBANK®

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2016 Financial Information

District Financial Information

CoBank, ACB and Affiliated Associations

Introduction and District Overview

CoBank, ACB (CoBank, the Bank, we, our, or us) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to support agriculture, rural infrastructure and rural communities across the United States. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise. CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA).

We are cooperatively owned by our U.S. customers. Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; farmer-owned financial institutions including Agricultural Credit Associations and Federal Land Credit Associations (Associations); and other businesses that serve agriculture and rural communities. The Associations originate and service long-term real estate mortgage loans as well as short- and intermediate-term loans for agricultural purposes. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

We are chartered by the FCA to serve the Associations that provide credit and related financial services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. We collectively refer to these entities as our affiliated Associations. Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities). Therefore, we are the primary funding source for our affiliated Associations. As of January 1, 2017, we have 23 affiliated Associations serving customers in 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. Accordingly, the financial information of affiliated Associations is not included in the consolidated financial statements presented in CoBank's 2016 Annual Report to Shareholders (the Annual Report). However, because of the interdependent manner in which CoBank and our affiliated Associations operate, we believe that presenting combined Bank and Association financial information is meaningful for purposes of additional analysis.

CoBank and its affiliated Associations operate under a debtor-creditor relationship evidenced by a General Financing Agreement (GFA) entered into separately with each Association. The GFA sets forth the business relationship between us and each Association and also references certain requirements contained in the Farm Credit Act and FCA regulations. The Associations' respective boards of directors are expected to establish and monitor the necessary policies and procedures to comply with all FCA regulations. In all other respects, the lending relationship with the Associations is substantially similar to that with our other borrowers.

We make loans to the Associations, which, in turn, make loans to their eligible borrowers. We have senior secured interests in substantially all of the Associations' assets, which extend to the underlying collateral of the Associations' loans to their customers. Total loans outstanding to our affiliated Associations was $41.5 billion at December 31, 2016. During 2016, $92.3 billion of advances on loans were made to our affiliated Associations and repayments totaled $89.9 billion.

We have no direct access to Association capital. Our bylaws permit our Board of Directors to set the target equity level for Association investment in the Bank within a range of 4 to 6 percent of the one-year historical average of Association borrowings. In 2016, the required investment level was 4 percent. There are no capital sharing agreements between us and our affiliated Associations.

The Financial Highlights, Management's Discussion and Analysis and the Condensed Combined Income Statements and Balance Sheets included on the following pages present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the "District." As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

Farm Credit Services Southwest, ACA Matter

In 2014, one of our affiliated Associations, Farm Credit Services Southwest, ACA (FCSSW), noted a sudden significant increase in delinquencies in a discrete portion of its retail lending portfolio. An in-depth investigation directed by a special investigative committee of the FCSSW board of directors identified material weaknesses in internal controls relating to credit origination, administration, servicing and cash management procedures. As a result, it was determined that certain loans were made to ineligible borrowers under the Farm Credit Act and/or were inadequately secured. In October 2014, the board of directors and management of FCSSW announced that FCSSW's financial statements as of and for the year ended December 31, 2013, and the prior years included therein, as well as the three months ended March 31, 2014 and the six months ended June 30, 2014 could no longer be relied upon. In July 2015, FCSSW published restated financial reports for the above-mentioned periods. Effective November 1, 2015, FCSSW became a wholly-owned subsidiary of Farm Credit West, ACA, another of our affiliated Associations.

As a result of the matters described above, the District's unaudited, condensed combined financial statements for the year ended December 31, 2014 include out-of-period adjustments to the provision for loan losses of $47.0 million, charge-offs of $42.0 million and the transfer of $62.0 million in loans to nonaccrual status, $20.0 million of which remained in nonaccrual loans at year-end 2014. The District's unaudited, condensed combined financial statements for the year ended December 31, 2015 include out-of-period adjustments to the provision for loan losses of $2.4 million and the transfer of $4.7 million in loans to nonaccrual status. Such errors are not material to the historical District unaudited, condensed combined financial statements.

Financial Highlights

($ in Thousands)

As of December 31,	2016	2015	2014
Total Loans	**$ 104,778,598**	$ 98,382,641	$ 89,132,415
Less: Allowance for Loan Losses	**855,319**	745,522	749,257
Net Loans	**103,923,279**	97,637,119	88,383,158
Total Assets	**136,536,716**	127,644,371	116,918,704
Total Shareholders' Equity	**17,339,280**	16,127,219	15,139,164

Year Ended December 31,	2016	2015	2014
Net Interest Income	**$ 2,750,262**	$ 2,570,513	$ 2,451,105
Provision for Loan Losses	**112,397**	28,452	32,972
Net Fee Income	**138,713**	128,114	132,408
Net Income	**1,697,810**	1,667,019	1,577,755
Net Interest Margin	**2.14 %**	2.22 %	2.26 %
Return on Average Assets	**1.29**	1.40	1.42
Return on Average Total Shareholders' Equity	**9.87**	10.43	10.76
Average Loans	**$ 101,163,012**	$ 92,245,347	$ 85,030,096
Average Earning Assets	**128,754,803**	115,611,119	108,563,098
Average Assets	**131,180,853**	118,832,383	110,748,032

Management's Discussion and Analysis of District Results of Operations and Financial Condition

Average loan volume in the District increased 10 percent to $101.2 billion in 2016 compared to $92.2 billion in 2015. The increase in average loan volume primarily reflected growth in real estate mortgage, agribusiness, rural power, and wholesale lending to associations outside of the District.

District net income increased by $30.8 million to $1,698 million in 2016, from $1,667 million in 2015. The increase in earnings resulted from greater net interest income and, to a lesser extent, greater noninterest income and a lower provision for income taxes. These factors were partially offset by an increase in operating expenses, including an increase in Farm Credit Insurance Fund (Insurance Fund) premiums, and a higher provision for loan losses in 2016.

District net interest income increased 7 percent to $2,750 million in 2016 from $2,571 million in 2015. The increase in net interest income was driven by higher average loan volume and increased earnings on balance sheet positioning at CoBank. Lower spreads in lending portfolios, resulting from continued strong competition for the business of customers, and a higher cost of System short-term debt somewhat offset these factors and led to a decrease in the District's overall net interest margin to 2.14 percent in 2016 as compared to 2.22 percent in 2015.

The District recorded a provision for loan losses of $112.4 million in 2016, compared to $28.5 million in 2015. CoBank recorded a provision for loan losses of $63.0 million in 2016 driven by increased exposure resulting from growth in overall lending activity and deterioration in credit quality in agribusiness loans. In 2015, CoBank recorded a provision for loan losses of $10.0 million primarily reflecting increased exposure resulting from growth in overall lending activity. The Associations recorded a net combined provision for loan losses of $49.4 million in 2016, compared to a net combined provision of $18.5 million in 2015. The net combined 2016 provision for loan losses at the Associations was primarily due to provisions recorded at several Associations resulting from higher loan volume as well as deterioration in credit quality driven by drought, commodity price volatility and other concerns impacting specific industries. The net combined 2015 provision for loan losses at the Associations was driven by a provision of $19.8 million recorded at one Association primarily due to deteriorating credit quality and increased loan volume.

Noninterest income increased $22.6 million to $306.1 million in 2016 from $283.5 million in 2015. Noninterest income is primarily composed of fee income, loan prepayment income, patronage income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. The higher level of noninterest income was driven by an increase in other noninterest income of $14.5 million primarily resulting from greater patronage income received from other System institutions on loan participations sold by CoBank. Fee income increased $10.6 million during 2016 due to an increase in fees at Associations. In addition, CoBank recorded only $0.8 million of other-than-temporary impairment losses on investment securities during 2016 while $11.1 million in such losses were recognized in 2015. These items were somewhat offset by an $18.0 million decrease in gains recognized on sales of investment securities. In the 2015 period, CoBank sold investment securities with a combined book value of $148.3 million for gains totaling $22.6 million. During 2016, sales of investment securities at CoBank with a combined book value of $879.5 million resulted in gains totaling $4.6 million.

Total District operating expenses increased 10 percent to $1,082.4 million in 2016 from $981.3 million in 2015. Higher operating expenses included an increase in Farm Credit Insurance Fund (Insurance Fund) premium expense of $49.3 million, due to an increase in premium rates as well as growth in average loan volume. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation (Insurance Corporation) and were 16 basis points of average outstanding adjusted insured debt obligations during the first half of 2016 and 18 basis points for the second half of 2016, compared to 13 basis points for all of 2015. The increases in Insurance Fund premium rates resulted from growth in overall System assets and related debt obligations and the Insurance Corporation's projections for continued growth. Employee compensation expense increased $35.7 million to $583.3 million during 2016. The increase in employee compensation was primarily driven by a higher level of accrued incentive compensation reflective of strong business and financial performance, annual salary adjustments, a higher overall number of employees as well as salary continuance and other benefits for senior officers who left CoBank in 2016. Occupancy and equipment expenses increased $11.1 million due to higher costs relating to improvements and maintenance at certain Associations. Purchased services increased by $6.0 million and other operating expenses decreased by $6.8 million primarily due to a change in expense classification at one Association.

Income tax expense decreased $13.4 million to $163.8 million in 2016 compared to $177.2 million in 2015. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax. The decrease was driven by higher levels of accrued patronage, which resulted from growth in average patronage-eligible loan volume, an increase in earnings attributed to non-taxable business activities and an increase in tax credits related to renewable energy transactions.

Loan Portfolio

The following table presents the District's outstanding loans classified in accordance with the FCA's loan types.

($ in Thousands)

District Loans by Loan Type

December 31,	2016	2015	2014
Real Estate Mortgage	**$ 30,616,520**	$ 28,720,815	$ 26,584,467
Non-affiliated Associations	**4,523,774**	4,291,104	3,847,208
Production and Intermediate-term	**14,620,321**	13,866,604	13,091,451
Agribusiness:			
Loans to Cooperatives	**12,791,227**	11,790,613	11,411,523
Processing and Marketing Operations	**8,866,980**	8,225,584	7,202,571
Farm Related Businesses	**1,599,249**	1,701,660	1,603,071
Communications	**3,837,402**	4,042,813	3,388,172
Rural Power [1]	**16,553,489**	15,207,910	12,397,400
Water/Wastewater	**1,657,205**	1,447,650	1,274,346
Agricultural Export Finance	**5,154,302**	4,642,753	4,378,277
Rural Residential Real Estate	**906,596**	899,763	845,057
Lease Receivables	**3,537,075**	3,375,203	2,965,287
Other	**114,458**	170,169	143,585
Total	**$ 104,778,598**	$ 98,382,641	$ 89,132,415

[1] In previous reports, these loans were described as 'Energy' loans.

District loan volume increased $6.4 billion to $104.8 billion at December 31, 2016, compared to $98.4 billion at December 31, 2015. The increase was primarily due to an increase in real estate mortgage loans driven by growth at several Associations, a greater level of agribusiness loan volume at CoBank primarily due to higher levels of seasonal financing at many grain cooperatives and increased lending to food and agribusiness companies and an increase in rural power loans at CoBank due to increased lending to electric distribution and power supply customers. Production and intermediate-term loans and processing and marketing loans also contributed to the increase in loan volume primarily resulting from growth in lending in the forest products, cattle/beef production and a variety of other industries.

Portfolio Diversification

The following tables present the District's combined loan portfolio by primary business/commodity and geographic distribution, as a percent of total loans for the periods presented.

Distribution by Primary Business / Commodity

	2016	2015	2014
Fruits, Nuts and Vegetables	**14 %**	14 %	13 %
Farm Supply, Grain and Marketing	**12**	11	12
Dairy	**9**	9	10
Electric Distribution	**8**	8	7
Forest Products	**6**	6	6
Cattle	**6**	6	6
International Lending	**5**	5	5
Field Crops Except Grains	**5**	5	5
Other Farm Credit Entities	**4**	4	4
Generation and Transmission	**4**	4	4
Livestock, Fish and Poultry	**4**	4	4
Farm Related Business Services	**4**	4	3
Leasing	**3**	3	3
Rural Home	**2**	3	3
Local Telephone Exchange Carriers	**1**	1	1
Nursery, Greenhouse	**1**	1	1
Other	**12**	12	13
Total	**100 %**	100 %	100 %

Geographic Distribution

	2016	2015	2014
California	**22 %**	21 %	21 %
Texas	**6**	7	7
Kansas	**6**	6	6
Washington	**4**	4	5
New York	**4**	4	4
Colorado	**4**	4	4
Idaho	**3**	3	3
Oklahoma	**3**	3	3
Oregon	**3**	3	3
Minnesota	**2**	2	2
Illinois	**2**	2	2
Iowa	**2**	2	2
Other (less than 2 percent each for the current year)	**34**	34	33
Total States	**95 %**	95 %	95 %
Latin America	**2**	2	2
Europe, Mideast and Africa	**1**	1	1
Other International	**2**	2	2
Total International	**5 %**	5 %	5 %
Total	**100 %**	100 %	100 %

Loan Quality

The following table presents loans, classified by management at the various District entities pursuant to the FCA's Uniform Loan Classification System, as a percent of total loans.

District Loan Quality

December 31,	2016	2015	2014
Acceptable	**95.31 %**	96.39 %	96.41 %
Special Mention	**2.67**	2.00	1.91
Substandard	**2.00**	1.60	1.63
Doubtful	**0.02**	0.01	0.05
Loss	**-**	-	-
Total	**100.00 %**	100.00 %	100.00 %

Overall District loan quality deteriorated modestly in 2016 however remained favorable, with over 95 percent of all loans in the highest category of credit quality. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's retail loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply, grain marketing, electric distribution, and generation and transmission sectors.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled $637.7 million as of December 31, 2016 compared to $520.6 million at December 31, 2015. Nonaccrual loans increased by a net $78.3 million during 2016 driven by a net $50.4 million increase at CoBank resulting from credit quality deterioration impacting agribusiness customers, somewhat offset by activity related to three communications loans, of which one was returned to accruing status and the others were paid off. Nonaccrual loans at Associations increased by a net $27.9 million primarily related to nursery, sweeteners, farm supply, livestock, and dairy operations. Accruing restructured loans increased by $40.0 million to $96.3 million in 2016 due to a communications loan at CoBank returning to accruing status, somewhat offset by the payoff of a dairy loan and two cattle loans at Associations. Total accruing loans 90 days or more past due increased by $2.9 million during 2016 primarily due to increases at two Associations. Nonperforming assets represented 0.61 percent of total District loan volume and other property owned at December 31, 2016, compared to 0.53 percent at December 31, 2015. Nonaccrual loan volume, the largest component of nonperforming assets, represented 0.50 percent of total loans at December 31, 2016 compared to 0.45 percent of total loans at December 31, 2015.

The following table displays the District's nonperforming assets for the periods presented.

($ in Thousands)

Nonperforming Assets

December 31,	2016	2015	2014
Nonaccrual Loans:			
Real Estate Mortgage	**$ 246,832**	$ 196,925	$ 192,669
Production and Intermediate-term	**89,060**	81,534	101,328
Agribusiness	**138,356**	70,985	49,703
Communications	**-**	71,983	56,685
Rural Power	**-**	-	28,092
Rural Residential Real Estate	**3,531**	4,903	7,130
Lease Receivables	**44,329**	17,433	6,332
Total Nonaccrual Loans	**522,108**	443,763	441,939
Accruing Restructured Loans:			
Real Estate Mortgage	**27,886**	34,403	45,985
Production and Intermediate-term	**20,883**	19,415	28,019
Communications	**45,144**	-	-
Rural Residential Real Estate	**2,351**	2,425	2,008
Mission Related	**-**	-	71
Total Accruing Restructured Loans	**96,264**	**56,243**	**76,083**
Accruing Loans 90 Days or More Past Due:			
Real Estate Mortgage	**5,185**	2,333	4,537
Production and Intermediate-term	**1,778**	1,979	5,209
Agribusiness	**210**	-	-
Rural Residential Real Estate	**-**	197	98
Lease Receivables	**804**	547	239
Total Accruing Loans 90 Days or More Past Due	**7,977**	5,056	10,083
Total Nonperforming Loans	**626,349**	505,062	528,105
Other Property Owned	**11,332**	15,579	30,741
Total Nonperforming Assets	**$ 637,681**	$ 520,641	$ 558,846
Nonaccrual Loans as a Percentage of Total Loans	**0.50 %**	0.45 %	0.50 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	**0.61**	0.53	0.63
Nonperforming Assets as a Percentage of Capital	**3.68**	3.23	3.69

The following tables present an aging of past due loans in the District for the periods presented.

($ in Thousands)

Aging of Past Due Loans

	December 31, 2016					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 87,240	$ 134,852	$ 222,092	$ 30,706,743	$ 30,928,835	$ 5,185
Production and		-				
Intermediate-term	55,008	54,510	109,518	14,610,072	14,719,590	1,778
Agribusiness	8,308	15,635	23,943	23,309,496	23,333,439	210
Communications	-	-	-	3,848,157	3,848,157	-
Rural Power	-	-	-	16,624,010	16,624,010	-
Water/Waste Water	-	-	-	1,666,042	1,666,042	-
Agricultural Export Finance	-	-	-	5,168,136	5,168,136	-
Rural Residential Real Estate	6,623	1,168	7,791	901,741	909,532	-
Lease Receivables	18,922	8,452	27,374	3,510,200	3,537,574	804
Non-affiliated Associations	-	-	-	4,528,507	4,528,507	-
Other	-	-	-	114,696	114,696	-
Total	$ 176,101	$ 214,617	$ 390,718	$ 104,987,800	$ 105,378,518	$ 7,977

($ in Thousands)

Aging of Past Due Loans

	December 31, 2015					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 54,185	$ 61,321	$ 115,506	$ 28,871,190	$ 28,986,696	$ 2,333
Production and Intermediate-term	31,072	24,444	55,516	13,896,350	13,951,866	1,979
Agribusiness	10,880	8,196	19,076	21,769,468	21,788,544	-
Communications	-	24,913	24,913	4,026,744	4,051,657	-
Rural Power	-	-	-	15,264,122	15,264,122	-
Water/Waste Water	-	-	-	1,455,953	1,455,953	-
Agricultural Export Finance	-	-	-	4,655,393	4,655,393	-
Rural Residential Real Estate	6,845	2,020	8,865	894,015	902,880	197
Lease Receivables	13,209	2,418	15,627	3,360,021	3,375,648	547
Non-affiliated Associations	-	-	-	4,294,025	4,294,025	-
Other	-	-	-	170,512	170,512	-
Total	$ 116,191	$ 123,312	$ 239,503	$ 98,657,793	$ 98,897,296	$ 5,056

($ in Thousands)

Aging of Past Due Loans

	December 31, 2014					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 59,110	$ 55,028	$ 114,138	$ 26,713,611	$ 26,827,749	$ 4,537
Production and Intermediate-term	32,192	34,273	66,465	13,102,114	13,168,579	5,209
Agribusiness	1,751	8,110	9,861	20,270,079	20,279,940	-
Communications	-	1,138	1,138	3,393,996	3,395,134	-
Rural Power	-	21,039	21,039	12,426,120	12,447,159	-
Water/Waste Water	-	-	-	1,281,922	1,281,922	-
Agricultural Export			-			
Finance	-	-	-	4,389,165	4,389,165	-
Rural Residential Real			-			
Estate	7,639	2,736	10,375	838,410	848,785	98
Lease Receivables	8,417	1,421	9,838	2,955,853	2,965,691	239
Non-affiliated Associations	-	-	-	3,849,440	3,849,440	-
Other	71	-	71	143,816	143,887	-
Total	$ 109,180	$ 123,745	$ 232,925	$ 89,364,526	$ 89,597,451	$ 10,083

Past due loans increased to $390.7 million as of December 31, 2016 compared to $239.5 million at December 31, 2015 primarily driven by increases in past due real estate mortgage and production and intermediate-term loans at Associations.

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled $141.5 million at December 31, 2016.

Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at December 31, 2016 totaled $855.3 million compared to $745.5 million at December 31, 2015. Changes in the allowance included an overall provision for loan losses of $112.4 million, which is described on page 3, net charge-offs of $18.3 million, a $16.6 million net transfer from the reserve for unfunded commitments, and a $0.9 million reduction due to Association mergers. Gross charge-offs in 2016 were $27.5 million, of which $22.9 million related to activity at the Associations across a variety of industries. The remaining $4.6 million related to charge-offs at CoBank and were primarily associated with a small number of agribusiness customers.

The following presents detailed changes in the allowance for loan losses in the District for the periods presented.

District Financial Information
CoBank, ACB and Affiliated Associations

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers (to) from Reserve for Unfunded Commitments	Association Merger Impact	Balance at December 31, 2016
Real Estate Mortgage	$ 105,155	$ (1,274)	$ 804	$ 15,146	$ 5,999	$ (562)	$ 125,268
Production and Intermediate-term	129,219	(18,000)	4,388	39,551	1,519	(344)	156,333
Agribusiness	271,873	(4,980)	1,619	57,965	10,113	(2)	336,588
Communications	53,345	(324)	1,135	(13,827)	235	-	40,564
Rural Power	121,405	-	847	2,831	(1,057)	-	124,026
Water/Waste Water	10,646	-	-	1,180	(102)	-	11,724
Agricultural Export Finance	11,293	-	54	2,960	(91)	-	14,216
Rural Residential Real Estate	5,666	(265)	3	(907)	-	-	4,497
Lease Receivables and Other	36,920	(2,614)	299	7,498	-	-	42,103
Total	$ 745,522	$ (27,457)	$ 9,149	$ 112,397	$ 16,616	$ (908)	$ 855,319

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers (to) from Reserve for Unfunded Commitments	Association Merger Impact	Balance at December 31, 2015
Real Estate Mortgage	$ 111,585	$ (1,901)	$ 1,356	$ 1,979	$ (2,696)	$ (5,168)	$ 105,155
Production and Intermediate-term	142,835	(9,817)	10,225	(7,854)	1,631	(7,801)	129,219
Agribusiness	284,727	(12,297)	2,799	(15,034)	11,817	(139)	271,873
Communications	54,432	-	606	(998)	(695)	-	53,345
Rural Power	98,149	(5,596)	434	41,376	(12,958)	-	121,405
Water/Waste Water	9,813	-	20	1,988	(1,174)	(1)	10,646
Agricultural Export Finance	8,924	-	163	2,259	(53)	-	11,293
Rural Residential Real Estate	6,216	(430)	153	(273)	-	-	5,666
Lease Receivables and Other	32,576	(1,075)	422	5,009	-	(12)	36,920
Total	$ 749,257	$ (31,116)	$ 16,178	$ 28,452	$ (4,128)	$ (13,121)	$ 745,522

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers (to) from Reserve for Unfunded Commitments	Association Merger Impact	Balance at December 31, 2014
Real Estate Mortgage	$ 103,685	$ (1,557)	$ 1,833	$ 31,891	$ (22,444)	$ (1,823)	$ 111,585
Production and Intermediate-term	182,301	(51,972)	8,518	6,842	688	(3,542)	142,835
Agribusiness	233,062	(1,396)	3,274	44,826	5,883	(922)	284,727
Communications	64,930	(4,087)	1,189	(11,748)	4,150	(2)	54,432
Rural Power	97,354	(531)	106	(35,422)	36,644	(2)	98,149
Water/Waste Water	9,425	-	-	(3,505)	3,893	-	9,813
Agricultural Export Finance	7,439	-	54	1,524	(93)	-	8,924
Rural Residential Real Estate	6,671	(408)	16	(50)	-	(13)	6,216
Lease Receivables and Other	34,878	(1,333)	418	(1,386)	-	(1)	32,576
Total	$ 739,745	$ (61,284)	$ 15,408	$ 32,972	$ 28,721	$ (6,305)	$ 749,257

District Capital Resources

Combined District shareholders' equity at December 31, 2016 totaled $17.3 billion, a net increase of $1.2 billion as compared to $16.1 billion at December 31, 2015. The increase primarily resulted from District net income of $1,698 million, the issuance of preferred stock at CoBank, as discussed below, and the net issuance of CoBank common stock of $75.4 million. These factors were somewhat offset by accrued patronage of $726.7 million, additional other comprehensive loss of $86.4 million, preferred stock dividends of $85.6 million and a decrease in Association preferred stock of $34.0 million.

On April 8, 2016, CoBank issued $375.0 million of Series I non-cumulative perpetual preferred stock. Dividends on Series I preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable semi-annually at a fixed annual rate equal to 6.25 percent from the date of issuance up to, but excluding, October 1, 2026. Thereafter, dividends will accrue at an annual rate equal to the 3-month USD LIBOR plus 4.66 percent and will be payable quarterly.

The components of the District's accumulated other comprehensive loss are detailed in the following table.

($ in Thousands)

Accumulated Other Comprehensive Loss

December 31,	2016	2015	2014
Unrealized (Losses) Gains on Investment Securities	**$ (13,054)**	$ 48,754	$ 94,454
Net Pension Adjustment	**(369,209)**	(342,188)	(327,259)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	**(37,707)**	(40,157)	(33,460)
Accumulated Other Comprehensive Loss	**$ (419,970)**	$ (333,591)	$ (266,265)

The increase in the District's total accumulated other comprehensive loss in 2016 primarily relates to the change in unrealized gains/losses on CoBank's investment securities driven by interest rate fluctuations as well as changes in pension-related values driven by changes in underlying assumptions.

The following table presents regulatory capital ratios for CoBank and the range of ratios at the affiliated Associations.

District Capital Ratios

	December 31, 2016			December 31, 2015			December 31, 2014		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
CoBank	**15.47%**	**14.52%**	**11.02%**	14.95%	14.07%	10.29%	15.70%	14.81%	10.47%
Associations	**14.26 - 36.60%**	**13.49 - 36.15%**	**13.49 - 31.18%**	13.53 - 35.97%	12.99 - 35.51%	12.99 - 30.44%	13.40 - 35.69%	12.97 - 35.25%	12.88 - 30.09%
Regulatory Minimum	**7.00%**	**7.00%**	**3.50%**	7.00%	7.00%	3.50%	7.00%	7.00%	3.50%

As depicted in the table above, at December 31, 2016, CoBank and all affiliated Associations exceeded the FCA's regulatory minimum capital ratios.

Although aggregated in the District's condensed financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide Debt Securities are applicable only to System banks and do not include Associations. CoBank has limited access to Association capital. There are no capital sharing agreements between CoBank and its affiliated Associations.

Association Mergers and Other Matters

Effective January 1, 2014, two Association mergers occurred in the CoBank District. The Federal Land Bank Association of Kingsburg, FLCA and Northern California Farm Credit, ACA, merged to form Golden State Farm Credit, ACA. Additionally, Farm Credit of Maine, ACA merged into Farm Credit East, ACA. Effective October 1, 2014, Farm Credit of Central Oklahoma, ACA, merged into Farm Credit of Western Oklahoma, ACA.

Effective January 1, 2015, Frontier Farm Credit (Frontier), one of our affiliated Associations, and Farm Credit Services of America (FCSAmerica), an Association affiliated with AgriBank, FCB, formed a strategic alliance. As part of the alliance, Frontier and FCSAmerica have integrated their day-to-day business operations, systems and leadership teams while continuing to exist as separate Associations. Each Association has its own board, with representatives participating in a coordinating committee to facilitate board governance between the two organizations. CoBank continues to serve as the funding bank for Frontier.

As previously described, effective November 1, 2015, FCSSW became a wholly-owned subsidiary of Farm Credit West, ACA, another of our affiliated Associations.

Effective January 1, 2016, two affiliated Associations, Farm Credit Services of East Central Oklahoma, ACA, and Chisholm Trail Farm Credit, ACA, merged to form Oklahoma AgCredit, ACA.

On June 13, 2016, a lawsuit was commenced by the filing of a complaint in the United States District Court Southern District of New York against CoBank by a number of investors (the “Plaintiffs”) who had held CoBank’s 7.875 percent Subordinated Notes due in 2018 (the “Notes”). The Notes were redeemed at par plus accrued interest by CoBank on April 15, 2016 due to the occurrence of a “Regulatory Event” (as defined under the terms of the Notes). The Plaintiffs have asserted a breach of contract claim and a breach of implied covenant of good faith and fair dealing claim alleging that CoBank impermissibly redeemed the Notes. The Plaintiffs have requested damages in an amount to be determined at trial, reasonable attorneys’ fees and any other such relief as the court may deem just and proper. CoBank filed its answer on September 20, 2016 and discovery is ongoing. CoBank intends to vigorously defend against these allegations. The likelihood of any outcome of this proceeding cannot be determined at this time.

Effective January 1, 2017, two of our affiliated Associations, Farm Credit of Southwest Kansas, ACA, and American AgCredit, ACA, merged and are doing business as American AgCredit, ACA. During 2016, these two entities operated under a joint management agreement pursuant to which the President and Chief Executive Officer (CEO) of American AgCredit, ACA, served as the CEO of both Associations.

Effective January 1, 2017, two of our affiliated Associations, Farm Credit of Ness City, FLCA (Ness City) and High Plains Farm Credit, ACA (High Plains), entered into a joint management agreement with the intent to merge. Pursuant with the agreement, the CEO, Chief Financial Officer and Chief Credit Officer of High Plains will jointly serve in these positions for Ness City. The anticipated merger date is October 1, 2017. The merger will be subject to the approval of the stockholders of both Associations as well as the FCA.

District Financial Information

CoBank, ACB and Affiliated Associations

Condensed Combined Statements of Income

(unaudited)

($ in Thousands)

Year Ended December 31,	2016	2015	2014
Interest Income			
Loans	**$ 3,555,419**	$ 3,141,004	$ 2,937,598
Investment Securities, Federal Funds Sold and Other Overnight Funds	**442,725**	368,051	360,144
Total Interest Income	**3,998,144**	3,509,055	3,297,742
Interest Expense	**1,247,882**	938,542	846,637
Net Interest Income	**2,750,262**	2,570,513	2,451,105
Provision for Loan Losses	**112,397**	28,452	32,972
Net Interest Income After Provision for Loan Losses	**2,637,865**	2,542,061	2,418,133
Noninterest Income			
Net Fee Income	**138,713**	128,114	132,408
Prepayment Income	**34,184**	32,230	26,269
Losses on Early Extinguishment of Debt	**(34,197)**	(37,455)	(58,316)
Gains on Sale of Investment Securities	**4,617**	22,603	4,206
Other-Than-Temporary Impairment Losses on Investment Securities	**(750)**	(11,100)	-
Other, Net	**163,564**	149,060	146,635
Total Noninterest Income	**306,131**	283,452	251,202
Operating Expenses			
Employee Compensation	**583,251**	547,526	525,990
General and Administrative	**71,894**	71,759	73,004
Information Technology	**64,406**	62,810	58,032
Insurance Fund Premium	**153,395**	104,065	88,517
Farm Credit System Related	**28,745**	24,695	26,192
Occupancy and Equipment	**64,842**	53,726	45,961
Purchased Services	**59,396**	53,348	53,129
Other	**56,496**	63,323	47,671
Total Operating Expenses	**1,082,425**	981,252	918,496
Income Before Income Taxes	**1,861,571**	1,844,261	1,750,839
Provision for Income Taxes	**163,761**	177,242	173,084
Net Income	**$ 1,697,810**	$ 1,667,019	$ 1,577,755

District Financial Information
CoBank, ACB and Affiliated Associations

Condensed Combined Balance Sheets
(unaudited)

($ in Thousands)

As of December 31,		2016		2015		2014
Assets						
Total Loans	**$**	**104,778,598**	$	98,382,641	$	89,132,415
Less: Allowance for Loan Losses		**855,319**		745,522		749,257
Net Loans		**103,923,279**		97,637,119		88,383,158
Cash and Cash Equivalents		**1,877,756**		3,311,777		2,071,427
Federal Funds Sold and Other Overnight Funds		**750,000**		-		-
Investment Securities		**27,903,362**		24,670,926		24,529,619
Interest Rate Swaps and Other Financial Instruments		**204,434**		294,856		454,530
Accrued Interest Receivable and Other Assets		**1,877,885**		1,729,693		1,479,970
Total Assets	**$**	**136,536,716**	$	127,644,371	$	116,918,704
Liabilities						
Bonds and Notes	**$**	**116,071,661**	$	108,052,092	$	98,740,184
Subordinated Debt		**498,820**		902,685		902,205
Interest Rate Swaps and Other Financial Instruments		**162,413**		112,509		111,228
Reserve for Unfunded Commitments		**141,539**		158,186		154,058
Accrued Interest Payable and Other Liabilities		**2,323,003**		2,291,680		1,871,865
Total Liabilities		**119,197,436**		111,517,152		101,779,540
Shareholders' Equity						
Preferred Stock Issued by Bank		**1,500,000**		1,125,000		1,125,000
Preferred Stock Issued by Associations		**518,113**		552,145		498,020
Common Stock		**1,458,138**		1,382,758		1,325,998
Paid In Capital		**1,083,693**		1,028,135		894,823
Unallocated Retained Earnings		**13,199,306**		12,372,772		11,561,588
Accumulated Other Comprehensive Loss		**(419,970)**		(333,591)		(266,265)
Total Shareholders' Equity		**17,339,280**		16,127,219		15,139,164
Total Liabilities and Shareholders' Equity	**$**	**136,536,716**	$	127,644,371	$	116,918,704

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