



## 2016 Quarterly Report SEPTEMBER 30, 2016

Dear CoBank Customer-Owner:

We're pleased to report that CoBank recorded another period of strong financial performance in the third quarter of 2016. Average loan volume increased across all three of our operating segments, and profitability, credit quality and capital levels all remained strong. We also continued to fulfill our mission by providing dependable credit and financial services to our customers across rural America.

Average loan volume rose 9 percent during the quarter to \$90.9 billion, from \$83.2 billion in the third quarter of 2015. For the first nine months of 2016, average loan volume rose 12 percent to \$91.0 billion. The increases for both the quarter and year-to-date periods resulted from higher levels of borrowing from affiliated Farm Credit associations, food and agribusiness companies, rural electric cooperatives, and rural communications providers.

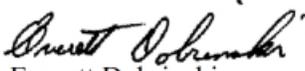
Net income for the third quarter decreased slightly to \$231.7 million, compared to \$235.8 million in the third quarter of 2015. For the first nine months of 2016, net income increased 3 percent, to \$718.3 million. The primary reason for the quarter-over-quarter decrease in net income was a \$20.0 million provision for loan losses, compared to no provision taken in the same period last year. The third-quarter 2016 provision reflects a higher level of lending activity and deterioration in credit quality in our Agribusiness operating segment.

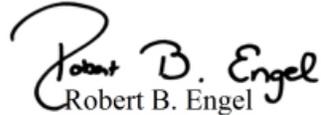
Net interest income for the third quarter was \$334.0 million, a 6 percent increase compared to \$315.2 million in the same period last year. For the first nine months of 2016, net interest income increased 8 percent to \$1,016.8 million, compared to \$939.8 million in the prior-year period. The increase in net interest income was primarily driven by higher average loan volume and increased earnings on balance sheet positioning, somewhat offset by lower overall spreads in our loan and investment portfolios.

Overall loan quality measures for CoBank remain strong, although we expect some further deterioration due to lower commodity prices and other factors impacting our customers. At quarter-end, 0.75 percent of the bank's loans were classified as adverse assets, compared to 0.70 percent at December 31, 2015. Nonaccrual loans decreased slightly to \$150.2 million at September 30, 2016 from \$156.8 million at December 31, 2015. The bank's allowance for credit losses totaled \$647.9 million at quarter-end, or 1.45 percent of non-guaranteed loans when loans to Farm Credit associations are excluded.

Capital levels remain well in excess of regulatory minimums. As of September 30, 2016, shareholders' equity totaled \$8.7 billion, and the bank's permanent capital ratio was 15.6 percent, compared with the 7.0 percent minimum established by the Farm Credit Administration (FCA), the bank's independent regulator. At quarter-end, the bank held approximately \$29.5 billion in cash and investments and had 191 days of liquidity, which was in excess of FCA liquidity requirements.

While we are pleased to have recorded another quarter of strong financial performance, our primary focus continues to be providing our customers with the dependable credit and financial services they need to be successful in a time of significant stress in key sectors of the rural economy. Our board and management team continue to focus on enhancing the bank's enterprise risk management capabilities and maintaining our financial strength and capacity. As always, we deeply appreciate the trust our customers place in us, and the opportunity to serve as their financial partner.

  
Everett Dobrinski  
Chair of the Board

  
Robert B. Engel  
Chief Executive Officer

November 9, 2016

# Financial Highlights

## CoBank, ACB

(\$ in Thousands)

	September 30, 2016	December 31, 2015
	(Unaudited)	
Total Loans	\$ 90,416,625	\$ 89,040,580
Less: Allowance for Loan Losses	519,574	486,144
Net Loans	89,897,051	88,554,436
Total Assets	120,749,598	117,470,566
Total Shareholders' Equity	8,653,830	7,810,469

### For the Nine Months Ended September 30,

(Unaudited)	2016	2015
Net Interest Income	\$ 1,016,829	\$ 939,848
Provision for Loan Losses	48,000	10,000
Net Fee Income	76,271	79,747
Net Income	718,329	700,378
Net Interest Margin	1.15 %	1.20 %
Return on Average Assets	0.80	0.87
Return on Average Common Shareholders' Equity	12.65	13.66
Return on Average Total Shareholders' Equity	11.48	12.41
Average Total Loans	\$ 91,045,022	\$ 81,647,050
Average Earning Assets	118,078,323	104,399,797
Average Total Assets	120,155,634	107,026,428

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

CoBank, ACB

## Business Overview

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CoBank, ACB (CoBank or the Bank) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to vital industries across the rural communities of America. The System is a federally chartered network of borrower-owned cooperative lending institutions 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).

Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural energy, 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. We provide a broad range of loans and other financial services through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

The following discussion and analysis should be read in conjunction with the accompanying condensed consolidated quarterly financial statements and related notes and with our 2015 Annual Report to Shareholders.

## Consolidated Results of Operations

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Average loan volume was \$91.0 billion during the first nine months of 2016 compared to \$81.6 billion in the same prior-year period. The 12 percent increase in average loan volume resulted from growth in lending to affiliated Associations in our Strategic Relationships operating segment, cooperatives and other food and agribusiness companies in our Agribusiness operating segment, and energy and communications customers in our Rural Infrastructure operating segment.

Net income increased \$17.9 million to \$718.3 million for the nine-month period ended September 30, 2016, compared to \$700.4 million during the same period in 2015. The increase in earnings primarily resulted from greater net interest income and a lower provision for income taxes, somewhat offset by an increase in operating expenses and a higher provision for loan losses in the 2016 period.

Net interest income increased \$77.0 million to \$1,016.8 million for the nine months ended September 30, 2016, compared to \$939.8 million for the same prior-year period. The increase in net interest income was primarily driven by higher average loan volume and increased earnings on balance sheet positioning, somewhat offset by lower overall spreads in our loan and investment portfolios.

Net interest margin declined to 1.15 percent for the first nine months of 2016 from 1.20 percent for the same period in 2015. The reduction in our net interest margin included the impact of lower loan spreads in our Agribusiness and Rural Infrastructure operating segments, reflective of continued strong competition for the business of our customers, as well as spread compression in our investment portfolio and a higher cost of System short-term debt. These items were somewhat offset by increased earnings on balance sheet positioning.

We recorded a \$48.0 million provision for loan losses in the nine-month period ended September 30, 2016 compared to \$10.0 million in the same period in 2015. The 2016 provision reflects a higher level of lending activity and deterioration in credit quality in our Agribusiness operating segment. Adversely classified loans

and related accrued interest were 0.75 percent of total loans and related accrued interest at September 30, 2016, compared to 0.70 percent at December 31, 2015. Nonaccrual loans decreased slightly to \$150.2 million at September 30, 2016 from \$156.8 million at December 31, 2015 primarily resulting from activity related to three communications loans, of which one returned to accruing status and the others were paid off, offset by credit quality deterioration impacting a small number of customers in our Agribusiness operating segment. Loan charge-offs, net of recoveries, totaled \$1.7 million in the first nine months of 2016 compared to \$5.4 million during the same period of 2015.

Noninterest income increased \$5.1 million to \$144.0 million for the first nine months of 2016 from \$138.9 million for the same prior-year period. 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 \$17.9 million, primarily due to an increase of \$14.3 million in patronage income received from other System institutions on loan participations we sold to them. In addition, no impairment losses on investment securities were recorded in the 2016 period while \$11.1 million in such losses were recognized in the same period of 2015. These items were partially offset by an \$18.0 million decrease in gains recognized on sales of investment securities. In the 2015 period, we sold investment securities with a combined book value of \$148.3 million for gains totaling \$22.6 million. During the nine-month period ended September 30, 2016, sales of investment securities with a combined book value of \$579.5 million resulted in gains totaling \$4.6 million. The sales and impairments of investment securities are discussed further on page 12. Net fee income decreased \$3.5 million in the first nine months of 2016, compared to the same period in 2015 due to a lower level of fee income in our Agribusiness operating segment. Prepayment income, net of losses on early extinguishments of debt, totaled \$0.8 million during the nine months ended September 30, 2016 compared to \$3.2 million in the 2015 period.

Total operating expenses for the nine-month period ended September 30, 2016 increased \$42.2 million to \$275.6 million from \$233.4 million for the same period in 2015. Higher operating expenses included an increase in Farm Credit Insurance Fund (Insurance Fund) premium expense of \$23.8 million due to an increase in premium rates as well as growth in loan volume. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation (Insurance Corporation) and were 16 basis points of adjusted insured debt obligations in the first half of 2016 and 18 basis points during the three months ended September 30, 2016 compared to 13 basis points throughout 2015. The premium rate will remain 18 basis points of adjusted insured debt obligations for the balance of 2016. The increases in Insurance Fund premium rates resulted from higher than anticipated growth in overall System assets and related debt obligations in 2015 as well as the Insurance Corporation's projections for continued growth. Our employee compensation expense was \$119.2 million for the first nine months of 2016, compared to \$108.2 million in the same period of 2015 primarily due to an increase in the number of employees and a higher level of incentive compensation as a result of strong business and financial performance. As of September 30, 2016 and 2015, we had 934 and 879 employees, respectively. Occupancy and equipment expenses increased \$4.1 million due to increased expenditures associated with our new corporate headquarters in Greenwood Village, Colorado. General and administrative expenses increased \$2.5 million and included greater levels of contributions to civic, charitable and other organizations that benefit the people, communities and industries we serve in rural America. Information services expenses increased by \$2.2 million due to greater expenditures to enhance our service offerings. These items were partially offset by a decrease in purchased services expenses of \$4.0 million for the nine-month period ended September 30, 2016 compared to the same period in 2015 primarily due to a lower level of legal and consulting fees.

Our income tax expense decreased to \$118.8 million for the first nine months of 2016, compared to \$135.0 million for the same prior-year period. Our effective tax rates were 14.2 percent and 16.2 percent for the nine-month periods ended September 30, 2016 and 2015, respectively. The decreases in tax expense and the effective tax rate were driven by higher levels of accrued patronage, which resulted from growth in average patronage-eligible loan volume, and an increase in earnings attributable to non-taxable business activities.

Notwithstanding the higher level of earnings in the first nine months of 2016, our annualized return on average common shareholders' equity decreased to 12.65 percent for the nine months ended September 30, 2016 from 13.66 percent for the same period in 2015. This decrease resulted from the growth in common equity outpacing the growth in earnings over the past year. Our annualized return on average assets decreased to 0.80 percent for the nine-month period ended September 30, 2016, compared to 0.87 percent for the same prior-year period primarily due to the increase in the provision for loan losses, the increase in Insurance Fund premiums and other operating expenses, and the reduction in net interest margin.

For the three months ended September 30, 2016, net income decreased \$4.1 million to \$231.7 million compared to \$235.8 million for the same prior-year period. The decrease in net income was driven by the impact of the provision for loan losses in 2016 and higher operating expenses. These items were somewhat offset by higher net interest income, an increase in noninterest income and lower income tax expense.

## Operating Segment Financial Review

We provide financial services to agricultural cooperatives; other food and agribusiness companies; farmer-owned financial institutions; rural energy, communications and water cooperatives and companies; rural community facilities; and other businesses that serve agriculture and rural communities. We conduct lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

Loans outstanding and the allowance for loan losses by operating segment at September 30, 2016 and 2015 are reported in Notes 3 and 11 to the accompanying condensed consolidated financial statements. Net interest income on investment securities, federal funds sold and other overnight funds, which we hold primarily as a liquidity reserve, and gains and losses on investment securities are allocated to all operating segments, whereas the underlying investment securities are not allocated to the operating segments. Net income by operating segment is summarized in the following table and is more fully detailed in Note 11 to the accompanying condensed consolidated financial statements.

<b>Net Income by Operating Segment</b> (\$ in Thousands)		
<b>For the Nine Months Ended September 30,</b>	<b>2016</b>	<b>2015</b>
<b>Operating Segment:</b>		
Agribusiness	\$ 308,319	\$ 315,812
Strategic Relationships	185,263	182,973
Rural Infrastructure	233,905	209,344
Total Operating Segments	727,487	708,129
Corporate/Other	(9,158)	(7,751)
<b>Total</b>	<b>\$ 718,329</b>	<b>\$ 700,378</b>

### *Agribusiness*

The Agribusiness operating segment includes loans and other financial services provided to a diverse market of cooperatives and other businesses in various agricultural sectors including grain handling and marketing, farm supply, fruits, nuts, vegetables, forest products, dairy, livestock, biofuels and food processing. Agribusiness loans outstanding totaled \$25.4 billion at September 30, 2016, compared to \$26.1 billion at December 31, 2015. The \$0.7 billion decrease in loans outstanding was driven by lower seasonal loan volume, which typically reaches a low in late summer or early fall, somewhat offset by increased lending to food and agribusiness companies resulting from new customer growth and increased participations in agricultural producer and processor loans purchased from other System entities. The Agribusiness segment includes our Agricultural Export Finance Division, which provides trade finance to support U.S. exporters of agricultural products. The Agricultural Export Finance Division had \$4.4 billion and \$4.5 billion in loans outstanding as of September 30, 2016 and December 31, 2015, respectively. At September 30, 2016 and December 31, 2015, 30 percent and 37 percent, respectively, of the loans in the Agricultural Export Finance Division were guaranteed by the U.S. government. Our Agribusiness segment also includes Farm Credit

Leasing Services Corporation (FCL), a wholly-owned subsidiary, which provides lease products and related services to Association partners, agribusinesses, agricultural producers and rural infrastructure companies. As of September 30, 2016 and December 31, 2015, FCL had \$3.1 billion and \$3.0 billion, respectively, in leases outstanding.

Agribusiness average loan volume increased 12 percent to \$27.5 billion for the first nine months of 2016 from \$24.5 billion for the same period of 2015. Growth in Agribusiness average loan volume resulted primarily from higher levels of seasonal financing at many grain cooperatives, increased lending to food and agribusiness companies due to new customer growth, increased participations in agricultural producer and processor loans purchased from other System entities and greater levels of leasing activity.

Agribusiness net income decreased \$7.5 million in the first nine months of 2016 to \$308.3 million from \$315.8 million for the same period in 2015. The decrease was driven by the impact of a higher provision for loan losses, an increase in operating expenses and a lower level of noninterest income, somewhat offset by an increase in net interest income.

Net interest income increased by \$43.5 million to \$488.4 million for the nine-month period ended September 30, 2016 due to the impact of higher average loan volume and increased earnings on balance sheet positioning, somewhat offset by spread compression resulting from continued strong competition for the business of our customers and a higher cost of System short-term debt.

Agribusiness recorded a \$53.5 million provision for loan losses during the first nine months of 2016 compared to \$10.2 million in the same prior-year period. The increase in the provision for loan losses resulted from a higher level of lending activity, deterioration in overall credit quality and an increase in specific reserves associated with a small number of customers. Nonaccrual loans in Agribusiness increased to \$147.8 million at September 30, 2016, as compared to \$88.0 million at December 31, 2015, due to credit quality deterioration impacting a small number of lending customers as well as several leasing customers. Loan charge-offs, net of recoveries, totaled \$3.0 million for the nine months ended September 30, 2016, compared to \$0.8 million for the nine months ended September 30, 2015.

Noninterest income decreased \$5.0 million to \$91.8 million for the first nine months of 2016, as compared to \$96.8 million in the same period of 2015 due to lower levels of fee income and gains recognized from the sale of investment securities, the latter of which are allocated to the operating segments. This decrease is somewhat offset by an increased level of patronage income received from other System institutions on loan participations we sold to them as well as the impact of impairments recognized on investment securities in the 2015 period, the latter of which are also allocated to the operating segments.

Agribusiness operating expenses increased to \$156.8 million for the first nine months of 2016 from \$137.8 million in the same prior-year period due to the increase in Insurance Fund premiums and the increases in other operating expenses described on page 5.

### ***Strategic Relationships***

The Strategic Relationships operating segment includes wholesale loans from the direct funding relationships we have with our affiliated Association customer-owners and our wholesale funding relationships with other System institutions. Our affiliates include Associations operating in 23 states serving the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. As of September 30, 2016, the Strategic Relationships portfolio totaled \$44.8 billion, compared to \$43.4 billion at December 31, 2015. The increase in outstanding loan volume resulted from higher demand in Association lending to agricultural producers and processors as well as new customer growth at the Associations. At September 30, 2016 and December 31, 2015, loans outstanding included \$40.3 billion and \$39.1 billion, respectively, in wholesale loans to our affiliated Associations and \$4.5 billion and \$4.3 billion, respectively, of participations in wholesale loans made by other System banks to certain of their affiliated Associations. These

participations included \$3.9 billion as of September 30, 2016 and December 31, 2015 in wholesale loans made by the Farm Credit Bank of Texas.

Strategic Relationships average loan volume increased 9 percent to \$43.5 billion for the nine-month period ended September 30, 2016, compared to \$39.9 billion for the same prior-year period. The increase resulted from greater Association customer financing requirements from agricultural producers and processors, driven by lower cash reserves and reduced profitability resulting from lower commodity prices, and by new customers at the Associations. An increase in participations in wholesale loans made by two other System banks also contributed to the increase in Strategic Relationships average loan volume.

Strategic Relationships net income increased \$2.3 million to \$185.3 million for the first nine months of 2016, as compared to \$183.0 million for the same prior-year period. The increase resulted from higher noninterest income, somewhat offset by an increase in operating expenses. Net interest income increased slightly to \$215.2 million in the first nine months of 2016 compared to \$215.1 million for the same period in 2015 due to the impact of growth in loan volume, largely offset by lower earnings on investment securities.

As a wholesale lender to Associations, we benefit from the diversification of the Association loan portfolios and a strong collateral position. In addition, the earnings, capital and loan loss reserves of the Associations provide an additional layer of protection against losses in their respective loan portfolios. Lower spreads in the Strategic Relationships operating segment are commensurate with the lower risk profile and lower regulatory capital requirements. Notwithstanding the downgrade in the credit quality classification of an affiliated Association wholesale loan as discussed on page 10, loan quality in Strategic Relationships is very strong. No provisions for loan losses or allowance for credit losses have been recorded related to any of our Association wholesale loans.

Strategic Relationships noninterest income increased to net income of \$0.7 million in the first nine months of 2016 compared to net expense of \$4.1 million for the same prior-year period. The increase was primarily due to the impact of impairments recognized on investment securities in the 2015 period, which were partially offset by a lower level of gains on the sale of investment securities in the 2016 period, both of which are allocated to the operating segments.

Operating expenses increased to \$30.6 million for the first nine months of 2016, compared to \$28.1 million recorded in the same period in 2015 due to the impact of increased Insurance Fund premiums on investment securities and the increases in other operating expenses described on page 5.

### ***Rural Infrastructure***

The Rural Infrastructure operating segment includes loans and other financial services provided to cooperatives and other companies in the power and energy, communications, water and waste water industries as well as to community facilities in rural America. Power and energy industry customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, regulated utilities as well as pipeline and local distribution companies. Communications industry customers include rural local exchange carriers, wireless providers, data transport networks, cable television systems, telecommunication services and data centers. In addition, the Bank has customers in the water industry, including rural water and waste water companies, as well as rural health care and other community facilities. Significant investments in infrastructure are needed to support the businesses and residents in rural communities. Fulfilling these needs requires the resources of both public and private investors and lenders. To that end, CoBank is committed to working with our System partners, commercial and community banks, government agencies and others to provide loans and other financial support for rural infrastructure financing needs to further the flow of capital into rural America. Rural Infrastructure loans outstanding totaled \$20.3 billion at September 30, 2016, compared to \$19.6 billion at December 31, 2015.

Rural Infrastructure average loan volume increased 16 percent to \$20.0 billion for the first nine months of 2016, compared to \$17.3 billion for the same prior-year period. Growth in Rural Infrastructure loans outstanding and average loan volume resulted primarily from increased lending to electric distribution, power supply and communications customers.

Rural Infrastructure net income increased 12 percent to \$233.9 million for the first nine months of 2016 from \$209.3 million for the same prior-year period. The increase was primarily the result of increases in net interest income and noninterest income as well as a higher loan loss reversal in the 2016 period, somewhat offset by an increase in operating expenses.

Net interest income increased by \$34.9 million to \$321.0 million for the nine-month period ended September 30, 2016 as a result of the increase in average loan volume and increased earnings on balance sheet positioning, somewhat offset by lower spreads due to continued strong competition for the business of our customers and a higher cost of System short-term debt.

Rural Infrastructure recorded loan loss reversals of \$5.5 million during the first nine months of 2016 compared to \$0.2 million for the same period in 2015. The 2016 reversal is largely due to an improvement in credit quality in a small number of communications loans, which more than offset the impact of loan growth. Nonaccrual loans in Rural Infrastructure decreased to \$2.3 million at September 30, 2016 compared to \$68.8 million as of December 31, 2015 primarily resulting from activity related to three communications loans, of which one returned to accruing status and the others were paid off. Rural Infrastructure recorded loan recoveries, net of charge-offs, of \$1.3 million for the nine months ended September 30, 2016, compared to loan charge-offs, net of recoveries, of \$4.6 million for the same period in 2015. The 2015 charge-offs primarily related to one energy loan.

Noninterest income increased to \$54.4 million for the first nine months of 2016 compared to \$47.8 million for the same prior-year period in 2015 primarily due to an increased level of patronage income received from other System institutions, proceeds from the disposition of warrants obtained in lending transactions as well as a higher level of fee income. This increase was somewhat offset by the impact of a lower level of gains recognized from the sale of investment securities, which are allocated to the operating segments, as well as lower prepayment income, net of losses on early extinguishments of debt, in the 2016 period.

Rural Infrastructure operating expenses increased to \$89.3 million for the first nine months of 2016 compared to \$67.2 million for the same prior-year period due to the increase in Insurance Fund premiums and the increases in other operating expenses described on page 5.

## Credit Quality, Liquidity, Capital Resources and Other

### Loan Quality

The following table presents loans and related accrued interest receivable, classified by management pursuant to our regulator's Uniform Loan Classification System, as a percent of total loans and related accrued interest.

Loan Quality Ratios						
	September 30, 2016			December 31, 2015		
	Wholesale Loans <sup>(1)</sup>	Commercial Loans <sup>(2)</sup>	Total Bank	Wholesale Loans <sup>(1)</sup>	Commercial Loans <sup>(2)</sup>	Total Bank
Acceptable	97.23 %	95.41 %	96.31 %	100.00 %	96.49 %	98.18 %
Special Mention	2.77	3.10	2.94	-	2.16	1.12
Substandard	-	1.47	0.74	-	1.35	0.70
Doubtful	-	0.02	0.01	-	-	-
Loss	-	-	-	-	-	-
<b>Total</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>

<sup>(1)</sup> Represents loans in our Strategic Relationships operating segment.

<sup>(2)</sup> Represents loans in our Agribusiness and Rural Infrastructure operating segments.

Our overall loan quality measures remain strong at September 30, 2016. The level of adversely classified loans (“Substandard”, “Doubtful” and “Loss”) and related accrued interest as a percent of total loans and related accrued interest were 0.75 percent at September 30, 2016, compared to 0.70 percent at December 31, 2015.

Special Mention loans increased by \$1.7 billion during the first nine months of 2016. The increase was driven by the downgrade in the credit quality classification of one wholesale loan to an affiliated Association totaling \$1.2 billion as of September 30, 2016 and, to a lesser extent, deterioration in credit quality in our Agribusiness operating segment. The downgrade of the affiliated Association loan resulted from an internal control weakness at that Association. Pursuant to our regulatory requirements, we classify our wholesale loans using the same credit rating methodology as is used with our commercial loans. Our loans to affiliated Associations are collateralized by substantially all of the Association assets. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their retail loan portfolios. As a result of the collateralization and other mitigating factors described above, we do not anticipate any losses on the Association wholesale loan classified as Special Mention. As of September 30, 2016, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any of our wholesale loans.

We recorded a \$48.0 million provision for loan losses in the first nine months of 2016 compared to \$10.0 million during the 2015 period. The 2016 provision reflects a higher level of lending activity and deterioration in credit quality in our Agribusiness operating segment. Total loan charge-offs, net of recoveries, were \$1.7 million for the first nine months of 2016 compared to \$5.4 million in the 2015 period. Nonaccrual loans decreased slightly to \$150.2 million at September 30, 2016 from \$156.8 million at December 31, 2015. The decrease primarily resulted from activity related to three communications loans, of which one returned to accruing status and the others were paid off, offset by credit quality deterioration impacting a small number of customers in our Agribusiness operating segment. Our total allowance for credit losses (ACL), which includes the allowance for loan losses and the reserve for unfunded commitments, was \$647.9 million at September 30, 2016 compared to \$601.6 million at December 31, 2015. Our ACL as a percent of total loans was 0.72 percent at September 30, 2016 compared to 0.68 percent at December 31, 2015. ACL as a percent of non-guaranteed loans outstanding and excluding loans to Associations was 1.45 percent at September 30, 2016 compared to 1.36 percent at December 31, 2015.

While the overall credit quality of our loan portfolio remains strong and has been favorable in recent years, we expect some further deterioration due to lower commodity prices and other factors impacting our customers. In addition, concentrations within our loan portfolio can cause the level of our loan quality, nonaccrual loans, charge-offs and provisions for loan losses or loan loss reversals to vary significantly from period to period.

### *Liquidity and Investments*

Our liquidity management objectives are to provide a reliable source of funding to borrowers, meet maturing debt obligations, provide additional liquidity if market conditions deteriorate and fund operations. While we believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, holdings of liquid assets and access to the capital markets, the volatility of our loan volume may cause our liquidity needs to vary significantly from day to day.

We monitor our liquidity position by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and eligible investments. System banks are required by regulation to maintain a minimum of 90 days of liquidity (cash and readily marketable investments generally discounted by 5 to 10 percent of market value) on a continuous basis and to establish an incremental liquidity reserve. At September 30, 2016, our liquidity was 191 days, compared to 199 days at December 31, 2015.

We hold cash, investment securities, money market instruments, federal funds sold and other overnight funds primarily to maintain a liquidity reserve and manage short-term surplus funds. Our investment securities increased \$3.6 billion to \$28.1 billion at September 30, 2016 compared to \$24.5 billion at December 31, 2015. The increase largely reflects the purchase of U.S. Treasury securities to enhance our liquidity reserve in response to loan growth.

The table below summarizes our investment securities and related unrealized gains/(losses) by asset class.

<b>Investment Securities</b> (\$ in Millions)								
	<b>September 30, 2016</b>				<b>December 31, 2015</b>			
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Unrealized Gains/ (Losses)</b>		<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Unrealized Gains/ (Losses)</b>	
Certificates of Deposit	\$ 430	\$ 430	\$ -	\$	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Debt	11,654	11,814	160		7,174	7,188	14	
U.S. Agency Debt	5,186	5,245	59		5,842	5,857	15	
Residential Mortgage-Backed:								
Ginnie Mae	616	619	3		901	906	5	
U.S. Agency	6,658	6,728	70		7,762	7,763	1	
FHA/VA Non-Wrapped Reperformer	280	283	3		336	342	6	
Non-Agency	69	77	8		118	129	11	
Commercial Mortgage-Backed:								
U.S. Agency	2,613	2,615	2		1,986	1,982	(4)	
Agricultural Mortgage-Backed:								
Farmer Mac	103	101	(2)		126	124	(2)	
Corporate Bonds	40	40	-		166	166	-	
Asset-Backed and Other	132	143	11		36	47	11	
<b>Total</b>	<b>\$ 27,781</b>	<b>\$ 28,095</b>	<b>\$ 314</b>	<b>\$</b>	<b>\$ 24,447</b>	<b>\$ 24,504</b>	<b>\$ 57</b>	<b>\$</b>

Credit risk in our investment portfolio primarily exists in investment securities that are not explicitly or implicitly guaranteed by the U.S. government, which include our certificates of deposit, FHA/VA non-wrapped reperformer mortgage-backed securities (i.e. investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency mortgage-backed securities (MBS), corporate bonds and asset-backed securities (ABS). These securities, excluding certificates of deposit with which the

counterparties carry the highest short-term credit rating, collectively total \$543.2 million (fair value) or 2 percent of our total investment securities as of September 30, 2016. Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements to meet their contractual obligations to us.

Pursuant to FCA regulations, non-agency MBS and ABS, which include our FHA/VA non-wrapped reperformer MBS, that are no longer rated triple-A by at least one major rating agency, corporate bonds that no longer carry one of the two highest ratings by at least one major rating agency or any investment whose market value is less than 80 percent of book value must be excluded from our liquidity reserve. As a result, as of September 30, 2016, \$392.4 million of securities were not included in our liquidity reserve. Another \$123.0 million of investment securities, primarily representing Federal Agricultural Mortgage Corporation (Farmer Mac) MBS, were not included in our liquidity reserve as of September 30, 2016, pursuant to regulation.

We recorded no impairment losses on investment securities during the first nine months of 2016. During the second quarter of 2015, we recorded \$11.1 million in impairment losses related to two FHA/VA non-wrapped reperformer MBS with a total fair value of \$54.5 million. These losses resulted from lower projected cash flows due to the impact of loan modification activity in the underlying collateral. One of these securities was sold during the third quarter of 2015 for total proceeds of \$21.3 million, resulting in an \$0.8 million gain. Increasing levels of defaults, foreclosures or modifications on residential mortgages, a decline in home prices or weak economic conditions may result in additional downward adjustments to the fair value of certain investment securities and the need to record future impairment losses against earnings.

In the first nine months of 2016, we sold six non-impaired corporate bonds with a combined book value of \$76.0 million for total proceeds of \$76.8 million as well as two FHA/VA non-wrapped reperformer MBS with a combined book value of \$52.0 million for total proceeds of \$54.9 million. The corporate bonds were sold to manage credit exposure. The FHA/VA non-wrapped reperformer MBS had been previously impaired and were excluded from our liquidity reserve, and were sold due to favorable market conditions. In 2016, we also sold six U.S. agency debt investment securities with a combined book value of \$451.5 million for total proceeds of \$452.4 million for balance sheet positioning purposes. The resulting gains from these sales of \$4.6 million are recorded in Other Noninterest Income in the accompanying condensed consolidated statement of income for the nine months ended September 30, 2016.

During the nine-month period ended September 30, 2015, we sold three non-agency ABS and one agency debt security with a combined book value of \$127.8 million for total proceeds of \$149.6 million. The three non-agency ABS had been previously impaired and were excluded from our liquidity reserve, and were sold due to favorable market conditions. For income tax purposes, the sale of these previously-impaired securities generated a capital loss. The sale of the agency debt security was consummated in order to generate taxable capital gains and thereby utilize the substantial majority of this capital loss.

As all of our investment securities are classified as “available for sale”, we recognize changes in the fair value of our investment securities in accumulated other comprehensive income/(loss), a component of shareholders’ equity, unless losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded unrealized gains of \$257.0 million for the first nine months of 2016, compared to \$133.2 million for the same prior-year period. The unrealized gains recorded in both periods primarily reflect the impact of market interest rate changes on the fair value of fixed rate securities.

An additional source of liquidity is cash provided by our operating activities (primarily generated from net interest income in excess of operating expenses), which totaled \$683.0 million and \$719.1 million for the first nine months of 2016 and 2015, respectively.

Notwithstanding the various sources of liquidity discussed above, if no other sources existed to repay maturing Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount

notes (collectively referred to as Systemwide Debt Securities), the assets of the Insurance Fund would be used to repay such debt. The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10 billion and terminates on September 30, 2017 unless otherwise extended. The decision whether to seek funds from the Federal Financing Bank is in the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

### **Capital Resources**

We believe that a sound capital position is critical to our long-term financial success and future growth. Our shareholders' equity is composed of preferred and common stock, retained earnings and other comprehensive income/(loss), and totaled \$8.7 billion at September 30, 2016, as compared to \$7.8 billion at December 31, 2015.

At September 30, 2016, our permanent capital, total surplus, core surplus and net collateral ratios exceeded regulatory minimums, as depicted in the following table. The components of these ratios are described in our 2015 Annual Report.

<b>Capital Ratios</b>	<b>Regulatory Minimums</b>		<b>September 30, 2016</b>		<b>December 31, 2015</b>	
Permanent Capital Ratio	7.00	%	15.57	%	14.95	%
Total Surplus Ratio	7.00		14.61		14.07	
Core Surplus Ratio <sup>(1)</sup>	5.59		11.07		10.29	
Net Collateral Ratio <sup>(2)</sup>	104.00		107.01		106.82	

<sup>(1)</sup> The regulatory minimum core surplus ratio is 3.5 percent, but the FCA requires the higher 5.59 percent during a period in which we include a portion of our common stock as core surplus.

<sup>(2)</sup> The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during a period in which we have subordinated debt outstanding.

Pursuant to FCA guidance, a portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue for the remainder of 2016, at which time new capital regulations will be effective, as discussed below. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of September 30, 2016, our core surplus ratio excluding common stock was 9.60 percent.

On March 10, 2016, the FCA adopted final rules (the New Capital Regulations) relating to regulatory capital requirements for System banks, including CoBank, and Associations. The New Capital Regulations take effect January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government-sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

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

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

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

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

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

On April 8, 2016, we issued \$375 million of Series I non-cumulative perpetual preferred stock. We used the net proceeds from the Series I preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. 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. This issuance of preferred stock is also discussed in Note 10 to the accompanying condensed consolidated financial statements.

On April 15, 2016, we redeemed all of our outstanding 7.875 percent subordinated notes due in 2018 totaling \$404.7 million. The redemption price was 100 percent of the principal amount, together with accrued and unpaid interest up to, but excluding, the date of redemption. For information relating to a complaint filed by a number of investors who had held the subordinated notes alleging CoBank impermissibly redeemed the subordinated notes, see Note 9 to the accompanying condensed consolidated financial statements.

We may from time to time seek to retire our outstanding debt or equity securities through calls, cash purchases and/or exchanges, open market purchases, privately negotiated transactions or otherwise. We may also issue new debt or equity securities. Such calls, repurchases, exchanges or new issuances, if any, will depend on prevailing market conditions, the Bank's capital position and liquidity requirements, contractual restrictions, changes to capital regulations and other factors.

## **Business Outlook**

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Notwithstanding our strong financial performance in the first nine months of 2016, we continue to face market conditions that could make the business and earnings environment less favorable for CoBank in the future. Growth in the U.S. economy remains modest. Growth in global markets has slowed and economic conditions are volatile, particularly given heightened geopolitical risks and weakening markets outside the

United States. Interest rates remain extremely low by historical standards and continue to negatively impact the returns on capital and investment securities. Monetary policy as established by the Federal Reserve and the policies of other central banks around the world create further uncertainty regarding interest rates and asset valuations. Competition for the business of our customers across most of the industries we serve continues to be intense. Agricultural commodity prices have remained relatively low compared to recent periods and are subject to volatility driven by weather conditions and other factors. Customers in many of the industries we serve are impacted by unpredictable commodity prices and agricultural yields, fluctuations in the value of the U.S. dollar, weather and ongoing political and regulatory uncertainty. Many of our energy customers are impacted by energy efficiency initiatives, price volatility of various fuel sources including coal and natural gas, emerging regulation of carbon dioxide emissions, renewable energy standards and customer demand for distributed generation. The lower level of oil prices has had and could continue to have a negative impact on some rural communities. Rapidly changing technology and customer demands create uncertainty in the communications industry. These challenges could reduce the credit quality and/or influence the level of loan demand in certain sectors of our loan portfolio.

We continue to focus on delivering the credit and financial service products our customers need to compete, grow and achieve business success, enhancing our enterprise risk management capabilities and maintaining our financial strength. We believe that our strong earnings, liquidity and capital will continue to provide the capacity to support customers in all market conditions and to effectively lower the net cost of borrowing for our customer-owners through consistent and reliable patronage payments. We continue our disciplined approach to managing risk and closely monitoring asset quality. We also continue to maintain prudent discipline over expenses. Nevertheless, we will make investments in our people, processes, data infrastructure and technology, including our digital banking capabilities, to strengthen the value and improve the experience we provide to our customers, and as we strive to better fulfill our mission in rural America in a safe and sound manner.

In June 2016, Robert B. Engel, Chief Executive Officer (CEO) of CoBank, announced that he will leave the Bank upon completion of his current employment agreement on June 30, 2017. The Board of Directors has appointed Thomas E. Halverson, currently the Bank's Chief Banking Officer, as CEO-elect. Mr. Engel and Mr. Halverson will remain in their current positions until January 1, 2017, at which time Mr. Engel will move into a senior advisory role and Mr. Halverson will become the CEO.

In August 2016, CoBank announced that Mary E. McBride, who served as President through August 31, 2016, and Lori L. O'Flaherty, who served as Chief Risk Officer through August 31, 2016, will be leaving the Bank at the end of 2016 and will serve as senior advisors until that time. In July 2016, CoBank also announced that the Bank's Chief Credit Officer, Daniel L. Key, will retire on March 31, 2017.

Under the guidance of our Board of Directors and through the focus of an experienced executive management team, we expect to achieve continued success through execution of our business strategies and by creating mutually beneficial partnerships with other System institutions, maintaining effective access to the agency debt capital markets, educating policy makers and other key stakeholders of the critical mission of CoBank and the System, prudently optimizing current lending authorities and maintaining compliance with laws and regulations. We continue to explore strategic alliances and other opportunities with other System institutions, financial service providers and other entities, including agencies of the U.S. government under our public/private partnership initiative.

## **Forward-Looking Statements**

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Certain of the statements contained in this quarterly report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from those included in the forward-looking statements that relate to our plans, projections, expectations and intentions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "may," "will," "should," "would," "could" or similar expressions. Although we believe that the information expressed or implied in

such forward-looking statements is reasonable, we can give no assurance that such projections and expectations will be realized or the extent to which a particular plan, projection or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to:

- Changes that negatively impact the agricultural, energy, communications, water and leasing industries;
- The level of interest rates and relationships between various interest rate indices and actions taken by the Federal Reserve to manage the monetary policy of the United States;
- Currency fluctuations that impact the value of the U.S. dollar in global markets;
- Adverse food safety and weather events, disease, and other unfavorable conditions that periodically occur and impact agricultural productivity and income;
- Changes in levels of global crop production, exports, usage and inventories;
- Credit performance of the loan portfolio;
- Performance of underlying collateral, including farmland values and specialized property that secures rural infrastructure credits;
- Loan portfolio growth and seasonal factors;
- Weak U.S. economic conditions;
- Weaknesses in other developed and emerging economies;
- Government policies and political developments in the United States and other countries in which we do business;
- Geopolitical uncertainties throughout the world that may impact the industries we lend to, or, economic, fiscal or monetary conditions;
- Changes in the U.S. government's support of the System, the agricultural industry, agricultural exports, rural infrastructure and rural economies;
- Legislative or regulatory actions that affect current and ongoing operations of the System or the banking, financial services, agricultural, energy, communications, water and leasing industries;
- Legislative or regulatory actions that affect our relationships with our employees;
- Actions taken by the U.S. Congress relative to other Government Sponsored Enterprises, including the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks and the Farmer Mac;
- Actions taken by the U.S. government to manage U.S. fiscal policy, including tax reform;
- A decrease in the credit outlook or ratings of U.S. government debt and agency debt, including Systemwide Debt Securities;
- Cybersecurity risks, including a failure or breach of our operational or security systems or infrastructure, that could adversely affect our business, financial performance and reputation;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the allowance for credit losses;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments;
- The resolution of legal proceedings and related matters;
- Environmental-related conditions or laws impacting our lending activities;
- Nonperformance by counterparties under our derivative and vendor contracts; and
- Our ability to continue to partner with various System and other entities in light of ongoing consolidation within the System and the industries we serve.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

# Condensed Consolidated Statements of Income

CoBank, ACB

(\$ in Thousands) (Unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2016	2015	2016	2015
<b>Interest Income</b>				
Loans	\$ 541,189	\$ 462,701	\$ 1,608,740	\$ 1,359,992
Investment Securities, Federal Funds Sold and Other Overnight Funds	108,093	90,479	324,689	262,798
Total Interest Income	649,282	553,180	1,933,429	1,622,790
<b>Interest Expense</b>	315,271	237,979	916,600	682,942
Net Interest Income	334,011	315,201	1,016,829	939,848
Provision for Loan Losses	20,000	-	48,000	10,000
Net Interest Income After Provision for Loan Losses	314,011	315,201	968,829	929,848
<b>Noninterest Income/(Expense)</b>				
Net Fee Income	22,490	25,636	76,271	79,747
Prepayment Income	6,015	3,856	17,672	23,783
Losses on Early Extinguishments of Debt	(8,141)	(3,640)	(16,888)	(20,549)
Gains on Sale of Investment Securities	3,341	795	4,615	22,603
Other-Than-Temporary Impairment Losses on Investment Securities	-	-	-	(11,100)
Other, Net	26,168	15,373	62,314	44,372
Total Noninterest Income	49,873	42,020	143,984	138,856
<b>Operating Expenses</b>				
Employee Compensation	43,672	36,829	119,219	108,239
Insurance Fund Premium	22,259	14,656	67,746	43,903
Information Services	6,979	6,335	21,173	18,928
General and Administrative	7,425	5,927	19,409	16,908
Occupancy and Equipment	3,448	4,272	12,984	8,905
Farm Credit System Related	3,576	3,868	10,815	10,803
Purchased Services	2,253	4,293	7,365	11,358
Other	5,083	4,057	16,935	14,316
Total Operating Expenses	94,695	80,237	275,646	233,360
Income Before Income Taxes	269,189	276,984	837,167	835,344
Provision for Income Taxes	37,475	41,161	118,838	134,966
<b>Net Income</b>	\$ 231,714	\$ 235,823	\$ 718,329	\$ 700,378

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

# Condensed Consolidated Statements of Comprehensive Income

CoBank, ACB

(\$ in Thousands) (Unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2016	2015	2016	2015
<b>Net Income</b>	\$ 231,714	\$ 235,823	\$ 718,329	\$ 700,378
<b>Other Comprehensive Income, Net of Tax:</b>				
Net Change in Unrealized (Losses)/Gains on Investment				
Securities Not Other-Than-Temporarily Impaired	(83,303)	82,866	207,491	122,637
Net Change in Unrealized Losses on				
Other-Than-Temporarily Impaired Investment Securities	(1,049)	(6,670)	(2,912)	(8,710)
Net Change in Unrealized Losses on Interest Rate				
Swaps and Other Financial Instruments	(3,320)	(3,283)	(12,984)	(3,128)
Net Pension Adjustment	832	1,154	2,498	3,461
<b>Other Comprehensive (Loss)/Income</b>	<b>(86,840)</b>	<b>74,067</b>	<b>194,093</b>	<b>114,260</b>
<b>Comprehensive Income</b>	<b>\$ 144,874</b>	<b>\$ 309,890</b>	<b>\$ 912,422</b>	<b>\$ 814,638</b>

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

# Condensed Consolidated Balance Sheets

CoBank, ACB

(\$ in Thousands)

	September 30, 2016	December 31, 2015
	(Unaudited)	
<b>Assets</b>		
Total Loans	\$ 90,416,625	\$ 89,040,580
Less: Allowance for Loan Losses	519,574	486,144
Net Loans	89,897,051	88,554,436
Cash and Cash Equivalents	746,795	3,113,101
Federal Funds Sold and Other Overnight Funds	650,000	-
Investment Securities	28,095,198	24,504,448
Interest Rate Swaps and Other Financial Instruments	361,903	295,989
Accrued Interest Receivable and Other Assets	998,651	1,002,592
<b>Total Assets</b>	<b>\$ 120,749,598</b>	<b>\$ 117,470,566</b>
<b>Liabilities</b>		
Bonds and Notes	\$ 109,826,124	\$ 106,970,066
Subordinated Debt	498,765	902,685
Interest Rate Swaps and Other Financial Instruments	224,214	113,397
Reserve for Unfunded Commitments	128,313	115,444
Accrued Interest Payable and Other Liabilities	1,418,352	1,558,505
<b>Total Liabilities</b>	<b>\$ 112,095,768</b>	<b>\$ 109,660,097</b>
Commitments and Contingent Liabilities (Note 9)		
<b>Shareholders' Equity</b>		
Preferred Stock	1,500,000	1,125,000
Common Stock	2,956,385	2,899,728
Unallocated Retained Earnings	4,063,339	3,845,728
Accumulated Other Comprehensive Income/(Loss)	134,106	(59,987)
<b>Total Shareholders' Equity</b>	<b>\$ 8,653,830</b>	<b>\$ 7,810,469</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 120,749,598</b>	<b>\$ 117,470,566</b>

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

# Condensed Consolidated Statements of Cash Flows

CoBank, ACB

(\$ in Thousands) (Unaudited)

For the Nine Months Ended September 30,	2016	2015
<b>Cash Flows Provided by Operating Activities</b>		
Net Income	\$ 718,329	\$ 700,378
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	48,000	10,000
Deferred Income Taxes	(32,014)	(40,246)
Depreciation and Amortization/Accretion, Net	69,971	43,068
Losses on Impairment of Available-for-Sale Investments	-	11,100
Net Gains on Sales of Investment Securities	(4,615)	(22,603)
(Increase)/Decrease in Accrued Interest Receivable and Other Assets	(84,469)	54,723
(Decrease) in Accrued Interest Payable and Other Liabilities	(24,641)	(24,691)
Net Losses/(Gains) on Interest Rate Swaps and Other Financial Instruments	1,056	(5,429)
Proceeds from Termination of Interest Rate Swaps	1,911	4,358
Purchase of Interest Rate Caps	(9,327)	(9,636)
Other	(1,155)	(1,950)
<b>Net Cash Provided by Operating Activities</b>	<b>683,046</b>	<b>719,072</b>
<b>Cash Flows Used in Investing Activities</b>		
Net Increase in Loans	(1,402,385)	(4,182,152)
Net (Increase)/Decrease in Investment Securities	(3,326,807)	966,674
Net Increase in Federal Funds Sold and Other Overnight Funds	(650,000)	-
Construction of Corporate Headquarters	(2,989)	(33,278)
Proceeds from Sale-Leaseback of Corporate Headquarters	6,527	-
<b>Net Cash Used in Investing Activities</b>	<b>(5,375,654)</b>	<b>(3,248,756)</b>
<b>Cash Flows Provided by Financing Activities</b>		
Net Issuances of Bonds and Notes	2,849,875	2,485,522
Subordinated Debt Redemption	(404,685)	-
Preferred Stock Issued, Net	370,348	-
Net Retirements of Common Stock	(29,022)	(32,460)
Cash Patronage Distribution Paid	(415,414)	(376,464)
Preferred Stock Dividends Paid	(44,800)	(41,487)
Other	-	(46)
<b>Net Cash Provided by Financing Activities</b>	<b>2,326,302</b>	<b>2,035,065</b>
Net Decrease in Cash	(2,366,306)	(494,619)
Cash at Beginning of Period	3,113,101	1,855,634
<b>Cash at End of Period</b>	<b>\$ 746,795</b>	<b>\$ 1,361,015</b>
<b>Supplemental Disclosures:</b>		
<b>Schedule of Noncash Investing and Financing Activities</b>		
Net Change in Accrued Securities Purchases	\$ -	\$ 241,910
Net Change in Receivables from Sale of Investment Securities	(650)	6,320
Net Change in Unrealized Gains on Investment Securities, Before Taxes	256,959	133,177
Net Change in Unrealized (Losses)/Gains on Interest Rate Swaps, Other Financial Instruments and Hedged Items, Before Taxes	(20,238)	(5,811)
Patronage in Common Stock	85,679	72,421
Removal of Corporate Headquarters from Balance Sheet in Sale-Leaseback Accounting	(76,063)	-

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

## Condensed Consolidated Statements of Changes in Shareholders' Equity

### CoBank, ACB

(\$ in Thousands) (Unaudited)

For the Nine Months Ended September 30,	2016	2015
<b>Balance at Beginning of Period</b>	\$ 7,810,469	\$ 7,369,663
Comprehensive Income	912,422	814,638
Preferred Stock:		
Dividends	(56,242)	(44,356)
Issuance	375,000	-
Issuance Costs	(4,652)	-
Common Stock:		
Issuances	87	91
Retirements	(29,109)	(32,551)
Cash Patronage Accrued	(354,145)	(307,194)
Other	-	(46)
<b>Balance at End of Period</b>	<b>\$ 8,653,830</b>	<b>\$ 7,800,245</b>

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

# Notes to Condensed Consolidated Financial Statements

**CoBank, ACB**

*(Unaudited) (\$ in Thousands, Except Share and Per Share Amounts and as Noted)*

## **Note 1 – Organization, Lending Authority and Significant Accounting Policies**

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The accompanying condensed consolidated financial statements include the accounts of CoBank, ACB and its wholly-owned subsidiaries, CoBank, FCB and Farm Credit Leasing Services Corporation (FCL), collectively hereinafter referred to as CoBank or the Bank. All material inter-company accounts and transactions have been eliminated. In our opinion, all adjustments considered necessary for a fair presentation of the interim financial condition, results of operations and cash flows have been made. These adjustments are of a normal recurring nature, unless otherwise disclosed. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted.

CoBank is a member of the Farm Credit System (System). We provide loans, leases and other financial services to agricultural cooperatives; other food and agribusiness companies; rural energy, 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.

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2015 Annual Report, which includes a description of our organization and lending authority. Also included in the 2015 Annual Report is a summary of significant accounting policies. These quarterly condensed consolidated financial statements have been prepared in accordance with these same accounting policies. Certain reclassifications have been made to amounts reported in previous periods to conform to the 2016 presentation.

CoBank is the funding bank for certain System Associations, which are collectively referred to as our “affiliated Associations.” The accompanying condensed consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the “District.” We separately publish certain unaudited combined financial information of the District, including a condensed statement of condition and statement of income, which can be found on our website at [www.cobank.com](http://www.cobank.com). Such information is not incorporated by reference into, and should not be considered part of, this quarterly report. Additional information about our affiliated Associations and District financial information is contained in Note 12 to these condensed consolidated financial statements.

Copies of CoBank’s financial reports are available on request by calling or visiting one of our banking center locations and through our website at [www.cobank.com](http://www.cobank.com). Copies of financial reports of our affiliated Associations and the System are available on their respective websites.

We have evaluated subsequent events through November 9, 2016, which is the date the financial statements were issued.

## **Note 2 – Recently Issued or Adopted Accounting Pronouncements**

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In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” The ASU is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance addresses, among other issues, the presentation of debt prepayment or extinguishment costs and settlement of zero-coupon debt instruments in the statement of cash flows. For public business entities, the ASU becomes effective for financial statements issued for fiscal years beginning

after December 15, 2017, and interim periods within those fiscal years. Early application is permitted, provided that all of the amendments are adopted in the same period. We are reviewing the guidance to determine the effect on our consolidated statement of cash flows.

In June 2016, the FASB issued ASU, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The ASU introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new model will apply to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost; (2) loan commitments and certain other off-balance sheet credit exposures; (3) debt securities and other financial assets measured at fair value through other comprehensive income/(loss); and (4) beneficial interests in securitized financial assets. For public business entities that are not U.S. Securities and Exchange Commission filers the ASU becomes effective in fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, and early application is permitted. We are reviewing the guidance to determine the effect on our consolidated financial position and results of operations.

In February 2016, the FASB issued ASU, “Leases.” This guidance is intended to improve financial reporting about leasing transactions and affects all organizations that lease assets. The ASU will require organizations that lease assets, referred to as lessees, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The accounting for organizations that own the assets leased by the lessee, also known as lessor accounting, will remain largely unchanged from current GAAP. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, and early application is permitted. We are reviewing the guidance to determine the effect on our consolidated financial position and results of operations.

In January 2016, the FASB issued ASU, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.” The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the ASU eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2017. Early application is permitted. We do not anticipate this guidance to have a significant effect, if any, on our consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued guidance entitled “Simplifying the Presentation of Debt Issuance Costs.” The guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. We adopted this standard in 2015.

In August 2014, the FASB issued guidance entitled “Presentation of Financial Statements — Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. As such, a substantial majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period

within the annual reporting periods after December 15, 2017. We do not anticipate this guidance to have a significant impact, if any, on our consolidated financial position, results of operations or cash flows.

### Note 3 – Loans, Loan Quality and Allowance for Credit Losses

#### Loans Outstanding

Loans outstanding by operating segment are shown below.

(\$ in Millions)

	September 30, 2016	December 31, 2015
Agribusiness	\$ 25,357	\$ 26,131
Strategic Relationships	44,762	43,358
Rural Infrastructure	20,298	19,552
<b>Total</b>	<b>\$ 90,417</b>	<b>\$ 89,041</b>

#### Allowance for Credit Losses

The following tables present the changes in the components of our allowance for credit losses and details of ending balances. The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commitments. The elements of our allowance for credit losses are presented by operating segment.

	Agribusiness	Strategic Relationships <sup>(1)</sup>	Rural Infrastructure	Total
<b>September 30, 2016</b>				
<b>Allowance for Loan Losses</b>				
Beginning Balance at January 1, 2016	\$ 313,204	\$ -	\$ 172,940	\$ 486,144
Charge-offs	(3,705)	-	(324)	(4,029)
Recoveries	724	-	1,604	2,328
Provision for Loan Losses/(Loan Loss Reversal)	53,500	-	(5,500)	48,000
Transfers to Reserve for Unfunded Commitments <sup>(2)</sup>	(12,243)	-	(626)	(12,869)
Ending Balance at September 30, 2016	351,480	-	168,094	519,574
<b>Reserve for Unfunded Commitments</b>				
Beginning Balance at January 1, 2016	89,610	-	25,834	115,444
Transfers from Allowance for Loan Losses <sup>(2)</sup>	12,243	-	626	12,869
Ending Balance at September 30, 2016	101,853	-	26,460	128,313
<b>Allowance for Credit Losses</b>	<b>\$ 453,333</b>	<b>\$ -</b>	<b>\$ 194,554</b>	<b>\$ 647,887</b>
<b>Allowance for Credit Losses</b>				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	\$ 26,287	\$ -	\$ 1,000	\$ 27,287
Collectively Evaluated for Impairment	427,046	-	193,554	620,600
<b>Total</b>	<b>\$ 453,333</b>	<b>\$ -</b>	<b>\$ 194,554</b>	<b>\$ 647,887</b>
<b>Loans</b>				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	\$ 147,821	\$ 44,827,136	\$ 2,346	\$ 44,977,303
Collectively Evaluated for Impairment	25,289,884	-	20,377,740	45,667,624
<b>Total</b>	<b>\$ 25,437,705</b>	<b>\$ 44,827,136</b>	<b>\$ 20,380,086</b>	<b>\$ 90,644,927</b>

<sup>(1)</sup> As a result of a strong collateral position with respect to loans to Associations, along with the earnings, capital and loss reserves of Associations that serve as an additional layer of protection against losses, no allowance for credit losses is recorded in our Strategic Relationships operating segment.

<sup>(2)</sup> These transfers generally occur as a result of advances on or repayments of seasonal lines of credit or other loans.

	Strategic		Rural		
	Agribusiness	Relationships <sup>(1)</sup>	Infrastructure		Total
<b>September 30, 2015</b>					
<b>Allowance for Loan Losses</b>					
Beginning Balance at January 1, 2015	\$ 329,633	\$ -	\$ 151,523	\$	481,156
Charge-offs	(2,565)	-	(5,596)		(8,161)
Recoveries	1,754	-	1,037		2,791
Provision for Loan Losses/(Loan Loss Reversal)	10,200	-	(200)		10,000
Transfers to Reserve for Unfunded Commitments <sup>(2)</sup>	(22,636)	-	(2,933)		(25,569)
Ending Balance at September 30, 2015	316,386	-	143,831		460,217
<b>Reserve for Unfunded Commitments</b>					
Beginning Balance at January 1, 2015	104,672	-	11,008		115,680
Transfers from Allowance for Loan Losses <sup>(2)</sup>	22,636	-	2,933		25,569
Ending Balance at September 30, 2015	127,308	-	13,941		141,249
<b>Allowance for Credit Losses</b>	\$ 443,694	\$ -	\$ 157,772	\$	601,466
<b>Allowance for Credit Losses</b>					
Ending Balance, Allowance for Credit Losses Related to Loans:					
Individually Evaluated for Impairment	\$ 18,800	\$ -	\$ 6,028	\$	24,828
Collectively Evaluated for Impairment	424,894	-	151,744		576,638
<b>Total</b>	\$ 443,694	\$ -	\$ 157,772	\$	601,466
<b>Loans</b>					
Ending Balance for Loans and Related Accrued Interest:					
Individually Evaluated for Impairment	\$ 84,981	\$ 41,555,148	\$ 72,505	\$	41,712,634
Collectively Evaluated for Impairment	24,360,098	-	18,655,906		43,016,004
<b>Total</b>	\$ 24,445,079	\$ 41,555,148	\$ 18,728,411	\$	84,728,638

<sup>(1)</sup> As a result of a strong collateral position with respect to loans to Associations, along with the earnings, capital and loss reserves of Associations that serve as an additional layer of protection against losses, no allowance for credit losses is recorded in our Strategic Relationships operating segment.

<sup>(2)</sup> These transfers generally occur as a result of advances on or repayments of seasonal lines of credit or other loans.

The information in the tables under the Credit Quality, Aging Analysis and Impaired Loans captions is presented by operating segment, with guaranteed and non-guaranteed loans in our Agribusiness segment separately identified.

### ***Credit Quality***

The following table presents our loans and related accrued interest, classified by management pursuant to our regulator's Uniform Loan Classification System.

<b>September 30, 2016</b>	<b>Agribusiness</b>		<b>Strategic</b>		<b>Rural</b>		<b>Total</b>
	<b>Non-Guaranteed</b>	<b>Guaranteed</b>	<b>Relationships</b>		<b>Infrastructure</b>		
Acceptable	\$ 22,485,771	\$ 1,326,207	\$ 43,588,444	\$	\$ 19,898,811	\$	87,299,233
Special Mention	1,021,893	-	1,238,692 <sup>(1)</sup>		401,810		2,662,395
Substandard	596,155	-	-		79,465		675,620
Doubtful	7,679	-	-		-		7,679
Loss	-	-	-		-		-
<b>Total</b>	<b>\$ 24,111,498</b>	<b>\$ 1,326,207</b>	<b>\$ 44,827,136</b>	<b>\$</b>	<b>\$ 20,380,086</b>	<b>\$</b>	<b>90,644,927</b>
<b>December 31, 2015</b>							
Acceptable	\$ 23,311,424	\$ 1,689,855	\$ 43,421,344	\$	\$ 19,195,561	\$	87,618,184
Special Mention	748,701	19	-		252,984		1,001,704
Substandard	445,300	-	-		181,489		626,789
Doubtful	588	-	-		857		1,445
Loss	-	-	-		-		-
<b>Total</b>	<b>\$ 24,506,013</b>	<b>\$ 1,689,874</b>	<b>\$ 43,421,344</b>	<b>\$</b>	<b>\$ 19,630,891</b>	<b>\$</b>	<b>89,248,122</b>

<sup>(1)</sup> Represents the total wholesale loan balance to one of our affiliated Associations which was downgraded to the Special Mention credit quality classification during the nine months ended September 30, 2016. The downgrade resulted from an internal control weakness at that Association.

### ***Aging Analysis***

The following table presents an aging of past due loans and related accrued interest.

<b>September 30, 2016</b>	<b>Agribusiness</b>		<b>Strategic</b>		<b>Rural</b>		<b>Total</b>
	<b>Non-Guaranteed</b>	<b>Guaranteed</b>	<b>Relationships</b>		<b>Infrastructure</b>		
30-89 Days Past Due	\$ 26,549	\$ -	\$ -	\$ -	\$ -	\$ -	26,549
90 Days Past Due	12,230	-	-		-		12,230
<b>Total Past Due</b>	<b>\$ 38,779</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>38,779</b>
Current	24,072,719	1,326,207	44,827,136		20,380,086		90,606,148
<b>Total</b>	<b>\$ 24,111,498</b>	<b>\$ 1,326,207</b>	<b>\$ 44,827,136</b>	<b>\$</b>	<b>\$ 20,380,086</b>	<b>\$</b>	<b>90,644,927</b>
<b>Accruing Loans 90 Days or More Past Due</b>							
	\$ 1,107	\$ -	\$ -	\$ -	\$ -	\$ -	1,107
<b>December 31, 2015</b>							
30-89 Days Past Due	\$ 10,644	\$ -	\$ -	\$ -	\$ -	\$ -	10,644
90 Days Past Due	2,977	-	-		24,914		27,891
<b>Total Past Due</b>	<b>\$ 13,621</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 24,914</b>	<b>\$</b>	<b>38,535</b>
Current	24,492,392	1,689,874	43,421,344		19,605,977		89,209,587
<b>Total</b>	<b>\$ 24,506,013</b>	<b>\$ 1,689,874</b>	<b>\$ 43,421,344</b>	<b>\$</b>	<b>\$ 19,630,891</b>	<b>\$</b>	<b>89,248,122</b>
<b>Accruing Loans 90 Days or More Past Due</b>							
	\$ 754	\$ -	\$ -	\$ -	\$ -	\$ -	754

## Impaired Loans

Impaired loan information is shown in the following table. Loans past due 90 days or more and still accruing interest are adequately secured and in the process of collection.

	Agribusiness		Strategic		Rural	
September 30, 2016	Non-Guaranteed	Guaranteed <sup>(1)</sup>	Relationships <sup>(1)</sup>	Infrastructure	Total	
Nonaccrual Loans <sup>(2)</sup>	\$ 147,821	\$ -	\$ -	\$ 2,346	\$	150,167
Accruing Loans 90 Days or More Past Due	1,107	-	-	-		1,107
Accruing Restructured Loans	-	-	-	42,565		42,565
<b>Total Impaired Loans</b>	<b>\$ 148,928</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 44,911</b>	<b>\$</b>	<b>193,839</b>
<b>December 31, 2015</b>						
Nonaccrual Loans <sup>(2)</sup>	\$ 87,998	\$ -	\$ -	\$ 68,807	\$	156,805
Accruing Loans 90 Days or More Past Due	754	-	-	-		754
Accruing Restructured Loans	-	-	-	-		-
<b>Total Impaired Loans</b>	<b>\$ 88,752</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 68,807</b>	<b>\$</b>	<b>157,559</b>

<sup>(1)</sup> There were no impaired loans in our Agribusiness Guaranteed or Strategic Relationships portfolios for any of the periods presented.

<sup>(2)</sup> Included in nonaccrual loans at September 30, 2016 and December 31, 2015 are \$30.8 million and \$58.3 million, respectively, of loans that qualify as troubled debt restructurings.

The following tables present information on impaired loans and related amounts in the allowance for loan losses.

	Agribusiness		Strategic		Rural	
September 30, 2016	Non-Guaranteed	Guaranteed <sup>(1)</sup>	Relationships <sup>(1)</sup>	Infrastructure	Total	
<b>Impaired Loans With No Related Allowance for Loan Losses</b>						
Carrying Amount	\$ 63,769	\$ -	\$ -	\$ 42,565	\$	106,334
Unpaid Principal	72,318	-	-	54,488		126,806
Average Balance	38,527	-	-	42,643		81,170
Interest Income Recognized	941	-	-	2,563		3,504
<b>Impaired Loans With Related Allowance for Loan Losses</b>						
Carrying Amount	85,159	-	-	2,346		87,505
Unpaid Principal	96,340	-	-	2,709		99,049
Allowance for Loan Losses	26,287	-	-	1,000		27,287
Average Balance	83,719	-	-	17,198		100,917
Interest Income Recognized	3	-	-	-		3
<b>Total Impaired Loans</b>						
Carrying Amount	148,928	-	-	44,911		193,839
Unpaid Principal	168,658	-	-	57,197		225,855
Allowance for Loan Losses	26,287	-	-	1,000		27,287
Average Balance	122,246	-	-	59,841		182,087
Interest Income Recognized	944	-	-	2,563		3,507

<sup>(1)</sup> There were no impaired loans in our Agribusiness Guaranteed or Strategic Relationships portfolios for any of the periods presented.

December 31, 2015	Agribusiness Non-Guaranteed	Agribusiness Guaranteed <sup>(1)</sup>	Strategic Relationships <sup>(1)</sup>	Rural Infrastructure	Total
<b>Impaired Loans With No Related Allowance for Loan Losses</b>					
Carrying Amount	\$ 20,739	\$ -	\$ -	\$ 43,893	\$ 64,632
Unpaid Principal	29,757	-	-	56,131	85,888
Average Balance	18,062	-	-	55,351	73,413
Interest Income Recognized	2,142	-	-	1,285	3,427
<b>Impaired Loans With Related Allowance for Loan Losses</b>					
Carrying Amount	68,013	-	-	24,914	92,927
Unpaid Principal	76,594	-	-	28,810	105,404
Allowance for Loan Losses	15,085	-	-	3,930	19,015
Average Balance	51,656	-	-	15,896	67,552
Interest Income Recognized	12	-	-	-	12
<b>Total Impaired Loans</b>					
Carrying Amount	88,752	-	-	68,807	157,559
Unpaid Principal	106,351	-	-	84,941	191,292
Allowance for Loan Losses	15,085	-	-	3,930	19,015
Average Balance	69,718	-	-	71,247	140,965
Interest Income Recognized	2,154	-	-	1,285	3,439

<sup>(1)</sup> There were no impaired loans in our Agribusiness Guaranteed or Strategic Relationships portfolios for any of the periods presented.

### ***Commitments on Impaired Loans***

There were \$28.5 million in commitments available to be drawn by borrowers whose loans were classified as impaired at September 30, 2016.

### ***Troubled Debt Restructurings***

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions and/or interest rate reductions. TDRs classified as nonaccrual loans, along with other impaired loans, may be returned to accruing status upon meeting specific criteria, as more fully described in our 2015 Annual Report. During the nine months ended September 30, 2016, there was one modification that qualified as a TDR. This loan totaled \$24.2 million before and after the modification. During the nine months ended September 30, 2015 there were no modifications that qualified as TDRs. Included in nonaccrual loans at September 30, 2016 and December 31, 2015 are \$30.8 million and \$58.3 million, respectively, of existing loans that qualify as TDRs.

## Note 4 – Investment Securities

A summary of the amortized cost and fair value of investment securities available-for-sale is as follows:

(\$ in Millions)

<b>September 30, 2016</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Certificates of Deposit	\$ 430	\$ -	\$ -	\$ 430
U.S. Treasury Debt	11,654	161	(1)	11,814
U.S. Agency Debt	5,186	67	(8)	5,245
Residential Mortgage-Backed Securities (MBS):				
Ginnie Mae	616	3	-	619
U.S. Agency	6,658	97	(27)	6,728
FHA/VA Non-Wrapped Reperformer	280	8	(5)	283
Non-Agency	69	9	(1)	77
Commercial MBS:				
U.S. Agency	2,613	8	(6)	2,615
Agricultural MBS:				
Farmer Mac	103	-	(2)	101
Corporate Bonds	40	-	-	40
Asset-Backed and Other	132	12	(1)	143
<b>Total</b>	<b>\$ 27,781</b>	<b>\$ 365</b>	<b>\$ (51)</b>	<b>\$ 28,095</b>

(\$ in Millions)

<b>December 31, 2015</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury Debt	\$ 7,174	\$ 36	\$ (22)	\$ 7,188
U.S. Agency Debt	5,842	41	(26)	5,857
Residential MBS:				
Ginnie Mae	901	5	-	906
U.S. Agency	7,762	55	(54)	7,763
FHA/VA Non-Wrapped Reperformer	336	9	(3)	342
Non-Agency	118	12	(1)	129
Commercial MBS:				
U.S. Agency	1,986	1	(5)	1,982
Agricultural MBS:				
Farmer Mac	126	-	(2)	124
Corporate Bonds	166	-	-	166
Asset-Backed and Other	36	12	(1)	47
<b>Total</b>	<b>\$ 24,447</b>	<b>\$ 171</b>	<b>\$ (114)</b>	<b>\$ 24,504</b>

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at September 30, 2016 is as follows:

(\$ in Millions)

September 30, 2016	Contractual Maturity					Total
	In One Year or Less	One to Five Years	Five to Ten Years	After Ten Years		
<b>Certificates of Deposit</b>						
Amortized Cost	\$ 430	\$ -	\$ -	\$ -	\$ -	\$ 430
Fair Value	430	-	-	-	-	430
Weighted Average Yield	1.16 %	- %	- %	- %	- %	1.16 %
<b>U.S. Treasury Debt Securities</b>						
Amortized Cost	\$ 4,041	\$ 5,378	\$ 2,235	\$ -	\$ -	\$ 11,654
Fair Value	4,043	5,489	2,282	-	-	11,814
Weighted Average Yield	0.43 %	1.53 %	1.71 %	- %	- %	1.19 %
<b>U.S. Agency Debt Securities</b>						
Amortized Cost	\$ 1,338	\$ 1,787	\$ 2,061	\$ -	\$ -	\$ 5,186
Fair Value	1,342	1,828	2,075	-	-	5,245
Weighted Average Yield	0.98 %	2.14 %	1.51 %	- %	- %	1.59 %
<b>Ginnie Mae Residential MBS</b>						
Amortized Cost	\$ -	\$ -	\$ 16	\$ 600	\$ -	\$ 616
Fair Value	-	-	16	603	-	619
Weighted Average Yield	- %	- %	2.49 %	1.52 %	- %	1.54 %
<b>U.S. Agency Residential MBS</b>						
Amortized Cost	\$ -	\$ 24	\$ 49	\$ 6,585	\$ -	\$ 6,658
Fair Value	-	25	49	6,654	-	6,728
Weighted Average Yield	- %	1.79 %	0.94 %	2.06 %	- %	2.05 %
<b>FHA/VA Non-Wrapped Reperformer Residential MBS</b>						
Amortized Cost	\$ -	\$ -	\$ -	\$ 280	\$ -	\$ 280
Fair Value	-	-	-	283	-	283
Weighted Average Yield	- %	- %	- %	4.53 %	- %	4.53 %
<b>Non-Agency Residential MBS</b>						
Amortized Cost	\$ -	\$ 2	\$ -	\$ 67	\$ -	\$ 69
Fair Value	-	2	-	75	-	77
Weighted Average Yield	- %	0.91 %	- %	8.86 %	- %	8.64 %
<b>U.S. Agency Commercial MBS</b>						
Amortized Cost	\$ -	\$ 1,038	\$ 1,575	\$ -	\$ -	\$ 2,613
Fair Value	-	1,041	1,574	-	-	2,615
Weighted Average Yield	- %	1.10 %	1.14 %	- %	- %	1.12 %
<b>Farmer Mac Agricultural MBS</b>						
Amortized Cost	\$ -	\$ -	\$ -	\$ 103	\$ -	\$ 103
Fair Value	-	-	-	101	-	101
Weighted Average Yield	- %	- %	- %	2.63 %	- %	2.63 %
<b>Corporate Bonds</b>						
Amortized Cost	\$ -	\$ 40	\$ -	\$ -	\$ -	\$ 40
Fair Value	-	40	-	-	-	40
Weighted Average Yield	- %	1.73 %	- %	- %	- %	1.73 %
<b>Asset-Backed and Other</b>						
Amortized Cost	\$ -	\$ 103	\$ -	\$ 29	\$ -	\$ 132
Fair Value	-	103	-	40	-	143
Weighted Average Yield	- %	1.12 %	- %	14.28 %	- %	3.97 %
<b>Total</b>						
Amortized Cost	\$ 5,809	\$ 8,372	\$ 5,936	\$ 7,664	\$ -	\$ 27,781
Fair Value	5,815	8,528	5,996	7,756	-	28,095

While the substantial majority of our residential mortgage-backed securities (MBS) and asset-backed securities (ABS) have contractual maturities in excess of 10 years, expected maturities for these securities are shorter than contractual maturities because borrowers have the right to call or prepay obligations with or without penalties.

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position at September 30, 2016 and December 31, 2015. The continuous loss position is based on the date the impairment first occurred.

	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(\$ in Millions)				
<b>September 30, 2016</b>				
Certificates of Deposit	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Debt	2,280	(1)	-	-
U.S. Agency Debt	557	(1)	506	(7)
Residential MBS:				
Ginnie Mae	90	-	5	-
U.S. Agency	260	(1)	1,572	(26)
FHA/VA Non-Wrapped Reperformer	-	-	113	(5)
Non-Agency	5	-	12	(1)
Commercial MBS:				
U.S. Agency	1,022	(5)	230	(1)
Agricultural MBS:				
Farmer Mac	32	-	69	(2)
Corporate Bonds	-	-	-	-
Asset-Backed and Other	-	-	6	(1)
<b>Total</b>	<b>\$ 4,246</b>	<b>\$ (8)</b>	<b>\$ 2,513</b>	<b>\$ (43)</b>
<b>December 31, 2015</b>				
U.S. Treasury Debt	\$ 4,429	\$ (22)	\$ -	\$ -
U.S. Agency Debt	2,200	(12)	826	(14)
Residential MBS:				
Ginnie Mae	23	-	12	-
U.S. Agency	739	(5)	1,866	(49)
FHA/VA Non-Wrapped Reperformer	65	-	62	(3)
Non-Agency	24	-	16	(1)
Commercial MBS:				
U.S. Agency	1,368	(5)	179	-
Agricultural MBS:				
Farmer Mac	-	-	124	(2)
Corporate Bonds	106	-	-	-
Asset-Backed and Other	-	-	7	(1)
<b>Total</b>	<b>\$ 8,954</b>	<b>\$ (44)</b>	<b>\$ 3,092</b>	<b>\$ (70)</b>

We do not intend to sell the securities in unrealized loss positions, nor is it likely that we will be required to sell such securities, for regulatory, liquidity or other purposes, before an anticipated recovery of our cost basis occurs.

### *Acquired Investment Securities*

We hold certain credit-impaired investment securities acquired in our merger with U.S. AgBank, FCB. The carrying amount of these investment securities was \$363.8 million and \$439.7 million at September 30, 2016 and December 31, 2015, respectively. These investments are subject to the provisions of Accounting Standards Codification (ASC) 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, pursuant to which the difference between contractually required payments and the cash flows expected to be collected at acquisition is considered a non-accretable amount. This difference is neither accreted into income nor recorded on our consolidated balance sheets.

Quarterly, we evaluate estimated cash flows expected to be collected from acquired credit-impaired investment securities. Increases in expected cash flows will generally result in an increase in interest income over the remaining life of the investment. Decreases in expected cash flows due to credit deterioration will generally result in other-than-temporary impairment charges recognized against earnings. No impairment losses on investment securities were recorded during the nine months ended September 30, 2016. During the nine months ended September 30, 2015, we recorded \$11.1 million in impairment losses related to two of our acquired credit-impaired FHA/VA non-wrapped reperformer MBS due to lower projected cash flows resulting from loan modification activity in the underlying collateral.

The excess of cash flows expected to be collected over fair value is referred to as “accretable amounts” and is recognized in interest income over the remaining life of the investment using the effective yield method, with the majority being recognized in diminishing amounts in the first five years following the merger.

<b>Changes in Accretable Amounts of Acquired Credit-Impaired Investment Securities</b>	<b>(\$ in Millions)</b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ (96)	\$ (133)
Interest Recognized in Earnings	17	19
Reclassifications from Nonaccretable Amount for Investments with Improvements in Expected Cash Flows	-	-
Total Other-Than-Temporary Impairment Losses Included in Earnings	-	(11)
<b>Balance at September 30</b>	<b>\$ (79)</b>	<b>\$ (125)</b>

## Note 5 – Changes in Accumulated Other Comprehensive Income/(Loss)

Changes in accumulated other comprehensive income/(loss) for the nine months ended September 30, 2016 and 2015 are presented in the following table.

<b>Changes in Accumulated Other Comprehensive Income/(Loss) by Component<sup>(1)</sup></b>						
	<b>Unrealized Gains/(Losses) On Investment Securities</b>		<b>Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments</b>		<b>Net Pension Adjustment</b>	<b>Total</b>
	<b>Non-OTTI</b>	<b>OTTI</b>				
<b>Balance at January 1, 2016</b>	\$ 38,588	\$ 7,873	\$ (40,157)	\$ (66,291)	\$ (59,987)	
Other comprehensive income/(loss) before reclassifications	209,044	(557)	(16,319)	-	192,168	
Amounts reclassified from accumulated other comprehensive (loss)/income	(1,553)	(2,355)	3,335	2,498	1,925	
Net current-period other comprehensive income/(loss)	207,491	(2,912)	(12,984)	2,498	194,093	
<b>Balance at September 30, 2016</b>	\$ 246,079	\$ 4,961	\$ (53,141)	\$ (63,793)	\$ 134,106	
<b>Balance at January 1, 2015</b>	\$ 72,859	\$ 18,049	\$ (33,460)	\$ (63,710)	\$ (6,262)	
Other comprehensive income/(loss) before reclassifications	127,731	(8,494)	(5,802)	-	113,435	
Amounts reclassified from accumulated other comprehensive (loss)/income	(5,094)	(216)	2,674	3,461	825	
Net current-period other comprehensive income/(loss)	122,637	(8,710)	(3,128)	3,461	114,260	
<b>Balance at September 30, 2015</b>	\$ 195,496	\$ 9,339	\$ (36,588)	\$ (60,249)	\$ 107,998	

<sup>(1)</sup> Amounts are presented net of tax. Amounts reclassified shown in parentheses indicate a decrease in accumulated other comprehensive income or an increase in accumulated other comprehensive loss.

The following table presents the effect of reclassifications from accumulated other comprehensive income/(loss) to net income for the nine-month periods ended September 30, 2016 and 2015.

<b>Reclassifications from Accumulated Other Comprehensive Income/(Loss)</b>		
	<b>Amount Reclassified</b>	
	<b>from Accumulated</b>	
	<b>Other</b>	<b>Location of Gain/(Loss)</b>
	<b>Comprehensive</b>	<b>Recognized in Income</b>
<b>For the Nine Months Ended September 30, 2016</b>	<b>Income/(Loss)</b>	<b>Statement</b>
<b>Unrealized (losses)/gains on available-for-sale investment securities:</b>		
Sales gains and losses	\$ 1,708	Noninterest Income - Other, Net
Holding gains and losses		- Noninterest Income - Other, Net
Tax effect	(155)	Provision for Income Taxes
<b>Unrealized gains on OTTI investment securities:</b>		
Sales gains and losses	2,907	Noninterest Income - Other, Net
Holding gains and losses		- Noninterest Income - OTTI Losses on Investment Securities
Tax effect	(552)	Provision for Income Taxes
<b>Unrealized (losses)/gains on interest rate swaps and other financial instruments:</b>		
Interest rate contracts	(3,231)	Interest Expense
Foreign exchange contracts	(1,040)	Interest Income
Tax effect	936	Provision for Income Taxes
<b>Pension and other benefit plans:</b>		
Net actuarial gain/loss	(3,285)	Operating Expenses - Employee Compensation
Prior service cost/credit	(744)	Operating Expenses - Employee Compensation
Tax effect	1,531	Provision for Income Taxes
<b>Total reclassifications</b>	<b>\$ (1,925)</b>	
<b>For the Nine Months Ended September 30, 2015</b>		
<b>Unrealized (losses)/gains on non-OTTI investment securities:</b>		
Sales gains and losses	\$ 8,216	Noninterest Income - Other, Net
Holding gains and losses		- Noninterest Income - Other, Net
Tax effect	(3,122)	Provision for Income Taxes
<b>Unrealized gains/(losses) on OTTI investment securities:</b>		
Sales gains and losses	14,385	Noninterest Income - Other, Net
Holding gains and losses	(11,100)	Noninterest Income - OTTI Losses on Investment Securities
Tax effect	(3,069)	Provision for Income Taxes
<b>Unrealized (losses)/gains on interest rate swaps and other financial instruments:</b>		
Interest rate contracts	(1,714)	Interest Expense
Foreign exchange contracts	(2,057)	Interest Income
Tax effect	1,097	Provision for Income Taxes
<b>Pension and other benefit plans:</b>		
Net actuarial gain/loss	(5,137)	Operating Expenses - Employee Compensation
Prior service cost/credit	(446)	Operating Expenses - Employee Compensation
Tax effect	2,122	Provision for Income Taxes
<b>Total reclassifications</b>	<b>\$ (825)</b>	

## Note 6 – Derivative Financial Instruments and Hedging Activities

### *Risk Management Objectives and Strategies*

We maintain an overall interest rate risk management strategy that incorporates the use of derivative financial instruments to manage liquidity and to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. Our goal is to manage interest rate sensitivity by modifying the repricing frequency or effective maturity of certain balance sheet assets and liabilities. We also maintain a foreign exchange risk management strategy to reduce the impact of currency fluctuations on our relatively nominal amount of foreign currency-denominated loans. As a result of interest rate and foreign exchange rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities. Interest rate and foreign exchange fluctuations also cause interest income and interest expense of variable-rate assets and liabilities to increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities.

### *Uses of Derivatives*

To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, we agree with a counterparty to exchange, at specified intervals, payment streams calculated on a specified notional amount, with at least one payment stream based on a specified floating-rate index. We use a variety of interest rate swaps including the exchange of floating-rate for fixed-rate swaps and fixed-rate for floating-rate swaps with payment obligations tied to specific indices. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. We also enter into derivatives for our customers as a service to enable them to transfer, modify or reduce their interest rate risk and foreign exchange risk by transferring such risk to us. We substantially offset this risk transference by concurrently entering into offsetting agreements with counterparties.

The notional amounts of derivatives at September 30, 2016 and related activity for the first nine months of 2016 are shown in the following table.

<b>Activity in the Notional Amounts of Derivative Financial Instruments</b>					
(\$ in Millions)	Swaps	Caps	Spots and Forwards	Total	
December 31, 2015	\$ 20,817	\$ 2,816	\$ 267	\$ 23,900	
Additions /Accretion	5,647	400	2,607	8,654	
Maturities /Amortization	(3,193)	(93)	(2,520)	(5,806)	
Terminations	(539)	-	-	(539)	
September 30, 2016	\$ 22,732	\$ 3,123	\$ 354	\$ 26,209	

The notional amounts of derivatives at September 30, 2015 and related activity for the first nine months of 2015 are shown in the following table.

<b>Activity in the Notional Amounts of Derivative Financial Instruments</b>							
(\$ in Millions)	<b>Swaps</b>		<b>Caps</b>		<b>Spots and Forwards</b>		<b>Total</b>
<b>December 31, 2014</b>	\$	19,755	\$	2,961	\$	208	\$ 22,924
Additions /Accretion		6,398		150		1,435	7,983
Maturities /Amortization		(3,381)		(198)		(1,395)	(4,974)
Terminations		(498)		-		-	(498)
<b>September 30, 2015</b>	\$	22,274	\$	2,913	\$	248	\$ 25,435

### ***Accounting for Derivative Instruments and Hedging Activities***

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income/(loss), depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset in the statement of comprehensive income by changes in the hedged item's fair value attributable to the risk being hedged. For cash-flow hedge transactions, in which we hedge the variability of future cash flows related to a variable-rate asset or liability, changes in the fair value of the derivative are reported in accumulated other comprehensive income/(loss). The gains and losses on the derivatives that we report in accumulated other comprehensive income/(loss) will be reclassified as earnings in the period in which earnings are affected by the variability of the cash flows of the hedged item. We record the ineffective portion of all hedges in current period earnings.

For our customer transactions, which are not designated as hedging instruments, we record the related changes in fair value in current period earnings. We substantially offset this risk transference by concurrently entering into offsetting agreements with counterparties, with the changes in fair value of these transactions also recorded in current period earnings.

### ***Fair Value Hedges***

The majority of the fair value hedging activity relates to entering into interest rate swaps primarily to convert our non-prepayable fixed-rate debt to floating-rate debt to achieve our liquidity management strategy. The amount converted depends on contractual interest rates and maturities. For the remaining fair value hedges, we enter into receive-fixed, pay-floating swaps to align our equity positioning strategy with our risk management strategy. For fair value hedges, the amount of hedge ineffectiveness is recognized as net interest income in current period earnings.

### ***Cash Flow Hedges***

We purchase interest rate caps primarily to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income/(loss) into current period earnings are all reflected in net interest income. At September 30, 2016, we expect that \$6.3 million of expense will be reclassified from other comprehensive income into earnings in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately 19 years.

### ***Derivatives Not Designated as Hedges***

Derivative agreements with our customers and the related offsetting derivative agreements with counterparties are not designated as hedging instruments and do not receive hedge accounting treatment. Accordingly, any changes in the fair value of these customer related derivatives are recognized immediately as noninterest income/expense in current period earnings.

### ***Counterparty Credit Risk***

The use of derivatives for risk management introduces credit risk related to customers and counterparties. Generally, when the fair value of a derivative contract is positive, we are exposed to credit risk.

Derivative transactions with our customers are typically secured through our loan agreements. As of September 30, 2016, the notional amount of derivatives with our customers totaled \$6.4 billion.

The substantial majority of our non-customer derivatives are transacted with derivative counterparties and governed by master swap agreements, which include bilateral collateral arrangements, requiring the Bank or our counterparties to post collateral on a daily basis with thresholds set at zero for all active counterparties. The master swap agreements also include netting agreements requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The “net” mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. Notwithstanding these protections, we are exposed to intra-day credit risk with these counterparties. As of September 30, 2016, the notional amount of derivatives with our counterparties totaled \$13.9 billion, which excludes the \$5.9 billion of cleared derivatives discussed below.

We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. Pursuant to our master swap agreements, as of September 30, 2016, our counterparties had posted \$12.6 million in cash and \$0.2 million in securities as collateral with us. We estimate that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was \$1.9 million at September 30, 2016.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) requires certain derivative transactions to be cleared through a central clearinghouse and traded on regulated swap execution facilities. The U.S. Commodity Futures Trading Commission has exempted certain qualifying swaps entered into by end-users and financial cooperatives from these new requirements. The exemptions do not cover all swaps executed by CoBank and are generally limited to swaps entered into in connection with loans and derivatives for customer-owners. CoBank has also voluntarily chosen to clear some swap transactions for economic and risk management purposes. As a result, certain of our derivative transactions are cleared through a futures commission merchant (FCM) with a clearinghouse or central counterparty (CCP). When these swaps are cleared, a single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including initial and variation margin that is required to be posted by participants. FCMs prequalify counterparties to all cleared swaps, set exposure limits for each counterparty and collect initial and variation margin daily for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event of a counterparty default. Initial and variation margin requirements are set by and held for the benefit of the CCP. Additional initial margin may be required and held by the FCM in some instances. As of September 30, 2016, the notional amount of our cleared derivatives was \$5.9 billion. Initial and variation margin totaling \$15.5 million and \$75.7 million, respectively, was pledged for our cleared derivatives as of September 30, 2016.

In October 2015, the FCA and various other federal agencies, known as the Prudential Regulators under the Dodd-Frank Act, jointly adopted final rules which will subject many non-cleared swaps to minimum initial and variation margin requirements. Such requirements become effective over the next one to four years. The Prudential Regulators also issued an interim final rule excluding swaps that qualify for certain exemptions from the scope of the final margin rules. CoBank is eligible for certain regulatory exemptions related to,

among other things, transactions with end users and with customer-owners. Accordingly, we do not currently anticipate that adoption of these rules will have a material impact on our use of derivatives or our overall financial position.

### ***Hedge Terminations***

During the nine months ended September 30, 2016 and 2015, we terminated approximately \$223.3 million and \$341.2 million, respectively, in notional value of interest rate swaps for asset-liability management purposes. These swaps were accounted for as fair value hedges. We terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of \$315.6 million and \$156.7 million during the first nine months of 2016 and 2015, respectively. Proceeds from the customer terminations were offset by payments for the offsetting dealer terminations.

A summary of the impact of derivative financial instruments on our condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015 is shown in the following tables.

#### **Fair Value of Derivative Financial Instruments**

	Fair Value of Derivative Assets <sup>(1)</sup>	Fair Value of Derivative Liabilities <sup>(2)</sup>
<b>As of September 30, 2016</b>		
<b>Derivatives Designated as Hedging Instruments</b>		
Interest Rate Contracts	\$ 92,804	\$ 302
Foreign Exchange Contracts	1,091	584
Total Derivatives Designated as Hedging Instruments	\$ 93,895	\$ 886
<b>Derivatives Not Designated as Hedging Instruments</b>		
Interest Rate Contracts	\$ 265,985	\$ 221,070
Foreign Exchange Contracts	2,023	2,258
Total Derivatives Not Designated as Hedging Instruments	\$ 268,008	\$ 223,328
<b>Total Derivatives</b>	<b>\$ 361,903</b>	<b>\$ 224,214</b>

<sup>(1)</sup> These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet as of September 30, 2016.

<sup>(2)</sup> These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet as of September 30, 2016.

#### **Fair Value of Derivative Financial Instruments**

	Fair Value of Derivative Assets <sup>(1)</sup>	Fair Value of Derivative Liabilities <sup>(2)</sup>
<b>As of December 31, 2015</b>		
<b>Derivatives Designated as Hedging Instruments</b>		
Interest Rate Contracts	\$ 141,499	\$ 2,912
Foreign Exchange Contracts	2,286	1,010
Total Derivatives Designated as Hedging Instruments	\$ 143,785	\$ 3,922
<b>Derivatives Not Designated as Hedging Instruments</b>		
Interest Rate Contracts	\$ 149,753	\$ 106,770
Foreign Exchange Contracts	2,451	2,705
Total Derivatives Not Designated as Hedging Instruments	\$ 152,204	\$ 109,475
<b>Total Derivatives</b>	<b>\$ 295,989</b>	<b>\$ 113,397</b>

<sup>(1)</sup> These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet as of December 31, 2015.

<sup>(2)</sup> These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet as of December 31, 2015.

A summary of the impact of derivative financial instruments on our condensed consolidated statements of income and comprehensive income for the nine months ended September 30, 2016 and 2015 is shown below.

### Derivative Financial Instruments in Fair Value Hedging Relationships

Nine Months Ended September 30,	Net Amount of Gain or (Loss) Recognized in Income on Derivatives and Hedged Items <sup>(1)</sup>	
	2016	2015
Interest Rate Contracts	\$ 223	\$ 1,821
<b>Total</b>	<b>\$ 223</b>	<b>\$ 1,821</b>

<sup>(1)</sup> Located in Interest Expense in the condensed consolidated statements of income for the nine months ended September 30, 2016 and 2015.

### Derivative Financial Instruments in Cash Flow Hedging Relationships

Nine Months Ended September 30, 2016	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives <sup>(1)</sup>	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivatives <sup>(1)</sup>	Amount of Gain or (Loss) Recognized in Income on Derivatives <sup>(2)</sup>
Interest Rate Contracts	\$ (23,739)	\$ (3,230) <sup>(3)</sup>	\$ -
Foreign Exchange Contracts	(769)	(1,040) <sup>(4)(5)</sup>	1,278 <sup>(4)</sup>
<b>Total</b>	<b>\$ (24,508)</b>	<b>\$ (4,270)</b>	<b>\$ 1,278</b>

<sup>(1)</sup> Effective portion

<sup>(2)</sup> Ineffective portion and amount excluded from effectiveness assessment.

<sup>(3)</sup> Located in Interest Expense in the condensed consolidated statement of income for the nine months ended September 30, 2016.

<sup>(4)</sup> Located in Interest Income – Loans in the condensed consolidated statement of income for the nine months ended September 30, 2016.

<sup>(5)</sup> Fully offset by a \$1,040 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the nine months ended September 30, 2016.

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**Derivative Financial Instruments in Cash Flow Hedging Relationships**


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Nine Months Ended September 30, 2015	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives <sup>(1)</sup>	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivatives <sup>(1)</sup>	Amount of Gain or (Loss) Recognized in Income on Derivatives <sup>(2)</sup>
Interest Rate Contracts	\$ (7,312)	\$ (1,714) <sup>(3)</sup>	\$ -
Foreign Exchange Contracts	(2,270)	(2,057) <sup>(4)(5)</sup>	14 <sup>(4)</sup>
<b>Total</b>	<b>\$ (9,582)</b>	<b>\$ (3,771)</b>	<b>\$ 14</b>

<sup>(1)</sup> Effective portion

<sup>(2)</sup> Ineffective portion and amount excluded from effectiveness assessment.

<sup>(3)</sup> Located in Interest Expense in the condensed consolidated statement of income for the nine months ended September 30, 2015.

<sup>(4)</sup> Located in Interest Income – Loans in the condensed consolidated statement of income for the nine months ended September 30, 2015.

<sup>(5)</sup> Fully offset by a \$2,057 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the condensed consolidated statement of income for the nine months ended September 30, 2015.

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**Derivatives Financial Instruments Not Designated as Hedging Relationships<sup>(1)</sup>**


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Nine Months Ended September 30,	Net Amount of Gain or (Loss) Recognized in Income On Derivatives <sup>(2)</sup>	
	2016	2015
Interest Rate Contracts	\$ 1,932	\$ 3,616
Foreign Exchange Contracts	17	(155)
<b>Total</b>	<b>\$ 1,949</b>	<b>\$ 3,461</b>

<sup>(1)</sup> Primarily represents our derivative agreements with customers and related offsetting derivative agreements with counterparties.

<sup>(2)</sup> Located in Other Noninterest Income/Expense in the condensed consolidated statements of income for the nine months ended September 30, 2016 and 2015.

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***Asset/Liability Offsetting***

As noted previously, derivative transactions with swap dealers include bilateral collateral and netting agreements that require the net settlement of covered contracts. Derivative transactions with customers are collateralized through loan agreements. Notwithstanding collateral and netting provisions, our derivative assets and liabilities are not offset in the accompanying condensed consolidated balance sheets. The amount of collateral received or pledged is calculated on a net basis, by counterparty.

The following table summarizes derivative assets and liabilities, related accrued interest and amounts of collateral exchanged pursuant to our agreements.

### Offsetting of Financial and Derivative Instruments

	Gross Amounts of Assets/Liabilities Presented in the Condensed Consolidated Balance Sheets	Amounts Not Offset in the Condensed Consolidated Balance Sheets		Net Amount
		Cash Collateral Received/ Pledged <sup>(1)</sup>	Investment Securities Received/Pledged as Collateral <sup>(1)</sup>	
<b>As of September 30, 2016</b>				
Assets:				
Interest Rate Swaps and Other				
Financial Instruments:				
Dealer	\$ 87,302	\$ (12,611)	\$ (233)	\$ 74,458
Customer	262,771	-	-	262,771
Clearinghouse	11,830	-	-	11,830
Accrued Interest Receivable on Derivative Contracts	29,617	-	-	29,617
Liabilities:				
Interest Rate Swaps and Other				
Financial Instruments:				
Dealer	130,907	(47,010)	-	83,897
Customer	4,586	-	-	4,586
Clearinghouse	88,721	(75,717)	(15,509)	- <sup>(2)</sup>
Accrued Interest Payable on Derivative Contracts	4,542	-	-	4,542
<b>As of December 31, 2015</b>				
Assets:				
Interest Rate Swaps and Other				
Financial Instruments:				
Dealer	\$ 152,222	\$ (115,191)	\$ (34,665)	\$ 2,366
Customer	137,132	-	-	137,132
Clearinghouse	6,635	-	-	6,635
Accrued Interest Receivable on Derivative Contracts	67,228	-	-	67,228
Liabilities:				
Interest Rate Swaps and Other				
Financial Instruments:				
Dealer	63,904	(1,570)	-	62,334
Customer	6,574	-	-	6,574
Clearinghouse	42,919	(34,103)	(23,747)	- <sup>(2)</sup>
Accrued Interest Payable on Derivative Contracts	5,278	-	-	5,278

<sup>(1)</sup> Cash collateral received is recognized in the condensed consolidated balance sheets whereas investment securities received are not recognized in the condensed consolidated balance sheets.

<sup>(2)</sup> Cash and investment securities pledged as collateral fully offset the related gross liability in the condensed consolidated balance sheets.

## Note 7 – Fair Value Measurements

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The fair value of financial instruments represents the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. The FASB has established a three-level fair value hierarchy aimed at maximizing the use of observable inputs – that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability.

A description of the methods, assumptions and inputs to the valuation process used to determine or estimate the fair value of each class of financial instruments within the three-level hierarchy follows.

### *Level 1*

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at September 30, 2016 consist of assets held in a trust fund related to deferred compensation and nonqualified retirement plans. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

### *Level 2*

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities at September 30, 2016 include our derivative contracts, collateral balances related to derivative contracts, certificates of deposit, federal funds sold and other overnight funds, U.S. Treasury and agency debt investment securities, Ginnie Mae MBS, non-agency MBS, corporate bonds, the substantial majority of agency MBS and a majority of ABS.

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair value is determined through internal market valuation models. These models use an income approach and incorporate benchmark interest rate curves (primarily the USD LIBOR/swap curve), volatilities, counterparty credit quality and other inputs that are observable directly or indirectly in the marketplace. We compare internally calculated derivative valuations to broker/dealer quotes to substantiate the results. The fair value of collateral assets and liabilities related to derivative contracts is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

The fair value of our investment securities classified as Level 2 is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding broker/dealer quotes, available trade information, historical cash flows, credit ratings and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant. The estimated fair value of investment securities also appears in Note 4.

The fair value of federal funds sold and other overnight funds as well as certificates of deposit is generally their face value, plus accrued interest, as these instruments are readily convertible to cash and short-term in nature.

The following table presents information about valuation techniques and inputs to Level 2 fair value measurements.

<b>Information About Valuation Techniques and Inputs to Level 2 Fair Value Measurements</b>		
	<b>Valuation Technique</b>	<b>Inputs</b>
Federal Funds Sold and Other Overnight Funds	Carrying Value	Par/Principal Plus Accrued Interest
Certificates of Deposit	Carrying Value	Par/Principal Plus Accrued Interest
Investment Securities	Third-Party Pricing Service	Prepayment Rate Lifetime Default Rate Loss Severity Benchmark Yield Curve Quoted Prices
Interest Rate Swaps and Other Financial Instruments	Discounted Cash Flow	Benchmark Yield Curve Counterparty Credit Risk Volatility
Collateral Assets and Collateral Liabilities	Carrying Value	Par/Principal Plus Accrued Interest

### **Level 3**

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at September 30, 2016 include our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, and a small portion of our agency MBS and ABS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Fair value for all Farmer Mac MBS and a small portion of our ABS is calculated internally using third-party models. Fair value for FHA/VA non-wrapped reperformer MBS, the substantial majority of our ABS and a Level 3 agency MBS is estimated through a third-party pricing service that uses valuation models to estimate current market prices. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs where information is available.

Level 3 assets at September 30, 2016 also include \$46.4 million of loans originally measured at cost, which were written down to fair value as a result of impairment. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the ‘Assets and Liabilities Measured at Fair Value on a Recurring Basis’ tables on pages 45 and 46 because they are not measured on a recurring basis.

Our Level 3 liabilities at September 30, 2016 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

No transfers into or out of the three levels of assets occurred during the nine months ended September 30, 2016 and 2015.

The following table presents quantitative information about Level 3 fair value measurements as of September 30, 2016.

<b>Quantitative Information About Valuation Techniques and Unobservable Inputs to Level 3 Fair Value Measurements</b>				
(\$ in Millions)	<b>Fair Value</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
<b>Assets</b>				
Investment Securities:				
U.S. Agency MBS	\$ 47	Third-Party Pricing Service	Prepayment Rate	*
FHA/VA Non-Wrapped Reperformer MBS	283	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Farmer Mac MBS	101	Discounted Cash Flow	Prepayment Rate	9-13 percent
Asset-Backed	34	Third-Party Pricing Service	Mark-to-Market Spread	1 percent
			Prepayment Rate	*
Other	5	Discounted Cash Flow	Lifetime Default Rate	*
			Loss Severity	*
			Prepayment Rate	0 percent
Impaired Loans	46	Appraisal	Income/Expense Data	**
			Comparable Sales	**
			Replacement Cost	**
<b>Liabilities</b>				
Standby Letters of Credit	\$ 10	Discounted Cash Flow	Mark-to-Market Spread	0.2-1 percent

\* Excludes ranges which are determined by a third-party pricing service.

\*\* Range of inputs are unique to each collateral property.

### *Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2016 and December 31, 2015 for each of the fair value hierarchy levels.

<b>Assets and Liabilities Measured at Fair Value on a Recurring Basis</b>				
<b>September 30, 2016</b>				
(\$ in Millions)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Federal Funds Sold and Other Overnight Funds	\$ -	\$ 650	\$ -	\$ 650
Investment Securities:				
Certificates of Deposit	-	430	-	430
U.S. Treasury Debt	-	11,814	-	11,814
U.S. Agency Debt	-	5,245	-	5,245
Residential MBS:				
Ginnie Mae	-	619	-	619
U.S. Agency	-	6,681	47	6,728
FHA/VA Non-Wrapped Reperformer	-	-	283	283
Non-Agency	-	77	-	77
Commercial MBS:				
U.S. Agency	-	2,615	-	2,615
Agricultural MBS:				
Farmer Mac	-	-	101	101
Corporate Bonds	-	40	-	40
Asset-Backed and Other	-	104	39	143
Interest Rate Swaps and Other Financial Instruments	-	362	-	362
Assets Held in Trust (included in Other Assets)	68	-	-	68
Collateral Assets (included in Other Assets)	-	123	-	123
<b>Total Assets</b>	<b>\$ 68</b>	<b>\$ 28,760</b>	<b>\$ 470</b>	<b>\$ 29,298</b>
<b>Liabilities</b>				
Interest Rate Swaps and Other Financial Instruments	\$ -	\$ 224	\$ -	\$ 224
Collateral Liabilities (included in Bonds and Notes)	-	13	-	13
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 237</b>	<b>\$ 10</b>	<b>\$ 247</b>

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2015

(\$ in Millions)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investment Securities:				
U.S. Treasury Debt	\$ -	\$ 7,188	\$ -	7,188
U.S. Agency Debt	-	5,857	-	5,857
Residential MBS:				
Ginnie Mae	-	906	-	906
U.S. Agency	-	7,711	52	7,763
FHA/VA Non-Wrapped Reperformer	-	-	342	342
Non-Agency	-	129	-	129
Commercial MBS:				
U.S. Agency	-	1,982	-	1,982
Agricultural MBS:				
Farmer Mac	-	-	124	124
Corporate Bonds	-	166	-	166
Asset-Backed and Other	-	-	47	47
Interest Rate Swaps and Other Financial Instruments	-	296	-	296
Assets Held in Trust (included in Other Assets)	63	-	-	63
Collateral Assets (included in Other Assets)	-	36	-	36
<b>Total Assets</b>	<b>\$ 63</b>	<b>\$ 24,271</b>	<b>\$ 565</b>	<b>\$ 24,899</b>
<b>Liabilities</b>				
Interest Rate Swaps and Other Financial Instruments	\$ -	\$ 113	\$ -	113
Collateral Liabilities (included in Bonds and Notes)	-	115	-	115
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 228</b>	<b>\$ 10</b>	<b>\$ 238</b>

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

**Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis**

(\$ in Millions)	FHA/VA Non-Wrapped				
	Agency Mortgage- Backed Securities	Farmer Mac Mortgage- Backed Securities	Reperformer Mortgage- Backed Securities	Asset- Backed Securities and Other	Standby Letters of Credit
<b>Balance at December 31, 2015</b>	\$ 52	\$ 124	\$ 342	\$ 47	\$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Comprehensive Income	-	1	(3)	(1)	-
Sales	-	-	(24)	-	-
Issuances	-	-	-	-	5
Settlements	(6)	(24)	(40)	(10)	(5)
Accretion	1	-	8	3	-
<b>Balance at September 30, 2016</b>	\$ 47	\$ 101	\$ 283	\$ 39	\$ 10
<b>Balance at December 31, 2014</b>	\$ 57	\$ 150	\$ 391	\$ 93	\$ 9
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	(10)	14	-
Included in Other Comprehensive Income	2	-	17	(12)	-
Sales	-	-	(21)	(44)	-
Issuances	-	-	-	-	4
Settlements	(7)	(22)	(39)	(9)	(3)
Accretion	1	(1)	11	3	-
<b>Balance at September 30, 2015</b>	\$ 53	\$ 127	\$ 349	\$ 45	\$ 10

**Estimated Fair Value of Certain Other Financial Instruments**

The following table presents the estimated fair value of financial instruments that are recorded in the condensed consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of September 30, 2016 and December 31, 2015.

(\$ in Millions)

	September 30, 2016			December 31, 2015		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
<b>Financial Assets:</b>						
Net Loans	\$ 89,897	\$ 92,053	Level 3	\$ 88,554	\$ 89,501	Level 3
<b>Financial Liabilities:</b>						
Bonds and Notes	\$ 109,826 <sup>(1)</sup>	\$ 111,817 <sup>(1)</sup>	Level 3	\$ 106,970 <sup>(2)</sup>	\$ 107,537 <sup>(2)</sup>	Level 3
Subordinated Debt	499	474	Level 3	903	926	Level 3
<b>Off-Balance Sheet Financial Instruments:</b>						
Commitments to Extend Credit	\$ -	\$ (106)	Level 3	\$ -	\$ (106)	Level 3

<sup>(1)</sup> Includes \$13 million in collateral liabilities carried at fair value as of September 30, 2016.

<sup>(2)</sup> Includes \$115 million in collateral liabilities carried at fair value as of December 31, 2015.

### ***Net Loans***

Our loan portfolio includes fixed- and floating-rate loans. Since no active trading market exists for most of our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit risk.

### ***Bonds and Notes***

Bonds and notes are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the U.S. Treasury yield curve and an estimated yield-spread relationship between Farm Credit debt securities and U.S. Treasury securities. We estimate an appropriate yield-spread taking into consideration bank and security dealer yield indications, observed new government sponsored enterprise debt security pricing, and pricing levels in the related USD interest rate swap market.

### ***Subordinated Debt***

The fair value of subordinated debt is estimated based upon quotes obtained from a broker/dealer.

### ***Commitments to Extend Credit***

The fair value of commitments to extend credit is estimated by applying a risk-adjusted spread percentage to these obligations.

The following table presents information about valuation techniques and inputs to other fair value measurements.

<b>Information About Valuation Techniques and Inputs to Other Fair Value Measurements</b>		
	<b>Valuation Technique</b>	<b>Input</b>
Net Loans	Discounted Cash Flow	Prepayment Rate Mark-to-Market Spread Benchmark Yield Curve Probability of Default Loss Given Default
Bonds and Notes	Discounted Cash Flow	Benchmark Yield Curve Farm Credit Spread
Subordinated Debt	Non-Binding Broker/Dealer Quote	Price for Similar Security
Commitments to Extend Credit	Discounted Cash Flow	Mark-to-Market Spread

## **Note 8 – Employee Benefit Plans**

We have employer-funded, qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. We also have noncontributory, unfunded nonqualified supplemental executive retirement plans covering certain senior officers and specified other senior managers, as well as a noncontributory, unfunded nonqualified executive retirement plan designed to provide enhanced retirement benefits to two senior officers employed pursuant to employment agreements. We have a 401(k) retirement savings plan pursuant to which we match a certain percentage of employees' elective contributions. In addition, under this plan, employees hired on or after January 1, 2007 receive additional, non-elective employer defined contributions. For eligible senior managers, including our senior officers, we also have a nonqualified deferred compensation plan, which includes benefits not provided under the employee savings plan due to certain Internal Revenue Code limitations.

All retirement-eligible employees are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums

associated with these other postretirement health care benefits. Participant contributions are adjusted annually.

We contributed \$4.0 million to our funded qualified defined benefit pension plans during the nine months ended September 30, 2016, and anticipate that we will contribute approximately \$1.1 million more to such plans during the remainder of 2016. We expect to contribute a total of \$0.5 million, net of collected retiree premiums, to our other postretirement benefit plans in 2016. We contributed \$3.4 million to our trust funds related to our nonqualified retirement plans during the nine months ended September 30, 2016, and anticipate that we will contribute approximately \$1.3 million more to such plans during the remainder of 2016. Our actual contributions could differ from the estimates noted above.

## **Note 9 – Commitments and Contingent Liabilities**

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Due to the often volatile seasonal borrowing requirements of our Agribusiness customers, which are impacted by changing commodity prices, farmer delivery patterns, weather and other factors, we provide a significant amount of revolving loan commitments. We also provide revolving loan commitments to other customers including those in the electric distribution and power supply industries. At September 30, 2016, commitments to extend credit and commercial letters of credit were \$32.7 billion and \$222.1 million, respectively.

Under the Farm Credit Act, we are primarily liable for the portion of outstanding Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities) issued by CoBank. Additionally, we are contingently liable for the outstanding Systemwide Debt Securities issued by the other System banks. Total Systemwide Debt Securities of the System were \$252.0 billion at September 30, 2016.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable. In addition, in the event of a default by a System bank, the Insurance Fund would be required to make timely payment of principal and interest on Systemwide Debt Securities, to the extent that net assets are available in the Insurance Fund, before the joint and several liability of the System banks would be triggered. At September 30, 2016, the aggregated assets of the Insurance Fund totaled \$4.3 billion. Finally, System banks must maintain certain financial criteria in order to participate in Systemwide debt issuances. If these criteria are not met, a troubled System bank's access to and participation in Systemwide debt issuances could be limited or denied.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. For other matters, where a loss is not probable or the amount of the loss is not estimable, we will not accrue legal reserves.

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.

While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of legal counsel and available insurance coverage, we believe that our established legal reserves are adequate as of September 30, 2016 and the liabilities arising from our legal proceedings will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows of the Bank. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Bank's consolidated financial position, consolidated results of operations or consolidated cash flows.

## **Note 10 – Preferred Stock**

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On April 8, 2016, we issued \$375 million of Series I non-cumulative perpetual preferred stock. We used the net proceeds from the Series I preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on the Series I preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable semi-annually in arrears beginning on October 1, 2016 and will accrue at a fixed annual rate of 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 Series I preferred stock is not mandatorily redeemable at any time. However, the Series I preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on October 1, 2026. In addition, the Series I preferred stock will be redeemable in whole at any time upon the occurrence of certain regulatory events, as defined in the terms of the Series I preferred stock. The Series I preferred stock ranks equally, both as to dividends and upon liquidation, to our outstanding Series E, F, G and H preferred stock, and senior to all of our outstanding common stock.

## Note 11 – Segment Financial Information

We conduct our lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

The accompanying tables present condensed disaggregated information for the segments. Allocations of resources and corporate items, as well as measurement of financial performance, are made at these operating segment levels. We also allocate to our segments net interest income on investment securities, federal funds sold and other overnight funds as well as gains and losses on investment securities. Information to reconcile the total reportable segments to the total CoBank financial statements is shown as “other.” Inter-segment transactions are insignificant.

We do not hold significant assets in any foreign country. Substantially all of our agricultural export finance loans are U.S. dollar-denominated and 30 percent of these loans are guaranteed by the U.S. government.

For the nine-month periods ended September 30, 2016 and 2015, no customer made up 10 percent or more of our gross or net interest income.

<b>Segment Financial Information</b>							
<b>For the Three Months Ended September 30, 2016</b>							
	<b>Agribusiness</b>	<b>Strategic Relationships</b>	<b>Rural Infrastructure</b>	<b>Subtotal</b>	<b>Other</b>	<b>Total CoBank</b>	
<b>Results of Operations</b> (\$ in Thousands):							
Net Interest Income	\$ 157,700	\$ 68,057	\$ 110,819	\$ 336,576	\$ (2,565)	\$ 334,011	
Provision for Loan Losses/(Loan Loss Reversal)	21,000	-	(1,000)	20,000	-	20,000	
Noninterest Income	29,728	114	20,963	50,805	(932)	49,873	
Operating Expenses	53,477	10,495	31,535	95,507	(812)	94,695	
Provision for Income Taxes	16,562	-	21,091	37,653	(178)	37,475	
<b>Net Income</b>	<b>\$ 96,389</b>	<b>\$ 57,676</b>	<b>\$ 80,156</b>	<b>\$ 234,221</b>	<b>\$ (2,507)</b>	<b>\$ 231,714</b>	
<b>For the Three Months Ended September 30, 2015</b>							
<b>Results of Operations</b> (\$ in Thousands):							
Net Interest Income	\$ 145,868	\$ 71,140	\$ 100,311	\$ 317,319	\$ (2,118)	\$ 315,201	
(Loan Loss Reversal)/Provision for Loan Losses	(3,800)	-	3,800	-	-	-	
Noninterest Income	28,565	207	14,481	43,253	(1,233)	42,020	
Operating Expenses	46,292	9,733	23,162	79,187	1,050	80,237	
Provision for Income Taxes	24,252	-	17,352	41,604	(443)	41,161	
<b>Net Income</b>	<b>\$ 107,689</b>	<b>\$ 61,614</b>	<b>\$ 70,478</b>	<b>\$ 239,781</b>	<b>\$ (3,958)</b>	<b>\$ 235,823</b>	

**Segment Financial Information****For the Nine Months Ended September 30, 2016**

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
<b>Results of Operations</b> (\$ in Thousands):						
Net Interest Income	\$ 488,415	\$ 215,204	\$ 321,014	\$ 1,024,633	\$ (7,804)	\$ 1,016,829
Provision for Loan Losses/(Loan Loss Reversal)	53,500	-	(5,500)	48,000	-	48,000
Noninterest Income	91,829	698	54,364	146,891	(2,907)	143,984
Operating Expenses	156,809	30,639	89,298	276,746	(1,100)	275,646
Provision for Income Taxes	61,616	-	57,675	119,291	(453)	118,838
<b>Net Income</b>	<b>\$ 308,319</b>	<b>\$ 185,263</b>	<b>\$ 233,905</b>	<b>\$ 727,487</b>	<b>\$ (9,158)</b>	<b>\$ 718,329</b>

**Selected Financial Information at****September 30, 2016** (\$ in Millions):

Loans	\$ 25,357	\$ 44,762	\$ 20,298	\$ 90,417	\$ -	\$ 90,417
Less: Allowance for Loan Losses	(352)	-	(168)	(520)	-	(520)
<b>Net Loans</b>	<b>\$ 25,005</b>	<b>\$ 44,762</b>	<b>\$ 20,130</b>	<b>\$ 89,897</b>	<b>\$ -</b>	<b>\$ 89,897</b>
<b>Total Assets</b>	<b>\$ 25,487</b>	<b>\$ 44,877</b>	<b>\$ 20,218</b>	<b>\$ 90,582</b>	<b>\$ 30,168 <sup>(1)</sup></b>	<b>\$ 120,750</b>

<sup>(1)</sup> Other assets are comprised of:

Federal Funds Sold and Other Overnight Funds	\$ 650
Investment Securities	28,095
Other Assets	1,423

**For the Nine Months Ended September 30, 2015**

<b>Results of Operations</b> (\$ in Thousands):						
Net Interest Income	\$ 444,882	\$ 215,149	\$ 286,147	\$ 946,178	\$ (6,330)	\$ 939,848
Provision for Loan Losses/(Loan Loss Reversal)	10,200	-	(200)	10,000	-	10,000
Noninterest Income/(Expense)	96,780	(4,056)	47,768	140,492	(1,636)	138,856
Operating Expenses	137,830	28,120	67,225	233,175	185	233,360
Provision for Income Taxes	77,820	-	57,546	135,366	(400)	134,966
<b>Net Income</b>	<b>\$ 315,812</b>	<b>\$ 182,973</b>	<b>\$ 209,344</b>	<b>\$ 708,129</b>	<b>\$ (7,751)</b>	<b>\$ 700,378</b>

**Selected Financial Information at****September 30, 2015** (\$ in Millions):

Loans	\$ 24,384	\$ 41,492	\$ 18,649	\$ 84,525	\$ -	\$ 84,525
Less: Allowance for Loan Losses	(317)	-	(143)	(460)	-	(460)
<b>Net Loans</b>	<b>\$ 24,067</b>	<b>\$ 41,492</b>	<b>\$ 18,506</b>	<b>\$ 84,065</b>	<b>\$ -</b>	<b>\$ 84,065</b>
<b>Total Assets</b>	<b>\$ 24,405</b>	<b>\$ 41,586</b>	<b>\$ 18,579</b>	<b>\$ 84,570</b>	<b>\$ 25,916 <sup>(1)</sup></b>	<b>\$ 110,486</b>

<sup>(1)</sup> Other assets are comprised of:

Investment Securities	\$ 23,720
Other Assets	2,196

## Note 12 – Affiliated Associations

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CoBank is 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. The Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide Debt Securities. Therefore, we are the primary funding source for our affiliated Associations. As of September 30, 2016, we have 24 affiliated Associations serving 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

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 may serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

The Farm Credit Act and FCA regulations require us, as the funding bank, to monitor and approve certain activities of our affiliated Associations. CoBank and our affiliated Associations operate under a creditor/debtor relationship evidenced by a General Financing Agreement (GFA) entered into separately with each Association. The GFA sets forth the creditor/debtor 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.

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 our condensed consolidated financial statements.

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

In February 2016, the boards of directors of two affiliated Associations, Farm Credit of Southwest Kansas, ACA, and American AgCredit, ACA, signed a letter of intent to merge with an anticipated completion date of January 1, 2017. Under the letter of intent, the merged entity will do business as American AgCredit, ACA. In addition, the Associations are operating under a joint management agreement under which the President and Chief Executive Officer (CEO) of American AgCredit, ACA, is serving as the CEO of both Associations. Shareholder approval was obtained in October 2016. Final FCA approval will be required for this merger to take effect.

During the first quarter of 2016, a wholesale loan to one of our affiliated Associations, which totaled \$1.2 billion as of September 30, 2016, was downgraded to the 'Special Mention' credit quality classification. The downgrade of the affiliated Association loan resulted from an internal control weakness at that Association. Pursuant to our regulatory requirements, we classify our wholesale loans using the same credit rating methodology as is used with our commercial loans. Our loans to affiliated Associations are collateralized by substantially all of the Association assets. In addition, the earnings, capital and loan loss reserves of the Associations provide an additional layer of protection against losses in their retail loan portfolios. As a result of the collateralization and other mitigating factors described above, we do not anticipate any losses on that Association's wholesale loan. As of September 30, 2016, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any of our wholesale loans.

## Controls and Procedures

### CoBank, ACB

We maintain a system of disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information disclosed by us in our quarterly and annual reports is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. The chief executive officer and the chief financial officer have evaluated our disclosure controls and procedures as of the end of the period covered by this quarterly report and have concluded that our disclosure controls and procedures are effective as of that date.

We also maintain a system of internal controls. The term “internal controls,” as defined by the American Institute of Certified Public Accountants’ Codification of Statement on Auditing Standards, AU-C Section 315, means a process - effected by the board of directors, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. We continually assess the adequacy of our internal control over financial reporting and enhance our controls in response to internal control assessments and internal and external audit and regulatory requirements and recommendations. There have been no significant changes in our internal controls or in other factors that could significantly affect such controls subsequent to the date we carried out our evaluations. In accordance with our internal control procedures, these financial statements were prepared under the oversight of the Audit Committee of our Board of Directors.

## Certification Required by Farm Credit Administration Regulations

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

Signed this 9<sup>th</sup> day of November, 2016.

/s/ EVERETT DOBRINSKI

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Everett Dobrinski  
*Chair of the Board*

/s/ ROBERT B. ENGEL

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Robert B. Engel  
*Chief Executive Officer*

/s/ DAVID P. BURLAGE

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David P. Burlage  
*Chief Financial Officer*

## CERTIFICATION

I, Robert B. Engel, Chief Executive Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

- (1) I have reviewed this quarterly report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
- (5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ ROBERT B. ENGEL

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Robert B. Engel  
*Chief Executive Officer*

Dated: November 9, 2016

## CERTIFICATION

I, David P. Burlage, Chief Financial Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

- (1) I have reviewed this quarterly report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
- (5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ DAVID P. BURLAGE

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David P. Burlage  
*Chief Financial Officer*

Dated: November 9, 2016

# Senior Management

CoBank, ACB

**Robert B. Engel**, Chief Executive Officer

**David P. Burlage**, Chief Financial Officer  
**Timothy D. Steidle**, Treasury Division  
**Michael R. Vestal**, Controller Division

**Brian Cavey**, Government Affairs

**Thomas E. Halverson**, Chief Banking Officer and CEO-elect

**Antony M. Bahr**, Banking Services Group <sup>(1)</sup>  
**Michael A. Romanowski**, Farm Credit Leasing Services Corporation <sup>(2)</sup>  
**Leonard G. Sahling**, Knowledge Exchange Division

**Michael Hernandez**, Enterprise Information Management

**Arthur C. Hodges, Jr.**, Corporate Communications Division

## *Agribusiness*

**Amy H. Gales**, Regional Agribusiness Banking Group <sup>(3)</sup>  
**Leili Ghazi**, Agribusiness Division – West  
**Michael W. Hechtner**, Agribusiness Division – Central  
**Lynn M. Scherler**, Agribusiness Division – South  
**G. David Sparks**, Agribusiness Division – East  
**Jonathan B. Logan**, Corporate Agribusiness Banking Group  
**Karen S. Lowe**, Agricultural Export Finance Division

## *Rural Infrastructure*

**Nivin A. Elgohary**, Electric Distribution, Water and Community Facilities Banking Division  
**William D. LaDuca**, Electric Distribution Division  
**Christopher M. Shaffner**, Water and Community Facilities Division  
**Brian A. Goldstein**, Project Finance Banking Division  
**Todd E. Telesz**, Power, Energy and Utilities Banking Division  
**Robert F. West**, Communications Banking Division

**Andrew D. Jacob**, Interim Chief Risk Officer; Chief Regulatory, Legislative and Compliance Officer

**Timothy A. Green**, Asset Review Division  
**Katia V. Hoffer**, Enterprise Risk Management Division  
**Steven W. Wittbecker**, Internal Audit Division

**Daniel L. Key**, Chief Credit Officer

**S. Richard Dill**, Special Assets Division

**Robert L. O’Toole**, Chief Human Resources Officer

**John Svisco**, Chief Business Services Officer

**Matthew H. Cammer**, Digital Business Solutions Division  
**Todd E. Wilson**, Enterprise Solutions and Services Division

**Ann E. Trakimas**, Chief Operating Officer

**James R. Bernsten**, Information Technology Division  
**Christian J. Clayton**, Legal and Loan Processing  
**Horst G. Kisch**, Operations Division  
**M. Mashenka Lundberg**, General Counsel

<sup>(1)</sup> The Banking Services Group also includes the Bank’s Capital Markets Division.

<sup>(2)</sup> Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.

<sup>(3)</sup> The Strategic Relationships operating segment is included in the Regional Agribusiness Banking Group.

# Office Locations

## CoBank, ACB

### **CoBank National Office**

6340 S. Fiddlers Green Circle  
Greenwood Village, CO 80111  
P. O. Box 5110  
Denver, CO 80217  
(303) 740-4000  
(800) 542-8072

### **Farm Credit Leasing Services Corporation**

600 Highway 169 South, Suite 300  
Minneapolis, MN 55426  
(952) 417-7800  
(800) 444-2929

### **Washington, DC Office**

50 F Street, N.W., Suite 900  
Washington, DC 20001  
(202) 650-5860

## U.S. Regional Offices

### **Ames Banking Center**

2515 University Boulevard, Suite 104  
Ames, IA 50010  
(515) 292-8828

### **Atlanta Banking Center \*\***

2300 Windy Ridge Parkway, Suite 370S  
Atlanta, GA 30339  
(770) 618-3200  
(800) 255-7429  
FCL: (770) 618-3226

### **Austin Banking Center**

4801 Plaza on the Lake Drive  
Austin, TX 78746  
(512) 483-9273

### **Enfield Banking Center \*\***

240B South Road  
Enfield, CT 06082-4451  
(860) 814-4043  
(800) 876-3227  
FCL: (860) 814-4049

### **Fargo Banking Center**

4143 26th Avenue South, Suite 101  
Fargo, ND 58104  
(701) 277-5007  
(866) 280-2892

### **Florida Farm Credit Leasing Office \***

3594 Maribella Dr.  
New Smyrna Beach, FL 32168  
(678) 592-5394

### **Louisville Banking Center \*\***

1601 UPS Drive, Suite 102  
Louisville, KY 40223  
(502) 423-5650  
(800) 262-6599  
FCL: (800) 942-3309

### **Lubbock Banking Center \*\***

5715 West 50th  
Lubbock, TX 79414  
(806) 788-3700  
FCL: (806) 788-3705

### **Minneapolis Banking Center \*\***

600 Highway 169 South, Suite 300  
Minneapolis, MN 55426  
(952) 417-7900  
(800) 282-4150  
FCL: (800) 444-2929

### **Ohio Farm Credit Leasing Office \***

1220 Irmischer Boulevard  
Celina, OH 45822  
(855) 838-9961 Ext. 23969

### **Omaha Banking Center \*\***

13810 FNB Parkway, Suite 301  
Omaha, NE 68154  
(402) 492-2000  
(800) 346-5717

### **Sacramento Banking Center \*\***

1478 Stone Point Drive, Suite 450  
Roseville, CA 95661  
(916) 380-3524  
(800) 457-0942  
FCL: (800) 289-7080

### **Spokane Banking Center**

2001 South Flint Road,  
Suite 102  
Spokane, WA 99224-9198  
(509) 363-8700  
(800) 378-5577

### **Sterling Banking Center**

229 South 3rd Street  
Sterling, CO 80751  
(970) 521-2774

### **St. Louis Banking Center \*\***

1650 Des Peres Road, Suite 120  
St. Louis, MO 63131  
(314) 835-4200  
(800) 806-4144  
FCL: (800) 853-5480

### **Wichita Banking Center \*\***

245 North Waco, Suite 130  
Wichita, KS 67202  
(316) 290-2000  
(800) 322-3654  
FCL: (800) 322-6558

## International

### **Singapore Representative Office**

10 Hoe Chiang Road  
#05-01 Keppel Towers  
Singapore 089315  
(65) 6534-5261

\* Farm Credit Leasing office only

\*\* Farm Credit Leasing office within this CoBank location

CoBank's 2016 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at [www.cobank.com](http://www.cobank.com) on approximately May 10, 2016, August 9, 2016, November 9, 2016, and March 3, 2017 (Annual Report).