2017 Quarterly Report

MARCH 31, 2017

Dear CoBank Customer-Owner:

We're pleased to report that CoBank recorded strong financial performance in the first quarter of 2017. Average loan volume increased in all three of our operating segments, and credit quality and capital remained solid. While we continue to face a number of market challenges, we believe the bank remains well-positioned to meet the financial needs of its customers and fulfill its vital mission in rural America.

Average loan volume rose 9 percent in the first quarter of 2017 to $97.9 billion, from $89.8 billion in the same period last year. The increase resulted from higher levels of borrowing from customers in all three of our operating segments, including farmer-owned cooperatives, agricultural export finance customers and other food and agribusiness companies, affiliated Farm Credit associations and rural electric cooperatives.

Net income for the quarter was $262.8 million, an 8 percent increase from $243.3 million in the first quarter of 2016. The increase in earnings primarily resulted from higher net interest income and noninterest income, partially offset by a higher provision for loan losses and increased operating expenses.

Net interest income for the quarter increased 6 percent to $356.1 million, from $336.9 million in the same period last year. Higher average loan volume was a key driver of the increase. CoBank benefited during the quarter from trends in the U.S. grain markets, which drove a substantial increase in demand for seasonal financing from farmer-owned grain elevators and other grain industry customers. While loan growth would have been more modest otherwise, we are nonetheless pleased with our business performance for the quarter and the overall financial condition of CoBank.

Credit quality in the bank's loan portfolio remains strong in comparison to historical averages despite the impact of lower commodity prices on agribusiness borrowers. At quarter-end, 0.93 percent of CoBank's loans were classified as adverse assets, compared to 0.81 percent at December 31, 2016. Nonaccrual loans decreased to $188.3 million at March 31, 2017 from $207.2 million at December 31, 2016, primarily due to a small number of agribusiness loans that were paid off during the 2017 period. The bank recorded a $15.0 million provision for loan losses in the first quarter of 2017 compared to an $8.0 million provision in the first quarter of 2016. The 2017 provision was due to growth in loan volume as well as slight deterioration in credit quality in our Agribusiness operating segment. The bank's allowance for credit losses totaled $677.1 million at quarter-end, or 1.34 percent of non-guaranteed loans when loans to Farm Credit associations are excluded.

Capital levels remained well in excess of regulatory minimums. As of March 31, 2017, shareholders' equity totaled $8.7 billion, and the bank's total capital ratio was 14.7 percent, compared with the 8.0 percent (10.5 percent inclusive of the fully phased-in capital conservation buffer) minimum established by the Farm Credit Administration (FCA), the bank's independent regulator. At quarter-end, the bank held approximately $30.4 billion in cash and investments and had 188 days of liquidity, which was in excess of FCA liquidity requirements.

While our first-quarter financial results are strong, CoBank continues to face a number of persistent challenges that could impact earnings over the balance of the year. Competition for the business of our customers remains intense in most sectors, which exerts downward pressure on margins. Meanwhile, the ongoing low interest rate environment continues to affect returns on invested capital. In addition, the bank continues to make substantial investments in people, processes and systems designed to enhance our ability to serve customers over the long term.

Nonetheless, we remain confident in the overall financial condition of CoBank. Our board and management team are committed to fulfilling the important promises we make to our customers and to our broad mission of service in rural America. We remain deeply grateful for the business of our customers and the opportunity to serve as your trusted financial partner.

Everett M. Dobrinski
Chair of the Board

Thomas E. Halverson
President and Chief Executive Officer

May 10, 2017

Financial Highlights
CoBank, ACB

($ in Thousands)

		March 31, 2017 (Unaudited)		December 31, 2016
Total Loans	$	**96,920,904**	$	95,258,281
Less: Allowance for Loan Losses		**580,740**		558,974
Net Loans		**96,340,164**		94,699,307
Total Assets		**127,766,726**		126,130,626
Total Shareholders' Equity		**8,687,934**		8,573,758

For the Three Months Ended March 31, (Unaudited)		2017		2016
Net Interest Income	$	**356,114**	$	336,877
Provision for Loan Losses		**15,000**		8,000
Net Fee Income		**23,542**		24,370
Net Income		**262,808**		243,312
Net Interest Margin		**1.14 %**		1.18 %
Return on Average Assets		**0.83**		0.84
Return on Average Common Shareholders' Equity		**13.72**		13.42
Return on Average Total Shareholders' Equity		**12.33**		12.28
Average Total Loans	$	**97,946,747**	$	89,830,826
Average Earning Assets		**126,679,649**		115,304,065
Average Total Assets		**128,150,517**		117,145,272

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

CoBank, ACB

Business Overview

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 power, communications and water cooperatives and companies; rural community facilities; farmer-owned financial institutions including Agricultural Credit Associations and a Federal Land Credit Association (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, the accompanying regulatory capital disclosures and our 2016 Annual Report to Shareholders.

Consolidated Results of Operations

Average loan volume was $97.9 billion during the first three months of 2017 compared to $89.8 billion in the same prior-year period. The 9 percent increase in average loan volume resulted primarily from growth in lending to cooperatives, agricultural export finance customers and other food and agribusiness companies in our Agribusiness operating segment, affiliated Associations in our Strategic Relationships operating segment and rural electric cooperatives in our Rural Infrastructure operating segment.

Net income increased $19.5 million to $262.8 million for the three-month period ended March 31, 2017, compared to $243.3 million during the same period in 2016. The increase in earnings primarily resulted from increases in net interest income and noninterest income as well as a lower provision for income taxes, somewhat offset by a higher provision for loan losses and an increase in operating expenses in the 2017 period.

Net interest income increased $19.2 million to $356.1 million for the three months ended March 31, 2017, compared to $336.9 million for the same prior-year period. The increase in net interest income was primarily driven by higher average loan volume, somewhat offset by lower fair value accretion income resulting from merger accounting and slight spread compression in our loan portfolio.

Net interest margin declined to 1.14 percent for the first quarter of 2017 from 1.18 percent for the same period in 2016. 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 lower fair value accretion income.

We recorded a $15.0 million provision for loan losses in the three-month period ended March 31, 2017 compared to $8.0 million in the same period in 2016. The 2017 provision largely reflects the growth in loan volume as well as slight deterioration in credit quality in our Agribusiness operating segment. Adversely classified loans and related accrued interest were 0.93 percent of total loans and related accrued interest at March 31, 2017, compared to 0.81 percent at December 31, 2016. Nonaccrual loans decreased to $188.3 million at March 31, 2017 from $207.2 million at December 31, 2016 primarily resulting from three food and agribusiness loans which were paid off during the 2017 period. Loan charge-offs, net of recoveries, totaled $0.4 million in the first three months of 2017 compared to recoveries, net of charge-offs, of $0.1 million during the same period in 2016.

Noninterest income increased $11.7 million to $55.0 million for the first quarter of 2017 from $43.3 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 gains recognized on sales of investment securities. In the 2017 period, we sold investment securities with a combined book value of $1.6 billion for gains totaling $9.4 million. During the three-month period ended March 31, 2016, sales of investment securities with a combined book value of $49.0 million resulted in gains totaling $0.4 million. Sales of investment securities are discussed further on page 11. Other noninterest income increased $2.8 million to $21.3 million, primarily due to an increase in patronage income received from other System institutions on loan participations we sold to them.

Total operating expenses for the three-month period ended March 31, 2017 increased $6.0 million to $92.7 million from $86.7 million for the same period in 2016. Higher operating expenses included an increase in employee compensation expense of $4.1 million to $40.5 million for the first three months of 2017 primarily due to an increase in the number of employees. As of March 31, 2017 and 2016, we had 982 and 916 employees, respectively. Information services expenses increased by $2.0 million due to greater expenditures to enhance our service offerings and technology platforms. General and administrative expenses increased $1.8 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. These items were somewhat offset by a decrease in occupancy and equipment expenses of $1.3 million as the 2016 period included higher expenditures associated with our new corporate headquarters in Greenwood Village, Colorado. Farm Credit Insurance Fund (Insurance Fund) premium expense decreased slightly to $21.5 million in the first quarter of 2017 compared to $22.1 million in the 2016 period. The slight decrease is due to the impact of lower premium rates somewhat offset by growth in loan volume. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation (Insurance Corporation) and were 15 basis points of adjusted insured debt obligations in the first three months of 2017 compared to 16 basis points during the same period in 2016.

Our income tax expense decreased to $40.6 million for the first quarter of 2017, compared to $42.3 million for the same prior-year period. Our effective tax rates were 13.4 percent and 14.8 percent for the three-month periods ended March 31, 2017 and 2016, respectively. The decreases in tax expense and the effective tax rate were driven by higher levels of patronage, which resulted from growth in average patronage-eligible loan volume, and an increase in earnings attributable to non-taxable business activities.

As a result of the higher level of earnings in the first three months of 2017, our annualized return on average common shareholders' equity increased to 13.72 percent for the three months ended March 31, 2017 from 13.42 percent for the same period in 2016. Our annualized return on average assets decreased slightly to 0.83 percent for the three-month period ended March 31, 2017, compared to 0.84 percent for the same prior-year period.

Operating Segment Financial Review

We provide financial services to agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; farmer-owned financial institutions 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 March 31, 2017 and 2016 are reported in Notes 3 and 10 to the accompanying condensed consolidated financial statements. All customer activity, including loans and leases and related income, is specifically assigned to the business units that comprise the operating segments. Investment securities and federal funds sold and other overnight funds, which are primarily held as a liquidity reserve to support our banking operations, are not specifically assigned to operating segments; however, the income from investment securities and federal funds sold and other overnight funds is allocated to the operating segments. Net income by operating segment is summarized in the following table and is more fully detailed in Note 10 to the accompanying condensed consolidated financial statements.

Net Income by Operating Segment ($ in Thousands)

For the Three Months Ended March 31,	2017	2016
Operating Segment:		
Agribusiness	**$ 122,567**	$ 106,103
Strategic Relationships	**67,438**	65,093
Rural Infrastructure	**75,063**	74,930
Total Operating Segments	**265,068**	246,126
Corporate/Other	**(2,260)**	(2,814)
Total	**$ 262,808**	$ 243,312

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 $31.0 billion at March 31, 2017, compared to $28.7 billion at December 31, 2016. The $2.3 billion increase in loans outstanding was primarily driven by seasonal financing at many grain and farm supply cooperatives. 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 $5.0 billion and $4.9 billion in loans outstanding as of March 31, 2017 and December 31, 2016, respectively. At March 31, 2017 and December 31, 2016, 26 percent 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 March 31, 2017, FCL had $3.2 billion in leases outstanding, essentially unchanged from December 31, 2016.

Agribusiness average loan volume increased 16 percent to $31.8 billion for the first quarter of 2017 from $27.5 billion for the same period of 2016. Growth in Agribusiness average loan volume resulted primarily from higher levels of seasonal financing at many grain and farm supply cooperatives resulting from greater levels of grain ownership, increased lending to agricultural export finance customers as well as greater lending to food and agribusiness companies.

Agribusiness net income increased $16.5 million in the first three months of 2017 to $122.6 million from $106.1 million for the same period in 2016 largely due to an increase in net interest income. A lower provision for loan losses also contributed to greater earnings, and was somewhat offset by an increase in operating expenses and lower noninterest income.

Net interest income increased by $21.6 million to $183.1 million for the three-month period ended March 31, 2017 from $161.5 million for the 2016 period primarily due to the impact of higher average loan volume, somewhat offset by slight spread compression resulting from continued strong competition for the business of our customers.

Agribusiness recorded a $13.0 million provision for loan losses during the first three months of 2017 compared to $15.0 million in the same prior-year period. The 2017 provision for loan losses resulted from growth in loan volume as well as slight deterioration in overall credit quality. The 2016 provision for loan losses also reflected a higher level of lending activity and deterioration in overall credit quality as well as increases in specific reserves associated with a small number of customers. Nonaccrual loans in Agribusiness decreased to $188.3 million at March 31, 2017, as compared to $207.2 million at December 31, 2016, due to three food and agribusiness loans which were paid off during the first quarter of 2017. Loan charge-offs, net of recoveries, totaled $0.4 million for the three months ended March 31, 2017, compared to recoveries, net of charge-offs, of $0.1 million for the three months ended March 31, 2016.

Noninterest income decreased $3.1 million to $29.0 million in the first three months of 2017 due to lower levels of fee income during the 2017 period, somewhat offset by higher levels of gains recognized from the sale of investment securities, which are allocated to the operating segments, and patronage income received from other System institutions on loan participations we sold to them.

Agribusiness operating expenses increased to $53.5 million for the first quarter of 2017 from $49.8 million in the same prior-year period due to the increases in employee compensation and 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 March 31, 2017, the Strategic Relationships portfolio totaled $45.5 billion, compared to $46.0 billion at December 31, 2016. The decrease in outstanding loan volume resulted from a typical seasonal decline in Association lending to agricultural producers, somewhat offset by an increase in participations in wholesale loans made by other System banks. At March 31, 2017 and December 31, 2016, loans outstanding included $40.6 billion and $41.5 billion, respectively, in wholesale loans to our affiliated Associations and $4.9 billion and $4.5 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 March 31, 2017 and December 31, 2016 in wholesale loans made by the Farm Credit Bank of Texas.

Strategic Relationships average loan volume increased 7 percent to $45.6 billion for the three-month period ended March 31, 2017, compared to $42.6 billion for the same prior-year period. The increase resulted from greater overall lending to agricultural producers at our affiliated Associations and an increase in participations in wholesale loans made by other System banks to certain of our affiliated Associations.

Strategic Relationships net income increased $2.3 million to $67.4 million for the first quarter of 2017, as compared to $65.1 million for the same prior-year period. The increase resulted from higher noninterest income, somewhat offset by lower net interest income and an increase in operating expenses. Net interest income decreased to $70.5 million in the first three months of 2017 compared to $74.8 million for the same period in 2016 due to a lower level of merger-related accretion income, somewhat offset by the impact of growth in average loan volume.

Overall loan quality in Strategic Relationships continues to be strong. 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. No provision 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 $7.2 million in the first three months of 2017 resulting from gains on the sale of investment securities in the first quarter of 2017, which are allocated to the operating segments.

Operating expenses increased to $10.3 million for the first quarter of 2017, compared to $10.0 million recorded in the same period in 2016 due to the increases in employee compensation and 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 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. Rural Infrastructure loans outstanding declined to $20.5 billion at March 31, 2017, compared to $20.6 billion at December 31, 2016 due to a decrease in communications loans, somewhat offset by increased lending to electric distribution and power supply customers.

Rural Infrastructure average loan volume increased 5 percent to $20.6 billion for the first three months of 2017, compared to $19.7 billion for the same prior-year period. Growth in Rural Infrastructure average loan volume resulted primarily from increased lending to electric distribution and power supply customers, somewhat offset by a lower level of financing to communications customers.

Rural Infrastructure net income totaled $75.1 million for the first quarter of 2017, compared to $74.9 million for the same prior-year period. The slight increase was primarily the result of increases in noninterest income and net interest income as well as a lower provision for income taxes in the 2017 period. These positive factors were offset by a higher provision for loan losses and an increase in operating expenses.

Net interest income increased by $2.1 million to $105.3 million for the three-month period ended March 31, 2017 as a result of the increase in average loan volume, somewhat offset by slight spread compression resulting from continued strong competition for the business of our customers.

Rural Infrastructure recorded a provision for loan losses of $2.0 million during the first three months of 2017 compared to a loan loss reversal of $7.0 million for the same period in 2016. The 2017 provision primarily reflected the growth in average loan volume. The 2016 reversal was largely due to an overall improvement in credit quality in a small number of communications loans, which more than offset the increase in overall lending activity during the 2016 period. At March 31, 2017 and December 31, 2016, the Rural Infrastructure segment had no nonaccrual loans. There were no loan charge-offs or recoveries during the first quarter of 2017 in Rural Infrastructure.

Noninterest income increased to $17.6 million for the first quarter of 2017 compared to $11.1 million for the same prior-year period in 2016 primarily due to increases in fee income, prepayment income and patronage income received from other System institutions.

Rural Infrastructure operating expenses increased to $28.7 million for the first three months of 2017 compared to $27.7 million for the same prior-year period due to the increases in employee compensation and 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

	March 31, 2017			December 31, 2016		
	Wholesale Loans [(1)]	Commercial Loans [(2)]	Total Bank	Wholesale Loans [(1)]	Commercial Loans [(2)]	Total Bank
Acceptable	**100.00 %**	**95.63 %**	**97.67 %**	100.00 %	95.64 %	97.74 %
Special Mention	-	**2.64**	**1.40**	-	2.81	1.45
Substandard	-	**1.72**	**0.92**	-	1.54	0.80
Doubtful	-	**0.01**	**0.01**	-	0.01	0.01
Loss	-	-	-	-	-	-
Total	**100.00 %**	**100.00 %**	**100.00 %**	100.00 %	100.00 %	100.00 %

(1) Represents loans in our Strategic Relationships operating segment.

(2) Represents loans in our Agribusiness and Rural Infrastructure operating segments.

While our overall loan quality measures remain strong at March 31, 2017, we experienced continued slight deterioration in the first quarter of 2017. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") and related accrued interest as a percent of total loans and related accrued interest was 0.93 percent at March 31, 2017, compared to 0.81 percent at December 31, 2016. This increase was driven by slight deterioration in credit quality in our Agribusiness operating segment.

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 of March 31, 2017, 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 $15.0 million provision for loan losses in the first quarter of 2017 compared to $8.0 million during the 2016 period. The 2017 provision largely reflects the growth in overall loan volume as well as slight deterioration in credit quality in our Agribusiness operating segment. Total loan charge-offs, net of recoveries, were $0.4 million for the first three months of 2017 compared to total recoveries, net of charge-offs, of $0.1 million in the 2016 period. Nonaccrual loans decreased to $188.3 million at March 31, 2017 from $207.2 million at December 31, 2016. The decrease primarily resulted from three food and agribusiness loans which were paid off during the 2017 period. Our total allowance for credit losses (ACL), which includes the allowance for loan losses and the reserve for unfunded commitments, was $677.1 million at March 31, 2017 compared to $662.5 million at December 31, 2016. Our ACL as a percent of total loans was 0.70 percent at March 31, 2017 and December 31, 2016. ACL as a percent of non-guaranteed loans outstanding and excluding loans to Associations was 1.34 percent at March 31, 2017 compared to 1.37 percent at December 31, 2016.

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 on a cost effective basis. 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 and the cash flow requirements from our cash management program causes our liquidity needs to vary significantly from day to day.

One of the ways in which we monitor our liquidity position is 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 March 31, 2017, our liquidity was 188 days, compared to 197 days at December 31, 2016.

We hold cash, investment securities, federal funds sold and other overnight funds primarily to maintain a liquidity reserve and manage short-term surplus funds. Cash, federal funds sold and other overnight funds totaled $1.2 billion and $2.4 billion as of March 31, 2017 and December 31, 2016, respectively. Our investment securities increased $1.4 billion to $29.2 billion at March 31, 2017 compared to $27.8 billion at December 31, 2016. 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.

Investment Securities ($ in Millions)

	March 31, 2017			December 31, 2016		
	Amortized Cost	Fair Value	Unrealized Gains/ (Losses)	Amortized Cost	Fair Value	Unrealized Gains/ (Losses)
Certificates of Deposit	$ 695	$ 695	$ -	$ 775	$ 776	$ 1
U.S. Treasury Debt	13,610	13,574	(36)	11,189	11,141	(48)
U.S. Agency Debt	3,526	3,533	7	5,132	5,144	12
Residential Mortgage-Backed:						
Ginnie Mae	477	479	2	538	541	3
U.S. Agency	7,602	7,619	17	6,714	6,711	(3)
FHA/VA Non-Wrapped Reperformer	259	266	7	268	275	7
Non-Agency	32	35	3	63	71	8
Commercial Mortgage-Backed:						
U.S. Agency	2,489	2,486	(3)	2,649	2,641	(8)
Agricultural Mortgage-Backed:						
Farmer Mac	91	89	(2)	99	97	(2)
Corporate Bonds	40	40	-	40	40	-
Asset-Backed and Other	367	375	8	319	328	9
Total	$ 29,188	$ 29,191	$ 3	$ 27,786	$ 27,765	$ (21)

Credit risk in our investment portfolio primarily exists in investment securities that are not guaranteed by the U.S. government or a government-sponsored enterprise (U.S. Agency), 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). Excluding certificates of deposit, with which the counterparties carry the highest short-term credit rating, these securities collectively total $716.9 million (fair value) or 2 percent of our total investment securities as of March 31, 2017. 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, certain securities must be excluded from our liquidity reserve, which would include certificates of deposit that no longer carry one of the two highest short-term credit ratings; 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; and any investment whose market value is less than 80 percent of book value. As a result, as of March 31, 2017, $469.5 million of securities were not included in our liquidity reserve. Another $121.0 million of investment securities, primarily representing Federal Agricultural Mortgage Corporation (Farmer Mac) MBS, were not included in our liquidity reserve as of March 31, 2017, pursuant to regulation.

We recorded no impairment losses on investment securities during the first quarters of 2017 and 2016. However, 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 three months of 2017, we sold nine U.S. Agency debt securities with a combined book value of $1.6 billion as well as six non-agency MBS with a combined book value of $26.4 million. The U.S. Agency debt securities were sold to better position our overall investment portfolio. The non-agency MBS had been previously impaired and were excluded from our liquidity reserve, and were sold due to favorable market conditions. The resulting gains from these sales of $9.4 million are recorded in Other Noninterest Income in the accompanying condensed consolidated statement of income for the three months ended March 31, 2017.

During the first quarter of 2016, we sold an FHA/VA non-wrapped reperformer MBS with a book value of $23.9 million for total proceeds of $24.3 million. The resulting $0.4 million gain is recorded in Other Noninterest Income in the accompanying condensed consolidated statement of income for the three months ended March 31, 2016. This security had been previously impaired and was excluded from our liquidity reserve, and was sold due to favorable market conditions. We also sold three non-impaired corporate bonds during the three-month period ended March 31, 2016. Total proceeds from these sales approximated book value.

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 $24.2 million for the first three months of 2017, compared to $249.5 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 $233.8 million and $299.2 million for the first three months of 2017 and 2016, 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 March 31, 2017, as compared to $8.6 billion at December 31, 2016.

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 took 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 is no phase-in of the leverage buffer.

At March 31, 2017, our capital and leverage ratios exceeded regulatory minimums, as shown in the following table.

Regulatory Capital Requirements and Ratios

	Regulatory Minimums	As of March 31, 2017	Calculated Buffer	Required Buffer
Common equity tier 1 capital ratio	4.5 %	10.56 %	6.06 %	2.5 % [1]
Tier 1 capital ratio	6.0	12.79	6.79	2.5 [1]
Total capital ratio	8.0	14.72	6.72	2.5 [1]
Tier 1 leverage ratio	4.0	6.73	2.73	1.0
Unallocated Retained Earnings (URE) and URE equivalents leverage ratio	1.5	2.57	n/a	n/a
Permanent capital ratio	7.0	13.83	n/a	n/a

[1] The capital conservation buffer will be phased in over three years, reaching its full value of 2.5 percent in 2020.

The New Capital Regulations also require new disclosures, including the components of the ratios displayed above. See pages 52 through 67 for these required disclosures.

As previously announced, CoBank intends to exercise its option on June 15, 2017 to redeem all outstanding floating-rate subordinated notes due 2022 (the Notes) totaling $500.0 million. The FCA approved the redemption in March 2017. CoBank intends to send the notice of redemption, in accordance with the terms of the Notes on or before May 15, 2017. The Notes will be redeemed at a redemption price of 100 percent of the principal amount, together with accrued and unpaid interest up to, but excluding, the date of redemption.

We may from time to time seek to retire our outstanding debt or equity securities through calls, tender offers and/or exchanges, open market purchases, privately negotiated transactions or otherwise. We may also issue new debt or equity securities. Such calls, tender offers, exchanges, open market purchases 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

Notwithstanding our strong financial performance in the first quarter of 2017, we continue to face market conditions that could make the business and earnings environment less favorable for CoBank in the future. Economic conditions are volatile, particularly given heightened geopolitical risks. Although interest rates have increased over the past six months, rates remain 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 could create further uncertainty regarding interest rates and asset valuations. The direction of the U.S. economic, trade, tax and foreign policies remain uncertain in the wake of the change in the presidential administration. 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 due to strong global supplies 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 power customers are impacted by energy efficiency initiatives, price volatility of various fuel sources including coal and natural gas, changing 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 services 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 patronage payments. We continue our disciplined approach to managing risk and monitoring asset quality. We also continue to maintain discipline over operating expenses. Nevertheless, we will continue to prudently make investments in our people, processes, data infrastructure and technology, including growing our digital banking capabilities, to strengthen the value and improve the experience we provide to our customers.

In June 2016, Robert B. Engel, then CEO of CoBank, announced that he will leave the Bank upon completion of his employment agreement on June 30, 2017. The Board of Directors appointed Thomas E. Halverson, previously the Bank's Chief Banking Officer, to succeed Mr. Engel as the CEO. On January 1, 2017, Mr. Engel moved into a senior strategic advisory role and Mr. Halverson became the CEO. Effective March 6, 2017, the Board changed Mr. Halverson's title to President and CEO.

Also previously announced, the Bank's Chief Credit Officer, Daniel L. Key, retired on March 31, 2017. F. William Davis succeeded Mr. Key as the Bank's new Chief Credit Officer on April 1, 2017.

On March 15, 2017, CoBank announced that Timothy M. Curran will become the Bank's new Chief Risk Officer effective June 1, 2017. Mr. Curran will have responsibility for the Bank's Enterprise Risk Management and Credit functions.

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 public and private entities as we strive to better fulfill our mission in rural America in a safe and sound manner.

Forward-Looking Statements

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 in economic, marketplace or regulatory environments that negatively impact the agricultural, power, 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, power, 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. trade, immigration or fiscal policies, 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 Balance Sheets
CoBank, ACB

($ in Thousands)

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Total Loans	**$ 96,920,904**	$ 95,258,281
Less: Allowance for Loan Losses	**580,740**	558,974
Net Loans	**96,340,164**	94,699,307
Cash and Cash Equivalents	**206,647**	1,660,517
Federal Funds Sold and Other Overnight Funds	**1,020,000**	750,000
Investment Securities	**29,191,142**	27,765,188
Interest Rate Swaps and Other Financial Instruments	**189,044**	208,434
Accrued Interest Receivable and Other Assets	**819,729**	1,047,180
Total Assets	**$ 127,766,726**	$ 126,130,626
Liabilities		
Bonds and Notes	**$ 117,325,320**	$ 115,085,880
Subordinated Debt	**498,873**	498,820
Interest Rate Swaps and Other Financial Instruments	**88,191**	162,724
Reserve for Unfunded Commitments	**96,328**	103,496
Accrued Interest Payable and Other Liabilities	**1,070,080**	1,705,948
Total Liabilities	**$ 119,078,792**	$ 117,556,868
Commitments and Contingent Liabilities (Note 9)		
Shareholders' Equity		
Preferred Stock	**1,500,000**	1,500,000
Common Stock	**3,076,007**	3,072,232
Unallocated Retained Earnings	**4,211,070**	4,121,409
Accumulated Other Comprehensive Loss	**(99,143)**	(119,883)
Total Shareholders' Equity	**$ 8,687,934**	$ 8,573,758
Total Liabilities and Shareholders' Equity	**$ 127,766,726**	$ 126,130,626

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

Condensed Consolidated Statements of Income

CoBank, ACB

($ in Thousands) (Unaudited)

	For the Three Months Ended March 31,	
	2017	**2016**
Interest Income		
Loans	**$ 614,340**	$ 524,732
Investment Securities, Federal Funds Sold and Other Overnight Funds	**123,780**	105,572
Total Interest Income	**738,120**	630,304
Interest Expense	**382,006**	293,427
Net Interest Income	**356,114**	336,877
Provision for Loan Losses	**15,000**	8,000
Net Interest Income After Provision for Loan Losses	**341,114**	328,877
Noninterest Income/(Expense)		
Net Fee Income	**23,542**	24,370
Prepayment Income	**2,832**	3,962
Losses on Early Extinguishments of Debt	**(2,007)**	(3,817)
Gains on Sale of Investment Securities	**9,387**	380
Other, Net	**21,284**	18,450
Total Noninterest Income	**55,038**	43,345
Operating Expenses		
Employee Compensation	**40,537**	36,417
Insurance Fund Premium	**21,505**	22,135
Information Services	**8,659**	6,672
General and Administrative	**7,047**	5,255
Occupancy and Equipment	**3,477**	4,772
Farm Credit System Related	**4,166**	3,608
Purchased Services	**2,070**	2,032
Other	**5,262**	5,759
Total Operating Expenses	**92,723**	86,650
Income Before Income Taxes	**303,429**	285,572
Provision for Income Taxes	**40,621**	42,260
Net Income	**$ 262,808**	$ 243,312

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 Ended March 31,	
	2017	**2016**
Net Income	**$ 262,808**	$ 243,312
Other Comprehensive Income, Net of Tax:		
Net Change in Unrealized Gains on Investment Securities Not Other-Than-Temporarily Impaired	**25,270**	198,805
Net Change in Unrealized Losses on Other-Than-Temporarily Impaired Investment Securities	**(3,426)**	(2,113)
Net Change in Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	**(1,924)**	(3,226)
Net Pension Adjustment	**820**	832
Other Comprehensive Income	**20,740**	194,298
Comprehensive Income	**$ 283,548**	$ 437,610

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 Three Months Ended March 31,	2017	2016
Balance at Beginning of Period	**$ 8,573,758**	$ 7,810,469
Comprehensive Income	**283,548**	437,610
Preferred Stock:		
Dividends	**(21,046)**	(14,968)
Common Stock:		
Issuances	**20**	26
Retirements	**(25,819)**	(29,007)
Cash Patronage Accrued	**(122,527)**	(114,074)
Balance at End of Period	**$ 8,687,934**	$ 8,090,056

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 Three Months Ended March 31,	2017	2016
Cash Flows Provided by Operating Activities		
Net Income	**$ 262,808**	$ 243,312
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	**15,000**	8,000
Deferred Income Taxes	**(32,037)**	(2,393)
Depreciation and Amortization/Accretion, Net	**28,978**	19,206
Net Gains on Sales of Investment Securities	**(9,387)**	(380)
Decrease in Accrued Interest Receivable and Other Assets	**138,211**	144,082
Decrease in Accrued Interest Payable and Other Liabilities	**(162,491)**	(105,582)
Net (Gains)/Losses on Interest Rate Swaps and Other Financial Instruments	**(6,419)**	216
(Payments)/Proceeds from Termination of Interest Rate Swaps	**(395)**	1,366
Purchase of Interest Rate Caps	**-**	(8,154)
Other	**(474)**	(437)
Net Cash Provided by Operating Activities	**233,794**	299,236
Cash Flows Used in Investing Activities		
Net Increase in Loans	**(1,669,946)**	(1,667,982)
Net Increase in Investment Securities	**(1,474,270)**	(844,365)
Net Increase in Federal Funds Sold and Other Overnight Funds	**(270,000)**	(150,000)
Net Cash Used in Investing Activities	**(3,414,216)**	(2,662,347)
Cash Flows Provided by/(Used in) Financing Activities		
Net Issuances of Bonds and Notes	**2,239,116**	422,842
Net Retirements of Common Stock	**(25,799)**	(28,981)
Cash Patronage Distribution Paid	**(471,623)**	(415,414)
Preferred Stock Dividends Paid	**(15,142)**	(14,825)
Net Cash Provided by/(Used in) Financing Activities	**1,726,552**	(36,378)
Net Decrease in Cash	**(1,453,870)**	(2,399,489)
Cash at Beginning of Period	**1,660,517**	3,113,101
Cash at End of Period	**$ 206,647**	$ 713,612
Supplemental Disclosures:		
Schedule of Noncash Investing and Financing Activities		
Net Change in Accrued Securities Purchases	**$ 99,247**	$ 115,493
Net Change in Receivables from Sale of Investment Securities	**(16,290)**	23,401
Net Change in Unrealized Gains on Investment Securities, Before Taxes	**24,166**	249,520
Net Change in Unrealized Losses on Interest Rate Swaps, Other Financial Instruments and Hedged Items, Before Taxes	**(2,375)**	(5,772)
Patronage in Common Stock	**29,574**	27,514
Reclassication of Collateral Assets to an Offset of the Fair Value of Interest Rate Swaps and Other Financial Instruments (Refer to Note 6)	**70,415**	-

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

Note 1 – Organization, Lending Authority and Significant Accounting Policies

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 support agriculture, rural infrastructure and rural communities across the United States. We are cooperatively owned by our eligible U.S. customers. Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; farmer-owned financial institutions including Agricultural Credit Associations and a Federal Land Credit Association (Associations); and other businesses that serve agriculture and rural communities.

These unaudited quarterly condensed consolidated financial statements should be read in conjunction with the 2016 Annual Report, which includes a description of our organization and lending authority. Also included in the 2016 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 2017 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. 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 11 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. Copies of financial reports of our affiliated Associations and the System are available on their respective websites.

We have evaluated subsequent events through May 10, 2017, which is the date the financial statements were issued.

Note 2 – Recently Issued or Adopted Accounting Pronouncements

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. Based on our preliminary review and analysis, the new lease accounting guidance will have an insignificant impact on our consolidated financial condition and results of operations, and will have no impact on our cash flows.

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 material effect, if any, on our consolidated financial position, results of operations or cash flows.

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 material 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)

	March 31, 2017	December 31, 2016
Agribusiness	**$ 30,967**	$ 28,660
Strategic Relationships	**45,473**	45,994
Rural Infrastructure	**20,481**	20,604
Total	**$ 96,921**	$ 95,258

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[1]	Rural Infrastructure	Total
March 31, 2017				
Allowance for Loan Losses				
Beginning Balance at January 1, 2017	$ 393,548	$ -	$ 165,426	$ 558,974
Charge-offs	(746)	-	-	(746)
Recoveries	344	-	-	344
Provision for Loan Losses	13,000	-	2,000	15,000
Transfers from (to) Reserve for Unfunded Commitments[2]	9,380	-	(2,212)	7,168
Ending Balance at March 31, 2017	415,526	-	165,214	580,740
Reserve for Unfunded Commitments				
Beginning Balance at January 1, 2017	76,737	-	26,759	103,496
Transfers (to) from Allowance for Loan Losses[2]	(9,380)	-	2,212	(7,168)
Ending Balance at March 31, 2017	67,357	-	28,971	96,328
Allowance for Credit Losses	$ 482,883	$ -	$ 194,185	$ 677,068
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 26,313	$ -	$ -	$ 26,313
Collectively Evaluated for Impairment	456,570	-	194,185	650,755
Total	$ 482,883	$ -	$ 194,185	$ 677,068
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 188,253	$ 45,544,334	$ -	$ 45,732,587
Collectively Evaluated for Impairment	30,875,514	-	20,561,141	51,436,655
Total	$ 31,063,767	$ 45,544,334	$ 20,561,141	$ 97,169,242

[1] 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.

[2] These transfers generally occur as a result of advances on or repayments of seasonal lines of credit or other loans.

		Agribusiness		Strategic Relationships[1]		Rural Infrastructure		Total
March 31, 2016								
Allowance for Loan Losses								
Beginning Balance at January 1, 2016	$	313,204	$	-	$	172,940	$	486,144
Charge-offs		(305)		-		-		(305)
Recoveries		385		-		3		388
Provision for Loan Losses/(Loan Loss Reversal)		15,000		-		(7,000)		8,000
Transfers from Reserve for Unfunded Commitments[2]		7,170		-		2,933		10,103
Ending Balance at March 31, 2016		335,454		-		168,876		504,330
Reserve for Unfunded Commitments								
Beginning Balance at January 1, 2016		89,610		-		25,834		115,444
Transfers to Allowance for Loan Losses[2]		(7,170)		-		(2,933)		(10,103)
Ending Balance at March 31, 2016		82,440		-		22,901		105,341
Allowance for Credit Losses	$	417,894	$	-	$	191,777	$	609,671
Allowance for Credit Losses								
Ending Balance, Allowance for Credit Losses Related to Loans:								
Individually Evaluated for Impairment	$	21,319	$	-	$	3,861	$	25,180
Collectively Evaluated for Impairment		396,575		-		187,916		584,491
Total	$	417,894	$	-	$	191,777	$	609,671
Loans								
Ending Balance for Loans and Related Accrued Interest:								
Individually Evaluated for Impairment	$	144,132	$	42,918,874	$	68,632	$	43,131,638
Collectively Evaluated for Impairment		28,009,351		-		19,789,860		47,799,211
Total	$	28,153,483	$	42,918,874	$	19,858,492	$	90,930,849

(1) 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.

(2) 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.

March 31, 2017	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
Acceptable	**$ 27,900,212**	**$ 1,295,968**	**$ 45,544,334**	**$ 20,167,786**	**$ 94,908,300**
Special Mention	**1,079,696**	**-**	**-**	**284,491**	**1,364,187**
Substandard	**781,406**	**-**	**-**	**108,864**	**890,270**
Doubtful	**6,485**	**-**	**-**	**-**	**6,485**
Loss	**-**	**-**	**-**	**-**	**-**
Total	**$ 29,767,799**	**$ 1,295,968**	**$ 45,544,334**	**$ 20,561,141**	**$ 97,169,242**
December 31, 2016					
Acceptable	$ 25,785,154	$ 1,258,464	$ 46,060,386	$ 20,236,049	$ 93,340,053
Special Mention	1,007,981	-	-	380,218	1,388,199
Substandard	687,781	-	-	75,949	763,730
Doubtful	7,104	-	-	-	7,104
Loss	-	-	-	-	-
Total	$ 27,488,020	$ 1,258,464	$ 46,060,386	$ 20,692,216	$ 95,499,086

Aging Analysis

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

March 31, 2017	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	**$ 28,267**	**$ -**	**$ -**	**$ -**	**$ 28,267**
90 Days Past Due	**19,914**	**-**	**-**	**-**	**19,914**
Total Past Due	**$ 48,181**	**$ -**	**$ -**	**$ -**	**$ 48,181**
Current	**29,719,618**	**1,295,968**	**45,544,334**	**20,561,141**	**97,121,061**
Total	**$ 29,767,799**	**$ 1,295,968**	**$ 45,544,334**	**$ 20,561,141**	**$ 97,169,242**
Accruing Loans 90 Days or More Past Due	**$ 2,603**	**$ -**	**$ -**	**$ -**	**$ 2,603**
December 31, 2016					
30-89 Days Past Due	$ 17,353	$ -	$ -	$ -	$ 17,353
90 Days Past Due	41,625	-	-	-	41,625
Total Past Due	$ 58,978	$ -	$ -	$ -	$ 58,978
Current	27,429,042	1,258,464	46,060,386	20,692,216	95,440,108
Total	$ 27,488,020	$ 1,258,464	$ 46,060,386	$ 20,692,216	$ 95,499,086
Accruing Loans 90 Days or More Past Due	$ 804	$ -	$ -	$ -	$ 804

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.

March 31, 2017	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Nonaccrual Loans(2)	$ 188,253	$ -	$ -	$ -	$ 188,253
Accruing Loans 90 Days or More Past Due	2,603	-	-	-	2,603
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	**$ 190,856**	**$ -**	**$ -**	**$ -**	**$ 190,856**
December 31, 2016					
Nonaccrual Loans(2)	$ 207,247	$ -	$ -	$ -	$ 207,247
Accruing Loans 90 Days or More Past Due	804	-	-	-	804
Accruing Restructured Loans	-	-	-	42,575	42,575
Total Impaired Loans	$ 208,051	$ -	$ -	$ 42,575	$ 250,626

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

(2) Included in nonaccrual loans at March 31, 2017 and December 31, 2016 are $21.5 million and $34.8 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.

March 31, 2017	Agribusiness Non-Guaranteed	Agribusiness Guaranteed(1)	Strategic Relationships(1)	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 79,155	$ -	$ -	$ -	$ 79,155
Unpaid Principal	88,355	-	-	-	88,355
Average Balance	79,636	-	-	37,613	117,249
Interest Income Recognized	596	-	-	1,556	2,152
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	111,701	-	-	-	111,701
Unpaid Principal	116,192	-	-	-	116,192
Allowance for Loan Losses	26,313	-	-	-	26,313
Average Balance	116,568	-	-	-	116,568
Interest Income Recognized	49	-	-	-	49
Total Impaired Loans					
Carrying Amount	190,856	-	-	-	190,856
Unpaid Principal	204,547	-	-	-	204,547
Allowance for Loan Losses	26,313	-	-	-	26,313
Average Balance	196,204	-	-	37,613	233,817
Interest Income Recognized	645	-	-	1,556	2,201

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

December 31, 2016	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[1]	Strategic Relationships[1]	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 79,908	$ -	$ -	$ 42,575	$ 122,483
Unpaid Principal	88,820	-	-	53,940	142,760
Average Balance	45,536	-	-	42,560	88,096
Interest Income Recognized	2,292	-	-	4,050	6,342
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	128,143	-	-	-	128,143
Unpaid Principal	139,028	-	-	-	139,028
Allowance for Loan Losses	31,551	-	-	-	31,551
Average Balance	89,156	-	-	12,888	102,044
Interest Income Recognized	3	-	-	-	3
Total Impaired Loans					
Carrying Amount	208,051	-	-	42,575	250,626
Unpaid Principal	227,848	-	-	53,940	281,788
Allowance for Loan Losses	31,551	-	-	-	31,551
Average Balance	134,692	-	-	55,448	190,140
Interest Income Recognized	2,295	-	-	4,050	6,345

[1] 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 $25.8 million in commitments available to be drawn by borrowers whose loans were classified as impaired at March 31, 2017.

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 2016 Annual Report. During the three months ended March 31, 2017 and 2016, there were no modifications that qualified as TDRs. Included in nonaccrual loans at March 31, 2017 and December 31, 2016 are $21.5 million and $34.8 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)

March 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of Deposit	$ 695	$ -	$ -	$ 695
U.S. Treasury Debt	13,610	40	(76)	13,574
U.S. Agency Debt	3,526	26	(19)	3,533
Residential Mortgage-Backed Securities (MBS):				
Ginnie Mae	477	2	-	479
U.S. Agency	7,602	61	(44)	7,619
FHA/VA Non-Wrapped Reperformer	259	9	(2)	266
Non-Agency	32	3	-	35
Commercial MBS:				
U.S. Agency	2,489	5	(8)	2,486
Agricultural MBS:				
Farmer Mac	91	-	(2)	89
Corporate Bonds	40	-	-	40
Asset-Backed and Other	367	10	(2)	375
Total	$ 29,188	$ 156	$ (153)	$ 29,191

($ in Millions)

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of Deposit	$ 775	$ 1	$ -	$ 776
U.S. Treasury Debt	11,189	38	(86)	11,141
U.S. Agency Debt	5,132	32	(20)	5,144
Residential MBS:				
Ginnie Mae	538	3	-	541
U.S. Agency	6,714	44	(47)	6,711
FHA/VA Non-Wrapped Reperformer	268	9	(2)	275
Non-Agency	63	8	-	71
Commercial MBS:				
U.S. Agency	2,649	4	(12)	2,641
Agricultural MBS:				
Farmer Mac	99	-	(2)	97
Corporate Bonds	40	-	-	40
Asset-Backed and Other	319	10	(1)	328
Total	$ 27,786	$ 149	$ (170)	$ 27,765

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at March 31, 2017 is as follows:

($ in Millions)

	Contractual Maturity				
March 31, 2017	In One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
Certificates of Deposit					
Amortized Cost	$ 695	$ -	$ -	$ -	$ 695
Fair Value	695	-	-	-	695
Weighted Average Yield	1.22 %	- %	- %	- %	1.22 %
U.S. Treasury Debt Securities					
Amortized Cost	$ 4,150	$ 6,297	$ 3,163	$ -	$ 13,610
Fair Value	4,148	6,309	3,117	-	13,574
Weighted Average Yield	0.72 %	1.66 %	1.85 %	- %	1.42 %
U.S. Agency Debt Securities					
Amortized Cost	$ 118	$ 1,639	$ 1,769	$ -	$ 3,526
Fair Value	118	1,659	1,756	-	3,533
Weighted Average Yield	1.01 %	2.39 %	1.65 %	- %	1.97 %
Ginnie Mae Residential MBS					
Amortized Cost	$ -	$ 3	$ 10	$ 464	$ 477
Fair Value	-	3	10	466	479
Weighted Average Yield	- %	2.35 %	2.64 %	2.01 %	2.02 %
U.S. Agency Residential MBS					
Amortized Cost	$ -	$ 29	$ 30	$ 7,543	$ 7,602
Fair Value	-	29	30	7,560	7,619
Weighted Average Yield	- %	1.72 %	1.31 %	2.30 %	2.30 %
FHA/VA Non-Wrapped Reperformer Residential MBS					
Amortized Cost	$ -	$ -	$ -	$ 259	$ 259
Fair Value	-	-	-	266	266
Weighted Average Yield	- %	- %	- %	4.96 %	4.96 %
Non-Agency Residential MBS					
Amortized Cost	$ -	$ 1	$ -	$ 31	$ 32
Fair Value	-	1	-	34	35
Weighted Average Yield	- %	1.21 %	- %	7.02 %	6.78 %
U.S. Agency Commercial MBS					
Amortized Cost	$ 5	$ 968	$ 1,516	$ -	$ 2,489
Fair Value	5	968	1,513	-	2,486
Weighted Average Yield	1.07 %	1.32 %	1.46 %	- %	1.40 %
Farmer Mac Agricultural MBS					
Amortized Cost	$ -	$ -	$ -	$ 91	$ 91
Fair Value	-	-	-	89	89
Weighted Average Yield	- %	- %	- %	2.91 %	2.91 %
Corporate Bonds					
Amortized Cost	$ -	$ 40	$ -	$ -	$ 40
Fair Value	-	40	-	-	40
Weighted Average Yield	- %	1.83 %	- %	- %	1.83 %
Asset-Backed and Other					
Amortized Cost	$ -	$ 341	$ -	$ 26	$ 367
Fair Value	-	341	-	34	375
Weighted Average Yield	- %	1.16 %	- %	14.95 %	2.14 %
Total					
Amortized Cost	$ 4,968	$ 9,318	$ 6,488	$ 8,414	$ 29,188
Fair Value	4,966	9,350	6,426	8,449	29,191
Weighted Average Yield	0.63 %	1.73 %	1.70 %	2.43 %	1.77 %

While the substantial majority of our residential mortgage-backed securities (MBS) and a portion of our 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 March 31, 2017 and December 31, 2016. The continuous loss position is based on the date the impairment first occurred.

	Less Than 12 Months		Greater Than 12 Months	
($ in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2017				
Certificates of Deposit	**$ 135**	**$ -**	**$ -**	**$ -**
U.S. Treasury Debt	**7,769**	**(76)**	**-**	**-**
U.S. Agency Debt	**780**	**(13)**	**692**	**(6)**
Residential MBS:				
Ginnie Mae	**81**	**-**	**19**	**-**
U.S. Agency	**981**	**(10)**	**1,421**	**(34)**
FHA/VA Non-Wrapped Reperformer	**29**	**(2)**	**-**	**-**
Non-Agency	**-**	**-**	**10**	**-**
Commercial MBS:				
U.S. Agency	**592**	**(6)**	**492**	**(2)**
Agricultural MBS:				
Farmer Mac	**27**	**-**	**62**	**(2)**
Corporate Bonds	**10**	**-**	**-**	**-**
Asset-Backed and Other	**343**	**(1)**	**5**	**(1)**
Total	**$ 10,747**	**$ (108)**	**$ 2,701**	**$ (45)**
December 31, 2016				
Certificates of Deposit	$ -	$ -	$ -	$ -
U.S. Treasury Debt	5,441	(86)	-	-
U.S. Agency Debt	1,165	(14)	491	(6)
Residential MBS:				
Ginnie Mae	84	-	21	-
U.S. Agency	1,403	(10)	1,492	(37)
FHA/VA Non-Wrapped Reperformer	9	-	21	(2)
Non-Agency	-	-	11	-
Commercial MBS:				
U.S. Agency	1,245	(11)	333	(1)
Agricultural MBS:				
Farmer Mac	31	-	66	(2)
Corporate Bonds	10	-	-	-
Asset-Backed and Other	294	-	5	(1)
Total	$ 9,682	$ (121) $ -	$ 2,440	$ (49)

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 $308.0 million and $350.7 million at March 31, 2017 and December 31, 2016, 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 any of our investment securities were recorded during the three months ended March 31, 2017 and 2016.

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

Changes in accumulated other comprehensive income/(loss) for the three months ended March 31, 2017 and 2016 are presented in the following table.

Changes in Accumulated Other Comprehensive Income/(Loss) by Component[1]

	Unrealized Gains/(Losses) On Investment Securities		Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total
	Non-OTTI	OTTI			
Balance at January 1, 2017	**$ (19,627)**	**$ 4,969**	**$ (37,707)**	**$ (67,518)**	**$ (119,883)**
Other comprehensive income/(loss) before reclassifications	**30,589**	**246**	**(4,888)**	**-**	**25,947**
Amounts reclassified from accumulated other comprehensive (loss)/income	**(5,319)**	**(3,672)**	**2,964**	**820**	**(5,207)**
Net current-period other comprehensive income/(loss)	**25,270**	**(3,426)**	**(1,924)**	**820**	**20,740**
Balance at March 31, 2017	**$ 5,643**	**$ 1,543**	**$ (39,631)**	**$ (66,698)**	**$ (99,143)**
Balance at January 1, 2016	$ 38,588	$ 7,873	$ (40,157)	$ (66,291)	$ (59,987)
Other comprehensive income/(loss) before reclassifications	198,736	(1,648)	(8,075)	-	189,013
Amounts reclassified from accumulated other comprehensive income/(loss)	69	(465)	4,849	832	5,285
Net current-period other comprehensive income/(loss)	198,805	(2,113)	(3,226)	832	194,298
Balance at March 31, 2016	$ 237,393	$ 5,760	$ (43,383)	$ (65,459)	$ 134,311

[1] 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 three-month periods ended March 31, 2017 and 2016.

Reclassifications from Accumulated Other Comprehensive Income/(Loss)

For the Three Months Ended March 31, 2017		Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)	Location of Gain/(Loss) Recognized in Income Statement
Unrealized (losses)/gains on available-for-sale investment securities:			
Sales gains and losses	**$**	**5,691**	Noninterest Income - Other, Net
Tax effect		**(372)**	Provision for Income Taxes
Unrealized gains on OTTI investment securities:			
Sales gains and losses		**3,695**	Noninterest Income - Other, Net
Tax effect		**(23)**	Provision for Income Taxes
Unrealized (losses)/gains on interest rate swaps and other financial instruments:			
Interest rate contracts		**(1,901)**	Interest Expense
Foreign exchange contracts		**(1,939)**	Interest Income
Tax effect		**876**	Provision for Income Taxes
Pension and other benefit plans:			
Net actuarial gain/loss		**(1,066)**	Operating Expenses - Employee Compensation
Prior service cost/credit		**(257)**	Operating Expenses - Employee Compensation
Tax effect		**503**	Provision for Income Taxes
Total reclassifications	**$**	**5,207**	
For the Three Months Ended March 31, 2016			
Unrealized (losses)/gains on available-for-sale investment securities:			
Sales gains and losses	$	(85)	Noninterest Income - Other, Net
Tax effect		16	Provision for Income Taxes
Unrealized gains on OTTI investment securities:			
Sales gains and losses		465	Noninterest Income - Other, Net
Tax effect		-	Provision for Income Taxes
Unrealized (losses)/gains on interest rate swaps and other financial instruments:			
Interest rate contracts		(935)	Interest Expense
Foreign exchange contracts		(6,553)	Interest Income
Tax effect		2,639	Provision for Income Taxes
Pension and other benefit plans:			
Net actuarial gain/loss		(1,094)	Operating Expenses - Employee Compensation
Prior service cost/credit		(248)	Operating Expenses - Employee Compensation
Tax effect		510	Provision for Income Taxes
Total reclassifications	$	(5,285)	

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 March 31, 2017 and related activity for the first three months of 2017 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

($ in Millions)	Swaps	Caps	Spots and Forwards	Total
December 31, 2016	$ 23,931	$ 3,100	$ 227	$ 27,258
Additions /Accretion	1,692	-	1,065	2,757
Maturities /Amortization	(1,549)	(85)	(1,067)	(2,701)
Terminations	(382)	-	-	(382)
March 31, 2017	$ 23,692	$ 3,015	$ 225	$ 26,932

The notional amounts of derivatives at March 31, 2016 and related activity for the first three months of 2016 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

($ in Millions)	Swaps	Caps	Spots and Forwards	Total
December 31, 2015	$ 20,817	$ 2,816	$ 267	$ 23,900
Additions /Accretion	1,854	180	902	2,936
Maturities /Amortization	(1,022)	(28)	(884)	(1,934)
Terminations	(359)	-	-	(359)
March 31, 2016	$ 21,290	$ 2,968	$ 285	$ 24,543

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 March 31, 2017, we expect that $6.8 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 March 31, 2017 and December 31, 2016, the notional amount of derivatives with our customers totaled $6.7 billion and $6.5 billion, respectively.

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 March 31, 2017 and December 31, 2016, the notional amount of derivatives with our counterparties totaled $12.4 billion and $13.7 billion, respectively, which excludes the $7.8 billion and $7.1 billion, respectively, 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 March 31, 2017, our counterparties had posted $38.2 million in cash and $4.3 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 $8.7 million and $1.1 million at March 31, 2017 and December 31, 2016, respectively.

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 margin and variation margin or settlement payments that are required to be posted by participants. FCMs prequalify counterparties to all cleared swaps, set exposure limits for each counterparty and collect initial margin and variation margin or settlement payments daily for changes in the value of cleared derivatives. The margin and settlement payments collected from both parties to the swap protect against credit risk in the event of a counterparty default. As of March 31, 2017 and December 31, 2016, the notional amount of our cleared derivatives was $7.8 billion and $7.1 billion, respectively. Initial margin and settlement payments totaling $23.6 million and $78.7 million, respectively, were held by our CCP for our cleared derivatives as of March 31, 2017. Initial and variation margin totaling $22.4 million and $70.4 million, respectively, was pledged for our cleared derivatives as of December 31, 2016.

In January 2017, several CCPs, including our CCP the Chicago Mercantile Exchange, made certain amendments to their rule books that resulted in changes to the legal characterization of variation margin on centrally cleared derivatives. At December 31, 2016, the rules of the CCPs, legal agreements, and the legal framework governing the agreements caused posted variation margin to be considered collateral. In the event of default, the collateral posted would be available to offset amounts owed by the defaulting counterparty. Effective January 1, 2017, the rule amendments changed the legal nature of the variation margin so that it is now considered a settlement payment as opposed to collateral. This change resulted in the reclassification of collateral assets for amounts formerly considered variation margin to an offset of the fair value of interest rate swaps and other financial instruments related to our net position for cleared derivative transactions in the accompanying condensed consolidated balance sheet as of March 31, 2017. This change had no impact to our results of operations or cash flows.

In 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 three 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 three months ended March 31, 2017 and 2016, we terminated approximately $318.2 million and $175.0 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 $64.0 million and $184.0 million during the first three months of 2017 and 2016, 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 March 31, 2017 and December 31, 2016 is shown in the following tables.

Fair Value of Derivative Financial Instruments

As of March 31, 2017		Fair Value of Derivative Assets[1]		Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments				
Interest Rate Contracts	$	40,041	$	63,248
Foreign Exchange Contracts		1,006		346
Total Derivatives Designated as Hedging Instruments	$	41,047	$	63,594
Derivatives Not Designated as Hedging Instruments				
Interest Rate Contracts	$	145,874	$	100,852
Foreign Exchange Contracts		2,123		2,449
Total Derivatives Not Designated as Hedging Instruments	$	147,997	$	103,301
Settlement Payments		-		78,704
Total Derivatives	$	189,044	$	88,191

[1] These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet as of March 31, 2017
[2] These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet as of March 31, 2017.

Fair Value of Derivative Financial Instruments

As of December 31, 2016		Fair Value of Derivative Assets[1]		Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments				
Interest Rate Contracts	$	51,148	$	53,390
Foreign Exchange Contracts		3,710		770
Total Derivatives Designated as Hedging Instruments	$	54,858	$	54,160
Derivatives Not Designated as Hedging Instruments				
Interest Rate Contracts	$	151,191	$	105,849
Foreign Exchange Contracts		2,385		2,715
Total Derivatives Not Designated as Hedging Instruments	$	153,576	$	108,564
Total Derivatives	$	208,434	$	162,724

[1] These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the condensed consolidated balance sheet as of December 31, 2016.
[2] These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the condensed consolidated balance sheet as of December 31, 2016.

A summary of the impact of derivative financial instruments on our condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2017 and 2016 is shown below.

Derivative Financial Instruments in Fair Value Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income on Derivatives and Hedged Items[1]	
Three Months Ended March 31,	**2017**	**2016**
Interest Rate Contracts	**$ 346**	$ (392)
Total	**$ 346**	$ (392)

[1] Located in Interest Expense in the condensed consolidated statements of income for the three months ended March 31, 2017 and 2016.

Derivative Financial Instruments in Cash Flow Hedging Relationships

Three Months Ended March 31, 2017	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivatives[1]	Amount of Gain or (Loss) Recognized in Income on Derivatives[2]
Interest Rate Contracts	**$ (3,935)**	**$ (1,901)** [3]	**$ -**
Foreign Exchange Contracts	**(2,280)**	**(1,939)** [4] [5]	**245** [4]
Total	**$ (6,215)**	**$ (3,840)**	**$ 245**

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment.

[3] Located in Interest Expense in the condensed consolidated statement of income for the three months ended March 31, 2017.

[4] Located in Interest Income – Loans in the condensed consolidated statement of income for the three months ended March 31, 2017.

[5] Fully offset by a $1,939 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 three months ended March 31, 2017.

Derivative Financial Instruments in Cash Flow Hedging Relationships			
Three Months Ended March 31, 2016	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivatives[1]	Amount of Gain or (Loss) Recognized in Income on Derivatives[2]
Interest Rate Contracts	$ (6,748)	$ (935) [3]	$ -
Foreign Exchange Contracts	(6,511)	(6,553) [4] [5]	313 [4]
Total	$ (13,259)	$ (7,488)	$ 313

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment.

[3] Located in Interest Expense in the condensed consolidated statement of income for the three months ended March 31, 2016.

[4] Located in Interest Income – Loans in the condensed consolidated statement of income for the three months ended March 31, 2016.

[5] Fully offset by a $6,553 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 three months ended March 31, 2016.

Derivative Financial Instruments Not Designated as Hedging Relationships[1]		
	Net Amount of Gain or (Loss) Recognized in Income On Derivatives[2]	
Three Months Ended March 31,	2017	2016
Interest Rate Contracts	**$ (438)**	$ 1,066
Foreign Exchange Contracts	**4**	42
Total	**$ (434)**	$ 1,108

[1] Primarily represents our derivative agreements with customers and related offsetting derivative agreements with counterparties.

[2] Located in Other Noninterest Income/Expense in the condensed consolidated statements of income for the three months ended March 31, 2017 and 2016.

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: Cash Collateral Received/ Pledged[1]	Amounts Not Offset In the Condensed Consolidated Balance Sheets: Investment Securities Received/Pledged as Collateral[1]	Net Amount
As of March 31, 2017				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**$ 83,579**	**$ (38,151)**	**$ (4,301)**	**$ 41,127**
Customer	**94,524**	**-**	**-**	**94,524**
Clearinghouse	**10,941**	**-**	**-**	**10,941**
Accrued Interest Receivable on Derivative Contracts	**14,060**	**-**	**-**	**14,060**
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**39,288**	**(4,060)**	**-**	**35,228**
Customer	**37,223**	**-**	**-**	**37,223**
Clearinghouse	**11,680**	**-**	**(23,593)**	**-** [2]
Accrued Interest Payable on Derivative Contracts	**3,841**	**-**	**-**	**3,841**
As of December 31, 2016				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 94,898	$ (85,941)	$ (6,918)	$ 2,039
Customer	104,028	-	-	104,028
Clearinghouse	9,508	-	-	9,508
Accrued Interest Receivable on Derivative Contracts	40,782	-	-	40,782
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	42,219	(570)	-	41,649
Customer	34,568	-	-	34,568
Clearinghouse	85,937	(70,415)	(22,448)	- [2]
Accrued Interest Payable on Derivative Contracts	4,500	-	-	4,500

[1] Cash collateral received is recognized in the condensed consolidated balance sheets whereas investment securities received are not recognized in the condensed consolidated balance sheets.

[2] Cash and investment securities pledged as collateral fully offset the related gross liability in the condensed consolidated balance sheets.

Note 7 – Fair Value Measurements

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 March 31, 2017 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 March 31, 2017 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 the majority of ABS.

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

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. The estimated fair values of investment securities also appear in Note 4.

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

Information About Valuation Techniques and Inputs to Level 2 Fair Value Measurements		
	Valuation Technique	**Inputs**
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 March 31, 2017 include our Federal Agricultural Mortgage Corporation (Farmer Mac) MBS, FHA/VA non-wrapped reperformer MBS and a small portion of 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 Level 3 ABS is calculated internally using third-party models. Fair value for FHA/VA non-wrapped reperformer MBS, Level 3 agency MBS and the substantial majority of our Level 3 ABS 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 March 31, 2017 also include $88.4 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 44 and 45 because they are not measured on a recurring basis.

Our Level 3 liabilities at March 31, 2017 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 three months ended March 31, 2017 and 2016.

The following table presents quantitative information about Level 3 fair value measurements as of March 31, 2017.

Quantitative Information About Valuation Techniques and Unobservable Inputs to Level 3 Fair Value Measurements

($ in Millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Assets				
Investment Securities:				
U.S. Agency MBS	$ 140	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
FHA/VA Non-Wrapped Reperformer MBS	266	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Farmer Mac MBS	89	Discounted Cash Flow	Prepayment Rate	8-13 percent
			Mark-to-Market Spread	1 percent
Asset-Backed	32	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Other	7	Discounted Cash Flow	Prepayment Rate	0 percent
Impaired Loans	88	Appraisal	Income/Expense Data	**
			Comparable Sales	**
			Replacement Cost	**
Liabilities				
Standby Letters of Credit	$ 10	Discounted Cash Flow	Mark-to-Market Spread	0.2-2 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 March 31, 2017 and December 31, 2016 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

March 31, 2017

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Federal Funds Sold and Other Overnight Funds	$ -	$ 1,020	$ -	$ 1,020
Investment Securities:				
Certificates of Deposit	-	695	-	695
U.S. Treasury Debt	-	13,574	-	13,574
U.S. Agency Debt	-	3,533	-	3,533
Residential MBS:				
Ginnie Mae	-	479	-	479
U.S. Agency	-	7,479	140	7,619
FHA/VA Non-Wrapped Reperformer	-	-	266	266
Non-Agency	-	35	-	35
Commercial MBS:				
U.S. Agency	-	2,486	-	2,486
Agricultural MBS:				
Farmer Mac	-	-	89	89
Corporate Bonds	-	40	-	40
Asset-Backed and Other	-	336	39	375
Interest Rate Swaps and Other Financial Instruments	-	189	-	189
Assets Held in Trust (included in Other Assets)	73	-	-	73
Collateral Assets (included in Other Assets)	-	4	-	4
Total Assets	**$ 73**	**$ 29,870**	**$ 534**	**$ 30,477**
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 88	$ -	$ 88
Collateral Liabilities (included in Bonds and Notes)	-	38	-	38
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	**$ -**	**$ 126**	**$ 10**	**$ 136**

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2016

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Federal Funds Sold and Other Overnight Funds	$ -	$ 750	$ -	$ 750
Investment Securities:				
Certificates of Deposit	-	776	-	776
U.S. Treasury Debt	-	11,141	-	11,141
U.S. Agency Debt	-	5,144	-	5,144
Residential MBS:				
Ginnie Mae	-	541	-	541
U.S. Agency	-	6,564	147	6,711
FHA/VA Non-Wrapped Reperformer	-	-	275	275
Non-Agency	-	71	-	71
Commercial MBS:				
U.S. Agency	-	2,641	-	2,641
Agricultural MBS:				
Farmer Mac	-	-	97	97
Corporate Bonds	-	40	-	40
Asset-Backed and Other	-	289	39	328
Interest Rate Swaps and Other Financial Instruments	-	208	-	208
Assets Held in Trust (included in Other Assets)	69	-	-	69
Collateral Assets (included in Other Assets)	-	71	-	71
Total Assets	$ 69	$ 28,236	$ 558	$ 28,863
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 163	$ -	$ 163
Collateral Liabilities (included in Bonds and Notes)	-	86	-	86
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 249	$ 10	$ 259

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)	U.S. Agency Residential MBS	Farmer Mac Agricultural MBS	FHA/VA Non-Wrapped Reperformer Residential MBS	Asset-Backed Securities and Other	Standby Letters of Credit
Balance at December 31, 2016	**$ 147**	**$ 97**	**$ 275**	**$ 39**	**$ 10**
Issuances	**-**	**-**	**-**	**1**	**2**
Settlements	**(8)**	**(8)**	**(11)**	**(2)**	**(2)**
Accretion	**1**	**-**	**2**	**1**	**-**
Balance at March 31, 2017	**$ 140**	**$ 89**	**$ 266**	**$ 39**	**$ 10**
Balance at December 31, 2015	$ 52	$ 124	$ 342	$ 47	$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Comprehensive Income	-	-	(7)	(2)	-
Sales	-	-	(24)	-	-
Issuances	-	-	-	-	2
Settlements	(2)	(9)	(13)	(1)	(2)
Accretion	-	-	3	1	-
Balance at March 31, 2016	$ 50	$ 115	$ 301	$ 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 March 31, 2017 and December 31, 2016.

($ in Millions)

	March 31, 2017			December 31, 2016		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:						
Net Loans	**$ 96,340**	**$ 97,328**	**Level 3**	$ 94,699	$ 95,664	Level 3
Financial Liabilities:						
Bonds and Notes	**$ 117,325** [(1)]	**$ 118,065** [(1)]	**Level 3**	$ 115,086 [(2)]	$ 115,660 [(2)]	Level 3
Subordinated Debt	**499**	**483**	**Level 3**	499	478	Level 3
Off-Balance Sheet Financial Instruments:						
Commitments to Extend Credit	**$ -**	**$ (86)**	**Level 3**	$ -	$ (102)	Level 3

[(1)] Includes $38 million in Level 2 collateral liabilities carried at fair value as of March 31, 2017.
[(2)] Includes $86 million in Level 2 collateral liabilities carried at fair value as of December 31, 2016.

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.

Information About Valuation Techniques and Inputs to Other Fair Value Measurements

	Valuation Technique	Input
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 $3.2 million to our funded qualified defined benefit pension plans during the three months ended March 31, 2017, and anticipate that we will contribute approximately $14.6 million more to such plans during the remainder of 2017. We expect to contribute a total of $0.3 million, net of collected retiree premiums, to our other postretirement benefit plans in 2017. We contributed $0.6 million to our trust funds related to our nonqualified retirement plans during the three months ended March 31, 2017, and anticipate that we will contribute approximately $2.7 million more to such plans during the remainder of 2017. Our actual contributions could differ from the estimates noted above.

Note 9 – Commitments and Contingent Liabilities

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 March 31, 2017, commitments to extend credit and commercial letters of credit were $30.3 billion and $290.3 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 $258.9 billion at March 31, 2017.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible unencumbered 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 March 31, 2017, the aggregated assets of the Insurance Fund totaled $4.6 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 the liabilities, if any, 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 – Segment Financial Information

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

The accompanying table presents 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. All customer activity, including loans and leases and related income, is specifically assigned to the business units that make up the operating segments. Investment securities and federal funds sold and other overnight funds, which are primarily held as a liquidity reserve to support our banking operations, are not specifically assigned to operating segments; however, the income from investment securities and federal funds sold and other overnight funds is allocated to the operating segments. Information to reconcile the total reportable segments to the total CoBank financial statements is shown as “Corporate/Other.” Intersegment 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 26 percent of these loans are guaranteed by the U.S. government.

For the three-month periods ended March 31, 2017 and 2016, no customer made up 10 percent or more of our gross or net interest income.

Segment Financial Information

For the Three Months Ended March 31, 2017

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 183,084	$ 70,543	$ 105,264	$ 358,891	$ (2,777)	$ 356,114
Provision for Loan Losses	13,000	-	2,000	15,000	-	15,000
Noninterest Income	29,005	7,169	17,633	53,807	1,231	55,038
Operating Expenses	53,480	10,274	28,707	92,461	262	92,723
Provision for Income Taxes	23,042	-	17,127	40,169	452	40,621
Net Income	$ 122,567	$ 67,438	$ 75,063	$ 265,068	$ (2,260)	$ 262,808
Selected Financial Information at March 31, 2017 ($ in Millions):						
Loans	$ 30,967	$ 45,473	$ 20,481	$ 96,921	$ -	$ 96,921
Less: Allowance for Loan Losses	(415)	-	(166)	(581)	-	(581)
Net Loans	$ 30,552	$ 45,473	$ 20,315	$ 96,340	$ -	$ 96,340
Total Assets	$ 30,927	$ 45,564	$ 20,405	$ 96,896	$ 30,871 (1)	$ 127,767
(1) Other assets are comprised of:						
Federal Funds Sold and Other Overnight Funds						$ 1,020
Investment Securities						29,191
Other Assets						660

For the Three Months Ended March 31, 2016

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
Results of Operations ($ in Thousands):						
Net Interest Income	$ 161,502	$ 74,769	$ 103,212	$ 339,483	$ (2,606)	$ 336,877
Provision for Loan Losses/(Loan Loss Reversal)	15,000		(7,000)	8,000		8,000
Noninterest Income	32,134	285	11,132	43,551	(206)	43,345
Operating Expenses	49,773	9,961	27,724	87,458	(808)	86,650
Provision for Income Taxes	22,760		18,690	41,450	810	42,260
Net Income	$ 106,103	$ 65,093	$ 74,930	$ 246,126	$ (2,814)	$ 243,312
Selected Financial Information at March 31, 2016 ($ in Millions):						
Loans	$ 28,081	$ 42,851	$ 19,774	$ 90,706	$ -	$ 90,706
Less: Allowance for Loan Losses	(335)	-	(169)	(504)	-	(504)
Net Loans	$ 27,746	$ 42,851	$ 19,605	$ 90,202	$ -	$ 90,202
Total Assets	$ 28,117	$ 42,932	$ 19,688	$ 90,737	$ 27,326 (1)	$ 118,063
(1) Other assets are comprised of:						
Federal Funds Sold and Other Overnight Funds						$ 150
Investment Securities						25,691
Other Assets						1,485

Note 11 – Affiliated Associations

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 March 31, 2017, we have 23 affiliated Associations serving 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

The Associations make real estate mortgage loans, production and intermediate-term loans, agribusiness loans (processing and marketing loans, and certain farm-related business loans) and rural residential real estate loans. These retail loans are made to farmers, ranchers, producers or harvesters of aquatic products, farm-related businesses and rural homeowners. 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, 2017, two of our affiliated Associations, Farm Credit of Southwest Kansas, ACA, and American AgCredit, ACA, merged and are doing business as American AgCredit, ACA. During 2016, these two entities operated under a joint management agreement pursuant to which the President and CEO of American AgCredit, ACA, served as the CEO of both Associations.

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

Regulatory Capital Disclosures
CoBank, ACB

Overview

As described beginning on page 12 of this Quarterly Report, the Farm Credit Administration (FCA) adopted final rules (the New Capital Regulations) relating to regulatory capital requirements for the Farm Credit System (System) in 2016, which became effective January 1, 2017. The New Capital Regulations include public disclosure requirements set forth in Title 12 of the Code of Federal Regulations parts 628.61 through 628.63. The following table summarizes the disclosure requirements and indicates where each matter is disclosed in this Quarterly Report.

Disclosure Requirement	Description	Q1 2017 Quarterly Report Reference
Scope of Application	Name of corporate entity	Page 52
	Description of entity consolidation	Pages 52 through 53
	Restrictions on transfers of funds or capital	Page 52
Capital Structure	Terms and conditions of capital instruments	Pages 53 through 54
	Regulatory capital components	Page 55
Capital Adequacy	Capital adequacy assessment	Page 55
	Risk-weighted assets	Page 56
	Regulatory capital ratios	Page 13
Capital Buffers	Quantitative disclosures	Page 13
Credit Risk: General Disclosures	Credit risk management and policies	Pages 56 through 57
	Summary of exposures	Page 59
	Geographic distribution	Page 60
	Industry distribution	Page 61
	Contractual maturity	Page 61
	Impaired loans and allowance for credit losses	Note 3, Pages 57 through 58
Counterparty Credit Risk-Related Exposures	General description	Pages 61 through 62
	Counterparty exposures	Note 6
Credit Risk Mitigation	General description	Pages 62 through 63
	Exposures with reduced capital requirements	Page 63
Securitization	General description	Pages 63 through 64
	Securitization exposures	Note 4, Note 7, Page 64
Equities	General description	Page 64
Interest Rate Risk for Non-Trading Activities	General description	Pages 64 through 66
	Interest rate sensitivity	Note 6, Page 67

Scope of Application

The disclosures contained herein relate to CoBank, ACB (CoBank or the Bank) and include the accounts of CoBank, CoBank, FCB and Farm Credit Leasing Services Corporation (FCL). These entities are also consolidated in our financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). There are no consolidated entities for which any capital requirement is deducted from the Bank’s total regulatory capital nor are there restrictions on transfers of funds or total capital with the entities described above. FCL is required to comply with the New Capital Regulations on a standalone basis, but it is not required to make the disclosures contained herein for CoBank as a whole. FCL’s capital ratios exceeded the minimum regulatory requirements at March 31, 2017.

In conjunction with other System entities, the Bank jointly owns the following service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association

(FCSBA) and the Farm Credit Association Captive Insurance Corporation. The investments in the Funding Corporation and the FCSBA are deducted from capital because only the institution that issued the equities may count the amount as capital. The Bank's investment in the Farm Credit Association Captive Insurance Corporation and certain investments in unincorporated business entities are included in risk-weighted assets and are not deducted from any capital component, in accordance with FCA regulations.

Capital Structure

Common equity, which includes common stock and retained earnings, is the largest component of the Bank's capital structure. Preferred stock and subordinated debt are also included in regulatory capital, subject to certain limitations. In addition, our allowance for credit losses is considered regulatory capital, also subject to certain limitations. A summary of certain features of each instrument or component of our regulatory capital is provided below.

Common Stock

Pursuant to our bylaws, we have a single class of common equity – Class A common stock; however, only Class A shareholders that are directly eligible to borrow from CoBank, that borrow on a patronage basis and that are active borrowers, have voting rights. No other class of shareholders has voting rights.

Holders of our common stock may not pledge, hypothecate, or otherwise grant a security interest in such equities except as consented to by the Bank pursuant to FCA regulations. We have a statutory first lien on CoBank common stock. We pay dividends only on preferred stock.

Preferred Stock

A summary of certain terms and conditions of our outstanding preferred stock is as follows:

Preferred Stock as of March 31, 2017

	Series E	Series F	Series G	Series H	Series I
Type	Non-Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual
Issue Date	January 2012	October 2012	April 2013	November 2014	April 2016
Shares Outstanding (000)	225	4,000	2,000	3,000	375
Amount Outstanding (000)	$225,000	$400,000	$200,000	$300,000	$375,000
Par Value (per share)	$1,000	$100	$100	$100	$1,000
Current Dividend Rate (%)	3-month USD LIBOR + 1.18 (2.190% at March 31, 2017)	6.25%	6.125%	6.20%	6.25%
Next Change in Dividend Rate (% and dates)	n/a	3-month USD LIBOR + 4.557% beginning on October 1, 2022	n/a	3-month USD LIBOR + 3.744% beginning on January 1, 2025	3-month USD LIBOR + 4.66% beginning on October 1, 2026
Dividend Frequency	Quarterly	Quarterly	Quarterly	Quarterly	Semi-Annual; Quarterly beginning on October 1, 2026
Optional Redemption Begins (Date)(1)	July 2012 and each five year anniversary thereafter at par plus accrued dividends	Quarterly calls on or after October 1, 2022 at par plus accrued dividends	Quarterly calls on or after July 1, 2018 at par plus accrued dividends	Quarterly calls on or after January 1, 2025 at par plus accrued dividends	Quarterly calls on or after October 1, 2026 at par plus accrued dividends

(1) Our preferred stock may also be redeemed at any time after the occurance of a Regulatory Event (as defined in the terms of the preferred stock) at par plus accrued interest.

Subordinated Debt

A summary of certain terms and conditions of our outstanding subordinated debt is as follows:

Subordinated Debt as of March 31, 2017

Type	Series 2007A Unsecured Subordinated Notes
Issue Date	June 2007
Maturity Date	June 2022
Amount Outstanding (000)	$500,000
Interest Rate (%)	3-month USD LIBOR + 0.60% (1.731% at March 31, 2017)
Interest Payment Date	Quarterly in cash on 15th day of March, June, September and December

Our subordinated debt may be redeemed, in whole or in part, at our option, on June 15, 2017. It may also be redeemed, in whole, at our option at any time upon the occurrence of a Regulatory Event (as defined in the terms of the subordinated debt). Any redemption of subordinated debt will be at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided we have made payment in full of all amounts then due in respect of our senior indebtedness.

Our subordinated debt is unsecured and junior to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest on subordinated debt will be deferred if, as of the fifth business day prior to an interest payment date, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than the shorter of five consecutive years or the maturity date of the subordinated debt. We may not declare or pay any dividends or patronage distributions until interest payments are resumed and all deferred interest has been paid. Our intention to redeem this subordinated debt is described at page 13 of this Quarterly Report.

Allowance for Credit Losses

See page 58 for a description of our allowance for credit losses.

The following table provides a summary of the Bank's regulatory capital components.

Regulatory Capital Components Three Months Ended March 31, 2017 ($ in Thousands)		Average Balance
Common Equity Tier 1 Capital (CET1)		
Common Cooperative Equities:		
Statutory Minimum Purchased Borrower Stock	$	2,485
Other Required Member Purchased Stock		641,546
Allocated Equities:		
Qualified Allocated Equities Subject to Retirement		2,291,142
Nonqualified Allocated Equities Subject to Retirement		-
Nonqualified Allocated Equities Not Subject to Retirement		2,512,060
Unallocated Retained Earnings		1,727,790
Paid-In Capital		-
Regulatory Adjustments and Deductions Made to CET1		(53,916)
Total CET1	$	7,121,107
Tier 1 Capital		
Non-Cumulative Perpetual Preferred Stock	$	1,500,000
Regulatory Adjustments and Deductions Made to Tier 1 Capital		-
Total Additional Tier 1 Capital		1,500,000
Total Tier 1 Capital	$	8,621,107
Tier 2 Capital		
Common Cooperative Equities Not Included in CET1	$	133,288
Tier 2 Capital Elements:		
Subordinated Debt		500,000
Allowance for Credit Losses		667,907
Regulatory Adjustments and Deductions Made to Tier 2 Capital		-
Total Tier 2 Capital	$	1,301,195
Total Capital	$	9,922,302

Capital Adequacy and Capital Buffers

In conjunction with the annual business and financial planning process, the Bank's Board of Directors reviews and approves a capital adequacy plan which includes target levels for capital and capital ratio baselines. When reviewing the capital adequacy plan and setting an appropriate target equity level, the Board considers the following: the Bank's overall risk profile; capital composition; loan volume projections; anticipated future capital needs; and the Bank's capital levels in comparison to commercial banks and regulatory minimum capital standards. The Board-established baselines are 8 percent for the CET1 capital ratio, 9.5 percent for the tier 1 capital ratio, 11.5 percent for the total capital ratio, 5.5 percent for the tier 1 leverage ratio, 2.0 percent for the unallocated retained earnings (URE) and URE equivalents leverage ratio and 11 percent for the permanent capital ratio. We were in compliance with these baselines on March 31, 2017.

As part of our business planning process, we also perform stress tests to examine the Bank's financial condition and performance, including capital levels, under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These stress tests illustrate the Bank's ability to continue to maintain compliance with regulatory requirements through severe market conditions while continuing to fulfill our mission. Results of these stress tests are reviewed with the Board of Directors.

Our risk-adjusted regulatory capital ratios are calculated by dividing the relevant total capital elements (e.g. Total CET1) by risk-weighted assets.

The following table presents information on the components of risk-weighted assets included in the calculation of regulatory capital ratios.

Risk-Weighted Assets		
Three Months Ended March 31, 2017 ($ in Thousands)		**Average Balance**
On-Balance Sheet Assets:		
Exposures to Sovereign Entities	$	-
Exposures to Supranational Entities and Multilateral Development Banks		130,229
Exposures to Government-Sponsored Enterprises[1]		11,554,407
Exposures to Depository Institutions, Foreign Banks, and Credit Unions[2]		2,870,350
Expsoures to Public Sector Entities		16,884
Corporate Exposures, including Borrower Loans and Leases		41,604,300
Residential Mortage Exposures		-
Past Due and Nonaccrual Exposures		293,756
Securitization Exposures		473,799
Equity Investment Exposures		14,956
Other Assets		811,278
Off-Balance Sheet:		
Commitments		8,315,656
Over-the-Counter Derivatives		163,253
Cleared Transactions		428
Letters of Credit		1,166,282
Unsettled Transactions		-
Total Risk-Weighted Assets Before Additions/(Deductions)	$	67,415,578
Additions:		
Intra-System Equity Investments		53,916
Deductions:		
Regulatory Adjustments and Deductions Made to CET1		(53,916)
Regulatory Adjustments and Deductions Made to Additional Tier 1 Capital		-
Regulatory Adjustments and Deductions Made to Tier 2 Capital		-
Total Risk-Weighted Assets[3]	$	67,415,578

[1] Includes exposures to Farm Credit System entities.
[2] Also includes exposures to other financial institutions that are risk weighted as exposures to U.S. depository institutions and credit unions.
[3] For purposes of calculating the permanent capital ratio, average risk-weighted assets for the three months ended March 31, 2017 was $66.8 billion.

As shown on page 13 of this Quarterly Report, the Bank exceeded all capital requirements as of March 31, 2017 to which it was subject, including applicable capital buffers. Because capital exceeded the buffer requirements, the Bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $481.6 million as of March 31, 2017.

Credit Risk: General Disclosures

Credit risk primarily exists in our lending, leasing, investing, and derivatives activities. Credit risk in these activities arises from changes in a customer's or counterparty's ability or willingness to repay funds borrowed or to meet agreed-upon obligations. Credit risk may be further impacted by changes in collateral values, changes in the prevailing economic environment, fraud, defaults on mortgages or other obligations which collateralize mortgage- and asset-backed investment securities, changes in the credit-worthiness of investment obligors or counterparties who insure or guarantee certain investment securities, and declines in the value of underlying collateral securing investment securities, primarily residential real estate.

We actively manage credit risk through a well-defined, Board-approved loan portfolio strategy, a structured and centralized credit approval process, a disciplined risk management process, and a sound credit administration program, while considering our responsibility to fulfill our mission of service to rural

America. We have established comprehensive credit guidelines and procedures to ensure consistency and integrity of information related to the credit risk in our loan, lease, investment and derivatives portfolios.

Various groups and committees within CoBank have a role in managing credit risk, as described below. Our Board of Directors establishes overall lending and leasing, investment, derivatives and allowance for credit losses policies. It also approves the portfolio strategy and capital adequacy plan and reviews loan volume, loan quality trends, significant high-concern or troubled loans, and the credit quality of our investment and derivatives portfolios.

The CoBank Loan Committee (CLC), which is appointed by the Chief Executive Officer (CEO), and includes the Chief Credit Officer and senior management of the Credit Management Group and the lending groups, holds ultimate credit authority as authorized by Board policy and provides oversight of all credit activities. The CLC delegates lending authorities to specific committees or groups of individuals based on size of exposure and risk rating. The CLC also approves certain limits for investment obligors and derivative counterparties. It acts on individual credit actions or administrative matters and approves exceptions to exposure limits if conditions warrant.

The Credit Management Group is led by the Chief Credit Officer, who currently reports to the CEO and will report to the Chief Risk Officer effective June 1, 2017. The Credit Management Group manages the credit approval process within concentration limits established for the loan portfolio pursuant to Board policies. As part of the credit approval process for transactions exceeding certain delegated authority thresholds, the Credit Management Group reviews assigned risk ratings for accuracy and conformity with our established guidelines. It also approves limits with respect to investment obligors and derivative counterparties and manages significant high-risk or troubled loans.

The Risk Management Group is led by the Chief Risk Officer, who reports to the CEO. The Risk Management Group oversees the establishment of concentration and portfolio limits, the development of the portfolio strategy, the analysis of the allowance for credit losses and other risk-based modeling and metrics. In addition, the Risk Management Group provides quarterly reporting on the Bank’s risk appetite and exposures, as well as an annual risk assessment.

The heads of Internal Audit and Asset Review have a direct reporting responsibility to the Audit Committee of the Board of Directors. They provide independent reporting to the Board of Directors on the quality of the Bank’s assets, the Bank’s system of internal controls, and material audit and review findings.

The Asset and Liability Committee (ALCO), which includes the CEO, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Credit Officer, Treasurer, Strategic Relationships Division President and Executive Vice President of Rural Infrastructure Banking, monitors credit risk within the investment portfolio and reviews counterparty credit risk arising from derivative transactions.

The Country Risk Committee (CRC) is appointed by the CEO, and includes the Chief Risk Officer and the Chief Credit Officer. It oversees the methodologies for setting country risk grades and establishing maximum country limits, as well as the approval of individual country risk grades and limits.

Policies Related to Impaired Loans

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loans. Impaired loans include loans that are in nonaccrual status, accruing restructured, or past due 90 days or more and still accruing interest.

A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

We do not accrue interest income on impaired loans unless they are adequately secured and in the process of collection. When interest accruals are suspended, accrued and unpaid interest income is reversed with current year accruals charged to earnings and prior year amounts charged off against the allowance for loan losses.

For nonaccrual loans, we primarily apply cash receipts against the outstanding principal balance. If collectability of the loan balance is fully expected and certain other criteria are met, we recognize interest payments as interest income. We may return such loans to accrual status when the borrower is current, has demonstrated payment performance, collection of future payments is fully expected and there are no unrecovered charge-offs.

Allowance for Credit Losses

Our allowance for loan losses is an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses related to outstanding balances. We also maintain a separate reserve for unfunded commitments which is reported as a liability on the Bank's consolidated balance sheet. The reserve for unfunded commitments represents an additional reserve for binding commitments to extend credit and for commercial letters of credit. The amount of our allowance for loan losses and reserve for unfunded commitments can fluctuate based on the seasonal nature of borrowings in the agriculture industry, which is impacted by various factors including changing commodity prices and supplies. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the "allowance for credit losses."

The allowance for credit losses is maintained at a level we consider sufficient to absorb losses inherent in the loan and finance lease portfolio and in unfunded commitments. We base the allowance for credit losses on our regular evaluation of these portfolios.

To determine our allowance for credit losses, we divide our loans and finance leases into two broad categories: those that are impaired and those that are not. A loan or finance lease is impaired when, based on current information and events, it is probable that we will not collect all amounts due under the contractual terms. Impairment of loans and finance leases is measured based on the fair value of the collateral, if the loan or finance lease is collateral dependent, or the present value of expected future cash flows discounted at the effective interest rate of the contract. In limited cases, we base the impairment on observable market prices. Changes in the financial condition of our borrowers and in the general economy will cause these estimates, appraisals and evaluations to change.

For loans and finance leases that are not individually assessed for impairment, we establish an allowance for credit losses for losses that are both probable and estimable as of the balance sheet date. The evaluation of this portion of our portfolio generally considers default rates from industry data, internal risk ratings, loss given default assumptions, loss timing, historical recovery rates, specific industry conditions, weather conditions, general economic and political conditions, and changes in the character, composition and performance of the portfolio, among other factors. We also consider overall portfolio indicators, including trends in internally risk-rated exposures, classified exposures, and historical charge-offs and recoveries. Additionally, we consider borrower, industry, geographic and portfolio concentrations, including current developments within operating segments, and modeling imprecision. Changes in these factors, or our assumptions and estimates thereof, could result in a change in the allowance for credit losses and could have a direct and material impact on the provision for loan losses and our results of operations. The total allowance for credit losses is available to absorb probable and estimable credit losses within our entire portfolio.

We increase or decrease the allowance for credit losses by recording a provision or reversal for loan losses in the statement of income. We record loan losses against the allowance for loan losses when management determines that any portion of the loan or finance lease is uncollectible. We add subsequent recoveries, if any, to the allowance for loan losses. Transfers between the allowance for loan losses and the reserve for unfunded commitments can occur in conjunction with funding a seasonal line of credit or other loan and decreasing a related unfunded commitment or, conversely, receiving a loan payment and increasing a related unfunded commitment. Newly-executed loan commitments will also increase this liability.

We also assess the credit risk associated with off-balance sheet loan commitments and letters of credit and determine the appropriate level of reserve for unfunded commitments that should be recorded. We separately establish an impairment reserve if the fair value of assets held for operating leases decreases to below book value and such difference is not recoverable.

The following table summarizes credit exposures related to loans, unfunded loan commitments, investment securities and letters of credit. The contractual amount of a commitment to extend credit represents our maximum exposure to credit loss in the event of default by the borrower, if the borrower were to fully draw against the commitment.

Major Credit Exposures - Lending and Investments

As of and for the Three Months Ended March 31, 2017

($ in Thousands)		Average Balance		End of Period
Loans Outstanding	$	97,946,747	$	96,920,904
Unfunded Loan Commitments		31,498,403		30,288,599
Investment Securities		28,044,588		29,191,142
Letters of Credit		1,553,151		1,869,568

The table below shows derivatives by underlying exposure type, segregated between contracts traded in over-the-counter markets from those cleared through a central clearinghouse. Gross positive fair value represents the credit exposure attributed to derivatives before the mitigating effects of counterparty collateral.

Major Credit Exposures - Derivatives

As of and for the Three Months Ended March 31, 2017

($ in Thousands)	Average Balance				End of Period			
		Notional Amount		Gross Positive Fair Value		Notional Amount		Gross Positive Fair Value
Over-the-Counter Derivatives:								
Interest Rate Contracts	$	19,047,250	$	182,159	$	18,863,243	$	174,974
Foreign Exchange Contracts		293,148		4,284		225,117		3,129
Total Over-the-Counter Derivatives	$	19,340,398	$	186,443	$	19,088,360	$	178,103
Cleared Derivatives:								
Interest Rate Contracts		7,470,444		10,697		7,843,794		10,941
Total Derivatives	$	26,810,842	$	197,140	$	26,932,154	$	189,044

The following table illustrates the geographic distribution of our outstanding loans as of March 31, 2017.

Total Lending Portfolio - Geographic Distribution	
As of March 31, 2017	**Share**
California [(1)]	22 %
Washington [(1)]	10
Texas [(2)]	6
Connecticut [(1)]	6
Kansas [(1)]	6
Colorado [(1)]	3
Oklahoma [(1)]	3
Iowa	2
Illinois	2
Asia	2
Minnesota	2
Latin America	2
Florida	2
Pennsylvania	2
New Mexico [(1)]	2
Ohio	2
North Dakota	2
Nebraska	2
Georgia	1
Missouri	1
North Carolina	1
New York	1
Wisconsin	1
Utah [(1)]	1
Arkansas	1
Mississippi [(3)]	1
Other	14
Total	100 %

(1) Includes wholesale loans to affiliated Associations, headquartered in the following states: California—$18.0 billion, Washington—$8.2 billion, Connecticut—$5.3 billion, Kansas—$3.2 billion, Colorado—$1.3 billion, Oklahoma—$2.0 billion, New Mexico—$1.2 billion, Utah —$0.7 billion.

(2) Includes $3.1 billion of wholesale loans purchased from a Farm Credit Bank.

(3) Includes $0.3 billion of wholesale loans purchased from a Farm Credit Bank.

The following table illustrates the primary business/commodity distribution of our outstanding loans as of March 31, 2017.

Total Lending Portfolio - Distribution by Primary Business/Commodity	
As of March 31, 2017	**Share**
Affliated Associations	42 %
Electric Distribution	9
Farm Supply and Grain Marketing	9
Agricultural Export Finance	5
Nonaffliated Entities	5
Generation and Transmission	4
Lease Financing (through FCL)	3
Forest Products	3
Fruits, Nuts, Vegetables	3
Fish, Livestock, Poultry	2
Dairy	2
Independent Power Producers	2
Water and Wastewater	2
Local Exchange Carriers	1
Sugar and Related Products	1
Regulated Utility	1
Competitive Local Telephone Exchange Carriers	1
Other	5
Total	100 %

A summary of the remaining contractual maturity of our loans, unfunded commitments, investment securities, letters of credit and derivatives at March 31, 2017 follows.

($ in Millions)

Contractual Maturity March 31, 2017	In One Year or Less	One to Five Years	After Five Years	Total
Loans Outstanding	$ 40,398	$ 24,039	$ 32,484	$ 96,921
Unfunded Loan Commitments	15,783	7,946	6,560	30,289
Investment Securities	4,966	9,350	14,875	29,191
Letters of Credit	558	701	611	1,870
Derivatives (Notional Amounts)	5,083	14,068	7,781	26,932

Refer to Note 3 in the condensed consolidated financial statements in this Quarterly Report for amounts of impaired loans (with or without related allowance for credit loss), loans in nonaccrual status and greater than 90 days past due, loans past due greater than 90 days and still accruing interest, the allowance for credit losses, charge-offs, and changes in components of our allowance for credit losses.

Counterparty Credit Risk

The use of derivative instruments exposes us to counterparty credit risk. Our counterparty credit risk arising from derivative transactions is managed within credit methodologies and limits approved by the CLC. Credit risk associated with derivatives is measured based on the replacement cost that would be incurred should customers or counterparties with contracts in a net gain position with respect to CoBank fail to perform. Customer derivative transactions are typically secured through our loan agreements. For non-customer derivatives not cleared through a central clearinghouse, we minimize this risk by diversifying our derivative positions among various financial institution counterparties, using master netting agreements, and requiring collateral with zero thresholds and daily posting to support credit exposures with active counterparties. We evaluate the creditworthiness of each counterparty, establishing individual credit exposure limits, and deal exclusively with derivative counterparties that have an investment grade credit rating from a major credit rating agency. Credit exposure limits are determined using a risk rating methodology established by the CLC. Credit ratings are developed and exposure limits are established no less than annually and reflect our assessment of the creditworthiness of each counterparty. The Bank uses an internal model to determine the potential future exposure of over-the-counter derivatives which is used to measure compliance with established exposure limits. In addition, we monitor counterparty credit default swap spreads and other market-related information which may indicate reduced creditworthiness of a counterparty. Credit default swap spreads are taken into account in establishing counterparty limits.

Our over-the-counter derivative contracts require the Bank or its counterparties to post cash or securities as collateral when the fair values of the derivatives change based on changes in interest rates. The collateral exchanged between parties occurs daily with zero posting thresholds for all counterparties. Likewise, the Bank is required to pledge initial margin and make daily settlement payments related to our cleared derivative transactions. As a result of these derivative contracts, we are exposed to liquidity risk when changes in interest rates require us to post collateral to our counterparties, or make settlement payments for changes in the fair value of cleared derivatives. A downgrade in our creditworthiness would not result in additional collateral requirements for the Bank.

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.

Refer to Note 6 in the condensed consolidated financial statements in this Quarterly Report for additional information related to derivative financial instruments utilized by CoBank including a summary of the fair value of derivative assets and liabilities, collateral held and net unsecured exposure.

Credit Risk Mitigation

CoBank uses various strategies to mitigate credit risk in its lending, leasing, investing and derivatives activities. The disclosures in this section relate solely to credit risk mitigation instruments and activities that have been recognized for the purposes of reducing regulatory capital requirements, which include certain guarantees in our lending and investment portfolios, and collateral or settlement payments in our derivatives portfolio.

Loans

Our Agricultural Export Finance Division (AEFD) utilizes the U.S. government-sponsored export loan guarantee General Sales Manager (GSM) program for a portion of its export financing. Refer to the Operating Segment Financial Review section on page 6 of this Quarterly Report for additional discussion related to our AEFD.

As discussed on page 9 of this Quarterly Report, 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 respective retail loan portfolios. Lower regulatory capital requirements are commensurate with the lower risk profile associated with our loans to affiliated Associations.

Investments

Credit risk in our investment portfolio is mitigated by investing primarily in securities issued or guaranteed by the U.S. government or a government-sponsored enterprise (U.S. Agency). At March 31, 2017, 56 percent of our $29.2 billion investment portfolio consisted of securities that carry a full faith and credit guarantee of the U.S. government. Such securities include mortgage-backed securities (MBS) issued by the Government National Mortgage Association (Ginnie Mae), Export-Import Bank of the United States securities and U.S. Treasury and other debt securities, including loans backed by the Small Business Administration. Approximately 40 percent of our investment portfolio consisted of securities issued by a U.S. Agency,

including MBS issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal Agricultural Mortgage Corporation (Farmer Mac).
An additional 2 percent of our investment portfolio consists of short-term certificates of deposit with highly-rated financial institutions. The remaining 2 percent of our investments primarily relates to a portfolio composed of FHA/VA non-wrapped reperformer MBS, non-agency MBS, asset-backed securities (ABS) and corporate bonds. With the exception of corporate bonds, which are risk-weighted based on the corporate counterparty, these exposures are discussed in further detail in the Securitization section below.

The following table summarizes the loan and investment exposures whose capital requirements are reduced as a result of credit risk mitigants.

($ in Thousands)

Loan and Investment Exposures

Three Months Ended March 31, 2017	Average Exposure Amount	Risk Weighted Exposures
Guaranteed Loans under the GSM program	$ 1,279,303	$ -
Loans to Farm Credit System entities	45,459,077	9,091,815
Investment Securities Issued or Guaranteed by U.S. Government	15,392,079	-
Investment Securities Issued or Guaranteed by a U.S. Agency	12,312,958	2,462,592
Total	$ 74,443,417	$ 11,554,407

Derivatives

As described above, transactions with dealers in our over-the-counter derivative portfolio as well as those cleared through a clearinghouse are collateralized or otherwise secured through settlement payments. As a result, at March 31, 2017, we held financial collateral totaling $42.5 million that offset derivative exposure for purposes of calculating risk-weighted assets.

Securitization

The Bank does not currently securitize assets it has originated. However, we do participate in securitizations as investors through the purchase of MBS and ABS, which are included in our investment portfolio. As of March 31, 2017, CoBank did not retain any resecuritization exposures. The following disclosures relate only to MBS and ABS not guaranteed by the U.S. government or a U.S. Agency. Such securities totaled $388.9 million as of March 31, 2017.

We are subject to liquidity risk with respect to these securitization exposures. In volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value would likely be significant. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments.

We monitor the credit and market risk of our securitization exposures by regularly assessing, among other factors, changes in interest rates and credit ratings to evaluate potential negative impacts to cash flows expected to be collected from these investment securities.

For our non-agency MBS and ABS, CoBank has elected to utilize the Gross Up risk-based capital approach. Therefore, certain of our FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS are risk-weighted on an individual security level utilizing the Gross Up approach as outlined in FCA regulations. Individual securities for which a Gross Up calculation cannot be performed due to a lack of available inputs receive a 1,250 percent risk-weight. As of March 31, 2017, no securitizations were risk-weighted at 1,250 percent.

Below is a summary of our securitization exposures held during the three months ended March 31, 2017 by exposure type and categorized by risk-weight band.

($ in Thousands)

Securitization Exposures

Three Months Ended March 31, 2017	Average Exposure Amount	Risk Weighted Asset (Under Gross Up Approach)
Residential Mortgage-Backed Securities (MBS):		
FHA/VA Non-Wrapped Reperformer	$ 19,359	$ 19,359
Non-Agency	56,910	99,301
Asset-Backed Securities (ABS)	312,637	355,139
Total	$ 388,906	$ 473,799

($ in Thousands)

Securitization Risk-Weight Bands

Three Months Ended March 31, 2017	Average Exposure Amount	Risk Weighted Asset
Gross-Up Risk-Weight Bands:		
100%	$ 198,288	$ 198,288
Greater than 100%	190,618	275,511
Total	$ 388,906	$ 473,799

For the period ended March 31, 2017, we did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

Refer to Note 4 in the condensed consolidated financial statements in this Quarterly Report for additional information related to purchases and sales of securitization exposures as well as the amortized cost, unrealized gains/(losses) and fair value of MBS and ABS held in our investment portfolio. In addition, Note 7 of the Quarterly Report describes the methods and assumptions, including any changes as applicable, applied in valuing our MBS and ABS.

Equities

The Bank does not have significant exposure to equity investments. We are a limited partner in certain Rural Business Investment Companies (RBICs). These RBICs facilitate investments in agriculture-related businesses that create growth and job opportunities in rural America. These investments are accounted for under the equity method. These investments are not publicly traded and the book value approximates fair value. There have been no sales or liquidations of these investments during the three months ended March 31, 2017.

Interest Rate Risk

Interest rate risk, also referred to as market risk, is the risk that changes in interest rates may adversely affect operating results and financial condition. The following is a description of our primary interest rate risks and strategies used to mitigate those risks.

Equity Positioning Risk

Shareholders' equity serves as an interest-free source of funding for the balance sheet and thus requires that we make decisions about the maturity mix of the assets funded by it. Using equity to fund short-term assets results in increased volatility of net interest income, whereas using equity to fund long-term assets results in increased volatility in the market value of our equity. We currently position our equity equally over the period of two to seven years.

Repricing Risk

Mismatches in interest rate repricing and maturities of assets and liabilities arise from the interaction of customer business needs, our investment portfolio composition and the mix of liabilities funding these assets. In addition, we may also undertake funding strategies designed to maximize earnings on our asset/liability position in certain interest rate environments, including using short-term liabilities to fund longer-term assets. However, funding longer-term assets with shorter-term liabilities exposes the Bank to changes in interest rates and spreads to market indices for debt issuances. If interest rates increase or spreads widen, income would be negatively impacted as higher cost funding is required to continue to fund the longer-term assets.

Exposure to changes in the level and direction of interest rates is managed by adjusting the Bank's mix of interest-sensitive assets and liabilities through various strategies and through the utilization of interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). We do not use derivatives for speculative or trading purposes and regulatory requirements prohibit us from taking speculative derivative positions. Refer to Note 6 for additional information related to derivatives.

Prepayment/Extension Risk

Prepayment risk in our loan portfolio exists in loans that are considered fully prepayable, which represents approximately 27 percent of total fixed-rate loans. Prepayment risk in this portfolio results when intermediate and longer-term fixed interest rates fall and prepayments increase as borrowers refinance to a lower rate. Prepayments can adversely impact loan portfolio income to the extent prepayments exceed the level of fixed-rate callable debt in the portfolio. This funding can be called in lower-rate environments, thus allowing liabilities to reprice to a lower rate. Approximately 68 percent of our fully prepayable loan portfolio is funded with callable debt, which lowers prepayment risk.

The remaining 73 percent of fixed-rate loans contain, at a minimum, make-whole prepayment penalties. These provisions require a borrower to compensate us for the cost we incur in retiring debt funding associated with loan prepayments. This allows us generally to fund our loan assets with debt of similar maturities to manage the risk of prepayments in the loan portfolio.

Extension risk in the loan portfolio occurs when long-term interest rates rise and prepayments decrease more than expected causing the underlying loans to pay down slower than expected. Loan portfolio income will be negatively impacted as additional higher-rate term funding is required to continue to fund extended loans.

Prepayment risk in the investment portfolio results when long-term interest rates fall and prepayments increase as underlying borrowers refinance their mortgages to a lower rate. Prepayments adversely affect investment portfolio income in a falling interest rate environment because investments are predominately funded with non-callable debt and any proceeds from prepaid investments will be reinvested at a lower interest rate. Prepayment risk in our investment portfolio is low based on the type and average life of securities. Purchases of MBS are currently subject to a price risk eligibility test based on a stressed interest rate environment. The test is designed to manage our exposure to prepayment risk at the time of investment purchase. In addition, our fixed-rate MBS (other than hybrid adjustable-rate mortgage securities) generally contain some embedded prepayment protection in the form of planned amortization class (PAC) bands. These PAC securities are structured so that principal payments are expected to follow a predetermined schedule as long as the prepayments of the underlying collateral fall within a prescribed band. Over time, these bands may erode resulting in an incremental increase in prepayment risk within the investment portfolio.

We also fund a portion of our fixed-rate prepayable investment portfolio with short-term liabilities and term fixed-rate callable debt that provide a partial hedge against prepayment risk in certain falling interest rate environments. The rate we pay on these liabilities reprices downward with a drop in short-term and intermediate-term interest rates. In addition, we are able to retire the short-term liabilities if prepayments increase on the funded assets independent of movements in interest rates.

Extension risk in the investment portfolio occurs when long-term interest rates rise and prepayments decrease more than expected causing the underlying investment securities to pay down at a slower rate than initially expected. In this scenario, investment portfolio income will be negatively impacted as additional higher-rate term funding is required to continue to fund extended securities. Extension risk in the investment portfolio is moderate based on the type and average life of securities purchased. In the same way PAC bands protect against prepayment risk, they also serve to limit extension risk as the amortization of these securities is defined as long as prepayments of the underlying collateral fall within a prescribed band.

Cap and Floor Risk

Cap risk is embedded in the floating-rate MBS in our investment portfolio and to a lesser extent floating-rate loans. When short-term interest rates rise, the interest rate paid by the floating-rate MBS or floating-rate loan may become capped and limit the amount of income earned on the asset while underlying funding costs are not capped. Exposure to cap risk is managed by monitoring the concentration of strike levels in our floating-rate MBS and floating-rate loans and related interest rate shock sensitivities. We also purchase interest rate caps and other derivatives to manage cap risk. Further, we have the ability to reduce cap risk by selling our floating-rate investment securities.

In addition, in a period of negative interest rates, the interest rate yields on our floating-rate loans could decrease, while the interest rate costs on certain of our borrowings could be floored at a higher rate. These factors could lower our net interest income, particularly during periods of negative interest rates, which would adversely impact our financial condition, cash flows and results of operations.

Basis Risk

Basis risk arises due to the differences between the interest rate indices used to price our assets and the indices used to fund those assets. We manage our basis risk through match funding, when possible, and using derivatives (primarily interest rate swaps) and other funding strategies. However, basis risk will always exist as unanticipated loan volume changes cause an excess or shortage of some forms of funding.

The following tables summarize the impact of interest rate changes on net interest income and the market value of equity.

Net Interest Income at Risk		
March 31, 2017		
Scenario:		
-	300 bp shock	n/a
-	200 bp shock	n/a
-	100 bp shock	n/a
-	38 bp shock	(0.9) %
+	100 bp shock	0.9
+	200 bp shock	1.6
+	300 bp shock	2.0

Market Value of Equity at Risk		
March 31, 2017		
Scenario:		
-	300 bp shock	n/a
-	200 bp shock	n/a
-	100 bp shock	n/a
-	38 bp shock	1.8 %
+	100 bp shock	(5.0)
+	200 bp shock	(10.1)
+	300 bp shock	(15.1)

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 10th day of May, 2017.

/s/ EVERETT M. DOBRINSKI

Everett M. Dobrinski
Chair of the Board

/s/ THOMAS E. HALVERSON

Thomas E. Halverson
President and Chief Executive Officer

/s/ DAVID P. BURLAGE

David P. Burlage
Chief Financial Officer

CERTIFICATION

I, Thomas E. Halverson, President and 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/ THOMAS E. HALVERSON

Thomas E. Halverson
President and Chief Executive Officer

Dated: May 10, 2017

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

David P. Burlage
Chief Financial Officer

Dated: May 10, 2017

Senior Management
CoBank, ACB

Thomas E. Halverson, President and Chief Executive Officer (CEO)

Robert B. Engel, Senior Advisor to the CEO

Agribusiness
Amy H. Gales, Regional Agribusiness Banking Group [1]
Leili Ghazi, Regional Agribusiness Banking Group – West
Michael W. Hechtner, Regional Agribusiness Banking Group – Central
Lynn M. Scherler, Strategic Relationships Division
G. David Sparks, Regional Agribusiness Banking Group – East
Jonathan B. Logan, Corporate Agribusiness Banking Group
Karen S. Lowe, Agricultural Export Finance Division

Rural Infrastructure
Robert F. West, Infrastructure Banking Group
Brian A. Goldstein, Project Finance Banking Division
Theodore R. Koerner, Communications Banking Division
William D. LaDuca, Electric Distribution Division
Christopher M. Shaffner, Water and Community Facilities Division
Todd E. Telesz, Power, Energy and Utilities Banking Division

Antony M. Bahr, Banking Services Group [2]
Daniel J. Kowalski, Knowledge Exchange Division
Michael A. Romanowski, Farm Credit Leasing Services Corporation [3]

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

Andrew D. Jacob, Chief Regulatory, Legislative and Compliance Officer and Interim Chief Risk Officer
Brian Cavey, Government Affairs Division
Arthur C. Hodges, Jr., Corporate Communications Division
Katia V. Hoffer, Enterprise Risk Management Division

F. William Davis, Chief Credit Officer
S. Richard Dill, Special Assets Division

M. Mashenka Lundberg, Chief Legal Officer and General Counsel
Christian J. Clayton, Legal and Loan Processing Division

Robert L. O'Toole, Chief Human Resources Officer and CEO Chief of Staff

John Svisco, Chief Business Services Officer
Matthew H. Cammer, Digital Business Solutions Division

Ann E. Trakimas, Chief Operating Officer
James R. Bernsten, Information Technology Division
Michael Hernandez, Data Strategy
Horst G. Kisch, Operations Division
Todd E. Wilson, Enterprise Solutions and Services Division

Steven W. Wittbecker, Internal Audit Division [4]
Timothy A. Green, Asset Review Division [4]

[1] The Strategic Relationships operating segment is included in the Regional Agribusiness Banking Group.
[2] The Banking Services Group also includes the Bank's Capital Markets Division.
[3] Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.
[4] These individuals also have a direct reporting responsibility to the Audit Committee of the Board of Directors.

Office Locations

CoBank, ACB

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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
(855) 738-6606

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 Irmscher 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 **
3755 Atherton Road
Rocklin, CA 95765
(916) 380-3524
(800) 457-0942
FCL: (800) 289-7080

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

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

St. Louis Banking Center **
635 Maryville Centre Drive, Suite 130
St. Louis, MO 63141
(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 2017 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 on approximately May 10, 2017, August 9, 2017, November 8, 2017, and March 7, 2018 (Annual Report).