



# FARM CREDIT

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## THIRD QUARTER 2016 QUARTERLY INFORMATION STATEMENT OF THE FARM CREDIT SYSTEM

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**Federal Farm Credit Banks Funding Corporation**  
101 Hudson Street, Suite 3505 • Jersey City, New Jersey 07302 • 201-200-8000

NOVEMBER 9, 2016

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This quarterly information statement provides important information for investors in the debt securities jointly issued by the four Farm Credit System Banks — AgFirst Farm Credit Bank, AgriBank, FCB, CoBank, ACB and Farm Credit Bank of Texas (collectively, the Banks). These debt securities, which we refer to as Systemwide Debt Securities, include:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes, and
- any other debt securities that the Farm Credit System Banks may jointly issue from time to time.

This quarterly information statement does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation on behalf of the Banks pursuant to offering circulars for each type of debt offering. The relevant offering circular as of this date is the Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated December 8, 2014.

The offering circular may be amended or supplemented from time to time and a new offering circular may be issued. Before purchasing Systemwide Debt Securities, you should carefully read the relevant offering circular, the most recent annual and quarterly information statements and other current information released by the Funding Corporation regarding the Banks and/or Systemwide Debt Securities. At this time, no Systemwide Debt Securities are being offered under the Federal Farm Credit Banks Global Debt Program Offering Circular dated October 10, 1996, the Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended by supplements dated February 26, 1997 and June 11, 1999, or the Federal Farm Credit Banks Consolidated Systemwide Master Notes Offering Circular dated December 21, 1999, as amended by the supplement dated August 20, 2001. No securities previously offered under the Global Debt Program Offering Circular or the Master Notes Offering Circular are currently outstanding.

**Systemwide Debt Securities are the joint and several obligations of the Banks and are not obligations of or guaranteed by the United States government.** Systemwide Debt Securities are not required to be registered and have not been registered under the Securities Act of 1933. In addition, the Banks are not required to file and do not file periodic reports under the Securities Exchange Act of 1934. Systemwide Debt Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of any offering material.

#### Certification

**The undersigned certify that (1) we have reviewed this quarterly information statement, (2) this quarterly information statement has been prepared in accordance with all applicable statutory or regulatory requirements, and (3) the information contained in this quarterly information statement is true, accurate, and complete to the best of the signatories' knowledge and belief.**



Roy Tiarks  
Chairman of the Board



Theresa E. McCabe  
President and CEO



Karen R. Brenner  
Managing Director — Financial  
Management Division

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### WHERE YOU CAN FIND ADDITIONAL INFORMATION

Farm Credit System quarterly and annual information statements and press releases relating to financial results or other developments affecting the System issued by the Federal Farm Credit Banks Funding Corporation for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Systemwide Debt Securities, are available on the Funding Corporation’s website located at [www.farmcreditfunding.com](http://www.farmcreditfunding.com). Other information regarding the System can be found on the System’s website located at [www.farmcredit.com](http://www.farmcredit.com).

In addition, copies of quarterly and annual reports of each Bank and each Farm Credit Bank (AgFirst Farm Credit Bank, AgriBank, FCB and Farm Credit Bank of Texas) combined with its affiliated Associations may be obtained from the individual Bank. Bank addresses and telephone numbers where copies of these documents may be obtained are listed on page S-5 of this quarterly information statement. These documents and further information on each Bank or each Farm Credit Bank combined with its affiliated Associations and links to a Bank’s affiliated Associations’ websites are also available on the Funding Corporation’s website or each Bank’s website as follows:

- AgFirst Farm Credit Bank — [www.agfirst.com](http://www.agfirst.com)
- AgriBank, FCB — [www.agribank.com](http://www.agribank.com)
- CoBank, ACB — [www.cobank.com](http://www.cobank.com)
- Farm Credit Bank of Texas — [www.farmcreditbank.com](http://www.farmcreditbank.com)

Information contained on these websites is not incorporated by reference into this quarterly information statement and you should not consider information contained on these websites to be part of this quarterly information statement.

## BUSINESS

### Overview of the Farm Credit System

The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. Our mission is to support rural communities and agriculture with reliable, consistent credit and financial services. We do this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing

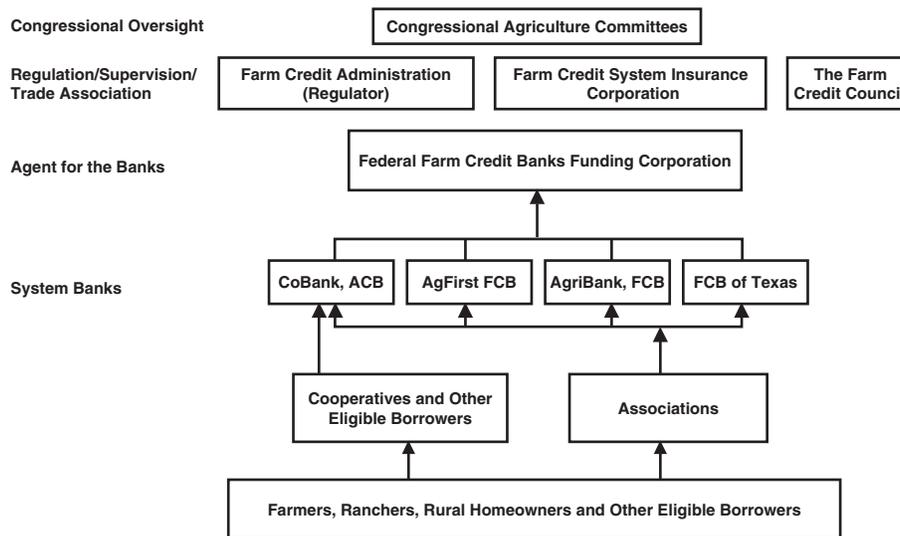
financial services and advice to those persons and businesses.

Consistent with our mission of supporting rural America, we also make rural residential real estate loans, finance rural communication, energy and water infrastructures and make loans to support agricultural exports and to finance other eligible entities.

Congress established the Farm Credit Administration as the System's independent federal regulator to examine and regulate System institutions, including their safety and soundness. System institutions are federal instrumentalities.

### Structure/Ownership of the Farm Credit System

The following chart depicts the current overall structure and ownership of the System.



The Associations are cooperatives owned by their borrowers, and the Farm Credit Banks (AgFirst, AgriBank and Texas) are cooperatives primarily owned by their affiliated Associations. The Agricultural Credit Bank (CoBank) is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. The Banks and Associations each have their own board of directors and are not commonly owned. Each Bank and Association manages and controls its own business activities, operations and financial performance.

The Banks jointly own the Federal Farm Credit Banks Funding Corporation (Funding Corporation).

The Funding Corporation, as agent for the Banks, issues and markets Systemwide Debt Securities in order to raise funds for the lending activities and operations of the Banks and Associations. The Funding Corporation also provides the Banks with certain consulting, accounting and financial reporting services, including the preparation of the System's quarterly and annual information statements and the System's combined financial statements contained in those information statements. As the System's financial spokesperson, the Funding Corporation is primarily responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System.

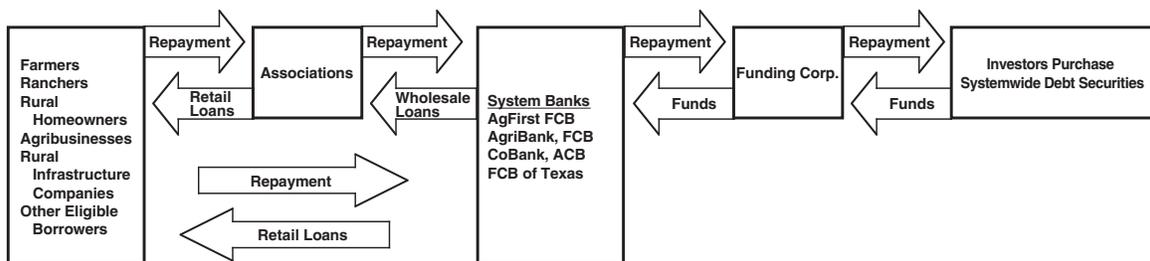
**Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities.**

**Our Business Model**

A Bank and its affiliated Associations are financially and operationally interdependent as the Bank is statutorily required to serve as an intermediary between the financial markets and the retail lending activities of its affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are not legally authorized to accept deposits and may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not legally authorized to accept

deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities. Other less significant sources of funding for the Banks include internally generated earnings, the issuance of common and preferred equities and the issuance of subordinated debt. As a result, the loans made by the Associations are primarily funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of Systemwide Debt Securities is dependent upon the ability of borrowers to repay their loans from the Associations. In addition, CoBank makes retail loans and leases directly to cooperatives, rural infrastructure companies, and other eligible borrowers. The Banks also purchase loan participations from Associations, other Banks and non-System lenders. Therefore, the repayment of Systemwide Debt Securities is also dependent upon the ability of these borrowers to repay their loans.

The chart below illustrates the flow of funds from investors in Systemwide Debt Securities to the System’s borrowers and the ultimate repayment of funds to investors resulting from borrower loan repayments.



**Overview of Our Business**

As required by the Farm Credit Act, we specialize in providing financing and related services to eligible, creditworthy borrowers in the agricultural and rural sectors, to certain related entities, and to domestic or foreign parties in connection with the export of U.S. agricultural products. We make credit available in all 50 states, the Commonwealth of Puerto Rico, and, under conditions set forth in the Farm Credit Act, U.S. territories.

System institutions may also provide a variety of financially related services to their borrowers designed to enhance their business, including acting as agent or broker for credit and mortgage-life insurance, disability insurance, various types of crop insurance and livestock risk protection. The insurance is made available through private insurers.

Other services offered by System institutions include estate planning, record keeping, tax planning

and preparation, fee appraisal, cash management products and services, and consulting. In addition, some System institutions provide leasing and related services to their customers.

As more fully discussed on page 9 in the 2015 *Annual Information Statement*, a limited number of Associations have entered into a contractual arrangement to provide financial support to a captive reinsurance company in specified amounts that are not material to the System’s financial condition or results of operations. That reinsurance company provides reinsurance for crop insurance policies.

**Government-Sponsored Enterprise Status**

In order to better accomplish our mission, Congress has granted the System certain attributes that result in government-sponsored enterprise status for the System. As a government-sponsored enterprise,

we raise funds at competitive rates and terms, in varying economic environments. This ability to raise funds has traditionally allowed us to make competitively priced loans to eligible borrowers through all economic cycles and thus accomplish our mission. (See “Risk Factors” in the *2015 Annual Information Statement* for a discussion of the potential impact of changes on the sovereign credit rating of the U.S. on the System given its government-sponsored enterprise status and the uncertainty about the future of government-sponsored enterprises.)

### **Agricultural Industry Overview**

The agricultural sector has been a key economic force in the U.S. economy and is strongly affected by domestic and global economic conditions. The System was created to provide support for this sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. Profitability in our business is dependent on the health of the U.S. agricultural sector, which is heavily influenced by domestic and world demand for agricultural products, and impacted by government support programs, including crop insurance, to producers of certain agricultural commodities. (See “Risk Factors” in the *2015 Annual Information Statement* for a discussion of potential changes in the agricultural spending policies of the U.S. government in light of the U.S. budget deficit and its potential impact on the System’s borrowers.) Further, off-farm income is important to the repayment ability of many agricultural producers. Accordingly, our business also may be impacted by the health of the general U.S. economy.

### **System Lending Institutions**

The two types of entities through which we conduct our lending business are the Banks and the Associations.

#### ***Banks***

At September 30, 2016, the System had four Banks (three Farm Credit Banks and one Agricultural Credit Bank). The Banks’ lending operations include wholesale loans to their affiliated Associations and loan participations in eligible loans purchased from Associations, other Banks and non-System lenders. In addition, CoBank, as the Agricultural Credit Bank, has additional nationwide authority to make retail loans directly to agricultural and rural infrastructure cooperatives and businesses and other eligible entities.

The Banks obtain a substantial majority of funds for their lending operations through the issuance of Systemwide Debt Securities, but also obtain some of their funds from internally generated earnings, from the issuance of common and preferred equities and from the issuance of subordinated debt.

#### ***Associations***

At September 30, 2016, the System had 74 Associations throughout the nation and the Commonwealth of Puerto Rico. There were 72 Agricultural Credit Associations with Production Credit Association subsidiaries and Federal Land Credit Association subsidiaries, and two Federal Land Credit Associations. The Federal Land Credit Associations make real estate mortgage loans, including rural residential real estate loans. Agricultural Credit Associations may, directly or through their subsidiaries, 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. Associations may also purchase eligible loan participations from other System entities and non-System lenders.

The Associations obtain a substantial majority of the funds for their lending operations from borrowings from their affiliated Bank, but also obtain some of their funds from internally generated earnings and from the issuance of equities.

#### ***Farm Credit Insurance Fund***

As more fully discussed on page 22 in the *2015 Annual Information Statement*, the Farm Credit System Insurance Corporation’s primary purpose is to insure the timely payment of principal and interest on Systemwide Debt Securities. The Insurance Corporation maintains the Insurance Fund for this purpose and for certain other mandatory and discretionary purposes. In the event a Bank is unable to timely pay principal or interest on any insured debt obligation for which that Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the debt obligation cannot be invoked until the Insurance

Fund has been exhausted. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the United States government.

### ***Disclosure Obligations***

The Farm Credit Administration has promulgated regulations intended to ensure the appropriate disclosure of financial and other information concerning the System to investors in Systemwide Debt Securities and other interested parties. These disclosures are the responsibility of the System Disclosure Entities, which consist of the Banks and the Funding Corporation. For a description of the responsibilities of the System Disclosure Entities, see page 18 of the *2015 Annual Information Statement*.

### ***Governance — Code of Ethics***

Each Bank and the Funding Corporation have adopted codes of ethics that apply to their chief executive officers, certain other executives, and senior professionals in the finance and accounting areas who are involved with the preparation of the

System's financial statements and the maintenance of the financial records supporting the financial statements.

The Funding Corporation will disclose material amendments to or any waivers from a required provision of the codes of ethics for any individual covered by the Banks' or the Funding Corporation's codes of ethics by including that information in future information statements. No such amendments or waivers were made during the first nine months of 2016. A copy of the Funding Corporation's code of ethics related to the preparation of the System's quarterly and annual information statements can be accessed on the Funding Corporation's website at [www.farmcreditfunding.com](http://www.farmcreditfunding.com). Each Bank's code of ethics includes similar content and can be accessed through each of their respective websites listed on page 2.

### **Risk Factors**

There have been no material changes to the risk factors previously disclosed in the System's *2015 Annual Information Statement*.

## **OTHER BUSINESS MATTERS**

### **Legal Proceedings**

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 who held CoBank's 7.875% Subordinated Notes due in 2018. For additional information, see Note 13 of the accompanying condensed combined financial statements.

On November 4, 2016, an alleged class action complaint was filed in the Supreme Court of the State of New York against AgriBank by a purported beneficial owner of AgriBank's 9.125% subordinated notes due in 2019. For additional information, see Note 15 of the accompanying condensed combined financial statements.

At September 30, 2016, various other lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial condition.

## SELECTED COMBINED FINANCIAL DATA

The following selected combined financial data for each of the three years in the period ended December 31, 2015 has been derived from the audited combined financial statements of the Farm Credit System. The selected combined financial data and combined financial statements of the System combine the financial condition and operating results of each of the Banks, their affiliated Associations, the Federal Farm Credit Banks Funding Corporation, and the Farm Credit Insurance Fund, and reflect the investments in, and allocated earnings of, certain service organizations owned by the Banks or Associations. All significant intra-System transactions and balances have been eliminated in combination. Because System entities are financially and operationally interdependent, we believe providing the combined financial information is more meaningful to investors in Systemwide Debt Securities than financial information relating to the Banks on a stand-alone basis (i.e., without the Associations).

While this quarterly information statement reports on the combined financial condition and results of operations of the Banks, Associations, and other System entities specified above, only the Banks are jointly and severally liable for the repayment of Systemwide Debt Securities. See Note 14 to the accompanying condensed combined financial statements for combining Bank-only financial condition and results of operations. Also, copies of quarterly and annual reports of each Bank are available on each of their respective websites; see page 2 for a listing of their websites.

The combined financial data for the nine months ended September 30, 2016 and 2015 has been derived from the System's unaudited condensed combined financial statements appearing elsewhere herein, which include all adjustments necessary for a fair statement of the results for these interim periods.

|  | September 30,                                  |                 | December 31,                           |                 |                 |
|--|--|-----------------|--|-----------------|-----------------|
|  | 2016   | 2015            | 2015                                   | 2014            | 2013            |
|  | (unaudited)                                    |                 | (in millions)                          |                 |                 |
| <b>Combined Statement of Condition Data</b>    |  |                 |  |                 |                 |
| Loans  | \$242,124                                      | \$226,844       | \$235,890                              | \$217,054       | \$201,060       |
| Allowance for loan losses                      | (1,457)  | (1,246)         | (1,280)                                | (1,237)         | (1,238)         |
| Net loans                                      | 240,667  | 225,598         | 234,610                                | 215,817         | 199,822         |
| Cash, Federal funds sold and investments       | 63,178   | 55,880          | 59,378                                 | 57,839          | 51,893          |
| Accrued interest receivable                    | 2,508  | 2,366           | 1,973                                  | 1,824           | 1,719           |
| Other property owned                           | 81   | 102             | 96                                     | 132             | 198             |
| Total assets                                   | 314,361  | 291,341         | 303,503                                | 282,733         | 260,662         |
| Systemwide bonds                               | 218,979  | 207,964         | 210,935                                | 198,225         | 188,589         |
| Systemwide medium-term notes                   | 102  | 127             | 118                                    | 135             | 150             |
| Systemwide discount notes                      | 32,911   | 23,128          | 32,282                                 | 26,971          | 18,636          |
| Subordinated debt                              | 598  | 1,550           | 1,550                                  | 1,550           | 1,549           |
| Other bonds                                    | 3,269  | 3,410           | 2,879                                  | 3,627           | 3,215           |
| Total liabilities                              | 261,970  | 242,463         | 254,669                                | 237,027         | 218,061         |
| Capital  | 52,391   | 48,878          | 48,834                                 | 45,706          | 42,601          |
|  | <b>For the Nine Months Ended September 30,</b> |                 | <b>For the Year Ended December 31,</b> |                 |                 |
|  | 2016   | 2015            | 2015                                   | 2014            | 2013            |
|  | (unaudited)                                    |                 | (in millions)                          |                 |                 |
| <b>Combined Statement of Income Data</b>       |  |                 |  |                 |                 |
| Net interest income                            | \$ 5,524                                       | \$ 5,217        | \$ 7,015                               | \$ 6,804        | \$ 6,674        |
| (Provision for loan losses) loan loss reversal | (218)  | (87)            | (106)                                  | (40)            | 31              |
| Net noninterest expense                        | (1,581)  | (1,482)         | (2,024)                                | (1,819)         | (1,844)         |
| Income before income taxes                     | 3,725  | 3,648           | 4,885                                  | 4,945           | 4,861           |
| Provision for income taxes                     | (136)  | (167)           | (197)                                  | (221)           | (221)           |
| Net income                                     | <u>\$ 3,589</u>                                | <u>\$ 3,481</u> | <u>\$ 4,688</u>                        | <u>\$ 4,724</u> | <u>\$ 4,640</u> |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND QUARTERLY RESULTS OF OPERATIONS

The System's *2015 Annual Information Statement* contains the December 31, 2015 combined financial statements together with commentary that explains the principal aspects of the System's combined financial position and results of operations. The following commentary represents a quarterly supplement to that information statement and includes a discussion of significant financial developments for the nine months ended September 30, 2016. This commentary should be read in conjunction with the *2015 Annual Information Statement* and with the condensed combined financial statements of the System beginning on page F-1 of this quarterly information statement.

### Basis of Presentation

The accompanying condensed combined financial statements and related financial information contained in this quarterly information statement present the combined assets, liabilities, capital, income and expenses of the Banks, the Associations, the Federal Farm Credit Banks Funding Corporation and the Farm Credit Insurance Fund, and reflect the investments in and allocated earnings of certain service organizations owned by the Banks or Associations. All significant intra-System transactions and balances have been eliminated in combination. (See Note 1 to the accompanying condensed combined financial statements for additional information on organization and significant accounting policies and the Supplemental Combining Information on pages F-51 through F-57). This quarterly information statement has been prepared under the oversight of the System Audit Committee.

Our financial statements are presented on a combined basis due to the financial and operational interdependence of System entities as discussed in the "Business" section contained elsewhere in this quarterly information statement.

Each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its operations. (See Note 8 to the accompanying condensed combined financial statements for information about the capital of the Banks, Note 14 for information related to the financial condition and results of operations of the Banks, and the Supplemental Combining Information on pages F-51 through F-53 for information related to the financial condition of the combined Banks.) Because the

Associations are not directly liable for the payment of principal or interest on Systemwide Debt Securities, their capital may not be available to support those payments. Under the Farm Credit Act, the timely payment of the principal and interest on Systemwide Debt Securities is insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund. (See Note 5 to the accompanying condensed combined financial statements.)

### Forward-Looking Information

Certain sections of this quarterly information statement contain forward-looking statements concerning financial information and statements about future economic performance and events, plans and objectives and assumptions underlying these projections and statements. These projections and statements are not based on historical facts but instead represent our current assumptions and expectations regarding our business, the economy and other future conditions. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. Forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms that are intended to reference future periods.

These statements are not guarantees of future performance and involve certain risks and uncertainties and actual results may differ from those in the forward-looking statements as a result of various factors. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;

- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary policy;
- credit, interest rate and liquidity risk inherent in our lending activities;
- changes in our assumptions for determining the allowance for loan losses, other than temporary impairment and fair value measurements; and
- industry outlooks for agricultural conditions.

## Overview

### *General*

The System's combined net income increased \$108 million or 3.1% to \$3.589 billion for the first nine months of 2016, as compared with net income of \$3.481 billion for the same period of 2015. The increase resulted primarily from an increase in net interest income of \$307 million and a decrease in the provision for income taxes of \$31 million, partially offset by increases in the provision for loan losses of \$131 million and noninterest expense of \$84 million and a decrease in noninterest income of \$15 million.

The System's net interest income increased to \$5.524 billion primarily due to a higher level of average earning assets. The net interest margin declined nine basis points to 2.47% for the first nine months of 2016 due to a 12 basis point decline in the net interest spread to 2.29%. The decline in the net interest spread resulted primarily from competitive pressures and an increase in certain debt costs.

The System's loan portfolio increased \$6.234 billion or 2.6% to \$242.124 billion since year-end 2015. The increase primarily resulted from increases in real estate mortgage and rural infrastructure loans.

The System's nonperforming loans (which consist of nonaccrual loans, accruing restructured and accruing loans 90 days or more past due) increased \$346 million to \$1.975 billion at September 30, 2016, as compared with \$1.629 billion at December 31, 2015, representing 0.82% and 0.69% of total loans for the corresponding periods.

### *Funding*

The System continues to have reliable access to the debt capital markets to support its mission of providing credit and financial services to agriculture, rural infrastructure and rural communities. During the first nine months of 2016, investor demand for Systemwide Debt Securities remained favorable across all products. Given the prevailing low interest rate environment, the Banks continued to refinance callable bonds when advantageous in order to lower their long-term cost of funds.

The System is a government-sponsored enterprise that benefits from broad access to domestic and global capital markets. This access provides us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America.

### *Drought Conditions*

According to the U.S. Drought Monitor, approximately 19% of the U.S. was experiencing moderate to exceptional drought conditions at both September 30, 2016 and December 31, 2015. Although the percentage remained unchanged, the geographic areas impacted differed. As of September 30, 2016, parts of the northeast and southeast states were experiencing moderate to extreme drought conditions, in addition to California that continued to experience extreme to exceptional drought conditions. Following four consecutive years of drought conditions in California, parts of the state experienced above average rain and snowfall earlier in the year which helped to replenish northern reservoirs but the water levels in the southern reservoirs are well below normal. In addition, the low levels of rain and snow over the past few years have severely reduced the availability of surface water. Given the lack of surface water, farmers are forced to continue to pump groundwater at a high rate, further depleting groundwater levels. The overall impact on producers' profitability has not and is not expected to be material in 2016 due to strategic water planning efforts and the financial strength of California farmers. However, continued water restrictions beyond 2016 and prolonged drought conditions could result in credit stress and reduced income for agricultural producers and processors in the affected areas.

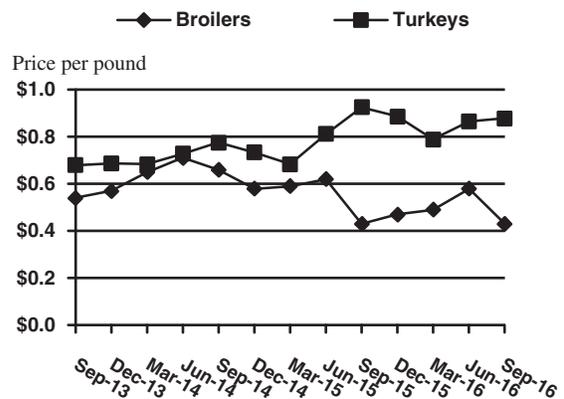
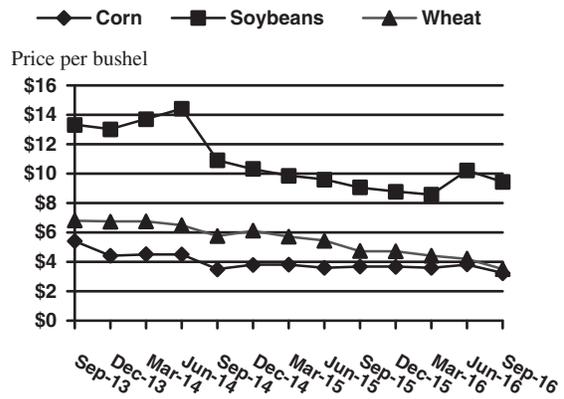
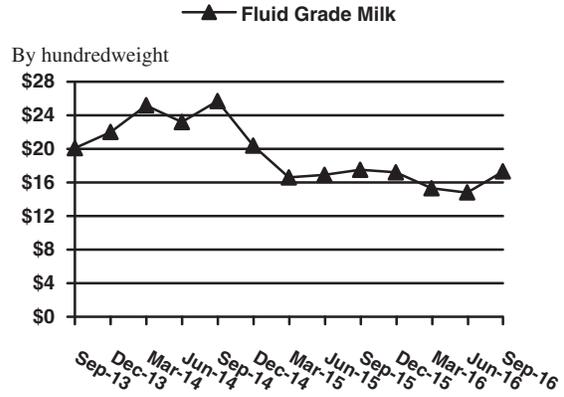
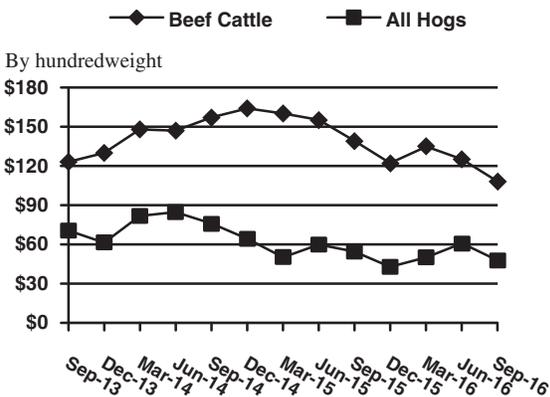
## Agricultural Outlook

### USDA Information

We utilize the United States Department of Agriculture (USDA) analysis to provide a general understanding of the U.S. agricultural economic outlook; however, this outlook does not take into account all aspects of our business or events that occurred subsequent to its issuance. References to USDA information in this section refer to U.S. agricultural market data and not System data.

The USDA forecast (August 30, 2016) estimates farmers' net cash income (a measure of the cash income after payment of business expenses) for 2016 will be \$94.1 billion, a \$14.4 billion decrease from 2015 and \$9.4 billion below the 10-year average. The forecasted decrease in farmers' net cash income for 2016 is primarily due to an expected decrease in cash receipts of \$25.8 billion, partially offset by a decrease in cash expenses of \$9.4 billion and an increase in direct government payments of \$2.7 billion. The decrease in cash receipts reflects a \$18.7 billion decline in livestock receipts primarily due to decreased dairy, cattle, hog and poultry receipts. Crop receipts are predicted to decrease by \$7.1 billion in 2016.

The following charts set forth the commodity prices utilizing the average monthly price for the last month of each quarter by hundredweight for beef cattle, hogs and milk, per bushel for corn, soybeans and wheat and by pound for poultry on certain dates during the period from September 30, 2013 to September 30, 2016:



### Other Information

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather and various other factors. During the past several years agriculture generally experienced favorable economic conditions driven by high commodity and livestock prices and increased farmland values during this period. However, more recently, the agricultural sector has entered a more challenging and lower commodity price environment. Grain and oilseed prices have declined sharply due to record levels of corn and soybean production in 2014 and 2015. This decline has slowed, or in some cases, reversed the growth in farmland values and compressed producer margins. Appreciation in the U.S. dollar has also reduced the competitiveness of U.S. agricultural exports. While U.S. agriculture faces realignments in commodity prices and farmland values, the generally strong financial positions of U.S. crop producers is expected to afford them time to transition their operations to a lower price and margin environment. This transition is expected to involve loan repayment challenges for a small percentage of producers who do

not or are unable to sufficiently adjust their operations to the environment.

Crop producers may benefit from payments under the government support programs included in the 2014 Farm Bill, which may lessen the impact of the lower price environment. Meanwhile, the livestock and dairy sectors have benefitted from lower feed costs but are experiencing compressed margins due to supply/demand changes.

In an environment of less favorable conditions in agriculture, the System's financial performance and credit quality measures would likely be negatively impacted. Any negative impact from these less favorable conditions may be partially mitigated by geographic and commodity diversification across the System and the influence of off-farm income sources supporting agricultural-related debt. However, due to the geographic territories served by Banks and Associations, most System institutions have higher geographic, borrower and commodity concentrations than does the System as a whole.

### Results of Operations

#### Net Interest Income

Net interest income was \$1.870 billion and \$5.524 billion for the three and nine months ended September 30, 2016, as compared with \$1.767 billion and \$5.217 billion for the same periods of the prior year. The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2016, as compared with the corresponding periods of the prior year, are

presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and the levels of average interest rates. Accordingly, the benefit derived from funding earning-assets with interest-free funds (principally capital) is reflected solely as a volume increase.

|  | For the Three Months Ended<br>September 30, 2016 vs. 2015 |        |       | For the Nine Months Ended<br>September 30, 2016 vs. 2015 |         |       |
|--|---|--------|-------|--|---------|-------|
|  | Increase (decrease) due to                                |        |       | Increase (decrease) due to                               |         |       |
|  | Volume  | Rate   | Total | Volume   | Rate    | Total |
|  | (in millions)   |        |       |  |         |       |
| Interest income:                           |   |        |       |  |         |       |
| Loans .....                                | \$184   | \$ 30  | \$214 | \$619  | \$ 62   | \$681 |
| Investments .....                          | 29  | 11     | 40    | 57   | 52      | 109   |
| Total interest income .....                | 213   | 41     | 254   | 676  | 114     | 790   |
| Interest expense:                          |   |        |       |  |         |       |
| Systemwide Debt Securities and other ..... | 58  | 93     | 151   | 175  | 308     | 483   |
| Change in net interest income .....        | \$155   | \$(52) | \$103 | \$501  | \$(194) | \$307 |

The changes in rates earned on interest-earning assets and rates paid on interest-bearing funds are further illustrated in the following presentation of interest rate spreads:

|   | Three Months Ended |                 |                    |                 | Nine Months Ended  |                 |                    |                 |
|---|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
|   | September 30, 2016 |                 | September 30, 2015 |                 | September 30, 2016 |                 | September 30, 2015 |                 |
|   | Average Balance    | Annualized Rate |
| (\$ in millions)  |                    |                 |                    |                 |                    |                 |                    |                 |
| <b>Assets</b>   |                    |                 |                    |                 |                    |                 |                    |                 |
| Real estate mortgage loans  | \$111,383          | 4.43%           | \$102,116          | 4.48%           | \$109,358          | 4.44%           | \$ 99,769          | 4.45%           |
| Production and intermediate-term loans                            | 47,762             | 3.97            | 47,109             | 3.73            | 46,648             | 3.92            | 45,920             | 3.74            |
| Agribusiness loans  | 37,901             | 3.15            | 33,462             | 3.09            | 39,427             | 3.09            | 34,000             | 3.07            |
| Rural infrastructure loans  | 26,957             | 3.81            | 23,826             | 3.76            | 26,467             | 3.76            | 22,742             | 3.76            |
| Rural residential real estate loans                               | 7,173              | 4.40            | 6,695              | 4.35            | 7,108              | 4.42            | 6,729              | 4.43            |
| Agricultural export finance loans                                 | 5,231              | 1.55            | 4,893              | 0.97            | 5,278              | 1.40            | 4,599              | 0.94            |
| Lease receivables   | 3,379              | 3.64            | 3,049              | 3.67            | 3,360              | 3.64            | 3,002              | 3.67            |
| Loans to other financing institutions                             | 825                | 1.58            | 883                | 1.13            | 842                | 1.53            | 851                | 1.12            |
| Nonaccrual loans  | 1,454              | 4.47            | 1,411              | 4.83            | 1,412              | 5.34            | 1,394              | 4.89            |
| Total loans   | 242,065            | 3.99            | 223,444            | 3.93            | 239,900            | 3.96            | 219,006            | 3.92            |
| Federal funds sold, investments and other interest-earning assets | 60,363             | 1.40            | 52,058             | 1.31            | 57,940             | 1.43            | 52,374             | 1.30            |
| Total earning assets  | 302,428            | 3.47            | 275,502            | 3.44            | 297,840            | 3.46            | 271,380            | 3.41            |
| Allowance for loan losses   | (1,437)            |                 | (1,243)            |                 | (1,360)            |                 | (1,246)            |                 |
| Other noninterest-earning assets                                  | 13,142             |                 | 12,653             |                 | 12,482             |                 | 12,583             |                 |
| Total assets  | \$314,133          |                 | \$286,912          |                 | \$308,962          |                 | \$282,717          |                 |
| <b>Liabilities and Capital</b>                                    |                    |                 |                    |                 |                    |                 |                    |                 |
| Systemwide bonds and medium-term notes                            | \$219,456          | 1.27%           | \$206,290          | 1.09%           | \$215,643          | 1.26%           | \$203,479          | 1.06%           |
| Systemwide discount notes   | 33,102             | 0.54            | 21,428             | 0.22            | 32,617             | 0.48            | 21,282             | 0.18            |
| Subordinated debt and other interest-bearing liabilities          | 4,469              | 0.81            | 6,500              | 1.66            | 4,681              | 1.57            | 6,081              | 1.78            |
| Total interest-bearing liabilities                                | 257,027            | 1.17            | 234,218            | 1.03            | 252,941            | 1.17            | 230,842            | 1.00            |
| Noninterest-bearing liabilities                                   | 5,033              |                 | 4,521              |                 | 5,118              |                 | 4,609              |                 |
| Capital   | 52,073             |                 | 48,173             |                 | 50,903             |                 | 47,266             |                 |
| Total liabilities and capital                                     | \$314,133          |                 | \$286,912          |                 | \$308,962          |                 | \$282,717          |                 |
| Net interest spread(1)  |                    | 2.30            |                    | 2.41            |                    | 2.29            |                    | 2.41            |
| Impact of noninterest-bearing sources                             |                    | 0.17            |                    | 0.16            |                    | 0.18            |                    | 0.15            |
| Net interest margin(2)  |                    | 2.47%           |                    | 2.57%           |                    | 2.47%           |                    | 2.56%           |

(1) Net interest spread is the difference between the rate earned on total earning assets and the rate paid on total interest-bearing liabilities.

(2) Net interest margin is net interest income divided by average earning assets.

As illustrated in the above tables, net interest income increased in the three and nine months ended September 30, 2016, as compared with the same periods of the prior year. The increase resulted from a higher level of average earning assets, driven largely by increased loan volume and, to a lesser extent,

growth in the investment portfolio. Average earning assets increased \$26.926 billion or 9.8% to \$302.428 billion for the three months ended September 30, 2016 and \$26.460 billion or 9.8% to \$297.840 billion for the nine months ended September 30, 2016, as compared with the same periods of 2015.

The net interest margin was 2.47% for both the three and nine months ended September 30, 2016, as compared with 2.57% and 2.56% for the three and nine months ended September 30, 2015. The decline in the net interest margin for the three- and nine-month periods resulted from a decrease in the net interest spread of 11 and 12 basis points to 2.30% and 2.29% for the three and nine months ended September 30, 2016, as compared with 2.41% for both periods of 2015. The decline in the net interest spread resulted primarily from competitive pressures and an increase in certain debt costs. The net interest spread for the three- and nine-month periods was positively impacted by the Banks' ability to refinance outstanding debt at favorable interest rates. The Banks called debt totaling \$52.4 billion and \$21.3 billion during the first nine months of 2016 and 2015 and were able to lower their cost of funds relative to the interest rate earned on their assets, which did not repay or reprice as quickly. As our loan product mix

changes, interest rates change and assets prepay or reprice in a manner more consistent with historical experience, the positive impact on the net interest spread experienced over the past several years from calling Systemwide Debt Securities will continue to decline.

#### ***Provision for Loan Losses***

The System recognized provisions for loan losses of \$58 million and \$218 million for the three and nine months ended September 30, 2016, as compared with provisions for loan losses of \$37 million and \$87 million for the same periods of the prior year. The increase in the provision for loan losses of \$131 million for the first nine months of 2016 primarily reflected increased industry-specific reserves due to continued low grain commodity prices, increased loan volume and modest deterioration in credit quality in certain sectors of the loan portfolio.

#### ***Noninterest Income***

Noninterest income decreased \$14 million or 7.9% to \$163 million for the third quarter of 2016 and decreased \$15 million or 3.2% to \$448 million for the nine months ended September 30, 2016, as compared with the same periods of the prior year. Noninterest income consisted of the following:

|   | <b>For the Three<br/>Months Ended<br/>September 30,</b> |                     | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |                     |
|---|---|---------------------|--|---------------------|
|   | <b>2016</b>   | <b>2015</b>         | <b>2016</b>  | <b>2015</b>         |
|   | (in millions)   |                     |  |                     |
| Loan-related fee income . . . . .   | \$ 54   | \$ 51               | \$181  | \$164               |
| Fees for financially related services . . . . .                           | 70  | 74                  | 143  | 142                 |
| Mineral income . . . . .  | 14  | 19                  | 36   | 60                  |
| Income earned on Insurance Fund assets . . . . .                          | 13  | 10                  | 34   | 24                  |
| Operating lease income . . . . .  | 3   | 10                  | 20   | 28                  |
| Net other-than-temporary impairment losses included in earnings . . . . . | (13)  | (2)                 | (15)   | (13)                |
| Losses on extinguishment of debt . . . . .                                | (18)  | (5)                 | (45)   | (28)                |
| Net gains on sales of investments and other assets . . . . .              | 32  | 3                   | 46   | 29                  |
| Net gains on derivative and other transactions . . . . .                  | 2   | 8                   | 19   | 14                  |
| Other noninterest income . . . . .  | 6   | 9                   | 29   | 43                  |
| <b>Total noninterest income . . . . .</b>                                 | <b><u>\$163</u></b>                                     | <b><u>\$177</u></b> | <b><u>\$448</u></b>                                    | <b><u>\$463</u></b> |

The decrease for the three-month period primarily resulted from increases in losses on extinguishment of debt of \$13 million and net other-than-temporary impairment losses on investments of \$11 million and a decrease in operating lease income of \$7 million. Partially offsetting the decrease in non-interest income for the three-month period was a \$29 million increase in net gains on sales of investments and other assets. The decrease for the nine-month

period was primarily due to a decrease in mineral income of \$24 million and an increase in losses on extinguishment of debt of \$17 million offset, in part, by increases in net gains on sales of investments and other assets of \$17 million and loan-related fee income of \$17 million. The continued decline in oil prices driven by an oversupply of crude oil has and is expected to continue to negatively impact mineral income.

### *Noninterest Expense*

Noninterest expense increased \$31 million or 4.7% to \$685 million and increased \$84 million or 4.3% to \$2.029 billion for the three and nine months ended September 30, 2016, as compared with the same periods of the prior year. Noninterest expense consisted of the following:

|  | <b>For the Three<br/>Months Ended<br/>September 30,</b> |              | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |                |
|--|---|--------------|--|----------------|
|  | <b>2016</b>   | <b>2015</b>  | <b>2016</b>  | <b>2015</b>    |
|  | (in millions)   |              |  |                |
| Salaries and employee benefits .....             | \$453   | \$425        | \$1,326  | \$1,272        |
| Occupancy and equipment expense .....            | 58  | 54           | 174  | 155            |
| Purchased services .....                         | 39  | 35           | 111  | 110            |
| Other operating expense .....                    | 143   | 138          | 424  | 410            |
| Total operating expense .....                    | 693   | 652          | 2,035  | 1,947          |
| Net (gains) losses on other property owned ..... | (8)   | 2            | (6)  | (2)            |
| Total noninterest expense .....                  | <u>\$685</u>  | <u>\$654</u> | <u>\$2,029</u>   | <u>\$1,945</u> |

The increase in noninterest expense for the three and nine months ended September 30, 2016 was primarily due to increases in salaries and employee benefits, occupancy and equipment expense and other operating expense. Salaries and employee benefits increased \$28 million and \$54 million for the three and nine months ended September 30, 2016, as compared to the same periods of the prior year, as a result of annual merit increases and higher staffing levels at certain System institutions. Occupancy and equipment expense increased \$4 million and \$19 million for the three and nine months ended September 30, 2016, as compared to the same periods of the prior year, primarily due to increases in facilities and maintenance expenses, while other operating expense increased \$5 million and \$14 million primarily due to increases in various administrative expenses. Operating expense statistics are as follows:

|   | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2016</b>  | <b>2015</b> |
|   | (\$ in millions)                                       |             |
| Excess of net interest income over operating expense .....                            | \$3,489  | \$3,270     |
| Operating expense as a percentage of net interest income and noninterest income ..... | 34.1%  | 34.3%       |
| Annualized operating expense as a percentage of average earning assets .....          | 0.91%  | 0.96%       |

### *Provision for Income Taxes*

Provisions for income taxes were \$38 million and \$136 million for the three and nine months ended September 30, 2016, as compared with \$45 million and \$167 million for the same periods of the prior year. The effective tax rate decreased from 4.6% for the first nine months of 2015 to 3.7% for the first nine months of 2016 due to decreased earnings at certain taxable System institutions and from a greater amount of patronage.

### **Risk Management**

#### *Overview*

The System is in the business of making agricultural and other loans that require us to take certain risks. Management of risks inherent in our business is essential for our current and long-term financial performance. Prudent and disciplined risk management includes an enterprise risk management structure to identify emerging risks and evaluate risk implications of decisions and actions taken. Each System institution's goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities. Stress testing represents a component of each institution's risk management process. Each System institution is required to perform stress tests; however, the depth and frequency of these stress tests may vary by institution size and complexity.

The major types of risk for which we have exposure are structural risk, credit risk, interest rate risk, liquidity risk, operational risk, reputational risk and political risk.

**Structural Risk Management**

Structural risk results from the fact that the System is comprised of Banks and Associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, they are not commonly owned. Each System institution is responsible for its own risk management and there are no formal processes or procedures in place to mandate Systemwide risk mitigation actions, including, but not limited to, reducing concentration, interest rate and counterparty credit risk across the System. This structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. Although capital at the Association level reduces a Bank’s credit exposure with respect to its wholesale loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities. (See Notes 8 and 14 to the accompanying condensed combined financial statements for additional information.)

In order to monitor the financial strength of each of the Banks and mitigate the risks of non-performance by each Bank of its obligations under the Systemwide Debt Securities, we utilize two integrated intra-System financial performance agreements — the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Second Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score (CIPA score) is calculated quarterly to measure the financial condition and performance of each District (a Bank and its affiliated Associations) using various ratios that take into account the District’s and Bank’s capital, asset quality, earnings, interest-rate risk and liquidity. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each District must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each District. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period.

The MAA is designed to provide for the timely identification and resolution of individual Bank financial issues and establishes performance criteria and procedures for the Banks that provide operational oversight and control over a Bank’s access to System funding. The performance criteria set forth in the MAA are as follows:

- the defined CIPA scores,
- the net collateral ratio of a Bank, and
- the permanent capital ratio of a Bank.

The Bank net collateral ratio is net collateral (primarily loans and investments) divided by total liabilities less subordinated debt, subject to certain limits, and the Bank permanent capital ratio is primarily the Bank’s common stock, preferred stock and subordinated debt, subject to certain limits, and surplus divided by risk-adjusted assets.

If a Bank fails to meet the above performance criteria, it will be placed into one of three categories. Each category gives the other System Banks and the Funding Corporation (collectively, MAA Committee) progressively more control over a Bank that has declining financial performance under the MAA performance criteria. A “Category I” Bank is subject to additional monitoring and reporting requirements; a “Category II” Bank’s ability to participate in issuances of Systemwide Debt Securities may, subject to the discretion of the MAA Committee, be limited to refinancing maturing debt obligations; and a “Category III” Bank may, subject to the discretion of the MAA Committee, not be permitted to participate in issuances of Systemwide Debt Securities. Decisions by the MAA Committee to permit, limit or prohibit a “Category II” or “Category III” Bank to participate in the issuance of Systemwide Debt Securities are subject to oversight and override by the Farm Credit Administration. A Bank exits these categories by returning to compliance with the agreed-upon performance criteria.

The criteria for the net collateral ratio and the permanent capital ratio are:

|                    | <b>Net<br/>Collateral<br/>Ratio</b> | <b>Permanent<br/>Capital<br/>Ratio</b> |
|--------------------|-------------------------------------|--|
| Category I .....   | <104%*                              | <8.0%                                  |
| Category II .....  | <103%                               | <7.0%                                  |
| Category III ..... | <102%                               | <5.0%                                  |

\* As set forth in the MAA, a Bank may be subject to a higher net collateral ratio set by the Farm Credit Administration.

Periodically, the CIPA model and the MAA performance criteria are reviewed to take into consideration current performance standards in the financial services industry or regulatory changes. As a result of the changes to regulatory capital ratio requirements that will be effective January 1, 2017, the MAA criteria will likely be adjusted in connection with the System's current review of the criteria.

During the first nine months of 2016, all Banks met the agreed-upon standard of financial condition and performance required by the CIPA and none of the Banks was placed in any of the three categories designated for Banks failing to meet MAA's specified financial criteria. (See Note 14 for each Bank's net collateral and permanent capital ratios.) For additional information regarding the CIPA or the MAA, see pages 21, 22, 46 and 47 in the *2015 Annual Information Statement*.

### ***Credit Risk Management***

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolios and derivative counterparty credit exposures. (See pages 25 and 26 for a discussion regarding derivative counterparty exposure.)

System institutions manage credit risk associated with their retail lending activities through an analysis of the credit risk profile of an individual borrower. Each Bank and Association has its own set of underwriting standards and lending policies, approved by its board of directors, that provides direction to its loan officers. Underwriting standards include, among other things, an evaluation of:

- character — borrower integrity and credit history,
- capacity — repayment capacity of the borrower based on cash flows from operations or other sources of income,
- collateral — protects the lender in the event of default and represents a potential secondary source of loan repayment,

- capital — ability of the operation to survive unanticipated risks, and
- conditions — intended use of the loan funds.

The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position, and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income.

Although System institutions monitor credit risk individually, the System has established a quarterly process to report System large loan exposures (outstanding loan amounts plus any unfunded loan commitments). A System risk management committee reviews and monitors large loan exposures to existing individual customers that may reach \$1.0 billion or, in certain limited circumstances, \$1.5 billion. Since it is possible that one or more System institutions may simultaneously make credit available to a customer that may, in the aggregate, exceed these limits, the process provides for quarterly data to be compiled on existing large loan exposures with notice provided to the Banks and Associations of the largest loan exposures, including all loan exposures to a borrower greater than 75% of the \$1.0 billion level or \$750 million. While this process captures information regarding large loan exposures, any credit decision resides with the individual System institutions. At September 30, 2016, two exposures were above \$1.0 billion but less than \$1.5 billion, as compared with one exposure above \$1.0 billion but less than \$1.5 billion at December 31, 2015. Additionally, nine exposures at September 30, 2016 and six exposures at December 31, 2015 exceeded \$750 million.

For a detailed discussion of our credit risk management practices, see pages 47 and 48 in the *2015 Annual Information Statement*.

## Loan Portfolio

The System's loan portfolio consists only of retail loans. For additional information on the types of loans we make, see pages 7 through 9 in the *2015 Annual Information Statement*. Bank loans to affiliated Associations have been eliminated in the condensed combined financial statements. Loans outstanding consisted of the following:

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
|   | (in millions)         |                      |
| Real estate mortgage .....                  | \$113,106             | \$107,813            |
| Production and intermediate-term .....      | 48,682                | 49,204               |
| Agribusiness:                               |                       |                      |
| Processing and marketing .....              | 20,404                | 19,949               |
| Loans to cooperatives .....                 | 13,239                | 13,113               |
| Farm-related business .....                 | 3,303                 | 3,533                |
| Rural infrastructure:                       |                       |                      |
| Energy .....                                | 19,197                | 17,925               |
| Communication .....                         | 5,927                 | 6,196                |
| Water/waste water .....                     | 1,668                 | 1,677                |
| Rural residential real estate .....         | 7,240                 | 7,117                |
| Agricultural export finance .....           | 5,069                 | 5,075                |
| Lease receivables .....                     | 3,462                 | 3,373                |
| Loans to other financing institutions ..... | 827                   | 915                  |
| Total loans .....                           | <u>\$242,124</u>      | <u>\$235,890</u>     |

Loan volume increased \$6.234 billion or 2.6% to \$242.124 billion at September 30, 2016, as compared with \$235.890 billion at December 31, 2015, primarily as a result of increases in real estate mortgage and rural infrastructure loans.

Real estate mortgage loans increased \$5.293 billion or 4.9% during the first nine months of 2016, primarily due to continued demand for cropland.

Production and intermediate-term loans decreased \$522 million or 1.1%, as compared with December 31, 2015, primarily due to borrowers' tax-planning strategies at the end of 2015 which resulted in significant repayments in early 2016 and by seasonal repayments on operating lines of credit as many borrowers sold crops and paid down lines of credit in the first quarter of 2016. These paydowns were partially offset by seasonal borrowing on lines of credit during the spring planting season.

Processing and marketing loans increased \$455 million or 2.3% during the first nine months of 2016, primarily due to new loan growth and advances on existing loans within certain industries.

Energy loans increased \$1.272 billion or 7.1%, as compared with December 31, 2015, primarily due to increased lending activity in the rural electric distribution and power supply sectors.

We use various guarantees to reduce credit risk of certain loans. At September 30, 2016, 26% of agricultural export finance volume was guaranteed through the USDA's Commodity Credit Corporation, a federal government-sponsored trade financing program, as compared with 33% at December 31, 2015. In addition, we have entered into agreements that provide long-term standby commitments to purchase System loans and other credit guarantees for certain real estate mortgage loans. The amount of loans under credit guarantees was \$3.604 billion at September 30, 2016 and \$4.125 billion at December 31, 2015, of which \$2.063 billion and \$2.113 billion was provided by Farmer Mac at September 30, 2016 and at December 31, 2015. For additional information on Farmer Mac, see page 12 in the *2015 Annual Information Statement*.

*Nonperforming Assets*

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
|  | (in millions)         |                      |
| Nonaccrual loans:  |                       |                      |
| Real estate mortgage   | \$ 858                | \$ 703               |
| Production and intermediate-term   | 507                   | 356                  |
| Agribusiness   | 114                   | 106                  |
| Rural infrastructure   | 2                     | 86                   |
| Rural residential real estate  | 52                    | 57                   |
| Lease receivables  | 40                    | 16                   |
| Total nonaccrual loans   | <u>1,573</u>          | <u>1,324</u>         |
| Accruing restructured loans:   |                       |                      |
| Real estate mortgage   | 187                   | 180                  |
| Production and intermediate-term   | 108                   | 97                   |
| Agribusiness   | 2                     | 2                    |
| Rural infrastructure   | 46                    |                      |
| Rural residential real estate  | 7                     | 7                    |
| Total accruing restructured loans  | <u>350</u>            | <u>286</u>           |
| Accruing loans 90 days or more past due:                                     |                       |                      |
| Real estate mortgage   | 23                    | 12                   |
| Production and intermediate-term   | 28                    | 5                    |
| Rural residential real estate  |                       | 1                    |
| Lease receivables  | 1                     | 1                    |
| Total accruing loans 90 days or more past due                                | <u>52</u>             | <u>19</u>            |
| Total nonperforming loans  | <u>1,975</u>          | <u>1,629</u>         |
| Other property owned   | 81                    | 96                   |
| Total nonperforming assets   | <u>\$2,056</u>        | <u>\$1,725</u>       |
|  | September 30,<br>2016 | December 31,<br>2015 |
| Nonaccrual loans as a percentage of total loans                              | 0.65%                 | 0.56%                |
| Nonperforming assets as a percentage of total loans and other property owned | 0.85                  | 0.73                 |
| Nonperforming assets as a percentage of capital                              | 3.92                  | 3.53                 |

The following table presents the nonaccrual loan activity:

|   | For the Nine<br>Months Ended<br>September 30, |                |
|---|---|----------------|
|   | 2016  | 2015           |
|   | (in millions)                                 |                |
| Balance at beginning of period            | \$1,324                                       | \$1,375        |
| Additions:                                |   |                |
| Gross amounts transferred into nonaccrual | 957   | 549            |
| Recoveries                                | 30  | 38             |
| Advances                                  | 139   | 112            |
| Other, net                                | 5   | 16             |
| Reductions:                               |   |                |
| Charge-offs                               | (51)  | (71)           |
| Transfers to other property owned         | (35)  | (41)           |
| Returned to accrual status                | (154)   | (73)           |
| Repayments                                | (642)   | (506)          |
| Balance at end of period                  | <u>\$1,573</u>                                | <u>\$1,399</u> |

Nonaccrual loans increased \$249 million or 18.8%, to \$1.573 billion at September 30, 2016, primarily due to loans transferred into nonaccrual status in excess of loan repayments. The increase was primarily due to continued low commodity prices and deterioration in the credit quality of a limited number of borrowers. Nonaccrual loans that were current as to principal and interest were 59.2% of total nonaccrual loans at September 30, 2016, as compared with 60.5% at December 31, 2015.

Accruing restructured loans increased \$64 million or 22.4% to \$350 million at September 30, 2016, primarily due to a previously restructured nonaccrual communication loan returning to accruing status. Accruing loans 90 days or more past due increased \$33 million to \$52 million at September 30, 2016. These past due loans are considered well secured and in the process of collection.

Other property owned, which is held for sale and consists of real and personal property acquired through collection actions, decreased \$15 million to \$81 million at September 30, 2016 from \$96 million at December 31, 2015 primarily due to sales in excess of loans transferred into other property owned.

Loan delinquencies (accruing loans 30 days or more past due), as a percentage of accruing loans were relatively unchanged at 0.21% at September 30, 2016, as compared with 0.20% at September 30, 2015.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of loans and accrued interest receivable was as follows:

|  | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|--|-------------------------------|------------------------------|
| Acceptable . . . . .                           | 94.4%                         | 96.0%                        |
| Other assets especially<br>mentioned . . . . . | 3.0                           | 2.1                          |
| Substandard/doubtful . .                       | <u>2.6</u>                    | <u>1.9</u>                   |
| Total . . . . .                                | <u>100.0%</u>                 | <u>100.0%</u>                |

#### *Allowance for Loan Losses*

The allowance for loan losses was \$1.457 billion at September 30, 2016 and \$1.280 billion at December 31, 2015. Net loan charge-offs of \$8 million and \$20 million were recorded during the third quarter and first nine months of 2016, respectively, as compared with net loan charge-offs of \$17 million and \$33 million for the same periods of the prior year. The System's allowance for loan losses reflected the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the System's condensed combined financial statements, the allowance for loan losses of each System entity is particular to that institution and is not available to absorb losses realized by other System entities. Managements' evaluations consider factors that include, among other things, loan loss experience, portfolio quality, loan portfolio composition, collateral value, current agricultural production conditions and economic conditions.

Even though certain System borrowers have been faced with challenges in the current agricultural and economic environment, their financial positions remain generally healthy given the past decade of favorable U.S. farm economic conditions. System underwriting standards require strong collateral support for loans and by regulation, all non-guaranteed long-term real estate mortgage loans must have a loan-to-value ratio of 85% or less at origination. Most of the System's real estate mortgage loans at origination had a loan-to-value ratio below the statutory maximum of 85%. These factors help to mitigate the System's exposure to loan losses. At September 30, 2016, \$507 million of the System's \$1.975 billion of nonperforming loans had specific reserves (representing probable losses) of \$127 million. The remaining \$1.468 billion of nonperforming loans were evaluated and determined not to need a specific reserve.

The following table presents the activity in the allowance for loan losses:

|   | For the Three<br>Months Ended<br>September 30, |         | For the Nine<br>Months Ended<br>September 30, |         |
|---|--|---------|---|---------|
|   | 2016   | 2015    | 2016  | 2015    |
|   | (\$ in millions)                               |         |   |         |
| Balance at beginning of period  | \$1,433  | \$1,233 | \$1,280                                       | \$1,237 |
| Charge-offs:  |  |         |   |         |
| Real estate mortgage  | (3)  | (10)    | (9)   | (21)    |
| Production and intermediate-term  | (17)   | (19)    | (33)  | (32)    |
| Agribusiness  |  | (4)     | (6)   | (4)     |
| Rural infrastructure  |  |         |   | (10)    |
| Rural residential real estate   |  | (1)     | (2)   | (3)     |
| Lease receivables   | (1)  |         | (2)   | (1)     |
| Total charge-offs   | (21)   | (34)    | (52)  | (71)    |
| Recoveries:   |  |         |   |         |
| Real estate mortgage  | 7  | 9       | 13  | 14      |
| Production and intermediate-term  | 3  | 6       | 10  | 17      |
| Agribusiness  |  | 1       | 4   | 5       |
| Rural infrastructure  | 3  |         | 4   | 1       |
| Rural residential real estate   |  | 1       | 1   | 1       |
| Total recoveries  | 13   | 17      | 32  | 38      |
| Net charge-offs   | (8)  | (17)    | (20)  | (33)    |
| Provision for loan losses   | 58   | 37      | 218   | 87      |
| Adjustment due to Association mergers*  |  |         | (1)   | (2)     |
| Reclassification to/from reserve for unfunded commitments**   | (26)   | (7)     | (20)  | (43)    |
| Balance at end of period  | \$1,457  | \$1,246 | \$1,457                                       | \$1,246 |
| Annualized ratio of net charge-offs during the period to average loans<br>outstanding during the period | 0.01%  | 0.03%   | 0.01%   | 0.02%   |

\* Represents the elimination of the allowance for loan losses in connection with Association mergers that were accounted for under the acquisition method of accounting. See Note 7 to the accompanying condensed combined financial statements.

\*\* Represents reclassifications between the allowance for loan losses and the reserve for unfunded commitments primarily as a result of advances on or repayments of seasonal lines of credit or other loans.

Allowance for loan losses by loan type is as follows:

|                                       | September 30, 2016 |        | December 31, 2015 |        |
|---------------------------------------|--------------------|--------|-------------------|--------|
|                                       | Amount             | %      | Amount            | %      |
|                                       | (\$ in millions)   |        |                   |        |
| Real estate mortgage                  | \$ 387             | 26.6%  | \$ 336            | 26.3%  |
| Production and intermediate-term      | 420                | 28.8   | 346               | 27.0   |
| Agribusiness                          | 365                | 25.0   | 320               | 25.0   |
| Rural infrastructure                  | 204                | 14.0   | 204               | 15.9   |
| Rural residential real estate         | 22                 | 1.5    | 20                | 1.6    |
| Agricultural export finance           | 13                 | 0.9    | 13                | 1.0    |
| Lease receivables                     | 45                 | 3.1    | 40                | 3.1    |
| Loans to other financing institutions | 1                  | 0.1    | 1                 | 0.1    |
| Total                                 | \$1,457            | 100.0% | \$1,280           | 100.0% |

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| Allowance for loan losses as a percentage of: |                       |                      |
| Total loans . . . . .                         | 0.60%                 | 0.54%                |
| Nonperforming loans . . . . .                 | 73.8                  | 78.6                 |
| Nonaccrual loans . . . . .                    | 92.6                  | 96.7                 |

***Interest Rate Risk Management***

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. This risk can produce variability in System earnings (net interest spread achieved and net interest income earned) and, ultimately, the long-term capital position of the System. The System actively manages the following risks:

- Yield curve risk — results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market’s expectation of future interest rates at different points along the yield curve.
- Repricing risk — results from the timing differences (mismatches) between financial assets and related funding that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.
- Option risk — results from “embedded options” that are present in many financial instruments, including the right to prepay loans before the contractual maturity date. Lending practices or loan features that provide the borrower with flexibility frequently introduce a risk exposure for the lender. For example, a fixed-rate loan product may provide a potential borrower with a rate guarantee, an option to lock-in the loan rate for a period of time prior to closing, which protects the borrower from an increase in interest rates between the time loan terms are negotiated and the loan closes. If interest rates increase while the rate guarantee is in effect and if we do not take measures to hedge the rate guarantee, we might realize a lower spread than expected when the loan is funded.

After the loan settles, the borrower may also have the option to repay the loan’s principal

ahead of schedule. If interest rates have fallen, System institutions may be forced to reinvest principal repaid from higher rate loans at a lower rate, which may reduce the interest rate spread unless the underlying debt can be similarly refinanced.

Interest rate caps are another form of embedded options that may be present in certain investments and floating and adjustable rate loans. Interest rate caps typically prevent the investment or loan rate from increasing above a defined limit. In a rising interest rate environment, the spread may be reduced if caps limit upward adjustments to floating investment or loan rates while debt costs continue to increase.

- Basis risk — results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating-rate index tied to a loan or investment differs from the index on the Systemwide Debt Security issued to fund the loan or investment.

The goal of the Banks in managing interest rate risk is to maintain long-term value of equity and stable earnings over both the short- and long-term time horizons. In most cases, the wholesale funding provided by a Bank to an Association matches the terms and embedded options of the Association’s retail loans. This funding approach shifts the majority of the interest rate risk connected with retail loans from the Association to its funding Bank where interest rate risk is managed centrally. The Banks are responsible for developing asset/liability management policies and strategies to manage interest rate risk and for monitoring this risk on a regular basis. These policies include guidelines for measuring and evaluating exposures to interest rate risk. In addition, the policies establish limits for interest rate risk and define the role of the board of directors in delegating day-to-day responsibility for interest rate risk management to Bank management. That authority is delegated to an asset/liability management committee, made up of senior Bank managers. The policies define the composition of the committee and its responsibilities. Interest rate risk management is also subject to certain intra-System agreements, including the CIPA and the MAA, and regulatory oversight by the Farm Credit Administration.

One of the primary benefits of our status as a government-sponsored enterprise debt issuer is that, through the Funding Corporation and its selling group, the System has daily access to the debt markets and a great deal of flexibility in structuring the maturity and types of debt securities we issue to match asset cash flows. The ability to quickly access the debt markets helps us minimize the risk that interest rates might change between the time a loan commitment is made and the time it is funded.

Flexibility in structuring debt enables us to issue Systemwide Debt Securities that offset most of the primary interest rate risk exposures embedded in our loans. For example, by issuing LIBOR-indexed, floating-rate Systemwide Debt Securities we are able to minimize the basis risk exposure presented by our LIBOR-indexed, floating-rate loans. As we discussed above, some of our fixed-rate loans may provide borrowers with the option to prepay their loans. In most interest rate environments we are able to significantly offset the risk created by a prepayment option by funding prepayable fixed-rate loans with callable debt. Callable debt provides us with the option to retire debt early to offset prepayment risk in earning assets or refinance debt in a declining interest rate environment.

Approximately 74% of our fixed-rate loans provide the borrowers with the option to prepay their loan at any time without fees, and the remainder of the System's fixed-rate loans contain provisions requiring prepayment fees to partially or fully compensate the System for the cost of retiring the debt, some of which may be non-callable.

The Banks participate in the derivatives markets, which provide additional tools to manage interest rate risk. Our use of derivatives is detailed later in this section.

#### Interest Rate Risk Measurements

The Banks measure interest rate risk using interest rate gap analysis, net interest income sensitivity analysis and market value of equity sensitivity analysis and duration gap analysis. These measures are calculated on a monthly basis and the assumptions used in these analyses are monitored routinely and adjusted as necessary.

#### Interest Rate Risk Management Results

##### *Interest Rate Gap Analysis*

The interest rate gap analysis presents a comparison of interest-sensitive assets and liabilities in defined time segments as of September 30, 2016. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of balance sheet, cash flows, rate and spread changes, and may not necessarily indicate the sensitivity of net interest income in a changing rate environment. Within the gap analysis, gaps are created when an institution uses its capital to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. The quantity of assets will exceed the quantity of interest-bearing liabilities in any repricing interval where capital provides part of the funding. The gap table below includes anticipated cash flows on interest sensitive assets and liabilities given the current level of interest rates.

|   | Repricing Intervals |                    |           |              | Total     |
|---|---------------------|--------------------|-----------|--------------|-----------|
|   | 0-6 Months          | 6 Months to 1 Year | 1-5 Years | Over 5 Years |           |
|   | (\$ in millions)    |                    |           |              |           |
| Floating-rate loans:  |                     |                    |           |              |           |
| Indexed/adjustable-rate loans . . . . .   | \$ 43,106           | \$ 528             | \$ 1,129  | \$ 1,095     | \$ 45,858 |
| Administered-rate loans . . . . .   | 52,081              |                    |           |              | 52,081    |
| Fixed-rate loans:   |                     |                    |           |              |           |
| Fixed-rate with prepayment or conversion fees . . . . .   | 4,123               | 2,650              | 10,815    | 18,531       | 36,119    |
| Fixed-rate without prepayment or conversion fees . . . .  | 26,200              | 13,000             | 43,074    | 24,219       | 106,493   |
| Nonaccrual loans . . . . .  |                     |                    |           | 1,573        | 1,573     |
| Total gross loans . . . . .   | 125,510             | 16,178             | 55,018    | 45,418       | 242,124   |
| Federal funds sold, investments and other interest-earning assets . . . . .   | 28,445              | 7,067              | 18,778    | 5,849        | 60,139    |
| Total earning assets . . . . .  | 153,955             | 23,245             | 73,796    | 51,267       | 302,263   |
| Interest-bearing liabilities:   |                     |                    |           |              |           |
| Callable bonds and notes . . . . .  | 11,459              | 11,366             | 24,619    | 8,307        | 55,751    |
| Noncallable bonds and notes . . . . .   | 126,780             | 19,443             | 34,701    | 15,317       | 196,241   |
| Subordinated debt and other interest-bearing liabilities . . . . .  | 4,966               |                    |           | 223          | 5,189     |
| Total interest-bearing liabilities . . . . .  | 143,205             | 30,809             | 59,320    | 23,847       | 257,181   |
| Effect of interest rate swaps and other derivatives . . . . .   | 8,688               | (1,354)            | (9,258)   | 1,924        |           |
| Total interest-bearing liabilities adjusted for swaps and other derivatives . . . . .   | 151,893             | 29,455             | 50,062    | 25,771       | 257,181   |
| Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives) . . . . . | \$ 2,062            | \$ (6,210)         | \$23,734  | \$25,496     | \$ 45,082 |
| Cumulative gap . . . . .  | \$ 2,062            | \$ (4,148)         | \$19,586  | \$45,082     |           |
| Cumulative gap as a percentage of total earning assets . . .  | 0.68%               | (1.37)%            | 6.48%     | 14.91%       |           |

Consistent with the positive gap between the System's earning assets and interest-bearing liabilities as reflected in the table above, the System's interest rate sensitivity position at September 30, 2016 for the six-month repricing interval is characterized as "asset sensitive," i.e., interest rates earned on interest-earning assets may change or be changed more quickly than interest rates on interest-bearing liabilities used to fund these assets.

Typically, the net interest margin of an institution that is "asset sensitive" will be unfavorably impacted in a declining interest-rate environment or an environment characterized by relatively stable interest rates and a steep yield curve, and favorably impacted in a rising interest-rate environment. The System's capital is invested in loans and investment securities that reprice to lower yields when interest rates are falling and to higher yields when interest rates increase. However, the net interest spread, a component of net interest margin, may react in a different manner due to competitive conditions at the time of repricing.

Further, a significant portion of the System's floating-rate loans are management administered-rate loans that, unlike indexed loans, require definitive action at the discretion of the lending Bank or Association to change the interest rates charged and may reflect managements' assessments of whether rate changes are warranted or feasible in view of competitive market conditions. The actual interest rates charged on the administered-rate loans may not mirror the movement of some market interest rates.

Additionally, the Banks issue callable debt to accelerate the repricing of debt in a declining interest rate environment and thereby moderate the impact of falling interest rates on net interest income of institutions in an asset-sensitive position. During the first nine months of 2016, \$52.4 billion of debt was called and at September 30, 2016, \$55.8 billion of callable debt obligations were outstanding. The System's cumulative gap position in the 0-6 months repricing interval decreased from 4.44% at December 31, 2015 to 0.68% at September 30, 2016.

### Sensitivity Analysis

In addition to the static view of interest rate sensitivity shown by the gap analysis, each Bank conducts simulations of net interest income and market value of equity. The market value of equity sensitivity analysis incorporates the effects of leverage and the optionality of interest sensitive assets and liabilities due to interest rate changes. The two primary scenarios used for the analysis reflect the impact of interest rate shocks upward and downward (i.e., immediate, parallel changes upward and downward in the yield curve) on projected net interest income and on market value of equity. The Banks also use other types of measures to model exposures to interest rate changes, such as rate ramps (gradual change in rates) and yield curve slope changes.

The upward and downward shocks are generally based on movements of 100 and 200 basis points in interest rates, which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed. However, in the current, relatively low interest rate environment, the downward shock is based on one-half of the three-month Treasury bill rate, which was 14 basis points at September 30, 2016 and 8 basis points at December 31, 2015. Under these simulations, the System's sensitivity to interest rate changes (sum of Districts' sensitivity analyses) was:

|   | September 30, 2016 |        |        |
|---|--------------------|--------|--------|
|   | -14                | +100   | +200   |
| Change in net interest income . . . . . | -0.02%             | 1.21%  | 2.37%  |
| Change in market value of equity . . .  | 0.46%              | -3.38% | -7.03% |

|   | December 31, 2015 |        |        |
|---|-------------------|--------|--------|
|   | -8                | +100   | +200   |
| Change in net interest income . . . . . | -0.32%            | 1.79%  | 3.77%  |
| Change in market value of equity . . .  | 0.24%             | -3.31% | -6.67% |

Each Bank measures District interest rate sensitivity under these simulations in accordance with its asset/liability management policies. District measurements are presented in the Supplemental Financial Information on page F-59.

In addition to the interest rate scenarios required for reporting and regulatory purposes, the Banks also periodically perform additional scenario analyses to study the effects of changes in critical modeling assumptions — for example, the impact of increased/

decreased prepayments, changes in the relationship of the System's funding cost to other benchmark interest rates, additional non-parallel shifts in the yield curve, and changes in market volatility. (For a more detailed discussion of sensitivity analysis and prepayment modeling assumptions, see pages 63 and 64 in the *2015 Annual Information Statement*.)

### Duration Gap Analysis

Another risk measurement is duration, which we calculate using a simulation model. Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities. All else being equal, an institution with a small duration gap has less exposure to interest rate risk than an institution with a large duration gap.

The System's aggregate duration gap (the sum of the Banks' duration gaps) was a positive 3.9 months at September 30, 2016 and a positive 3.6 months at December 31, 2015. Generally, a duration gap within the range of a positive six months to a negative six months indicates a small exposure to changes in interest rates.

Duration gap provides a relatively concise and static measure of the interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. An institution's overall exposure to interest rate risk is a function not only of the duration gap, but also of the financial leverage inherent in the institution's capital structure. For the same duration gap, an institution with more equity or capital will have a lower overall percentage exposure to interest rate risk, stated in terms of the percentage change in the market value of equity, than one with less capital and more leverage.

There are some limitations to duration analysis as balance sheets are dynamic. Durations change over time and as the composition of a portfolio changes.

### *Derivative Products*

Derivative products are a part of our interest rate risk management activities and supplement our issuance of debt securities in the capital markets. We use derivative financial instruments as hedges against interest rate and liquidity risks and to lower the overall cost of funds. We do not hold or enter into derivative transactions for trading purposes. Our ability to modify the debt securities by using derivative instruments provides us with greater flexibility to manage our interest rate risk and liquidity risk.

The primary types of derivative products used and hedging strategies employed are described on page 65 of the *2015 Annual Information Statement*. For additional information on derivative products and hedging activities, see Note 11 to the accompanying condensed combined financial statements.

The aggregate notional amount of the System's derivative products, most of which consisted of interest rate swaps, increased \$4.080 billion to \$33.147 billion at September 30, 2016, as compared with \$29.067 billion at December 31, 2015. The aggregate notional amount of these instruments, which is not included in the Condensed Combined Statement of Condition, is indicative of the System's activities in derivative financial instruments, but is not an indicator of the level of credit risk associated with these instruments. The exposure to credit risk is a small fraction of the aggregate notional amount. The majority of the swaps used by the Banks were receive-fixed swaps, which are used to improve liquidity or lower their cost of debt by issuing fixed-rate debt and swapping the debt to floating to create synthetic floating-rate debt.

By using derivative instruments, we are exposed to counterparty credit risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk (exposure) will equal the fair value gain in a derivative. When the fair value of a derivative is positive, the counterparty would owe the Bank on early termination of the derivative, thus creating a credit risk for the Bank. When the fair value of the derivative is negative, the Bank would owe the counterparty on early termination of the derivative, and, therefore, assumes no credit risk.

To minimize the risk of credit losses for non-cleared derivatives, the Banks typically enter into master agreements that govern all derivative transactions with a counterparty, which include bilateral collateral agreements requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached. These thresholds may vary for certain Banks depending on the terms of these bilateral collateral agreements, which consider a counterparty's credit worthiness. The Banks may also clear derivative transactions through a futures commission merchant, with a clearinghouse or a central counterparty. Cleared derivatives require the payment of initial and variation margin as a protection against default. In addition, certain of the Banks' non-cleared derivatives will become subject to initial and variation margin requirements imposed pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). For additional information related to derivatives, see pages 67 and 68 in the *2015 Annual Information Statement*.

The exposure on derivatives by counterparty credit rating (Moody's) that would be owed to us due to a default or early termination by our counterparties at September 30, 2016 and December 31, 2015 were:

|                        | September 30, 2016       |                             |                 |                 |                             | December 31, 2015        |                             |                 |                 |                             |
|------------------------|--------------------------|-----------------------------|-----------------|-----------------|-----------------------------|--------------------------|-----------------------------|-----------------|-----------------|-----------------------------|
|                        | Number of Counterparties | Notional Principal Exposure | Credit Exposure | Collateral Held | Exposure, Net of Collateral | Number of Counterparties | Notional Principal Exposure | Credit Exposure | Collateral Held | Exposure, Net of Collateral |
| (\$ in millions)       |                          |                             |                 |                 |                             |                          |                             |                 |                 |                             |
| Bilateral derivatives: |                          |                             |                 |                 |                             |                          |                             |                 |                 |                             |
| Aa1                    | 1                        | \$ 1,731                    |                 |                 |                             | 1                        | \$ 1,650                    | \$ 7            | \$ 7            |                             |
| Aa2                    | 2                        | 5,304                       |                 |                 |                             | 2                        | 4,765                       | 17              | 14              | \$ 3                        |
| Aa3                    | 4                        | 8,999                       | \$ 2            | \$ 1            | \$1                         | 4                        | 9,759                       | 81              | 78              | 3                           |
| A1                     | 4                        | 1,842                       | 9               | 8               | 1                           | 4                        | 2,423                       | 35              | 31              | 4                           |
| A2                     | 3                        | 900                         | 1               | 1               |                             | 3                        | 676                         | 1               | 1               |                             |
| A3                     | 1                        | 40                          |                 |                 |                             | 2                        | 177                         |                 |                 |                             |
| Baa1                   | 1                        | 868                         | 3               | 3               |                             | 1                        | 1,251                       | 19              | 19              |                             |
| Baa2                   | 1                        | 136                         |                 |                 |                             |                          |                             |                 |                 |                             |
| Cleared derivatives(1) |                          |                             |                 |                 |                             |                          |                             |                 |                 |                             |
|                        | 2                        | 7,828                       |                 |                 |                             | 2                        | 3,460                       |                 |                 |                             |
| Total                  | 19                       | \$27,648                    | \$15            | \$13            | \$2                         | 19                       | \$24,161                    | \$160           | \$150           | \$10                        |

(1) Represents derivative transactions cleared with central counterparties, which are not rated. Excluded from the table is initial margin posted by two Banks and one Association totaling \$43 million at both September 30, 2016 and December 31, 2015 related to cleared derivative transactions.

Note: The remaining notional amount of derivative financial instruments of \$5.486 billion and \$4.862 billion at September 30, 2016 and December 31, 2015 are related to interest rate swaps that two Banks entered into with certain of their customers. The market risk from these transactions is offset by concurrently entering into offsetting derivative transactions with some of the above counterparties. Another \$13 million and \$44 million in notional amount of derivative financial instruments at September 30, 2016 and December 31, 2015 relate to forward commitments that one Association has entered into to hedge interest rate risk on interest rate locks.

At September 30, 2016, the Banks' counterparties posted \$13 million in cash with us, as compared with \$115 million of cash and \$35 million in securities at December 31, 2015. At September 30, 2016 and December 31, 2015, two Banks had posted collateral with respect to obligations under these agreements of \$229 million and \$50 million.

### Liquidity Risk Management

#### General

Liquidity risk management is necessary to ensure our ability to meet our financial obligations. These obligations include the repayment of Systemwide Debt Securities as they mature, the ability to fund new and existing loan and other funding commitments, and the ability to fund operations in a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets. The Banks have established a Contingency Funding Program to provide for contingency financing mechanisms and procedures to address potential disruptions in the System's communications, operations and payments

systems, as well as the ability to handle events that threaten continuous market access by the Banks or disrupt the Funding Corporation's normal operations. Under this Program, the Funding Corporation has the authority to finance all Systemwide Debt Securities through the issuance of Systemwide discount notes either directly to institutional investors or through the selling group. The Funding Corporation, on behalf of the Banks, may also incur other obligations, such as Federal funds purchased, that would be the joint and several obligations of the Banks and would be insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, 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 renewed. 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.

#### Funding Sources

Our primary source of liquidity is the ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the Banks. We continually raise funds to support our mission to provide credit and related services to the agricultural and rural sectors, repay maturing Systemwide Debt Securities, and meet other obligations. As a government-sponsored enterprise, we have had access to the global capital markets. This access has traditionally provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the agricultural and rural sectors. The U.S. government does not guarantee, directly or indirectly, the

Eligible investments (carried at fair value) based on credit ratings issued by Moody's Investors Service, Standard & Poor's Ratings Services, or Fitch Ratings were as follows:

| September 30, 2016                                   | Eligible Investments |                |                                    |              | Total           |
|--|----------------------|----------------|------------------------------------|--------------|-----------------|
|  | AAA/Aaa              | A1/P1/F1       | Split<br>Rated(1)<br>(in millions) | A2/P2/F2     |                 |
| Federal funds sold and securities purchased          |                      |                |                                    |              |                 |
| under resale agreements                              |                      | \$1,083        | \$ 400                             | \$100        | \$ 1,583        |
| Commercial paper, bankers' acceptances, certificates |                      |                |                                    |              |                 |
| of deposit and other securities                      |                      | 3,694          | 2,002                              |              | 5,696           |
| U.S. Treasury securities                             |                      |                | 16,150                             |              | 16,150          |
| U.S. agency securities                               |                      |                | 5,565                              |              | 5,565           |
| Mortgage-backed securities:                          |                      |                |                                    |              |                 |
| Agency collateralized                                |                      |                | 22,775                             |              | 22,775          |
| Agency whole-loan pass through                       |                      |                | 2,204                              |              | 2,204           |
| Private label-FHA/VA                                 |                      |                | 73                                 |              | 73              |
| Asset-backed securities                              | \$1,776              |                | 786                                |              | 2,562           |
| Total  | <u>\$1,776</u>       | <u>\$4,777</u> | <u>\$49,955</u>                    | <u>\$100</u> | <u>\$56,608</u> |

payment of principal or interest on any Systemwide Debt Securities issued by the Banks.

#### Investments

As more fully described on page 70 in the 2015 Annual Information Statement, a Bank is authorized to hold Federal funds and available-for-sale investments in an amount not to exceed 35% of a Bank's average loans outstanding for the quarter. We utilize investments for the purposes of maintaining a diverse source of liquidity and managing short-term surplus funds and reducing interest rate risk, and in so doing enhance profitability. Farm Credit Administration regulations also permit an Association to hold eligible investments for purposes of managing short-term surplus funds and reducing interest rate risk with the approval of its affiliated Bank. At September 30, 2016, no Bank exceeded the 35% limit.

Farm Credit Administration regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of investment portfolio limit for each investment type. At the time of purchase, they must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service, Standard & Poor's Ratings Services or Fitch Ratings, as more fully described on page 70 in the 2015 Annual Information Statement.

| December 31, 2015   | Eligible Investments |                |                   |              |                 |
|---|----------------------|----------------|-------------------|--------------|-----------------|
|   | AAA/Aaa              | A1/P1/F1       | Split<br>Rated(1) | A2/P2/F2     | Total           |
|   | (in millions)        |                |                   |              |                 |
| Federal funds sold and securities purchased<br>under resale agreements                  |                      | \$ 961         | \$ 500            | \$200        | \$ 1,661        |
| Commercial paper, bankers' acceptances, certificates<br>of deposit and other securities |                      | 3,279          | 2,002             |              | 5,281           |
| U.S. Treasury securities  |                      |                | 10,046            |              | 10,046          |
| U.S. agency securities  |                      |                | 6,199             |              | 6,199           |
| Mortgage-backed securities:   |                      |                |                   |              |                 |
| Agency collateralized   |                      |                | 22,425            |              | 22,425          |
| Agency whole-loan pass through  |                      |                | 2,514             |              | 2,514           |
| Non-agency  | \$ 1                 |                |                   |              | 1               |
| Private label-FHA/VA  |                      |                | 86                |              | 86              |
| Asset-backed securities   | 1,615                |                | 876               |              | 2,491           |
| Total   | <u>\$1,616</u>       | <u>\$4,240</u> | <u>\$44,648</u>   | <u>\$200</u> | <u>\$50,704</u> |

(1) Investment that received the highest credit rating from at least one rating organization.

As noted in the tables above, the split rating on investments in U.S. Treasury, U.S. agency and agency mortgage-backed securities is the result of Standard & Poor's Ratings Services maintaining the U.S. government's long-term sovereign credit rating of AA+. Both Moody's Investors Service and Fitch Ratings maintain the triple-A ratings for U.S. government and agency securities.

If an investment no longer meets the eligibility criteria referred to above, the investment becomes ineligible for regulatory liquidity calculation purposes. Under Farm Credit Administration regulations, if an investment is eligible when purchased but no longer satisfies the eligibility criteria referred to above, the Bank may continue to hold it subject to the following requirements:

- the Bank must notify the Farm Credit Administration within 15 calendar days after such determination,

- the Bank must not use the investment to satisfy its liquidity requirement,
- the Bank must continue to include the investment in the investment portfolio limit calculation,
- the Bank may continue to include the investment as collateral and net collateral at lower of cost or market, and
- the Bank must develop a plan to reduce the risk posed by the investment.

The Farm Credit Administration has the authority to require a Bank to divest any investment at any time for failure to comply with its regulation. As of September 30, 2016, the Farm Credit Administration has not required disposition of any of these securities. Bank managements do not believe that events will occur that would require them to dispose of any of these securities.

The following tables set forth ineligible securities (carried at fair value) by credit rating, which represented 0.9% and 1.8% of Federal funds and available-for-sale investments at September 30, 2016 and December 31, 2015.

| September 30, 2016                                 | Ineligible Investments  |             |            |            |              |              |              |             |             |              | Amortized<br>Cost |
|--|-------------------------|-------------|------------|------------|--------------|--------------|--------------|-------------|-------------|--------------|-------------------|
|  | Number of<br>Securities | AA/Aa       | A/A        | BBB/Baa    | BB/Ba        | B/B          | CCC/Caa      | CC/Ca       | D/C         | Total        |                   |
|  | (\$ in millions)        |             |            |            |              |              |              |             |             |              |                   |
| Non-agency mortgage-backed securities              | 44                      | \$12        | \$8        | \$6        | \$ 2         |              | \$ 23        | \$15        | \$10        | \$ 76        | \$ 69             |
| Private label-FHA/VA mortgage-backed<br>securities | 16                      |             |            |            | 148          | \$158        | 125          |             |             | 431          | 439               |
| Asset-backed securities                            | 13                      | 3           | 1          |            |              | 4            | 25           |             |             | 33           | 22                |
| Total  | <u>73</u>               | <u>\$15</u> | <u>\$9</u> | <u>\$6</u> | <u>\$150</u> | <u>\$162</u> | <u>\$173</u> | <u>\$15</u> | <u>\$10</u> | <u>\$540</u> | <u>\$530</u>      |

| December 31, 2015   | Ineligible Investments |              |             |             |             |              |              |             |              | Amortized Cost |              |
|---|------------------------|--------------|-------------|-------------|-------------|--------------|--------------|-------------|--------------|----------------|--------------|
|   | Number of Securities   | AA/Aa        | A/A         | BBB/Baa     | BB/Ba       | B/B          | CCC/Caa      | CC/Ca       | D/C          |                | Total        |
|   | (\$ in millions)       |              |             |             |             |              |              |             |              |                |              |
| Non-agency mortgage-backed securities . . .               | 93                     | \$ 22        | \$23        | \$25        | \$ 8        | \$ 26        | \$ 93        | \$20        | \$ 55        | \$272          | \$265        |
| Private label-FHA/VA mortgage-backed securities . . . . . | 25                     | 176          |             |             | 54          | 292          | 24           |             | 26           | 572            | 572          |
| Asset-backed securities . . . . .                         | 32                     | 4            | 3           |             |             | 8            | 27           | 17          | 19           | 78             | 37           |
| Total . . . . .   | <u>150</u>             | <u>\$202</u> | <u>\$26</u> | <u>\$25</u> | <u>\$62</u> | <u>\$326</u> | <u>\$144</u> | <u>\$37</u> | <u>\$100</u> | <u>\$922</u>   | <u>\$874</u> |

Note: Investments are classified based on the indicated rating as the highest rating from at least one rating organization.

At September 30, 2016, the Banks held 73 securities that were considered ineligible, as compared with 150 securities at December 31, 2015. The decrease was primarily due to the sale of 73 ineligible securities during 2016.

The types of mortgage-backed and asset-backed securities that are included in the System’s investment portfolio were:

|  | September 30, 2016 |                 |                           | December 31, 2015 |                 |                           |
|--|--------------------|-----------------|---------------------------|-------------------|-----------------|---------------------------|
|  | Amortized Cost     | Fair Value      | Unrealized Gains/(Losses) | Amortized Cost    | Fair Value      | Unrealized Gains/(Losses) |
|  | (in millions)      |                 |                           |                   |                 |                           |
| Mortgage-backed securities:                |                    |                 |                           |                   |                 |                           |
| Agency collateralized . . . . .            | \$22,698           | \$22,775        | \$ 77                     | \$22,483          | \$22,425        | \$(58)                    |
| Agency whole-loan pass through . . .       | 2,141              | 2,204           | 63                        | 2,442             | 2,514           | 72                        |
| Non-agency . . . . .                       | 69                 | 76              | 7                         | 266               | 273             | 7                         |
| Private label-FHA/VA . . . . .             | 513                | 504             | (9)                       | 659               | 658             | (1)                       |
| Total mortgage-backed securities . . . . . | <u>\$25,421</u>    | <u>\$25,559</u> | <u>\$138</u>              | <u>\$25,850</u>   | <u>\$25,870</u> | <u>\$ 20</u>              |
| Asset-backed securities:                   |                    |                 |                           |                   |                 |                           |
| Home equity loans . . . . .                | \$ 24              | \$ 34           | \$ 10                     | \$ 39             | \$ 81           | \$ 42                     |
| Small business loans . . . . .             | 782                | 785             | 3                         | 871               | 874             | 3                         |
| Auto loans . . . . .                       | 1,240              | 1,242           | 2                         | 1,152             | 1,150           | (2)                       |
| Equipment loans . . . . .                  | 184                | 184             |                           | 137               | 137             |                           |
| Credit card receivables . . . . .          | 347                | 347             |                           | 323               | 323             |                           |
| Student loans . . . . .                    | 3                  | 3               |                           | 4                 | 4               |                           |
| Total asset-backed securities . . . . .    | <u>\$ 2,580</u>    | <u>\$ 2,595</u> | <u>\$ 15</u>              | <u>\$ 2,526</u>   | <u>\$ 2,569</u> | <u>\$ 43</u>              |

#### Mission-Related and Other Investments

The Farm Credit Act states that the mission of the System is “to provide for an adequate and flexible flow of money into rural areas.” Congress also recognized the “growing need for credit in rural areas” and declared that the System be designed to accomplish the objective of improving the income and well-being of America’s farmers and ranchers. To further the System’s mission to support rural America, the System has initiated mission-related programs and other mission-related investments approved by the Farm Credit Administration. These

investments are not included in the Banks’ liquidity calculations and are not covered by the eligible investment limitation discussed above. However, limitations on mission-related investments are determined by the Farm Credit Administration.

Mortgage-backed securities issued by Farmer Mac are also considered other investments and are excluded from the eligible investment limitation and the Banks’ liquidity calculations. These Farmer Mac securities are backed by loans originated by Associations and previously held by the Associations under Farmer Mac standby purchase commitments.

Mission-related and other investments outstanding that are classified as held-to-maturity (carried at amortized cost) are as follows:

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
|  | (in millions)         |                      |
| Small Business Administration securities and other government guaranteed . . . . | \$1,488               | \$1,453              |
| Farmer Mac securities . . . . .  | 476                   | 372                  |
| Rural home loan securities . . .   | 446                   | 462                  |
| Rural America bonds and Agricultural Rural Community bonds . . . . .             | 152                   | 183                  |
| Other . . . . .  |                       | 8                    |
| Total . . . . .  | <u>\$2,562</u>        | <u>\$2,478</u>       |

Mission-related and other investments outstanding that are classified as available-for-sale (carried at fair value) are as follows:

|                                  | September 30,<br>2016 | December 31,<br>2015 |
|----------------------------------|-----------------------|----------------------|
|                                  | (in millions)         |                      |
| Farmer Mac securities . . . . .  | \$273                 | \$293                |
| Rural home loan securities . . . | 106                   |                      |
| Other . . . . .                  | 5                     | 7                    |
| Total . . . . .                  | <u>\$384</u>          | <u>\$300</u>         |

**Other-Than-Temporarily Impaired Investments**

The System recognized credit impairment losses of \$15 million and \$13 million in earnings for the first nine months of 2016 and 2015. (See Note 2 to the accompanying condensed combined financial statements for additional information.)

**Liquidity Standard**

The Farm Credit Administration regulations on liquidity set forth requirements for the Banks to:

- improve their capacity to pay their obligations and fund their operations by maintaining adequate liquidity to withstand various market disruptions and adverse economic or financial conditions;
- strengthen liquidity management;
- enhance the liquidity of assets that they hold in their liquidity reserves;
- maintain a three-tiered liquidity reserve. The first tier of the liquidity reserve must consist of a sufficient amount of cash and cash-like

instruments to cover each Bank’s financial obligations for 15 days. The second and third tiers of the liquidity reserve must contain cash and highly liquid instruments that are sufficient to cover the Bank’s obligations for the next 15 and subsequent 60 days, respectively;

- establish an incremental liquidity reserve, in addition to the three tiers set forth immediately above, comprised of cash and eligible investments; and
- strengthen their Contingency Funding Plan.

The number of days of liquidity is calculated by comparing the principal portion of maturing Systemwide Debt Securities and other borrowings of the Banks with the total amount of cash, cash equivalents and eligible investments maintained by that Bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale and include only the eligible investments of the Banks.

At September 30, 2016, each Bank maintained the three tiers of the liquidity reserve and exceeded the regulatory minimum 90 days of liquidity. The System’s liquidity position was 177 days at September 30, 2016, as compared with 181 days at December 31, 2015. (See Note 14 for each Bank’s liquidity position at September 30, 2016 and December 31, 2015.)

Cash provided by the System’s operating activities (primarily generated from net interest income in excess of operating expenses) of \$3.004 billion and \$3.014 billion for the first nine months of 2016 and 2015 provides an additional source of liquidity for the System that is not reflected in the individual Bank’s calculation of days of liquidity under the standard. Further, funds in the Insurance Fund would be used to repay maturing Systemwide Debt Securities, to the extent available, if no other sources existed to repay the debt.

**Capital Adequacy and the Ability to Repay Systemwide Debt Securities**

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services. We believe a sound capital position is critical to providing protection to investors in Systemwide Debt Securities and our long-term financial success.

We continue to build capital primarily through net income earned and retained. Capital accumulated through earnings has been partially offset by cash distributions to stockholders. Surplus of \$42.969 billion at September 30, 2016 and \$40.458 billion at December 31, 2015, is the most significant component of capital. As of September 30, 2016, surplus as a percentage of capital was 82.0%, as compared with 82.8% at December 31, 2015. Capital as a percentage of assets increased to 16.7% at September 30, 2016, as compared with 16.1% at December 31, 2015 due principally to earnings retained.

### FCA Capital Requirements

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Farm Credit Administration's capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets. The Banks are also required to achieve and maintain a minimum net collateral ratio as discussed below.

At September 30, 2016, all System institutions maintained ratios in excess of these standards as follows:

| <u>System Institutions</u>            | <u>Permanent Capital Ratio</u> | <u>Total Surplus Ratio</u> | <u>Core Surplus Ratio**</u> | <u>Net Collateral Ratio</u> |
|---------------------------------------|--------------------------------|----------------------------|-----------------------------|-----------------------------|
| Banks* . . . . .                      | 15.6% - 20.9%                  | 14.6% - 20.8%              | 9.6% - 18.7%                | 105.5% - 107.6%             |
| Associations . . . . .                | 12.9% - 36.2%                  | 12.7% - 35.7%              | 12.1% - 34.1%               | Not Applicable              |
| Regulatory minimum required . . . . . | 7.0%                           | 7.0%                       | 3.5%                        | 103%***                     |

\* See Note 14 for each Bank's permanent capital ratio and net collateral ratio at September 30, 2016 and December 31, 2015.

\*\* Effective January 1, 2015, the Farm Credit Administration requires CoBank to maintain a core surplus ratio of 5.59% during a period in which it includes a portion of common stock as core surplus.

\*\*\* In connection with subordinated debt offerings, CoBank is required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%. At September 30, 2016, AgFirst, AgriBank and the Farm Credit Bank of Texas had no subordinated debt outstanding.

### *Interdependency of the Banks and the Associations*

Understanding the System's structure and the interdependent nature of the Banks and the Associations is critical to understanding our capital adequacy.

As previously discussed, each Bank is primarily liable for the repayment of Systemwide Debt Securities issued on its behalf, as well as being liable for Systemwide Debt Securities issued on behalf of the other Banks. The Farm Credit Banks, through the issuance of Systemwide Debt Securities, generally finance the wholesale loans to their affiliated Associations who lend the proceeds to their customers. CoBank, as an Agricultural Credit Bank, makes loans to agricultural and rural infrastructure cooperatives and businesses, and other eligible borrowers, as well as Associations. Each Bank's ability to repay Systemwide Debt Securities is due, in large part, to each of its Association's ability to repay its loan from the Bank. As a result, the Banks continually monitor the risk-bearing capabilities of each affiliated Association through various mechanisms, including testing the reliability of each Association's credit

classifications and prior-approval of certain Association loan transactions. Capital, allowance for loan losses and earnings at the Association level also reduce the credit exposure that each Bank has with respect to the loans between the Bank and its affiliated Associations.

Since an Association's ability to obtain funds from sources other than its affiliated Bank is significantly limited, the financial well-being of the Bank and its ability to continue to provide funds is very important to the Association. In addition to the equity the Associations are required to purchase in connection with their direct loans from their affiliated Bank, under each Bank's bylaws, the Bank is authorized, under certain circumstances, to require its affiliated Associations and certain other equity holders to purchase additional Bank equity subject to certain limits or conditions. Further, the Banks generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced operating and financing policies and agreements for its District. (See Notes 8 and 14 to the accompanying condensed combined financial statements for further discussion of Bank and Association capital.)

Notwithstanding the foregoing, only the Banks, and not the Associations, are jointly and severally liable for the repayment of Systemwide Debt Securities. Other than as described above, and subject to various regulatory and contractual conditions and limitations, the Banks do not have direct access to the capital of their affiliated Associations. In addition, any indirect access that the Banks may have to the capital of the Associations may be limited during stressed conditions in a deteriorating agricultural economic environment. Moreover, capital in one Association is not typically available to address capital needs of another Association or of a non-affiliated Bank.

#### *Insurance Fund*

An additional layer of protection for Systemwide Debt Security holders is the Insurance Fund that insures the timely payment of principal and interest on these securities.

The primary sources of funds for the Insurance Fund are:

- premiums paid by the Banks, the cost of which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

In the event a Bank is unable to timely pay Systemwide Debt Securities for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligations. However, because of other authorized uses of the Insurance Fund, all of which benefit the Banks and Associations, or the magnitude of the default, there is no assurance that amounts in the Insurance Fund will be available and sufficient to fund the timely payment of principal and interest on Systemwide Debt Securities in the event of a default by a Bank.

Due to the restricted use of funds in the Insurance Fund, the assets of the Insurance Fund have been included as a restricted asset and the capital of the Insurance Fund as restricted capital in the System's condensed combined financial statements. As of September 30, 2016, the assets in the Insurance

Fund totaled \$4.343 billion. (See Note 5 to the accompanying condensed combined financial statements and the Supplemental Combining Information on pages F-51 and F-53 for condensed combining statements of condition and income that illustrate the impact of including the Insurance Fund in the System's condensed combined financial statements.)

Insurance premiums are established by the Insurance Corporation with the objective of maintaining the "secure base amount," which is defined in the Farm Credit Act as 2% of the adjusted insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by the U.S. or state governments) or such other percentage of the adjusted insured obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

At September 30, 2016, as determined by the Insurance Corporation, the Insurance Fund for which no specific use has been identified or designated was 1.97% of adjusted insured obligations, as compared with 1.87% at December 31, 2015.

#### *Joint and Several Liability*

The provisions of joint and several liability of the Banks with respect to Systemwide Debt Securities would be invoked if the available amounts in the Insurance Fund were exhausted. Once joint and several liability is triggered, the Farm Credit Administration is required to make "calls" to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank's available collateral (collateral in excess of the aggregate of the Bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank, and the receiver must expeditiously liquidate the Bank.

### System Capitalization

The changes in capital for the nine months ended September 30, 2016 were:

|  | Capital           |                          |                   |                        |                    |
|--|-------------------|--------------------------|-------------------|------------------------|--------------------|
|  | Combined<br>Banks | Combined<br>Associations | Insurance<br>Fund | Combination<br>Entries | System<br>Combined |
|  |                   |                          | (in millions)     |                        |                    |
| Balance at December 31, 2015 . . . . .                                     | \$16,637          | \$33,622                 | \$4,039           | \$(5,464)              | \$48,834           |
| Net income . . . . .   | 1,446             | 2,393                    | 304               | (554)                  | 3,589              |
| Change in accumulated other comprehensive loss . . .                       | 142               | 7                        |                   | 72                     | 221                |
| Preferred stock issued . . . . .   | 370               | 395                      |                   |                        | 765                |
| Preferred stock retired . . . . .  | (46)              | (319)                    |                   |                        | (365)              |
| Preferred stock dividends . . . . .  | (101)             | (12)                     |                   |                        | (113)              |
| Capital stock and participation certificates issued . . .                  | 129               | 56                       |                   | (125)                  | 60                 |
| Capital stock, participation certificates and surplus<br>retired . . . . . | (82)              | (48)                     |                   | 53                     | (77)               |
| Equity issued or recharacterized upon Association<br>merger . . . . .      |                   | 57                       |                   |                        | 57                 |
| Equity retired or recharacterized upon Association<br>merger . . . . .     |                   | (56)                     |                   |                        | (56)               |
| Additional paid-in-capital . . . . .                                       | 13                |                          |                   |                        | 13                 |
| Patronage . . . . .  | (544)             | (390)                    |                   | 397                    | (537)              |
| Balance at September 30, 2016 . . . . .                                    | <u>\$17,964</u>   | <u>\$35,705</u>          | <u>\$4,343</u>    | <u>\$(5,621)</u>       | <u>\$52,391</u>    |

Note: System combined capital reflected eliminations of approximately \$4.3 billion and \$4.2 billion of Bank equities held by Associations as of September 30, 2016 and December 31, 2015. System combined capital also reflected net eliminations of transactions between System entities, primarily related to accruals, and surplus allocations by certain Banks to their Associations. (See Notes 8 and 14 to the accompanying condensed combined financial statements.)

Combined Bank-only information is considered meaningful because only the Banks are jointly and severally liable for payment of principal and interest on Systemwide Debt Securities. Amounts in the Insurance Fund are included in the System's combined financial statements because, under the Farm Credit Act, these amounts can only be used for the benefit of the System. Before joint and several liability can be invoked, available amounts in the Insurance Fund would be used to make principal and interest payments on Systemwide Debt Securities. Combined Bank capital and the Insurance Fund increased \$1.631 billion since December 31, 2015 to \$22.307 billion at September 30, 2016.

Combined Bank-only net income was \$1.446 billion and \$1.419 billion for the nine months ended September 30, 2016 and 2015. The combined Bank-only net income reflects the earnings from investments, Bank wholesale loans to Associations, and retail loans, the majority of which consist of CoBank's domestic loans to cooperatives and other eligible borrowers and loans to finance agricultural export transactions. The Banks' wholesale loans to

Associations represent approximately 53% of the assets on the combined Bank-only balance sheet. These loans carry less risk than retail loans because the Associations operate under General Financing Agreements with their affiliated Banks and a regulatory framework that includes maintaining certain minimum capital standards, adequate reserves, and prudent underwriting standards. Based on the lower risk of loans to the Associations, the Banks typically operate with more leverage and lower earnings than would be expected from a retail bank.

Combined Association capital increased \$2.083 billion since December 31, 2015 to \$35.705 billion at September 30, 2016. The growth in Association capital resulted primarily from income earned and retained. Combined Association capital as a percentage of combined Association loans was 20.2% at September 30, 2016 and 19.8% at December 31, 2015. Capital at the Association level reduces the Banks' credit exposure with respect to wholesale loans between the Banks and each of their affiliated Associations.

Accumulated other comprehensive loss, net of tax, at September 30, 2016 and December 31, 2015 was comprised of the following components:

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
|  | (in millions)         |                      |
| Unrealized gains on investments available-for-sale, net . . . . .                            | \$ 316                | \$ 35                |
| Unrealized gains on other-than-temporarily impaired investments available-for-sale . . . . . | 5                     | 34                   |
| Unrealized losses on cash flow hedges, net . . . . .   | (221)                 | (107)                |
| Pension and other benefit plans . . . . .  | (1,326)               | (1,409)              |
|  | <u>\$(1,226)</u>      | <u>\$(1,447)</u>     |

**Operational Risk Management**

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. Each Bank’s and Association’s board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess its assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,

- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organization’s internal control framework under the supervision of the internal auditors. Exposure to operational risk is typically identified with the assistance of senior management and internal audit, and higher risk areas receive more scrutiny.

However, no control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and the breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may be inadequate because of changes in conditions, or the compliance with the policies or procedures may deteriorate.

**Reputational Risk Management**

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the System or any of its entities. The System could be harmed if its reputation were impacted by negative publicity about the System as a whole, an individual System entity or the agricultural industry in general.

Given the unique structure of the System, managing reputational risk is the direct responsibility of each System entity. (See “Structural Risk Management” on page 15 of this Quarterly Information Statement for a discussion on the structure of the System).

Entities that serve the System at the national level, including the Coordinating Committee, the Presidents' Planning Committee and The Farm Credit Council, will communicate guidance to the System for reputational issues that have broader consequences for the System as a whole. These entities support those business and other practices that are consistent with our mission. (See pages 12, 13 and 14 in the *2015 Annual Information Statement* for additional information).

### ***Political Risk Management***

System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agriculture and rural America. The System and its borrowers may be significantly affected by federal legislation that affects the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

We manage political risk by actively supporting The Farm Credit Council, which is a full-service, federated trade association located in Washington, D.C. representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for grassroots involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. In addition, each District has a District Farm Credit Council that is a regional trade association dedicated to promoting the interests of cooperative farm lending institutions and their borrowers in the District.

### **Regulatory Matters**

As of September 30, 2016, the Farm Credit Administration had not entered into written agreements with any Associations, as compared with one

Association whose assets totaled less than \$200 million at December 31, 2015. Generally, written agreements require the Associations to take corrective actions with respect to one or more of the following: asset quality, capital, portfolio management, and corporate governance.

On March 10, 2016, the Farm Credit Administration adopted a final regulation to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the rule 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 the requirements of section 939A of the Dodd-Frank Act.

The final rule, with an effective date of January 1, 2017, will replace existing core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 and Total Capital risk-based capital ratio requirements. The final rule will also replace the existing net collateral ratio with a Tier 1 Leverage ratio and is applicable to all Banks and Associations. The Permanent Capital Ratio will continue to remain in effect with the final rule.

The following sets forth the new regulatory capital ratios:

| <b>Ratio</b>                        | <b>Primary Components of Numerator</b>  | <b>Denominator</b>   | <b>Minimum Requirement</b> | <b>Minimum Requirement with Buffer</b> |
|-------------------------------------|---|----------------------|----------------------------|--|
| Common Equity Tier 1 (CET1) Capital | Unallocated retained earnings/surplus (URE), Common stock (subject to certain conditions)         | Risk-weighted assets | 4.5%                       | 7.0%                                   |
| Tier 1 Capital                      | CET1 Capital, Non-cumulative perpetual preferred stock  | Risk-weighted assets | 6.0%                       | 8.5%                                   |
| Total Capital                       | Tier 1 Capital, Allowance for Loan Losses, other equity securities not included in Tier 1 Capital | Risk-weighted assets | 8.0%                       | 10.5%                                  |
| Tier 1 Leverage                     | Tier 1 Capital (1.5% must be URE or URE equivalents)  | Total assets         | 4.0%                       | 5.0%                                   |

The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. Based on preliminary analysis, we believe System institutions are well-positioned to be in compliance with the new requirements at adoption.

In October 2015, the Farm Credit Administration, along with four other federal agencies, issued Final Margin Rules to establish capital and margin requirements for Covered Swap Entities as required by the Dodd-Frank Act. (See page 67 in the *2015 Annual Information Statement* for additional information regarding the requirements set forth in the rule.)

On June 12, 2014, the Farm Credit Administration approved a proposed rule to revise the requirements governing the eligibility of investments for System Banks and Associations. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System Banks and Associations,
- To ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System Banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System Banks, and
- To revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014. The Farm Credit Administration expects to issue a final regulation in 2017.

### **Recently Adopted or Issued Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled “Classification of Certain Cash Receipts and Cash Payments.” The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the System’s financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The System will evaluate the impact of adoption on the System’s financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The System will evaluate the impact of adoption on the System’s financial condition and its results of operations.

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the System’s financial condition or its results of operations.

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

In May 2014, the FASB issued guidance entitled “Revenue from Contracts with Customers.” The

guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. System institutions are in the process of reviewing contracts to determine the effect, if any, on the System’s financial condition or its results of operations.

#### **Other Matters**

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

Effective August 1, 2016, William J. Thone was named interim CEO of AgriBank following the departure of L. William York, who left AgriBank as CEO on July 25, 2016. Mr. Thone began his Farm Credit career at the Farm Credit Bank of St. Louis in 1979. In 1999, Mr. Thone was named AgriBank’s vice president and general counsel responsible for board secretary duties and governance oversight, as well as corporate legal counsel and management of AgriBank’s legal team. As vice president and general counsel, Mr. Thone was also a member of AgriBank’s executive leadership team until his retirement in 2015. AgriBank’s board of directors has commenced the search for its new CEO.

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**INDEX TO CONDENSED COMBINED FINANCIAL STATEMENTS AND  
SUPPLEMENTAL COMBINING AND FINANCIAL INFORMATION  
September 30, 2016**

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**FARM CREDIT SYSTEM**  
**CONDENSED COMBINED STATEMENT OF CONDITION**  
(in millions)

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
|  | (unaudited)           |                      |
| <b>A S S E T S</b>   |                       |                      |
| Cash .....   | \$ 3,084              | \$ 4,974             |
| Federal funds sold and securities purchased under resale agreements .....                            | 1,583                 | 1,661                |
| Investments (Note 2)   |                       |                      |
| Available-for-sale (amortized cost of \$55,181 and \$49,884, respectively) .....                     | 55,565                | 49,965               |
| Mission-related and other held-to-maturity (fair value of \$2,558 and \$2,462, respectively) .....   | 2,562                 | 2,478                |
| Mission-related and other available-for-sale (amortized cost of \$384 and \$301, respectively) ..... | 384                   | 300                  |
| Loans (Note 3) .....   | 242,124               | 235,890              |
| Less: allowance for loan losses (Note 3) .....   | (1,457)               | (1,280)              |
| Net loans .....  | 240,667               | 234,610              |
| Accrued interest receivable .....  | 2,508                 | 1,973                |
| Premises and equipment .....   | 1,172                 | 1,112                |
| Other assets (Note 4) .....  | 2,493                 | 2,391                |
| Restricted assets (Note 5) .....   | 4,343                 | 4,039                |
| Total assets .....   | \$314,361             | \$303,503            |
| <b>LIABILITIES AND CAPITAL</b>   |                       |                      |
| Systemwide Debt Securities   |                       |                      |
| Due within one year:   |                       |                      |
| Systemwide discount notes .....  | \$ 32,911             | \$ 32,282            |
| Systemwide bonds and medium-term notes .....   | 71,366                | 59,340               |
|  | 104,277               | 91,622               |
| Due after one year:  |                       |                      |
| Systemwide bonds and medium-term notes .....   | 147,715               | 151,713              |
| Total Systemwide Debt Securities (Note 6) .....  | 251,992               | 243,335              |
| Subordinated debt (Note 6) .....   | 598                   | 1,550                |
| Other bonds .....  | 3,269                 | 2,879                |
| Notes payable and other interest-bearing liabilities .....   | 1,322                 | 1,343                |
| Accrued interest payable .....   | 617                   | 623                  |
| Other liabilities (Note 4) .....   | 4,172                 | 4,939                |
| Total liabilities .....  | 261,970               | 254,669              |
| Commitments and contingencies (Note 13)  |                       |                      |
| Capital (Note 8)   |                       |                      |
| Preferred stock .....  | 3,147                 | 2,742                |
| Capital stock and participation certificates .....   | 1,773                 | 1,726                |
| Additional paid-in-capital .....   | 1,385                 | 1,316                |
| Restricted capital (Note 5) .....  | 4,343                 | 4,039                |
| Accumulated other comprehensive loss, net of tax .....   | (1,226)               | (1,447)              |
| Surplus .....  | 42,969                | 40,458               |
| Total capital .....  | 52,391                | 48,834               |
| Total liabilities and capital .....  | \$314,361             | \$303,503            |

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

**FARM CREDIT SYSTEM**  
**CONDENSED COMBINED STATEMENT OF INCOME**  
(in millions)

|  | For the<br>Three Months<br>Ended September 30, |                | For the<br>Nine Months<br>Ended September 30, |                |
|--|--|----------------|---|----------------|
|  | 2016   | 2015           | 2016  | 2015           |
|  | (unaudited)                                    |                |   |                |
| Interest income  |  |                |   |                |
| Investments, Federal funds sold and securities purchased under resale agreements | \$ 211   | \$ 171         | \$ 621  | \$ 512         |
| Loans  | 2,412  | 2,198          | 7,117   | 6,436          |
| Total interest income  | <u>2,623</u>                                   | <u>2,369</u>   | <u>7,738</u>                                  | <u>6,948</u>   |
| Interest expense   |  |                |   |                |
| Systemwide bonds and medium-term notes   | 699  | 563            | 2,042   | 1,622          |
| Systemwide discount notes  | 45   | 12             | 117   | 28             |
| Subordinated debt and other interest-bearing liabilities                         | 9  | 27             | 55  | 81             |
| Total interest expense   | <u>753</u>                                     | <u>602</u>     | <u>2,214</u>                                  | <u>1,731</u>   |
| Net interest income  | 1,870  | 1,767          | 5,524   | 5,217          |
| Provision for loan losses  | 58   | 37             | 218   | 87             |
| Net interest income after provision for loan losses                              | <u>1,812</u>                                   | <u>1,730</u>   | <u>5,306</u>                                  | <u>5,130</u>   |
| Noninterest income   |  |                |   |                |
| Loan-related fee income  | 54   | 51             | 181   | 164            |
| Fees for financially related services  | 70   | 74             | 143   | 142            |
| Mineral income   | 14   | 19             | 36  | 60             |
| Income earned on Insurance Fund assets   | 13   | 10             | 34  | 24             |
| Operating lease income   | 3  | 10             | 20  | 28             |
| Net other-than-temporary impairment losses included in earnings                  | (13)   | (2)            | (15)  | (13)           |
| Losses on extinguishment of debt   | (18)   | (5)            | (45)  | (28)           |
| Net gains on sales of investments and other assets                               | 32   | 3              | 46  | 29             |
| Net gains on derivative and other transactions                                   | 2  | 8              | 19  | 14             |
| Other noninterest income   | 6  | 9              | 29  | 43             |
| Total noninterest income   | <u>163</u>                                     | <u>177</u>     | <u>448</u>                                    | <u>463</u>     |
| Noninterest expense  |  |                |   |                |
| Salaries and employee benefits   | 453  | 425            | 1,326   | 1,272          |
| Occupancy and equipment expense  | 58   | 54             | 174   | 155            |
| Purchased services   | 39   | 35             | 111   | 110            |
| Other operating expense  | 143  | 138            | 424   | 410            |
| Net (gains) losses on other property owned                                       | (8)  | 2              | (6)   | (2)            |
| Total noninterest expense  | <u>685</u>                                     | <u>654</u>     | <u>2,029</u>                                  | <u>1,945</u>   |
| Income before income taxes   | 1,290  | 1,253          | 3,725   | 3,648          |
| Provision for income taxes   | 38   | 45             | 136   | 167            |
| Net income   | <u>\$1,252</u>                                 | <u>\$1,208</u> | <u>\$3,589</u>                                | <u>\$3,481</u> |

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

**FARM CREDIT SYSTEM**  
**CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME**  
(in millions)

|  | For the<br>Three Months<br>Ended September 30, |                | For the<br>Nine Months<br>Ended September 30, |                |
|--|--|----------------|---|----------------|
|  | <u>2016</u>                                    | <u>2015</u>    | <u>2016</u>                                   | <u>2015</u>    |
|  | (unaudited)                                    |                |   |                |
| Net income . . . . .   | \$1,252  | \$1,208        | \$3,589                                       | \$3,481        |
| Other comprehensive income (loss), net of tax:   |  |                |   |                |
| Change in unrealized gains on investments available-for-sale not<br>other-than-temporarily impaired, including reclassification<br>adjustments . . . . . | (124)  | 96             | 281   | 134            |
| Change in unrealized gains on other-than-temporarily impaired<br>investments, including reclassification adjustments . . . . .                           | (20)   | (5)            | (29)  | (9)            |
| Change in unrealized losses on cash flow hedges, including<br>reclassification adjustments . . . . .   | 15   | (49)           | (114)   | (27)           |
| Change in net periodic pension benefit cost, including<br>reclassification adjustments . . . . .   | <u>28</u>                                      | <u>31</u>      | <u>83</u>                                     | <u>91</u>      |
| Total other comprehensive (loss) income . . . . .  | <u>(101)</u>                                   | <u>73</u>      | <u>221</u>                                    | <u>189</u>     |
| Comprehensive income . . . . .   | <u>\$1,151</u>                                 | <u>\$1,281</u> | <u>\$3,810</u>                                | <u>\$3,670</u> |

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

**FARM CREDIT SYSTEM**  
**CONDENSED COMBINED STATEMENT OF CHANGES IN CAPITAL**  
(in millions)

|   | For the Nine Months Ended September 30 |   |                                   |   |   |                 |                  |
|---|--|---|-----------------------------------|---|---|-----------------|------------------|
|   | Preferred<br>Stock                     | Capital<br>Stock and<br>Participation<br>Certificates | Additional<br>Paid-in-<br>Capital | Restricted<br>Capital<br>Farm Credit<br>Insurance<br>Fund | Accumulated<br>Other<br>Comprehensive<br>Income (Loss),<br>Net of Tax | Surplus         | Total<br>Capital |
| Balance at December 31, 2014  | \$2,698                                | \$1,676   | \$1,104                           | \$3,750   | \$(1,297)   | \$37,775        | \$45,706         |
| Comprehensive income  |  |   |                                   |   | 189   | 3,481           | 3,670            |
| Transfer of Insurance Fund premiums and other income from surplus to restricted capital |  |   |                                   | 214   |   | (214)           |                  |
| Preferred stock retired by Banks  | (10)                                   |   | 3                                 |   |   |                 | (7)              |
| Preferred stock issued by Associations  | 503                                    |   |                                   |   |   |                 | 503              |
| Preferred stock retired by Associations   | (408)                                  |   |                                   |   |   |                 | (408)            |
| Preferred stock dividends   |  |   |                                   |   |   | (101)           | (101)            |
| Capital stock and participation certificates issued                                     |  | 70  |                                   |   |   |                 | 70               |
| Capital stock and participation certificates retired                                    |  | (86)  |                                   |   |   |                 | (86)             |
| Equity issued or recharacterized upon Association merger                                |  | 1   | 76                                |   |   |                 | 77               |
| Equity retired or recharacterized upon Association merger                               |  | (1)   |                                   |   |   | (78)            | (79)             |
| Patronage:  |  |   |                                   |   |   |                 |                  |
| Cash  |  |   |                                   |   |   | (467)           | (467)            |
| Capital stock, participation certificates and surplus allocations                       |  | 54  |                                   |   |   | (54)            |                  |
| Balance at September 30, 2015   | <u>\$2,783</u>                         | <u>\$1,714</u>  | <u>\$1,183</u>                    | <u>\$3,964</u>  | <u>\$(1,108)</u>  | <u>\$40,342</u> | <u>\$48,878</u>  |
| Balance at December 31, 2015  | \$2,742                                | \$1,726   | \$1,316                           | \$4,039   | \$(1,447)   | \$40,458        | \$48,834         |
| Comprehensive income  |  |   |                                   |   | 221   | 3,589           | 3,810            |
| Transfer of Insurance Fund premiums and other income from surplus to restricted capital |  |   |                                   | 304   |   | (304)           |                  |
| Preferred stock issued by Banks   | 375                                    |   |                                   |   |   | (5)             | 370              |
| Preferred stock retired by Banks  | (46)                                   |   | 13                                |   |   |                 | (33)             |
| Preferred stock issued by Associations  | 395                                    |   |                                   |   |   |                 | 395              |
| Preferred stock retired by Associations   | (319)                                  |   |                                   |   |   |                 | (319)            |
| Preferred stock dividends   |  |   |                                   |   |   | (113)           | (113)            |
| Capital stock and participation certificates issued                                     |  | 60  |                                   |   |   |                 | 60               |
| Capital stock and participation certificates retired                                    |  | (77)  |                                   |   |   |                 | (77)             |
| Equity issued or recharacterized upon Association merger                                |  | 1   | 56                                |   |   |                 | 57               |
| Equity retired or recharacterized upon Association merger                               |  | (1)   |                                   |   |   | (55)            | (56)             |
| Patronage:  |  |   |                                   |   |   |                 |                  |
| Cash  |  |   |                                   |   |   | (537)           | (537)            |
| Capital stock, participation certificates and surplus allocations                       |  | 64  |                                   |   |   | (64)            |                  |
| Balance at September 30, 2016   | <u>\$3,147</u>                         | <u>\$1,773</u>  | <u>\$1,385</u>                    | <u>\$4,343</u>  | <u>\$(1,226)</u>  | <u>\$42,969</u> | <u>\$52,391</u>  |

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

**FARM CREDIT SYSTEM**  
**CONDENSED COMBINED STATEMENT OF CASH FLOWS**  
(in millions)

|  | <b>For the Nine Months<br/>Ended September 30</b> |                 |
|--|---|-----------------|
|  | <b>2016</b>                                       | <b>2015</b>     |
|  | <b>(unaudited)</b>                                |                 |
| Cash flows from operating activities   |   |                 |
| Net income   | \$ 3,589  | \$ 3,481        |
| Adjustments to reconcile net income to net cash provided by operating activities:    |   |                 |
| Provision for loan losses  | 218   | 87              |
| Depreciation and amortization on premises and equipment                              | 83  | 75              |
| Accretion of fair value adjustments related to the Bank merger                       | (25)  | (31)            |
| Net gains on sales of investments and other assets                                   | (46)  | (29)            |
| Losses on impairment of investments available-for-sale                               | 15  | 13              |
| Income on Insurance Fund assets, net of operating expenses                           | (31)  | (21)            |
| Increase in accrued interest receivable  | (535)   | (542)           |
| Increase in other assets   | (87)  | (31)            |
| Valuation adjustments on other property owned  | 5   | 1               |
| Change in unamortized discount on Systemwide discount notes                          | 26  | 6               |
| (Decrease) increase in accrued interest payable                                      | (6)   | 67              |
| Decrease in other liabilities  | (215)   | (63)            |
| Accretion on investments held-to-maturity  | 13  | 1               |
| Net cash provided by operating activities  | <u>3,004</u>                                      | <u>3,014</u>    |
| Cash flows from investing activities   |   |                 |
| Increase in loans, net   | (6,313)   | (9,907)         |
| Decrease in Federal funds sold and securities purchased under resale agreements, net | 78  | 256             |
| Investments available-for-sale:  |   |                 |
| Purchases  | (26,420)  | (11,759)        |
| Proceeds from maturities and payments  | 20,353  | 12,618          |
| Proceeds from sales  | 810   | 219             |
| Mission-related and other investments held-to-maturity:                              |   |                 |
| Purchases  | (515)   | (2)             |
| Proceeds from maturities and payments  | 418   | 174             |
| Mission-related and other investments available-for-sale:                            |   |                 |
| Purchases  | (182)   | (33)            |
| Proceeds from maturities and payments  | 50  | 53              |
| Proceeds from sales  | 49  | 31              |
| Premiums paid to the Insurance Fund  | (261)   | (223)           |
| Purchases of premises and equipment, net of disposals                                | (143)   | (153)           |
| Proceeds from sales of other property owned  | 42  | 73              |
| Net cash used in investing activities  | <u>(12,034)</u>                                   | <u>(8,653)</u>  |
| Cash flows from financing activities   |   |                 |
| Systemwide bonds issued  | 103,649   | 76,310          |
| Systemwide bonds and medium-term notes retired                                       | (95,541)  | (66,450)        |
| Systemwide discount notes issued   | 131,731   | 136,501         |
| Systemwide discount notes retired  | (131,128)   | (140,350)       |
| Subordinated debt retired  | (955)   |                 |
| Other bonds issued (retired), net  | 390   | (217)           |
| (Decrease) increase in notes payable and other interest-bearing liabilities, net     | (21)  | 215             |
| Decrease in collateral held from derivative counterparties                           | (102)   | (78)            |
| Preferred stock issued by Banks  | 370   |                 |
| Preferred stock retired by Banks   | (33)  | (10)            |
| Preferred stock issued by Associations, net  | 76  | 95              |
| Capital stock and participation certificates issued                                  | 60  | 70              |
| Capital stock, participation certificates and surplus retired                        | (139)   | (156)           |
| Preferred stock dividends paid   | (94)  | (91)            |
| Cash patronage paid  | (1,123)   | (1,054)         |
| Net cash provided by (used in) financing activities                                  | <u>7,140</u>                                      | <u>(4,785)</u>  |
| Net decrease in cash   | (1,890)   | (854)           |
| Cash at beginning of period  | 4,974   | 4,014           |
| Cash at end of period  | <u>\$ 3,084</u>                                   | <u>\$ 3,160</u> |

**FARM CREDIT SYSTEM**  
**CONDENSED COMBINED STATEMENT OF CASH FLOWS — (continued)**  
(in millions)

|  | <b>For the Nine Months<br/>Ended September 30</b> |             |
|--|---|-------------|
|  | <b>2016</b>                                       | <b>2015</b> |
|  | <b>(unaudited)</b>                                |             |
| Supplemental schedule of non-cash investing and financing activities:                  |   |             |
| Loans transferred to other property owned .....  | \$ 36   | \$ 52       |
| Investments available-for-sale purchased but not yet settled .....                     |   | (273)       |
| Patronage and dividends distributions payable .....                                    | 599   | 506         |
| Transfer of allowance for loan losses into reserve for unfunded commitments .....      | (20)  | (43)        |
| Transfer of surplus to additional paid-in-capital related to Association mergers ..... | 56  | 76          |
| Change in other assets relating to building sale-leaseback .....                       | (76)  |             |
| Supplemental non-cash fair value changes related to hedging activities:                |   |             |
| Decrease in Systemwide bonds and medium-term notes .....                               | (44)  | (81)        |
| (Increase) decrease in other assets .....  | (109)   | 6           |
| Increase in other liabilities .....  | 217   | 69          |
| Supplemental disclosure of cash flow information:                                      |   |             |
| Cash paid during the nine months for:  |   |             |
| Interest .....   | 2,194   | 1,658       |
| Taxes .....  | 133   | 103         |

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

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Farm Credit System (System) condensed combined financial statements include financial information of the combined Farm Credit Banks (FCBs)/Agricultural Credit Associations (ACAs)/Federal Land Credit Associations (FLCAs), the combined Agricultural Credit Bank (ACB)/ACAs/FLCAs, the Federal Farm Credit Banks Funding Corporation, and the Farm Credit Insurance Fund (Insurance Fund) and reflect investments in, and allocated earnings of, certain of the service organizations owned by System Banks and/or Associations. The FCBs and the ACB are collectively referred to as Banks. The ACAs and FLCAs are collectively referred to as Associations.

The accompanying unaudited condensed combined financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, these statements should be read in conjunction with the audited combined financial statements for the year ended December 31, 2015, contained in the System's *2015 Annual Information Statement*, as these statements do not include all of the disclosures required by GAAP for annual financial statements.

The accompanying condensed combined financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operation of the System. All significant intra-System transactions and balances have been eliminated in combination. Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year presentation.

A more complete description of System institutions, the significant accounting policies followed by System entities, and the System's combined financial condition and combined results of operations as of and for the year ended December 31, 2015 are contained in the *2015 Annual Information Statement*.

**Recently Adopted or Issued Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the System's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The System will evaluate the impact of adoption on the System's financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The System will evaluate the impact of adoption on the System's financial condition and its results of operations.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the System’s financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled “Presentation of Financial Statements — Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance

becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. System institutions are in the process of reviewing contracts to determine the effect, if any, on the System’s financial condition or its results of operations.

**NOTE 2 — INVESTMENTS**

**Available-for-Sale**

The following is a summary of available-for-sale investments held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk:

|   | September 30, 2016 |                              |                               |                 |                              |
|---|--------------------|------------------------------|-------------------------------|-----------------|------------------------------|
|   | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value   | Weighted<br>Average<br>Yield |
| Commercial paper, bankers’ acceptances, certificates<br>of deposit and other securities . . . . . | \$ 5,694           | \$ 2                         |                               | \$ 5,696        | 0.90%                        |
| U.S. Treasury securities . . . . .  | 15,981             | 171                          | \$ (2)                        | 16,150          | 1.15                         |
| U.S. agency securities . . . . .  | 5,505              | 69                           | (9)                           | 5,565           | 1.59                         |
| Mortgage-backed securities . . . . .  | 25,421             | 224                          | (86)                          | 25,559          | 1.60                         |
| Asset-backed securities . . . . .   | 2,580              | 18                           | (3)                           | 2,595           | 1.20                         |
| Total . . . . .   | <u>\$55,181</u>    | <u>\$484</u>                 | <u>\$(100)</u>                | <u>\$55,565</u> | 1.38                         |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

|   | December 31, 2015 |                              |                               |                 |                              |
|---|-------------------|------------------------------|-------------------------------|-----------------|------------------------------|
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value   | Weighted<br>Average<br>Yield |
| Commercial paper, bankers' acceptances, certificates<br>of deposit and other securities . . . . . | \$ 5,282          | \$ 1                         | \$ (2)                        | \$ 5,281        | 0.56%                        |
| U.S. Treasury securities . . . . .  | 10,038            | 37                           | (29)                          | 10,046          | 1.33                         |
| U.S. agency securities . . . . .  | 6,188             | 42                           | (31)                          | 6,199           | 1.47                         |
| Mortgage-backed securities . . . . .  | 25,850            | 169                          | (149)                         | 25,870          | 1.55                         |
| Asset-backed securities . . . . .   | 2,526             | 49                           | (6)                           | 2,569           | 1.07                         |
| <b>Total . . . . .</b>  | <b>\$49,884</b>   | <b>\$298</b>                 | <b>\$(217)</b>                | <b>\$49,965</b> | <b>1.37</b>                  |

A summary of the fair value and amortized cost of investments available-for-sale at September 30, 2016 by contractual maturity is as follows:

|   | Due in 1 Year<br>or Less |                              | Due After 1 Year<br>Through 5 Years |                              | Due After 5 Years<br>Through 10 Years |                              | Due After 10<br>Years |                              | Total           |                              |
|---|--------------------------|------------------------------|-------------------------------------|------------------------------|---------------------------------------|------------------------------|-----------------------|------------------------------|-----------------|------------------------------|
|   | Amount                   | Weighted<br>Average<br>Yield | Amount                              | Weighted<br>Average<br>Yield | Amount                                | Weighted<br>Average<br>Yield | Amount                | Weighted<br>Average<br>Yield | Amount          | Weighted<br>Average<br>Yield |
| Commercial paper,<br>bankers' acceptances,<br>certificates of deposit<br>and other securities . . . . . | \$ 5,520                 |                              | \$ 176                              |                              |                                       |                              |                       |                              | \$ 5,696        | 0.90%                        |
| U.S. Treasury securities . . . . .  | 5,592                    |                              | 8,276                               |                              | \$2,282                               |                              |                       |                              | 16,150          | 1.15                         |
| U.S. agency securities . . . . .  | 1,342                    |                              | 1,828                               |                              | 2,395                                 |                              |                       |                              | 5,565           | 1.59                         |
| Mortgage-backed securities . . . . .  | 13                       |                              | 1,282                               |                              | 2,193                                 |                              | \$22,071              |                              | 25,559          | 1.60                         |
| Asset-backed securities . . . . .   | 9                        |                              | 1,741                               |                              | 52                                    |                              | 793                   |                              | 2,595           | 1.20                         |
| <b>Total fair value . . . . .</b>   | <b>\$12,476</b>          | <b>0.74%</b>                 | <b>\$13,303</b>                     | <b>1.43%</b>                 | <b>\$6,922</b>                        | <b>1.49%</b>                 | <b>\$22,864</b>       | <b>1.66%</b>                 | <b>\$55,565</b> | <b>1.38</b>                  |
| <b>Total amortized cost . . . . .</b>   | <b>\$12,468</b>          |                              | <b>\$13,136</b>                     |                              | <b>\$6,858</b>                        |                              | <b>\$22,719</b>       |                              | <b>\$55,181</b> |                              |

Substantially all mortgage-backed securities have contractual maturities in excess of ten years. However, expected and actual maturities for mortgage-backed securities will typically be shorter

than contractual maturities because borrowers generally have the right to prepay the underlying mortgage obligations with or without prepayment penalties.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**Held-to-Maturity Mission-related and Other Investments**

The Banks and Associations may hold mission-related and other investments. Mission-related programs and other mission-related investments are approved by the Farm Credit Administration. The following is a summary of held-to-maturity mission-related and other investments:

|                                      | September 30, 2016    |                              |                               |                       |                              |
|--------------------------------------|-----------------------|------------------------------|-------------------------------|-----------------------|------------------------------|
|                                      | Amortized<br>Cost     | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value         | Weighted<br>Average<br>Yield |
| Mortgage-backed securities . . . . . | \$2,044               | \$30                         | \$(42)                        | \$2,032               | 3.07%                        |
| Asset-backed securities . . . . .    | 373                   | 5                            | (12)                          | 366                   | 2.11                         |
| Other securities . . . . .           | 145                   | 15                           |                               | 160                   | 5.96                         |
| <b>Total . . . . .</b>               | <b><u>\$2,562</u></b> | <b><u>\$50</u></b>           | <b><u>\$(54)</u></b>          | <b><u>\$2,558</u></b> | <b>3.09</b>                  |

|                                      | December 31, 2015     |                              |                               |                       |                              |
|--------------------------------------|-----------------------|------------------------------|-------------------------------|-----------------------|------------------------------|
|                                      | Amortized<br>Cost     | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value         | Weighted<br>Average<br>Yield |
| Mortgage-backed securities . . . . . | \$1,916               | \$23                         | \$(44)                        | \$1,895               | 3.12%                        |
| Asset-backed securities . . . . .    | 378                   | 7                            | (8)                           | 377                   | 1.85                         |
| Other securities . . . . .           | 184                   | 8                            | (2)                           | 190                   | 5.57                         |
| <b>Total . . . . .</b>               | <b><u>\$2,478</u></b> | <b><u>\$38</u></b>           | <b><u>\$(54)</u></b>          | <b><u>\$2,462</u></b> | <b>3.11</b>                  |

A summary of the fair value and amortized cost of held-to-maturity mission-related and other investments at September 30, 2016 by contractual maturity is as follows:

|                                       | Due in 1 Year<br>or Less |                              | Due After 1 Year<br>Through 5 Years |                              | Due After 5 Years<br>Through 10 Years |                              | Due After 10<br>Years |                              | Total                 |                              |
|---------------------------------------|--------------------------|------------------------------|-------------------------------------|------------------------------|---------------------------------------|------------------------------|-----------------------|------------------------------|-----------------------|------------------------------|
|                                       | Amount                   | Weighted<br>Average<br>Yield | Amount                              | Weighted<br>Average<br>Yield | Amount                                | Weighted<br>Average<br>Yield | Amount                | Weighted<br>Average<br>Yield | Amount                | Weighted<br>Average<br>Yield |
| Mortgage-backed securities . . . . .  | \$ 8                     |                              | \$ 55                               |                              | \$140                                 |                              | \$1,841               |                              | \$2,044               | 3.07%                        |
| Asset-backed securities . . . . .     | 3                        |                              | 107                                 |                              | 97                                    |                              | 166                   |                              | 373                   | 2.11                         |
| Other securities . . . . .            | 5                        |                              | 29                                  |                              | 20                                    |                              | 91                    |                              | 145                   | 5.96                         |
| <b>Total amortized cost . . . . .</b> | <b><u>\$16</u></b>       | <b>3.60%</b>                 | <b><u>\$191</u></b>                 | <b>3.72%</b>                 | <b><u>\$257</u></b>                   | <b>2.93%</b>                 | <b><u>\$2,098</u></b> | <b>3.05%</b>                 | <b><u>\$2,562</u></b> | <b>3.09</b>                  |
| <b>Total fair value . . . . .</b>     | <b><u>\$16</u></b>       |                              | <b><u>\$195</u></b>                 |                              | <b><u>\$258</u></b>                   |                              | <b><u>\$2,089</u></b> |                              | <b><u>\$2,558</u></b> |                              |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
(unaudited)  
(dollars in millions, except as noted)

**Available-for-Sale Mission-Related and Other Investments**

The following is a summary of available-for-sale mission-related and other investments:

|                                      | September 30, 2016 |                              |                               |               |                              |
|--------------------------------------|--------------------|------------------------------|-------------------------------|---------------|------------------------------|
|                                      | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Weighted<br>Average<br>Yield |
| Mortgage-backed securities . . . . . | \$380              | \$2                          | \$(3)                         | \$379         | 2.72%                        |
| Other securities . . . . .           | 4                  | 1                            | —                             | 5             | 6.41                         |
| Total . . . . .                      | <u>\$384</u>       | <u>\$3</u>                   | <u>\$(3)</u>                  | <u>\$384</u>  | 2.77                         |

|                                      | December 31, 2015 |                              |                               |               |                              |
|--------------------------------------|-------------------|------------------------------|-------------------------------|---------------|------------------------------|
|                                      | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Weighted<br>Average<br>Yield |
| Mortgage-backed securities . . . . . | \$294             | \$3                          | \$(4)                         | \$293         | 2.53%                        |
| Other securities . . . . .           | 7                 | —                            | —                             | 7             | 5.79                         |
| Total . . . . .                      | <u>\$301</u>      | <u>\$3</u>                   | <u>\$(4)</u>                  | <u>\$300</u>  | 2.61                         |

A summary of the fair value and amortized cost of available-for-sale mission-related and other investments at September 30, 2016 by contractual maturity is as follows:

|                                      | Due After 1 Year<br>Through 5 Years |                              | Due After 5 Years<br>Through 10 Years |                              | Due After 10 Years |                              | Total        |                              |
|--------------------------------------|-------------------------------------|------------------------------|---------------------------------------|------------------------------|--------------------|------------------------------|--------------|------------------------------|
|                                      | Amount                              | Weighted<br>Average<br>Yield | Amount                                | Weighted<br>Average<br>Yield | Amount             | Weighted<br>Average<br>Yield | Amount       | Weighted<br>Average<br>Yield |
| Mortgage-backed securities . . . . . | \$24                                |                              | \$32                                  |                              | \$323              |                              | \$379        | 2.72%                        |
| Other securities . . . . .           | —                                   |                              | —                                     |                              | 5                  |                              | 5            | 6.41                         |
| Total fair value . . . . .           | <u>\$24</u>                         | 4.17%                        | <u>\$32</u>                           | 4.26%                        | <u>\$328</u>       | 2.52%                        | <u>\$384</u> | 2.77                         |
| Total amortized cost . . . . .       | <u>\$24</u>                         |                              | <u>\$33</u>                           |                              | <u>\$327</u>       |                              | <u>\$384</u> |                              |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**Other-Than-Temporarily Impaired Investments Evaluation**

The following tables show the gross unrealized losses and fair value of the System's available-for-sale, and mission-related and other investment securities that have been in a continuous unrealized loss

position. An investment is considered impaired if its fair value is less than its cost. The continuous loss position is based on the date the impairment was first identified.

|  | Less Than 12 Months |                   | 12 Months or More |                   |
|--|---------------------|-------------------|-------------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses |
| <b>September 30, 2016</b>  |                     |                   |                   |                   |
| U.S. Treasury securities .....   | \$ 2,626            | \$ (2)            |                   |                   |
| U.S. agency securities .....   | 599                 | (1)               | \$ 662            | \$ (8)            |
| Mortgage-backed securities .....   | 6,745               | (48)              | 5,358             | (83)              |
| Asset-backed securities .....  | 310                 | (7)               | 535               | (8)               |
| Total .....  | \$10,280            | \$(58)            | \$6,555           | \$(99)            |
| <br>   |                     |                   |                   |                   |
|  | Less Than 12 Months |                   | 12 Months or More |                   |
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses |
| <b>December 31, 2015</b>   |                     |                   |                   |                   |
| Commercial paper, bankers' acceptances, certificates of deposit and other securities ..... | \$ 2,761            | \$ (3)            | \$ 23             | \$ (1)            |
| U.S. Treasury securities .....   | 6,885               | (29)              |                   |                   |
| U.S. agency securities .....   | 2,368               | (13)              | 976               | (18)              |
| Mortgage-backed securities .....   | 9,659               | (74)              | 5,012             | (123)             |
| Asset-backed securities .....  | 1,698               | (9)               | 420               | (5)               |
| Total .....  | \$23,371            | \$(128)           | \$6,431           | \$(147)           |

As more fully discussed in Note 2 of the 2015 *Annual Information Statement*, the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (1) whether or not an entity intends to sell the security, (2) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (3) whether or not an entity expects to recover the security's entire amortized cost basis (even if it does not intend to sell).

System institutions perform an evaluation quarterly on a security-by-security basis considering all available information. If a Bank or Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When a Bank or Association does not intend to sell securities in an unrealized loss position, other-than-temporary

impairment is considered using various factors, including the length of time and the extent to which the fair value is less than cost, adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral, payment structure of the security, ratings by rating agencies, the creditworthiness of bond insurers and volatility of the fair value changes. A Bank or Association uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, it considers factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements. As of September 30, 2016 and December 31, 2015, the Banks and Associations did not intend to sell available-for-sale securities in unrealized loss positions and it is not more likely than not that they will be required to sell these securities.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

For impaired investments, a Bank or Association estimates the portion of the loss that is attributable to credit losses using a discounted cash flow model on a security-by-security basis. The various models require key assumptions related to the underlying collateral, including default rates, degree and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as interest rate, geographical location of the borrower, borrower charac-

teristics and collateral type. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults and prepayment rate assumptions are based on historical and projected prepayment rates. The Banks obtain the loss severity assumptions from independent third parties or through research using available data on the underlying collateral type from sources including broker/dealers and rating agencies. The following summarizes the assumptions used at:

| <u>Assumptions Used</u>        | <u>September 30, 2016</u>         |                                |
|--------------------------------|-----------------------------------|--------------------------------|
|                                | <u>Mortgage-backed Securities</u> | <u>Asset-backed Securities</u> |
| Default rate by range .....    | 6.4% - 14.5%                      | 4.6% - 18.4%                   |
| Prepayment rate by range ..... | 15.5% - 18.5%                     | 13.1% - 46.7%                  |
| Loss severity by range .....   | 7.5% - 80.8%                      | 34.5% - 39.5%                  |

| <u>Assumptions Used</u>        | <u>December 31, 2015</u>          |                                |
|--------------------------------|-----------------------------------|--------------------------------|
|                                | <u>Mortgage-backed Securities</u> | <u>Asset-backed Securities</u> |
| Default rate by range .....    | 1.2% - 25.3%                      | 3.3% - 39.8%                   |
| Prepayment rate by range ..... | 3.1% - 15.6%                      | 2.4% - 35.5%                   |
| Loss severity by range .....   | 4.4% - 72.6%                      | 38.7% - 100.0%                 |

The following represents the activity related to the credit loss component for investments that have been written down for other-than-temporary impairment and the credit component of the loss is recognized in earnings:

|  | <u>For the Three Months Ended September 30,</u> |              | <u>For the Nine Months Ended September 30,</u> |               |
|--|---|--------------|--|---------------|
|  | <u>2016</u>                                     | <u>2015</u>  | <u>2016</u>                                    | <u>2015</u>   |
| Credit loss component, beginning of period ..... | \$153   | \$189        | \$ 179   | \$ 287        |
| Additions:                                       |   |              |  |               |
| Initial credit impairment .....                  | 5   |              | 5  | 11            |
| Subsequent credit impairments .....              | 8   | 2            | 10   | 2             |
| Reductions:                                      |   |              |  |               |
| For securities sold/settled .....                | (88)  | (1)          | (113)  | (105)         |
| For increases in expected cash flows .....       | (1)   | (2)          | (4)  | (7)           |
| Credit loss component, end of period .....       | <u>\$ 77</u>                                    | <u>\$188</u> | <u>\$ 77</u>                                   | <u>\$ 188</u> |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES**

Loans outstanding consisted of the following:

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| Real estate mortgage . . . . .                  | \$113,106             | \$107,813            |
| Production and intermediate-term . . . . .      | 48,682                | 49,204               |
| Agribusiness:                                   |                       |                      |
| Processing and marketing . .                    | 20,404                | 19,949               |
| Loans to cooperatives . . . .                   | 13,239                | 13,113               |
| Farm-related business . . . .                   | 3,303                 | 3,533                |
| Rural infrastructure:                           |                       |                      |
| Energy . . . . .                                | 19,197                | 17,925               |
| Communication . . . . .                         | 5,927                 | 6,196                |
| Water/waste water . . . . .                     | 1,668                 | 1,677                |
| Rural residential real estate . .               | 7,240                 | 7,117                |
| Agricultural export finance . .                 | 5,069                 | 5,075                |
| Lease receivables . . . . .                     | 3,462                 | 3,373                |
| Loans to other financing institutions . . . . . | 827                   | 915                  |
| Total loans . . . . .                           | <u>\$242,124</u>      | <u>\$235,890</u>     |

The Farm Credit Administration Uniform Loan Classification System includes five categories: acceptable, other assets especially mentioned (OAEM), substandard, doubtful and loss. The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage

of total loans and related accrued interest receivable by loan type as of:

|                                       | September 30,<br>2016 | December 31,<br>2015 |
|---------------------------------------|-----------------------|----------------------|
| Real estate mortgage                  |                       |                      |
| Acceptable . . . . .                  | 95.0%                 | 96.2%                |
| OAEM . . . . .                        | 2.5                   | 1.9                  |
| Substandard/doubtful . . . .          | 2.5                   | 1.9                  |
|                                       | <u>100.0</u>          | <u>100.0</u>         |
| Production and intermediate-term      |                       |                      |
| Acceptable . . . . .                  | 90.6                  | 94.5                 |
| OAEM . . . . .                        | 4.8                   | 2.7                  |
| Substandard/doubtful . . . .          | 4.6                   | 2.8                  |
|                                       | <u>100.0</u>          | <u>100.0</u>         |
| Agribusiness                          |                       |                      |
| Acceptable . . . . .                  | 94.6                  | 95.7                 |
| OAEM . . . . .                        | 3.1                   | 2.7                  |
| Substandard/doubtful . . . .          | 2.3                   | 1.6                  |
|                                       | <u>100.0</u>          | <u>100.0</u>         |
| Rural infrastructure                  |                       |                      |
| Acceptable . . . . .                  | 97.0                  | 97.4                 |
| OAEM . . . . .                        | 2.7                   | 1.8                  |
| Substandard/doubtful . . . .          | 0.3                   | 0.8                  |
|                                       | <u>100.0</u>          | <u>100.0</u>         |
| Rural residential real estate         |                       |                      |
| Acceptable . . . . .                  | 97.0                  | 97.3                 |
| OAEM . . . . .                        | 1.1                   | 0.9                  |
| Substandard/doubtful . . . .          | 1.9                   | 1.8                  |
|                                       | <u>100.0</u>          | <u>100.0</u>         |
| Agricultural export finance           |                       |                      |
| Acceptable . . . . .                  | 100.0                 | 100.0                |
| OAEM . . . . .                        | 0.0                   | 0.0                  |
| Substandard/doubtful . . . .          | 0.0                   | 0.0                  |
|                                       | <u>100.0</u>          | <u>100.0</u>         |
| Lease receivables                     |                       |                      |
| Acceptable . . . . .                  | 95.3                  | 96.7                 |
| OAEM . . . . .                        | 2.4                   | 1.5                  |
| Substandard/doubtful . . . .          | 2.3                   | 1.8                  |
|                                       | <u>100.0</u>          | <u>100.0</u>         |
| Loans to other financing institutions |                       |                      |
| Acceptable . . . . .                  | 100.0                 | 100.0                |
| OAEM . . . . .                        | 0.0                   | 0.0                  |
| Substandard/doubtful . . . .          | 0.0                   | 0.0                  |
|                                       | <u>100.0</u>          | <u>100.0</u>         |
| Total Loans                           |                       |                      |
| Acceptable . . . . .                  | 94.4                  | 96.0                 |
| OAEM . . . . .                        | 3.0                   | 2.1                  |
| Substandard/doubtful . . . .          | 2.6                   | 1.9                  |
|                                       | <u>100.0</u>          | <u>100.0</u>         |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

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

loan. The following tables present information concerning impaired loans and include both the principal outstanding and the related accrued interest receivable on these loans.

|  | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--|-------------------------------|------------------------------|
| Nonaccrual loans:                            |                               |                              |
| Current as to principal and interest .....   | \$ 931                        | \$ 801                       |
| Past due .....                               | 642                           | 523                          |
| Total nonaccrual loans .....                 | 1,573                         | 1,324                        |
| Impaired accrual loans:                      |                               |                              |
| Restructured accrual loans .....             | 350                           | 286                          |
| Accrual loans 90 days or more past due ..... | 52                            | 19                           |
| Total impaired accrual loans .....           | 402                           | 305                          |
| Total impaired loans .....                   | \$1,975                       | \$1,629                      |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

The following table reflects nonperforming assets (which consist of impaired loans and other property owned) in a more detailed manner than the previous table. In addition, certain related credit quality statistics are included below:

|  | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|--|-------------------------------|------------------------------|
| Nonaccrual loans:  |                               |                              |
| Real estate mortgage .....   | \$ 858                        | \$ 703                       |
| Production and intermediate-term .....   | 507                           | 356                          |
| Agribusiness .....   | 114                           | 106                          |
| Rural infrastructure .....   | 2                             | 86                           |
| Rural residential real estate .....  | 52                            | 57                           |
| Lease receivables .....  | 40                            | 16                           |
| Total nonaccrual loans .....   | <u>1,573</u>                  | <u>1,324</u>                 |
| Accruing restructured loans:   |                               |                              |
| Real estate mortgage .....   | 187                           | 180                          |
| Production and intermediate-term .....   | 108                           | 97                           |
| Agribusiness .....   | 2                             | 2                            |
| Rural infrastructure .....   | 46                            |                              |
| Rural residential real estate .....  | 7                             | 7                            |
| Total accruing restructured loans .....  | <u>350</u>                    | <u>286</u>                   |
| Accruing loans 90 days or more past due:   |                               |                              |
| Real estate mortgage .....   | 23                            | 12                           |
| Production and intermediate-term .....   | 28                            | 5                            |
| Rural residential real estate .....  |                               | 1                            |
| Lease receivables .....  | 1                             | 1                            |
| Total accruing loans 90 days or more past due .....                                | <u>52</u>                     | <u>19</u>                    |
| Total nonperforming loans .....  | 1,975                         | 1,629                        |
| Other property owned .....   | 81                            | 96                           |
| Total nonperforming assets .....   | <u>\$2,056</u>                | <u>\$1,725</u>               |
|  | <u>September 30,<br/>2016</u> | <u>December 31,<br/>2015</u> |
| Nonaccrual loans as a percentage of total loans .....                              | 0.65%                         | 0.56%                        |
| Nonperforming assets as a percentage of total loans and other property owned ..... | 0.85                          | 0.73                         |
| Nonperforming assets as a percentage of capital .....                              | 3.92                          | 3.53                         |

Commitments to lend additional funds to debtors whose loans were classified as impaired were \$59 million at September 30, 2016 and \$41 million at December 31, 2015.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

Additional impaired loan information by class is as follows:

|   | September 30, 2016      |                                  |                      | December 31, 2015       |                                  |                      |
|---|-------------------------|----------------------------------|----------------------|-------------------------|----------------------------------|----------------------|
|   | Recorded<br>Investment* | Unpaid<br>Principal<br>Balance** | Related<br>Allowance | Recorded<br>Investment* | Unpaid<br>Principal<br>Balance** | Related<br>Allowance |
| Impaired loans with a related allowance for loan losses:  |                         |                                  |                      |                         |                                  |                      |
| Real estate mortgage . . . . .                            | \$ 196                  | \$ 218                           | \$ 28                | \$ 139                  | \$ 164                           | \$ 27                |
| Production and intermediate-term . . . . .                | 205                     | 238                              | 72                   | 163                     | 195                              | 60                   |
| Agribusiness . . . . .                                    | 82                      | 102                              | 20                   | 90                      | 109                              | 16                   |
| Rural infrastructure . . . . .                            | 2                       | 3                                | 1                    | 25                      | 29                               | 4                    |
| Rural residential real estate . . . . .                   | 7                       | 8                                | 2                    | 9                       | 10                               | 2                    |
| Lease receivables . . . . .                               | 15                      | 15                               | 4                    | 3                       | 3                                | 1                    |
| Total . . . . .   | 507                     | 584                              | 127                  | 429                     | 510                              | 110                  |
| Impaired loans with no related allowance for loan losses: |                         |                                  |                      |                         |                                  |                      |
| Real estate mortgage . . . . .                            | 872                     | 1,045                            |                      | 756                     | 950                              |                      |
| Production and intermediate-term . . . . .                | 438                     | 631                              |                      | 295                     | 467                              |                      |
| Agribusiness . . . . .                                    | 34                      | 70                               |                      | 18                      | 66                               |                      |
| Rural infrastructure . . . . .                            | 46                      | 67                               |                      | 61                      | 100                              |                      |
| Rural residential real estate . . . . .                   | 52                      | 64                               |                      | 56                      | 70                               |                      |
| Lease receivables . . . . .                               | 26                      | 26                               |                      | 14                      | 14                               |                      |
| Total . . . . .   | 1,468                   | 1,903                            |                      | 1,200                   | 1,667                            |                      |
| Total impaired loans:                                     |                         |                                  |                      |                         |                                  |                      |
| Real estate mortgage . . . . .                            | 1,068                   | 1,263                            | 28                   | 895                     | 1,114                            | 27                   |
| Production and intermediate-term . . . . .                | 643                     | 869                              | 72                   | 458                     | 662                              | 60                   |
| Agribusiness . . . . .                                    | 116                     | 172                              | 20                   | 108                     | 175                              | 16                   |
| Rural infrastructure . . . . .                            | 48                      | 70                               | 1                    | 86                      | 129                              | 4                    |
| Rural residential real estate . . . . .                   | 59                      | 72                               | 2                    | 65                      | 80                               | 2                    |
| Lease receivables . . . . .                               | 41                      | 41                               | 4                    | 17                      | 17                               | 1                    |
| Total . . . . .   | \$1,975                 | \$2,487                          | \$127                | \$1,629                 | \$2,177                          | \$110                |

\* The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

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

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

|   | For the Three Months Ended   |                                  |                              |                                  | For the Nine Months Ended    |                                  |                              |                                  |
|---|------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
|   | September 30, 2016           |                                  | September 30, 2015           |                                  | September 30, 2016           |                                  | September 30, 2015           |                                  |
|   | Average<br>Impaired<br>Loans | Interest<br>Income<br>Recognized | Average<br>Impaired<br>Loans | Interest<br>Income<br>Recognized | Average<br>Impaired<br>Loans | Interest<br>Income<br>Recognized | Average<br>Impaired<br>Loans | Interest<br>Income<br>Recognized |
| Impaired loans with a related allowance for loan losses:  |                              |                                  |                              |                                  |                              |                                  |                              |                                  |
| Real estate mortgage . . . . .                            | \$ 132                       | \$ 1                             | \$ 165                       | \$ 1                             | \$ 124                       | \$ 2                             | \$ 165                       | \$ 3                             |
| Production and intermediate-term . . .                    | 185                          |                                  | 184                          |                                  | 178                          | 2                                | 197                          | 1                                |
| Agribusiness . . . . .                                    | 76                           |                                  | 109                          |                                  | 85                           | 1                                | 74                           |                                  |
| Rural infrastructure . . . . .                            | 4                            |                                  | 19                           |                                  | 17                           |                                  | 17                           |                                  |
| Rural residential real estate . . . . .                   | 6                            |                                  | 10                           |                                  | 7                            |                                  | 10                           |                                  |
| Lease receivables . . . . .                               | 11                           |                                  |                              |                                  | 7                            |                                  |                              |                                  |
| Total . . . . .   | <u>414</u>                   | <u>1</u>                         | <u>487</u>                   | <u>1</u>                         | <u>418</u>                   | <u>5</u>                         | <u>463</u>                   | <u>4</u>                         |
| Impaired loans with no related allowance for loan losses: |                              |                                  |                              |                                  |                              |                                  |                              |                                  |
| Real estate mortgage . . . . .                            | 889                          | 10                               | 764                          | 13                               | 846                          | 35                               | 775                          | 33                               |
| Production and intermediate-term . . .                    | 406                          | 9                                | 345                          | 6                                | 376                          | 26                               | 335                          | 23                               |
| Agribusiness . . . . .                                    | 30                           |                                  | 20                           |                                  | 28                           | 2                                | 24                           | 1                                |
| Rural infrastructure . . . . .                            | 45                           | 1                                | 63                           |                                  | 54                           | 2                                | 82                           | 1                                |
| Rural residential real estate . . . . .                   | 54                           | 1                                | 53                           | 1                                | 55                           | 3                                | 52                           | 2                                |
| Lease receivables . . . . .                               | 25                           |                                  | 9                            |                                  | 21                           |                                  | 8                            |                                  |
| Total . . . . .   | <u>1,449</u>                 | <u>21</u>                        | <u>1,254</u>                 | <u>20</u>                        | <u>1,380</u>                 | <u>68</u>                        | <u>1,276</u>                 | <u>60</u>                        |
| Total impaired loans:                                     |                              |                                  |                              |                                  |                              |                                  |                              |                                  |
| Real estate mortgage . . . . .                            | 1,021                        | 11                               | 929                          | 14                               | 970                          | 37                               | 940                          | 36                               |
| Production and intermediate-term . . .                    | 591                          | 9                                | 529                          | 6                                | 554                          | 28                               | 532                          | 24                               |
| Agribusiness . . . . .                                    | 106                          |                                  | 129                          |                                  | 113                          | 3                                | 98                           | 1                                |
| Rural infrastructure . . . . .                            | 49                           | 1                                | 82                           |                                  | 71                           | 2                                | 99                           | 1                                |
| Rural residential real estate . . . . .                   | 60                           | 1                                | 63                           | 1                                | 62                           | 3                                | 62                           | 2                                |
| Lease receivables . . . . .                               | 36                           |                                  | 9                            |                                  | 28                           |                                  | 8                            |                                  |
| Total . . . . .   | <u>\$1,863</u>               | <u>\$22</u>                      | <u>\$1,741</u>               | <u>\$21</u>                      | <u>\$1,798</u>               | <u>\$73</u>                      | <u>\$1,739</u>               | <u>\$64</u>                      |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

The following tables provide an aging analysis of past due loans (including accrued interest) by portfolio segment:

|   | September 30, 2016     |                                |                       |  |  |  |
|---|------------------------|--------------------------------|-----------------------|--|--|--|
|   | 30-89 Days<br>Past Due | 90 Days or<br>More Past<br>Due | Total Past<br>Due     | Not Past Due or<br>less than 30 Days<br>Past Due | Total Loans<br>and Accrued<br>Interest | Recorded<br>Investment<br>>90 Days<br>and Accruing |
| Real estate mortgage .....                  | \$303                  | \$294                          | \$ 597                | \$113,999  | \$114,596                              | \$23   |
| Production and intermediate-term .....      | 197                    | 234                            | 431                   | 48,844   | 49,275                                 | 28   |
| Agribusiness .....                          | 19                     | 25                             | 44                    | 37,032   | 37,076                                 |  |
| Rural infrastructure .....                  |                        |                                |                       | 26,889   | 26,889                                 |  |
| Rural residential real estate .....         | 38                     | 17                             | 55                    | 7,219  | 7,274                                  |  |
| Agricultural export finance .....           |                        |                                |                       | 5,082  | 5,082                                  |  |
| Lease receivables .....                     | 14                     | 8                              | 22                    | 3,441  | 3,463                                  | 1  |
| Loans to other financing institutions ..... |                        |                                |                       | 829  | 829                                    |  |
| <b>Total .....</b>                          | <b><u>\$571</u></b>    | <b><u>\$578</u></b>            | <b><u>\$1,149</u></b> | <b><u>\$243,335</u></b>                          | <b><u>\$244,484</u></b>                | <b><u>\$52</u></b>                                 |

|   | December 31, 2015      |                                |                     |  |  |  |
|---|------------------------|--------------------------------|---------------------|--|--|--|
|   | 30-89 Days<br>Past Due | 90 Days or<br>More Past<br>Due | Total Past<br>Due   | Not Past Due or<br>less than 30 Days<br>Past Due | Total Loans<br>and Accrued<br>Interest | Recorded<br>Investment<br>>90 Days<br>and Accruing |
| Real estate mortgage .....                  | \$291                  | \$212                          | \$503               | \$108,374  | \$108,877                              | \$12   |
| Production and intermediate-term .....      | 175                    | 139                            | 314                 | 49,370   | 49,684                                 | 5  |
| Agribusiness .....                          | 25                     | 27                             | 52                  | 36,667   | 36,719                                 |  |
| Rural infrastructure .....                  |                        | 25                             | 25                  | 25,856   | 25,881                                 |  |
| Rural residential real estate .....         | 68                     | 21                             | 89                  | 7,057  | 7,146                                  | 1  |
| Agricultural export finance .....           |                        |                                |                     | 5,089  | 5,089                                  |  |
| Lease receivables .....                     | 13                     | 2                              | 15                  | 3,359  | 3,374                                  | 1  |
| Loans to other financing institutions ..... |                        |                                |                     | 917  | 917                                    |  |
| <b>Total .....</b>                          | <b><u>\$572</u></b>    | <b><u>\$426</u></b>            | <b><u>\$998</u></b> | <b><u>\$236,689</u></b>                          | <b><u>\$237,687</u></b>                | <b><u>\$19</u></b>                                 |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

A summary of changes in the allowance for loan losses and the recorded investment for loans outstanding by portfolio segment follows:

|  | Real estate mortgage | Production and intermediate-term | Agribusiness | Rural infrastructure | Rural residential real estate | Agricultural export finance | Lease receivables | Loans to OFIs | Total          |
|--|----------------------|----------------------------------|--------------|----------------------|-------------------------------|-----------------------------|-------------------|---------------|----------------|
| <b>Allowance for Loan Losses:</b>                          |                      |                                  |              |                      |                               |                             |                   |               |                |
| Balance at June 30, 2016                                   | \$368                | \$396                            | \$381        | \$206                | \$22                          | \$14                        | \$45              | \$1           | \$1,433        |
| Charge-offs  | (3)                  | (17)                             |              |                      |                               |                             | (1)               |               | (21)           |
| Recoveries   | 7                    | 3                                |              | 3                    |                               |                             |                   |               | 13             |
| Provision for loan losses (loan loss reversal)             | 18                   | 40                               | 4            | (4)                  |                               | (1)                         | 1                 |               | 58             |
| Reclassification to/from reserve for unfunded commitments* | (3)                  | (2)                              | (20)         | (1)                  |                               |                             |                   |               | (26)           |
| Balance at September 30, 2016                              | <u>\$387</u>         | <u>\$420</u>                     | <u>\$365</u> | <u>\$204</u>         | <u>\$22</u>                   | <u>\$13</u>                 | <u>\$45</u>       | <u>\$1</u>    | <u>\$1,457</u> |
| Balance at June 30, 2015                                   | \$315                | \$351                            | \$331        | \$166                | \$22                          | \$10                        | \$37              | \$1           | \$1,233        |
| Charge-offs  | (10)                 | (19)                             | (4)          |                      | (1)                           |                             |                   |               | (34)           |
| Recoveries   | 9                    | 6                                | 1            |                      | 1                             |                             |                   |               | 17             |
| Provision for loan losses (loan loss reversal)             | 10                   | 7                                | 11           | 8                    | (1)                           | 1                           | 1                 |               | 37             |
| Reclassification to/from reserve for unfunded commitments* |                      |                                  | (6)          | (1)                  |                               |                             |                   |               | (7)            |
| Balance at September 30, 2015                              | <u>\$324</u>         | <u>\$345</u>                     | <u>\$333</u> | <u>\$173</u>         | <u>\$21</u>                   | <u>\$11</u>                 | <u>\$38</u>       | <u>\$1</u>    | <u>\$1,246</u> |
| Balance at December 31, 2015                               | \$336                | \$346                            | \$320        | \$204                | \$20                          | \$13                        | \$40              | \$1           | \$1,280        |
| Charge-offs  | (9)                  | (33)                             | (6)          |                      | (2)                           |                             | (2)               |               | (52)           |
| Recoveries   | 13                   | 10                               | 4            | 4                    | 1                             |                             |                   |               | 32             |
| Provision for loan losses (loan loss reversal)             | 55                   | 99                               | 57           | (3)                  | 3                             |                             | 7                 |               | 218            |
| Adjustment due to merger                                   | (1)                  |                                  |              |                      |                               |                             |                   |               | (1)            |
| Reclassification to/from reserve for unfunded commitments* | (7)                  | (2)                              | (10)         | (1)                  |                               |                             |                   |               | (20)           |
| Balance at September 30, 2016                              | <u>\$387</u>         | <u>\$420</u>                     | <u>\$365</u> | <u>\$204</u>         | <u>\$22</u>                   | <u>\$13</u>                 | <u>\$45</u>       | <u>\$1</u>    | <u>\$1,457</u> |
| Balance at December 31, 2014                               | \$317                | \$331                            | \$334        | \$188                | \$22                          | \$10                        | \$34              | \$1           | \$1,237        |
| Charge-offs  | (21)                 | (32)                             | (4)          | (10)                 | (3)                           |                             | (1)               |               | (71)           |
| Recoveries   | 14                   | 17                               | 5            | 1                    | 1                             |                             |                   |               | 38             |
| Provision for loan losses (loan loss reversal)             | 32                   | 32                               | 18           | (2)                  | 1                             | 1                           | 5                 |               | 87             |
| Adjustment due to merger                                   | (1)                  | (1)                              |              |                      |                               |                             |                   |               | (2)            |
| Reclassification to/from reserve for unfunded commitments* | (17)                 | (2)                              | (20)         | (4)                  |                               |                             |                   |               | (43)           |
| Balance at September 30, 2015                              | <u>\$324</u>         | <u>\$345</u>                     | <u>\$333</u> | <u>\$173</u>         | <u>\$21</u>                   | <u>\$11</u>                 | <u>\$38</u>       | <u>\$1</u>    | <u>\$1,246</u> |
| Ending Balance at September 30, 2016:                      |                      |                                  |              |                      |                               |                             |                   |               |                |
| Individually evaluated for impairment                      | \$ 29                | \$ 72                            | \$ 20        | \$ 1                 | \$ 2                          |                             | \$ 4              |               | \$ 128         |
| Collectively evaluated for impairment                      | 358                  | 348                              | 345          | 203                  | 20                            | \$13                        | 41                | \$1           | 1,329          |
| Balance at September 30, 2016                              | <u>\$387</u>         | <u>\$420</u>                     | <u>\$365</u> | <u>\$204</u>         | <u>\$22</u>                   | <u>\$13</u>                 | <u>\$45</u>       | <u>\$1</u>    | <u>\$1,457</u> |
| Ending Balance at December 31, 2015:                       |                      |                                  |              |                      |                               |                             |                   |               |                |
| Individually evaluated for impairment                      | \$ 27                | \$ 60                            | \$ 17        | \$ 4                 | \$ 2                          |                             | \$ 1              |               | \$ 111         |
| Collectively evaluated for impairment                      | 309                  | 286                              | 303          | 200                  | 18                            | \$13                        | 39                | \$1           | 1,169          |
| Balance at December 31, 2015                               | <u>\$336</u>         | <u>\$346</u>                     | <u>\$320</u> | <u>\$204</u>         | <u>\$20</u>                   | <u>\$13</u>                 | <u>\$40</u>       | <u>\$1</u>    | <u>\$1,280</u> |

\* Represents reclassifications between the allowance for loan losses and the reserve for unfunded commitments primarily as a result of advances on or repayments of seasonal lines of credit or other loans.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

|   | Real<br>estate<br>mortgage | Production<br>and<br>intermediate-<br>term | Agribusiness    | Rural<br>infrastructure | Rural<br>residential<br>real<br>estate | Agricultural<br>export<br>finance | Lease<br>receivables | Loans<br>to<br>OFIs | Total            |
|---|----------------------------|--|-----------------|-------------------------|--|-----------------------------------|----------------------|---------------------|------------------|
| <b>Recorded Investments in Loans Outstanding:</b> |                            |  |                 |                         |  |                                   |                      |                     |                  |
| Ending balance at September 30, 2016:             |                            |  |                 |                         |  |                                   |                      |                     |                  |
| Loans individually evaluated for impairment       | \$ 1,239                   | \$ 662                                     | \$ 131          | \$ 6                    | \$1,662                                | \$ 1                              | \$ 41                | \$ 59               | \$ 3,801         |
| Loans collectively evaluated for impairment       | 113,357                    | 48,613                                     | 36,945          | 26,883                  | 5,612                                  | 5,081                             | 3,422                | 770                 | 240,683          |
| Balance at September 30, 2016                     | <u>\$114,596</u>           | <u>\$49,275</u>                            | <u>\$37,076</u> | <u>\$26,889</u>         | <u>\$7,274</u>                         | <u>\$5,082</u>                    | <u>\$3,463</u>       | <u>\$829</u>        | <u>\$244,484</u> |
| Ending balance at December 31, 2015:              |                            |  |                 |                         |  |                                   |                      |                     |                  |
| Loans individually evaluated for impairment       | \$ 1,084                   | \$ 484                                     | \$ 133          | \$ 88                   | \$1,824                                | \$ 1                              | \$ 17                | \$ 79               | \$ 3,710         |
| Loans collectively evaluated for impairment       | 107,793                    | 49,200                                     | 36,586          | 25,793                  | 5,322                                  | 5,088                             | 3,357                | 838                 | 233,977          |
| Balance at December 31, 2015                      | <u>\$108,877</u>           | <u>\$49,684</u>                            | <u>\$36,719</u> | <u>\$25,881</u>         | <u>\$7,146</u>                         | <u>\$5,089</u>                    | <u>\$3,374</u>       | <u>\$917</u>        | <u>\$237,687</u> |

A restructuring of a loan constitutes a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or

the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. When a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans under nonaccrual or accruing restructured loans. All risk loans are analyzed within our allowance for loan losses.

The following table presents additional information regarding troubled debt restructurings that occurred during the following periods:

|                                  | For the Three Months<br>Ended September 30, 2016           |   | For the Three Months<br>Ended September 30, 2015           |   |
|----------------------------------|--|---|--|---|
|                                  | Pre-modification<br>Outstanding<br>Recorded<br>Investment* | Post-modification<br>Outstanding<br>Recorded<br>Investment* | Pre-modification<br>Outstanding<br>Recorded<br>Investment* | Post-modification<br>Outstanding<br>Recorded<br>Investment* |
| Troubled debt restructurings:    |  |   |  |   |
| Real estate mortgage             | \$16   | \$14  | \$ 2   | \$ 2  |
| Production and intermediate-term | 7  | 9   | 11   | 11  |
| Agribusiness                     | 24   | 24  | 4  | 4   |
| Rural residential real estate    | 1  | 1   | 1  | 1   |
| Total                            | <u>\$48</u>  | <u>\$48</u>   | <u>\$18</u>  | <u>\$18</u>   |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

|  | For the Nine Months<br>Ended September 30, 2016            |   | For the Nine Months<br>Ended September 30, 2015            |   |
|--|--|---|--|---|
|  | Pre-modification<br>Outstanding<br>Recorded<br>Investment* | Post-modification<br>Outstanding<br>Recorded<br>Investment* | Pre-modification<br>Outstanding<br>Recorded<br>Investment* | Post-modification<br>Outstanding<br>Recorded<br>Investment* |
| Troubled debt restructurings:          |  |   |  |   |
| Real estate mortgage .....             | \$ 33  | \$ 31   | \$22   | \$21  |
| Production and intermediate-term ..... | 44   | 45  | 43   | 43  |
| Agribusiness .....                     | 24   | 24  | 31   | 31  |
| Rural residential real estate .....    | <u>2</u>   | <u>2</u>  | <u>2</u>   | <u>2</u>  |
| Total .....                            | <u>\$103</u>   | <u>\$102</u>  | <u>\$98</u>  | <u>\$97</u>   |

\* Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

|   | Recorded Investment |                    |
|---|---------------------|--------------------|
|   | September 30, 2016  | September 30, 2015 |
| Troubled debt restructurings that subsequently defaulted: |                     |                    |
| Real estate mortgage .....                                | \$2                 |                    |
| Production and intermediate-term .....                    | 2                   | \$ 2               |
| Agribusiness .....  |                     | 30                 |
| Rural infrastructure .....                                |                     | 1                  |
| Rural residential real estate .....                       |                     | <u>1</u>           |
| Total .....   | <u>\$4</u>          | <u>\$34</u>        |

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

|  | Loans Modified as Troubled Debt<br>Restructurings |                      | Troubled Debt Restructurings in<br>Nonaccrual Status* |                      |
|--|---|----------------------|---|----------------------|
|  | September 30,<br>2016                             | December 31,<br>2015 | September 30,<br>2016                                 | December 31,<br>2015 |
| Real estate mortgage .....             | \$286   | \$301                | \$ 99   | \$121                |
| Production and intermediate-term ..... | 173   | 201                  | 65  | 104                  |
| Agribusiness .....                     | 49  | 33                   | 47  | 31                   |
| Rural infrastructure .....             | 46  | 61                   |   | 61                   |
| Rural residential real estate .....    | <u>12</u>   | <u>12</u>            | <u>5</u>  | <u>5</u>             |
| Total .....                            | <u>\$566</u>                                      | <u>\$608</u>         | <u>\$216</u>  | <u>\$322</u>         |

\* Represents the portion of loans modified as troubled debt restructurings that are in nonaccrual status

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings were \$24 million at September 30, 2016 and \$14 million at December 31, 2015.

Loans held for sale were \$45 million and \$55 million at September 30, 2016 and December 31, 2015. Such loans are included in other assets and are carried at the lower of cost or fair value.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**NOTE 4 — OTHER ASSETS AND OTHER LIABILITIES**

Other assets consisted of the following:

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| Equipment held for lease . . . . .                        | \$1,096               | \$1,080              |
| Interest rate swaps and other derivatives . . . . .       | 364                   | 301                  |
| Collateral pledged to derivative counterparties . . . . . | 229                   | 50                   |
| Accounts receivable . . . . .                             | 206                   | 317                  |
| Assets held in non-qualified benefit trusts . . . . .     | 147                   | 139                  |
| Equity investments in other System institutions . . . . . | 100                   | 99                   |
| Other property owned . . . . .                            | 81                    | 96                   |
| Prepaid expenses . . . . .                                | 58                    | 63                   |
| Loans held for sale . . . . .                             | 45                    | 55                   |
| Net deferred tax assets . . . . .                         | 22                    | 18                   |
| Other . . . . .   | 145                   | 173                  |
| Total . . . . .   | <u>\$2,493</u>        | <u>\$2,391</u>       |

Other liabilities consisted of the following:

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| Pension and other postretirement benefit plan liabilities . . . . . | \$1,420               | \$1,443              |
| Patronage and dividends payable . . . . .                           | 508                   | 1,126                |
| Accounts payable . . . . .  | 495                   | 528                  |
| Net deferred tax liabilities . . . . .                              | 494                   | 502                  |
| Interest rate swaps and other derivatives . . . . .                 | 382                   | 165                  |
| Reserve for unfunded commitments . . . . .                          | 201                   | 181                  |
| Accrued salaries and employee benefits . . . . .                    | 190                   | 230                  |
| Bank drafts payable . . . . .                                       | 99                    | 147                  |
| Liabilities held in non-qualified benefit trusts . . . . .          | 84                    | 81                   |
| Collateral held from derivative counterparties . . . . .            | 13                    | 115                  |
| Other . . . . .   | 286                   | 421                  |
| Total . . . . .   | <u>\$4,172</u>        | <u>\$4,939</u>       |

**NOTE 5 — FARM CREDIT INSURANCE FUND**

The assets in the Insurance Fund are designated as restricted assets and the related capital is designated as restricted capital. The classification of the Insurance Fund as restricted assets (and as restricted capital) in the System's condensed combined financial statements is based on the statutory requirement that the amounts in the Insurance Fund are to be used solely for purposes specified in the Farm Credit Act of 1971, as amended (Farm Credit Act), all of which benefit Banks and Associations. The Insurance Fund is under the direct control of the Farm Credit System Insurance Corporation (Insurance Corporation), an independent U.S. government-controlled corporation, and not under the control of any System institution. A board of directors consisting of the Farm Credit Administration Board directs the Insurance Corporation.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, 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 renewed. 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.

At September 30, 2016, total assets in the Insurance Fund totaled \$4.343 billion and consisted of cash, investments and related accrued interest receivable of \$4.069 billion and of premiums receivable from System institutions of \$274 million accrued on the basis of adjusted outstanding insured debt during the first nine months of 2016. Investments held by the Insurance Fund must be obligations of the United States or obligations guaranteed

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
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as to principal and interest by the United States. During the first nine months of 2016, income earned on assets in the Insurance Fund and premiums

accrued by the Insurance Corporation totaled \$304 million, net of administrative expenses.

**NOTE 6 — SYSTEMWIDE DEBT SECURITIES AND SUBORDINATED DEBT**

Aggregate maturities and the weighted average interest rate of Systemwide Debt Securities were as follows at September 30, 2016:

|   | Bonds            |                                | Medium-term notes |                                | Discount notes  |                                | Total            |                                |
|---|------------------|--------------------------------|-------------------|--------------------------------|-----------------|--------------------------------|------------------|--------------------------------|
|   | Amount           | Weighted Average Interest Rate | Amount            | Weighted Average Interest Rate | Amount          | Weighted Average Interest Rate | Amount           | Weighted Average Interest Rate |
| Due in 1 year or less . . . . .           | \$ 71,366        | 0.73%                          |                   |                                | \$32,911        | 0.54%                          | \$104,277        | 0.67%                          |
| Due after 1 year through 2 years . . . .  | 61,812           | 0.77                           |                   |                                |                 |                                | 61,812           | 0.77                           |
| Due after 2 years through 3 years . . . . | 25,065           | 1.07                           | \$ 1              | 6.67%                          |                 |                                | 25,066           | 1.07                           |
| Due after 3 years through 4 years . . . . | 12,393           | 1.52                           |                   |                                |                 |                                | 12,393           | 1.52                           |
| Due after 4 years through 5 years . . . . | 10,215           | 1.58                           | 4                 | 7.35                           |                 |                                | 10,219           | 1.58                           |
| Due after 5 years . . . . .               | 38,128           | 2.59                           | 97                | 5.77                           |                 |                                | 38,225           | 2.60                           |
| Total . . . . .                           | <u>\$218,979</u> | 1.19                           | <u>\$102</u>      | 5.84                           | <u>\$32,911</u> | 0.54                           | <u>\$251,992</u> | 1.11                           |

On April 15, 2016, CoBank redeemed \$405 million of its 7.875% subordinated debt at par plus accrued interest due in 2018. On June 6, 2016, the Farm Credit Bank of Texas redeemed \$50 million of its 8.406% subordinated debt at par plus accrued interest due in 2018. On July 15, 2016, AgriBank

redeemed \$500 million of its 9.125% subordinated debt at par plus accrued interest due in 2019. The Banks redeemed their subordinated debt due to the occurrence of a “Regulatory Event,” as defined under the terms of the debt.

**NOTE 7 — MERGER OF SYSTEM INSTITUTIONS**

As discussed in the *2015 Annual Information Statement*, the primary reason for System entity mergers is based on a determination that the combined organization would be financially and operationally stronger with an enhanced ability to fulfill its mission.

Effective January 1, 2016, two Associations in the CoBank District merged. The following table summarizes the fair values of the identifiable assets

acquired and liabilities assumed for the merger as of January 1, 2016:

|                                     | Fair Value   |
|-------------------------------------|--------------|
| Total assets acquired . . . . .     | \$304        |
| Total liabilities assumed . . . . . | <u>248</u>   |
| Net assets acquired . . . . .       | <u>\$ 56</u> |

The assets acquired included gross loans at fair value of \$267 million with a contractual amount of \$288 million. As of January 1, 2016, the gross contractual amount of loans is expected to be collected.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**NOTE 8 — CAPITAL STRUCTURE**

Capital consisted of the following at September 30, 2016:

|   | <u>Combined<br/>Banks</u> | <u>Combined<br/>Associations</u> | <u>Combination<br/>Entries</u> | <u>System<br/>Combined</u> |
|---|---------------------------|----------------------------------|--------------------------------|----------------------------|
| Preferred stock . . . . .                                       | \$ 2,419                  | \$ 728                           |                                | \$ 3,147                   |
| Capital stock and participation certificates . . . . .          | 5,506                     | 571                              | \$(4,304)                      | 1,773                      |
| Additional paid-in-capital . . . . .                            | 53                        | 1,332                            |                                | 1,385                      |
| Restricted capital — Insurance Fund . . . . .                   |                           |                                  | 4,343                          | 4,343                      |
| Accumulated other comprehensive income (loss), net of tax . . . | 14                        | (125)                            | (1,115)                        | (1,226)                    |
| Surplus . . . . .   | <u>9,972</u>              | <u>33,199</u>                    | <u>(202)</u>                   | <u>42,969</u>              |
| Total capital . . . . .   | <u>\$17,964</u>           | <u>\$35,705</u>                  | <u>\$(1,278)</u>               | <u>\$52,391</u>            |

Preferred stock issued and outstanding reflects the issuance by four Banks and five Associations. During the first nine months of 2016, AgFirst repurchased for \$33 million, through a privately negotiated transaction, and cancelled 45,750 shares of non-cumulative perpetual subordinated preferred stock at a par value of \$1,000 per share. The effect of this transaction was to reduce preferred stock outstanding by \$46 million and increase additional paid-in-capital by \$13 million.

During the second quarter of 2016, CoBank issued \$375 million of non-cumulative perpetual preferred stock. Dividends on preferred stock, if declared by CoBank's board of directors in its sole discretion, are non-cumulative and are payable semi-annually at a fixed annual rate of 6.25%, up to, but excluding October 1, 2026, and then resets to 3-month USD LIBOR plus 4.66% and will be paid

quarterly. The preferred stock is redeemable at par value, in whole or in part, at CoBank's option quarterly beginning on October 1, 2026. The preferred stock will be redeemable in whole at any time upon the occurrence of certain defined regulatory events. Proceeds from this preferred stock issuance were used to increase regulatory capital pursuant to current FCA regulations and for general corporate purposes.

Combined System surplus reflected net eliminations of \$202 million representing transactions between the Banks, the Associations and/or the Insurance Fund. Capital stock and participation certificates of the Banks amounting to \$4.3 billion were owned by the Associations. These amounts have been eliminated in the accompanying condensed combined financial statements. Restricted capital is only available for statutorily authorized purposes and is not available for payment of dividends or patronage refunds.

Accumulated other comprehensive loss was comprised of the following components:

|   | <u>September 30, 2016</u> |                         |                       | <u>December 31, 2015</u> |                         |                       |
|---|---------------------------|-------------------------|-----------------------|--------------------------|-------------------------|-----------------------|
|   | <u>Before<br/>Tax</u>     | <u>Deferred<br/>Tax</u> | <u>Net of<br/>Tax</u> | <u>Before<br/>Tax</u>    | <u>Deferred<br/>Tax</u> | <u>Net of<br/>Tax</u> |
| Unrealized gains on investments available-for-sale, net . . . . .                               | \$ 382                    | \$(66)                  | \$ 316                | \$ 47                    | \$(12)                  | \$ 35                 |
| Unrealized gains on other-than-temporarily<br>impaired investments available-for-sale . . . . . | 6                         | (1)                     | 5                     | 37                       | (3)                     | 34                    |
| Unrealized losses on cash flow hedges, net . . . . .  | (240)                     | 19                      | (221)                 | (119)                    | 12                      | (107)                 |
| Pension and other benefit plans . . . . .   | <u>(1,365)</u>            | <u>39</u>               | <u>(1,326)</u>        | <u>(1,449)</u>           | <u>40</u>               | <u>(1,409)</u>        |
|   | <u>\$(1,217)</u>          | <u>\$ (9)</u>           | <u>\$(1,226)</u>      | <u>\$(1,484)</u>         | <u>\$ 37</u>            | <u>\$(1,447)</u>      |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

|  | Unrealized gains on investments available-for-sale, net | Unrealized gains on other-than-temporarily impaired investments available-for-sale | Unrealized losses on cash flow hedges, net | Pension and other benefit plans | Accumulated other comprehensive loss |
|--|---|--|--|---------------------------------|--------------------------------------|
| Balance at June 30, 2016 . . . . .   | \$ 440  | \$ 25  | \$(236)                                    | \$(1,354)                       | \$(1,125)                            |
| Other comprehensive income before reclassifications . . .                          | (124)   | (4)  | 13   |                                 | (115)                                |
| Amounts reclassified from accumulated other comprehensive loss to income . . . . . |   | (16)   | 2  | 28                              | 14                                   |
| Net current period other comprehensive income . . . . .                            | (124)   | (20)   | 15   | 28                              | (101)                                |
| Balance at September 30, 2016 . . . . .  | <u>\$ 316</u>   | <u>\$ 5</u>  | <u>\$(221)</u>                             | <u>\$(1,326)</u>                | <u>\$(1,226)</u>                     |

|  | Unrealized gains on investments available-for-sale, net | Unrealized gains on other-than-temporarily impaired investments available-for-sale | Unrealized losses on cash flow hedges, net | Pension and other benefit plans | Accumulated other comprehensive loss |
|--|---|--|--|---------------------------------|--------------------------------------|
| Balance at June 30, 2015 . . . . .   | \$ 198  | \$43   | \$ (80)                                    | \$(1,342)                       | \$(1,181)                            |
| Other comprehensive income before reclassifications . . .                          | 96  | (6)  | (49)                                       | 1                               | 42                                   |
| Amounts reclassified from accumulated other comprehensive loss to income . . . . . |   | 1  |  | 30                              | 31                                   |
| Net current period other comprehensive income . . . . .                            | 96  | (5)  | (49)                                       | 31                              | 73                                   |
| Balance at September 30, 2015 . . . . .  | <u>\$294</u>  | <u>\$38</u>  | <u>\$(129)</u>                             | <u>\$(1,311)</u>                | <u>\$(1,108)</u>                     |

|  | Unrealized gains on investments available-for-sale, net | Unrealized gains on other-than-temporarily impaired investments available-for-sale | Unrealized losses on cash flow hedges, net | Pension and other benefit plans | Accumulated other comprehensive loss |
|--|---|--|--|---------------------------------|--------------------------------------|
| Balance at December 31, 2015 . . . . .   | \$ 35   | \$ 34  | \$(107)                                    | \$(1,409)                       | \$(1,447)                            |
| Other comprehensive income before reclassifications . . .                          | 283   | (8)  | (118)                                      |                                 | 157                                  |
| Amounts reclassified from accumulated other comprehensive loss to income . . . . . | (2)   | (21)   | 4  | 83                              | 64                                   |
| Net current period other comprehensive income . . . . .                            | 281   | (29)   | (114)                                      | 83                              | 221                                  |
| Balance at September 30, 2016 . . . . .  | <u>\$316</u>  | <u>\$ 5</u>  | <u>\$(221)</u>                             | <u>\$(1,326)</u>                | <u>\$(1,226)</u>                     |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

|  | Unrealized gains on investments available-for-sale, net | Unrealized gains on other-than-temporarily impaired investments available-for-sale | Unrealized losses on cash flow hedges, net | Pension and other benefit plans | Accumulated other comprehensive loss |
|--|---|--|--|---------------------------------|--------------------------------------|
| Balance at December 31, 2014 . . . . .   | \$160   | \$47   | \$(102)                                    | \$(1,402)                       | \$(1,297)                            |
| Other comprehensive income before reclassifications . . .                          | 139   | (8)  | (31)                                       | 1                               | 101                                  |
| Amounts reclassified from accumulated other comprehensive loss to income . . . . . | (5)   | (1)  | 4  | 90                              | 88                                   |
| Net current period other comprehensive income . . . . .                            | <u>134</u>  | <u>(9)</u>   | <u>(27)</u>                                | <u>91</u>                       | <u>189</u>                           |
| Balance at September 30, 2015 . . . . .  | <u>\$294</u>  | <u>\$38</u>  | <u>\$(129)</u>                             | <u>\$(1,311)</u>                | <u>\$(1,108)</u>                     |

The following table represents reclassifications out of accumulated other comprehensive income (loss):

|   | For the Three Months Ended September 30, |               | For the Nine Months Ended September 30, |               | Location of Gain/Loss Recognized in Condensed Combined Statement of Income |
|---|--|---------------|---|---------------|--|
|   | 2016                                     | 2015          | 2016                                    | 2015          |  |
| Unrealized gains on investments available-for-sale, net:                            |  |               |   |               |  |
| Sales gains and losses . . . . .  |  |               | \$ 2                                    | \$ 8          | Net gains on sales of investments and other assets                         |
| Deferred tax . . . . .  |  |               |   | (3)           | Provision for income taxes   |
| Net amounts reclassified . . . . .  |  |               | <u>2</u>                                | <u>5</u>      |  |
| Unrealized gains on other-than-temporarily-impaired investments available-for-sale: |  |               |   |               |  |
| Holding gains and losses . . . . .  | \$(13)                                   | \$ (2)        | (15)                                    | (13)          | Net other-than-temporary impairment losses recognized in earnings          |
| Sales gains and losses . . . . .  | 29                                       | 1             | 36                                      | 17            | Net gain on sales of investments and other assets                          |
| Deferred tax . . . . .  |  |               |   | (3)           | Provision for income taxes   |
| Net amounts reclassified . . . . .  | <u>16</u>                                | <u>(1)</u>    | <u>21</u>                               | <u>1</u>      |  |
| Unrealized losses on cash flow hedges, net:   |  |               |   |               |  |
| Interest rate contracts . . . . .   | (1)                                      | (1)           | (4)                                     | (3)           | Interest expense   |
| Other contracts . . . . .   | (2)                                      | 2             | (1)                                     | (2)           | Interest income  |
| Deferred tax . . . . .  | 1  | (1)           | 1                                       | 1             | Provision for income taxes   |
| Net amounts reclassified . . . . .  | <u>(2)</u>                               | <u>0</u>      | <u>(4)</u>                              | <u>(4)</u>    |  |
| Pension and other benefit plans:  |  |               |   |               |  |
| Net actuarial loss . . . . .  | (29)                                     | (31)          | (85)                                    | (92)          | Salaries and employee benefits   |
| Deferred tax . . . . .  | 1  | 1             | 2                                       | 2             | Provision for income taxes   |
| Net amounts reclassified . . . . .  | <u>(28)</u>                              | <u>(30)</u>   | <u>(83)</u>                             | <u>(90)</u>   |  |
| Total reclassifications . . . . .   | <u>\$(14)</u>                            | <u>\$(31)</u> | <u>\$(64)</u>                           | <u>\$(88)</u> |  |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

Only the Banks are statutorily liable for the payment of principal and interest on Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Farm Credit Banks Consolidated Systemwide Discount Notes, Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes and other debt securities issued under Section 4.2(d) of the Farm Credit Act (collectively, Systemwide Debt Securities). Under each Bank’s bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association’s or other equity holder’s direct loan from the Bank, and calls for additional equity investments may be subject to other limits or conditions. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies and agreements.

Capital regulations issued by the System’s regulator, the Farm Credit Administration, require that the Banks and Associations maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and maintain a net collateral ratio of at least 103 percent of total liabilities. However, in connection with subordinated debt offerings, CoBank is required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104 percent. AgFirst, AgriBank and the Farm Credit Bank of Texas had no subordinated debt outstanding as of September 30, 2016. All System institutions complied with these standards at September 30, 2016.

**NOTE 9 — EMPLOYEE BENEFIT PLANS**

The Banks and substantially all Associations participate in defined benefit retirement plans. The Banks and Associations, except for CoBank and certain related Associations, generally sponsor multi-employer plans that cannot be attributed to any individual entity. Thus, these plans are recorded at the combined District level. Although these plans are aggregated in the System’s combined financial statements, the plan assets are particular to each plan’s obligations. These retirement plans are non-contributory and benefits are based on salary and years of service. The Banks and Associations have closed their defined benefit pension plans to new participants and offer defined contribution retirement plans to all employees hired subsequent to the close of their respective plans. In addition, certain System institutions provide healthcare and other postretirement benefits to eligible retired employees. Employees of System institutions may become eligible for healthcare and other postretirement benefits if they reach normal retirement age while working for the System.

The following table summarizes the components of net periodic benefit cost for the three months ended September 30:

|                                      | <b>Pension Benefits</b> |              | <b>Other Benefits</b> |             |
|--------------------------------------|-------------------------|--------------|-----------------------|-------------|
|                                      | <u>2016</u>             | <u>2015</u>  | <u>2016</u>           | <u>2015</u> |
| Service cost .....                   | \$ 19                   | \$ 19        | \$1                   | \$2         |
| Interest cost .....                  | 38                      | 38           | 4                     | 3           |
| Expected return on plan assets ..... | (45)                    | (45)         |                       |             |
| Net amortization and deferral .....  | <u>29</u>               | <u>31</u>    | <u>—</u>              | <u>1</u>    |
| Net periodic benefit cost ....       | <u>\$ 41</u>            | <u>\$ 43</u> | <u>\$5</u>            | <u>\$6</u>  |

**FARM CREDIT SYSTEM**

**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**

(unaudited)

(dollars in millions, except as noted)

The following table summarizes the components of net periodic benefit cost for the nine months ended September 30:

|                                      | Pension Benefits |               | Other Benefits |              |
|--------------------------------------|------------------|---------------|----------------|--------------|
|                                      | 2016             | 2015          | 2016           | 2015         |
| Service cost .....                   | \$ 55            | \$ 57         | \$ 3           | \$ 4         |
| Interest cost .....                  | 115              | 114           | 10             | 10           |
| Expected return on plan assets ..... | (134)            | (133)         |                |              |
| Net amortization and deferral .....  | 87               | 91            | 1              | 4            |
| Curtailments .....                   | 2                |               |                |              |
| Net periodic benefit cost ..         | <u>\$ 125</u>    | <u>\$ 129</u> | <u>\$ 14</u>   | <u>\$ 18</u> |

The System previously disclosed for the year ended December 31, 2015 that the Banks and Associations expected to contribute \$150 million to

their pension plans and \$12 million to their other postretirement benefit plans in 2016. As of September 30, 2016, \$67 million and \$9 million of contributions have been made to pension and other postretirement benefit plans. System institutions presently anticipate contributing an additional \$121 million to fund their pension plans and \$3 million to fund their other postretirement benefit plans during the fourth quarter of 2016.

**NOTE 10 — FAIR VALUE MEASUREMENTS**

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2 — Summary of Significant Accounting Policies in the *2015 Annual Information Statement* for additional information.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2016 and December 31, 2015 for each of the fair value hierarchy levels are summarized below:

| <b>September 30, 2016</b>  | Fair Value Measurement Using |                 |              | Total Fair Value |
|--|------------------------------|-----------------|--------------|------------------|
|  | Level 1                      | Level 2         | Level 3      |                  |
| <b>Assets:</b>   |                              |                 |              |                  |
| Federal funds sold and securities purchased under resale agreements . . .                  |                              | \$ 1,583        |              | \$ 1,583         |
| Commercial paper, bankers' acceptances, certificates of deposit and other securities ..... |                              | 5,696           | \$ 5         | 5,701            |
| U.S. Treasury securities .....   |                              | 16,150          |              | 16,150           |
| U.S. agency securities .....   |                              | 5,565           |              | 5,565            |
| Mortgage-backed securities .....   |                              | 25,362          | 576          | 25,938           |
| Asset-backed securities .....  |                              | 2,561           | 34           | 2,595            |
| Derivative assets .....  |                              | 364             |              | 364              |
| Assets held in non-qualified benefits trusts .....   | \$147                        |                 |              | 147              |
| Total assets .....   | <u>\$147</u>                 | <u>\$57,281</u> | <u>\$615</u> | <u>\$58,043</u>  |
| <b>Liabilities:</b>  |                              |                 |              |                  |
| Derivative liabilities .....   |                              | \$ 382          |              | \$ 382           |
| Collateral liabilities .....   |                              | 13              |              | 13               |
| Standby letters of credit .....  |                              |                 | \$ 14        | 14               |
| Total liabilities .....  | <u>\$ 0</u>                  | <u>\$ 395</u>   | <u>\$ 14</u> | <u>\$ 409</u>    |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

| <b>December 31, 2015</b>  | <b>Fair Value Measurement Using</b> |                 |                | <b>Total</b>      |
|---|-------------------------------------|-----------------|----------------|-------------------|
|   | <b>Level 1</b>                      | <b>Level 2</b>  | <b>Level 3</b> | <b>Fair Value</b> |
| <b>Assets:</b>  |                                     |                 |                |                   |
| Federal funds sold and securities purchased under resale agreements . . .                         |                                     | \$ 1,661        |                | \$ 1,661          |
| Commercial paper, bankers' acceptances, certificates<br>of deposit and other securities . . . . . |                                     | 5,281           |                | 5,281             |
| U.S. Treasury securities . . . . .  |                                     | 10,046          |                | 10,046            |
| U.S. agency securities . . . . .  |                                     | 6,199           |                | 6,199             |
| Mortgage-backed securities . . . . .  |                                     | 25,356          | \$807          | 26,163            |
| Asset-backed securities . . . . .   |                                     | 2,520           | 56             | 2,576             |
| Derivative assets . . . . .   |                                     | 301             |                | 301               |
| Assets held in non-qualified benefits trusts . . . . .  | \$139                               |                 |                | 139               |
| <b>Total assets . . . . .</b>   | <b>\$139</b>                        | <b>\$51,364</b> | <b>\$863</b>   | <b>\$52,366</b>   |
| <b>Liabilities:</b>   |                                     |                 |                |                   |
| Derivative liabilities . . . . .  |                                     | \$ 165          |                | \$ 165            |
| Collateral liabilities . . . . .  |                                     | 115             |                | 115               |
| Standby letters of credit . . . . .   |                                     |                 | \$ 14          | 14                |
| <b>Total liabilities . . . . .</b>  | <b>\$ 0</b>                         | <b>\$ 280</b>   | <b>\$ 14</b>   | <b>\$ 294</b>     |

The tables below summarize the activity of all Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2016 and 2015:

|  | <b>Commercial paper,<br/>bankers' acceptances,<br/>certificates of deposit<br/>and other securities</b> | <b>Mortgage-backed<br/>securities</b> | <b>Asset-backed<br/>securities</b> | <b>Standby<br/>letters<br/>of<br/>credit</b> |
|--|---|---------------------------------------|------------------------------------|--|
| Balance at June 30, 2016 . . . . .   |   | \$665                                 | \$42                               | \$14   |
| Total gains or (losses) realized/unrealized:   |   |                                       |                                    |  |
| Included in earnings . . . . .   |   | 4                                     |                                    |  |
| Included in other comprehensive loss . . . . .   |   | 1                                     | 1                                  |  |
| Sales . . . . .  |   | (61)                                  |                                    |  |
| Issuances . . . . .  |   |                                       |                                    | 2  |
| Settlements . . . . .  |   | (33)                                  | (4)                                | (2)  |
| Transfers from Level 3 into Level 2 . . . . .  |   |                                       | (5)                                |  |
| Transfers into Level 3 from Level 2 . . . . .  | \$5   |                                       |                                    |  |
| <b>Balance at September 30, 2016 . . . . .</b>   | <b>\$5</b>  | <b>\$576</b>                          | <b>\$34</b>                        | <b>\$14</b>                                  |
| The amount of losses for the period<br>included in earnings attributable to the<br>change in unrealized gains or losses<br>relating to assets or liabilities still held at<br>September 30, 2016 . . . . . | <b>\$0</b>  | <b>\$(13)</b>                         | <b>\$ 0</b>                        | <b>\$ 0</b>                                  |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

|  | <u>Mortgage-backed securities</u> | <u>Asset-backed securities</u> | <u>Standby letters of credit</u> |
|--|-----------------------------------|--------------------------------|----------------------------------|
| Balance at June 30, 2015 .....   | \$862                             | \$64                           | \$14                             |
| Total gains or (losses) realized/unrealized:   |                                   |                                |                                  |
| Included in earnings .....   |                                   | 1                              |                                  |
| Included in other comprehensive loss .....   | (7)                               | (1)                            |                                  |
| Sales .....  | (21)                              |                                |                                  |
| Issuances .....  |                                   |                                | 2                                |
| Settlements .....  | (32)                              | (4)                            | (2)                              |
| Transfers from Level 3 into Level 2 .....  |                                   | (1)                            |                                  |
| Balance at September 30, 2015 .....  | <u>\$802</u>                      | <u>\$59</u>                    | <u>\$14</u>                      |
| The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 2015 ..... | <u>\$ 2</u>                       | <u>\$ 0</u>                    | <u>\$ 0</u>                      |

The tables below summarize the activity of all Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2016 and 2015:

|  | <u>Commercial paper, bankers' acceptances, certificates of deposit and other securities</u> | <u>Mortgage-backed securities</u> | <u>Asset-backed securities</u> | <u>Standby letters of credit</u> |
|--|---|-----------------------------------|--------------------------------|----------------------------------|
| Balance at December 31, 2015 .....   |   | \$807                             | \$56                           | \$14                             |
| Total gains or (losses) realized/unrealized:   |   |                                   |                                |                                  |
| Included in earnings .....   |   | 5                                 | 5                              |                                  |
| Included in other comprehensive loss .....   |   | (7)                               | (7)                            |                                  |
| Sales .....  |   | (87)                              | (7)                            |                                  |
| Issuances .....  |   |                                   |                                | 6                                |
| Settlements .....  |   | (92)                              | (8)                            | (6)                              |
| Transfers from Level 3 into Level 2 .....  |   | (50)                              | (5)                            |                                  |
| Transfers into Level 3 from Level 2 .....  | <u>\$5</u>  |                                   |                                |                                  |
| Balance at September 30, 2016 .....  | <u>\$5</u>  | <u>\$576</u>                      | <u>\$34</u>                    | <u>\$14</u>                      |
| The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 2016 ..... | <u>\$0</u>  | <u>\$ (15)</u>                    | <u>\$ 0</u>                    | <u>\$ 0</u>                      |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

|  | <u>Mortgage-backed<br/>securities</u> | <u>Asset-backed<br/>securities</u> | <u>Standby<br/>letters<br/>of<br/>credit</u> |
|--|---------------------------------------|------------------------------------|--|
| Balance at December 31, 2014 .....   | \$1,084                               | \$161                              | \$13   |
| Total gains or (losses) realized/unrealized:   |                                       |                                    |  |
| Included in earnings .....   | (10)                                  | 14                                 |  |
| Included in other comprehensive loss .....   | 22                                    | (13)                               |  |
| Sales .....  | (38)                                  | (56)                               |  |
| Issuances .....  |                                       |                                    | 6  |
| Settlements .....  | (115)                                 | (13)                               | (5)  |
| Transfers from Level 3 into Level 2 .....  | (141)                                 | (34)                               |  |
| Balance at September 30, 2015 .....  | <u>\$ 802</u>                         | <u>\$ 59</u>                       | <u>\$14</u>                                  |
| The amount of losses for the period included in earnings attributable to<br>the change in unrealized gains or losses relating to assets or liabilities<br>still held at September 30, 2015 ..... | <u>\$ 13</u>                          | <u>\$ 0</u>                        | <u>\$ 0</u>                                  |

The transfers between Level 3 and Level 2 during the first nine months of 2016 and 2015 were due to a change in the sources of pricing information. There were no transfers into or out of Level 1 during the first nine months of 2016 and 2015.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy levels are summarized below:

|                            | <u>Fair Value<br/>Measurement<br/>Using</u> |                | <u>Total Fair<br/>Value</u> | <u>Total (Losses) Gains<br/>For the Nine Months Ended<br/>September 30, 2016</u> |
|----------------------------|---|----------------|-----------------------------|--|
|                            | <u>Level 2</u>                              | <u>Level 3</u> |                             |  |
| <b>September 30, 2016</b>  |   |                |                             |  |
| Loans .....                | \$38  | \$1,669        | \$1,707                     | \$(48)   |
| Other property owned ..... |   | 88             | 88                          | 7  |
|                            |   |                |                             |  |
|                            | <u>Fair Value<br/>Measurement<br/>Using</u> |                | <u>Total Fair<br/>Value</u> | <u>Total (Losses) Gains<br/>For the Nine Months Ended<br/>September 30, 2015</u> |
|                            | <u>Level 2</u>                              | <u>Level 3</u> |                             |  |
| <b>December 31, 2015</b>   |   |                |                             |  |
| Loans .....                | \$34  | \$1,483        | \$1,517                     | \$(58)   |
| Other property owned ..... |   | 107            | 107                         | 5  |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Condensed Combined Statement of Condition for each of the fair value hierarchy levels are summarized as follows:

|  | September 30, 2016    |                              |              |                  | Total Fair Value |
|--|-----------------------|------------------------------|--------------|------------------|------------------|
|  | Total Carrying Amount | Fair Value Measurement Using |              |                  |                  |
|  | Level 1               | Level 2                      | Level 3      |                  |                  |
| <b>Assets:</b>   |                       |                              |              |                  |                  |
| Cash .....   | \$ 3,084              | \$3,084                      |              |                  | \$ 3,084         |
| Mission-related and other investments held-to-maturity ... | 2,562                 |                              | \$816        | \$ 1,742         | 2,558            |
| Net loans .....  | 240,667               |                              | 27           | 248,349          | 248,376          |
| <b>Total assets</b> .....                                  | <b>\$246,313</b>      | <b>\$3,084</b>               | <b>\$843</b> | <b>\$250,091</b> | <b>\$254,018</b> |
| <b>Liabilities:</b>  |                       |                              |              |                  |                  |
| Systemwide Debt Securities .....                           | \$251,992             |                              |              | \$159,358        | \$159,358        |
| Subordinated debt .....                                    | 598                   |                              |              | 586              | 586              |
| Other bonds .....  | 3,269                 |                              |              | 3,269            | 3,269            |
| Other interest bearing liabilities .....                   | 1,322                 |                              | \$ 5         | 1,327            | 1,332            |
| <b>Total liabilities</b> .....                             | <b>\$257,181</b>      | <b>\$ 0</b>                  | <b>\$ 5</b>  | <b>\$164,540</b> | <b>\$164,545</b> |
| <b>Other financial instruments:</b>                        |                       |                              |              |                  |                  |
| Commitments to extend credit .....                         |                       |                              |              | \$ 202           | \$ 202           |

|  | December 31, 2015     |                              |              |                  | Total Fair Value |
|--|-----------------------|------------------------------|--------------|------------------|------------------|
|  | Total Carrying Amount | Fair Value Measurement Using |              |                  |                  |
|  | Level 1               | Level 2                      | Level 3      |                  |                  |
| <b>Assets:</b>   |                       |                              |              |                  |                  |
| Cash .....   | \$ 4,974              | \$4,974                      |              |                  | \$ 4,974         |
| Mission-related and other investments held-to-maturity ... | 2,478                 |                              | \$897        | \$ 1,565         | 2,462            |
| Net loans .....  | 234,610               |                              | 28           | 239,531          | 239,559          |
| <b>Total assets</b> .....                                  | <b>\$242,062</b>      | <b>\$4,974</b>               | <b>\$925</b> | <b>\$241,096</b> | <b>\$246,995</b> |
| <b>Liabilities:</b>  |                       |                              |              |                  |                  |
| Systemwide Debt Securities .....                           | \$243,335             |                              |              | \$243,861        | \$243,861        |
| Subordinated debt .....                                    | 1,550                 |                              |              | 1,693            | 1,693            |
| Other bonds .....  | 2,879                 |                              |              | 2,879            | 2,879            |
| Other interest bearing liabilities .....                   | 1,343                 |                              | \$ 6         | 1,335            | 1,341            |
| <b>Total liabilities</b> .....                             | <b>\$249,107</b>      | <b>\$ 0</b>                  | <b>\$ 6</b>  | <b>\$249,768</b> | <b>\$249,774</b> |
| <b>Other financial instruments:</b>                        |                       |                              |              |                  |                  |
| Commitments to extend credit .....                         |                       |                              |              | \$ 198           | \$ 198           |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**Sensitivity to Changes in Significant Unobservable Inputs**

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a

directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

|  | Fair Value         |                   | Valuation Technique(s) | Unobservable Input   | Range of Inputs    |                   |
|--|--------------------|-------------------|------------------------|----------------------|--------------------|-------------------|
|  | September 30, 2016 | December 31, 2015 |                        |                      | September 30, 2016 | December 31, 2015 |
| Commercial paper, bankers' acceptances, certificates of deposit and other securities . . . . . | \$ 5               | \$ 0              | Discounted cash flow   | Prepayment rate      | 0.0%               |                   |
| Mortgage-backed securities . . . . .   | \$246<br>330       | \$293<br>514      | Discounted cash flow   | Prepayment rate      | 8.5%-13.0%         | 12.2%-77.2%       |
|  | <u>\$576</u>       | <u>\$807</u>      | Vendor priced          |                      |                    |                   |
| Asset-backed securities . . . . .  | \$ 34              | \$ 7              | Discounted cash flow   | Prepayment rate      | 0.0%-20.0%         |                   |
|  | <u>\$ 34</u>       | <u>49</u>         | Vendor priced          |                      |                    |                   |
|  | <u>\$ 34</u>       | <u>\$ 56</u>      |                        |                      |                    |                   |
| Standby letters of credit . . . . .  | \$ 14              | \$ 14             | Discounted cash flow   | Rate of funding      | 50.0%              | 50.0%             |
|  | <u>\$ 14</u>       | <u>\$ 14</u>      |                        | Risk-adjusted spread | 0.2%-1.5%          | 0.2%-1.5%         |

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and

other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**Information about Recurring and Nonrecurring Level 2 Fair Value Measurements**

|   | <u>Valuation Technique(s)</u> | <u>Input</u>   |
|---|-------------------------------|--|
| Federal funds sold and securities purchased under resale agreements . . . . . | Carrying value                | Par/principal and appropriate interest yield                                   |
| Investment securities available for sale . . . . .                            | Discounted cash flow          | Constant prepayment rate<br>Probability of default<br>Loss severity            |
|   | Quoted prices                 | Price for similar security   |
| Interest rate swaps and caps . . . . .  | Discounted cash flow          | Annualized volatility<br>Counterparty credit risk<br>Company's own credit risk |

**Information about Other Financial Instrument Fair Value Measurements**

|  | <u>Valuation Technique(s)</u> | <u>Input</u>   |
|--|-------------------------------|--|
| Cash . . . . .   | Carrying value                | Par/principal and appropriate interest yield                               |
| Mission-related and other investments held-to-maturity . . . . . | Discounted cash flow          | Prepayment rates<br>Probability of default<br>Loss severity                |
| Loans . . . . .  | Discounted cash flow          | Prepayment forecasts<br>Probability of default<br>Loss severity            |
| Systemwide Debt Securities and other bonds . . . . .             | Discounted cash flow          | Benchmark yield curve<br>Derived yield spread<br>Company's own credit risk |
| Subordinated debt . . . . .                                      | Discounted cash flow          | Credit spreads<br>Market trends<br>Interest rate risks                     |
|  | Broker/Dealer quotes          | Price for similar security   |
| Other interest bearing liabilities . . . . .                     | Carrying value                | Par/principal and appropriate interest yield                               |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**Valuation Techniques**

As more fully discussed in Note 2 — Summary of Significant Accounting Policies, in the 2015 Annual Information Statement, FASB guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used by the System for assets and liabilities:

***Investment Securities***

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include U.S. Treasury and certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include a small portion of asset-backed securities and certain mortgage-backed securities including private label-FHA/VA securities and those issued by Farmer Mac.

As permitted under Farm Credit Administration regulations, the Banks are authorized to hold eligible investments. The regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of portfolio limit for each investment type. At the time of purchase, mortgage-backed and asset-backed securities must be triple-A rated by at least one Nationally Recognized Statistical Rating Organization. The triple-A rating requirement puts the Banks in a position to hold the senior tranches of securitizations. The underlying loans for mortgage-backed securities are residential mortgages, while the underlying loans for asset-backed securities are home equity lines of credit, small business loans, equipment loans or student loans.

To estimate the fair value of the majority of the investments held, the Banks obtain prices from third party pricing services. For the valuation of securities not actively traded, including certain non-agency securities, the Banks utilize either a third party cash flow model or an internal model. The significant inputs for the valuation models include yields, probability of default, loss severity and prepayment rates.

***Derivatives***

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

***Assets Held in Non-Qualified Benefits Trusts***

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

***Standby Letters of Credit***

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

***Loans Evaluated for Impairment***

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

***Other Property Owned***

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of independent appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

***Collateral Liabilities***

Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. The market value of collateral liabilities is its face value plus accrued interest that approximates fair value.

A description of the methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value follows:

***Cash***

For cash, the carrying amount is a reasonable estimate of fair value.

***Loans***

Fair value is estimated by discounting the expected future cash flows using the Banks' or the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Banks' or the Associations' current loan origination rates as well as managements' estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

***Bonds and Notes***

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

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

***Subordinated Debt***

The fair value of subordinated debt is estimated based upon quotes obtained from a broker/dealer or based on discounted cash flows.

***Commitments to Extend Credit***

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

**NOTE 11 — DERIVATIVE PRODUCTS AND HEDGING ACTIVITIES**

The Banks and Associations maintain an overall interest rate risk management strategy that incorporates the use of derivative products to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Banks' and Associations' goals are to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. As a result of interest rate fluctuations, hedged 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 the Banks' gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate assets and liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Banks' gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. The Banks consider the strategic use of derivatives to

be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

In addition, the Banks enter into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. The Banks may also enter into derivatives with their customers as a service to enable them to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Banks substantially offset the market risk by concurrently entering into offsetting agreements with non-System institutional counterparties. Interest rate swaps allow the Banks to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowings were made directly. These interest rate swaps also help the Banks to manage their liquidity. Under interest rate swap arrangements, the Banks agree with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

A substantial amount of the System's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate instruments while the related interest-bearing liabilities tend to be short- or medium-term fixed rate obligations. Given this asset-liability mismatch, interest rate swaps in which a Bank pays the floating rate and receives the fixed rate (receive-fixed swaps) are used to reduce the impact of market fluctuations on a Bank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, a Bank also enters into swaps in which it receives the floating rate and pays the fixed rate (pay-fixed swaps) when necessary to reduce its net position.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

The Banks may purchase interest rate options, such as caps, in order to reduce the impact of rising interest rates on their floating-rate debt, and floors, in order to reduce the impact of falling interest rates on their floating-rate assets. The primary types of

derivative instruments used and the amount of activity (notional amount of derivatives) during the nine months ended September 30, 2016 and 2015 are summarized in the following tables:

|                               | Receive-Fixed Swaps | Pay-Fixed and Amortizing Pay-Fixed Swaps | Floating-for-Floating and Amortizing Floating-for-Floating | Interest Rate Caps | Other Derivatives | Total           |
|-------------------------------|---------------------|--|--|--------------------|-------------------|-----------------|
| Balance at December 31, 2015  | \$12,197            | \$6,250                                  | \$2,500  | \$2,915            | \$ 5,205          | \$29,067        |
| Additions                     | 4,160               | 1,772                                    | 1,400  | 400                | 4,356             | 12,088          |
| Maturities/amortization       | (2,663)             | (314)                                    | (800)  | (205)              | (3,487)           | (7,469)         |
| Terminations                  | (250)               | (158)                                    |  |                    | (131)             | (539)           |
| Balance at September 30, 2016 | <u>\$13,444</u>     | <u>\$7,550</u>                           | <u>\$3,100</u>   | <u>\$3,110</u>     | <u>\$ 5,943</u>   | <u>\$33,147</u> |

|                               | Receive-Fixed Swaps | Pay-Fixed and Amortizing Pay-Fixed Swaps | Floating-for-Floating and Amortizing Floating-for-Floating | Interest Rate Caps | Other Derivatives | Total           |
|-------------------------------|---------------------|--|--|--------------------|-------------------|-----------------|
| Balance at December 31, 2014  | \$12,675            | \$5,230                                  | \$1,150  | \$3,309            | \$ 4,474          | \$26,838        |
| Additions                     | 4,443               | 1,485                                    | 1,100  | 160                | 3,321             | 10,509          |
| Maturities/amortization       | (2,808)             | (515)                                    | (350)  | (393)              | (2,521)           | (6,587)         |
| Terminations                  | (341)               | (78)                                     |  |                    | (78)              | (497)           |
| Balance at September 30, 2015 | <u>\$13,969</u>     | <u>\$6,122</u>                           | <u>\$1,900</u>   | <u>\$3,076</u>     | <u>\$ 5,196</u>   | <u>\$30,263</u> |

Banks are exposed to credit and market risk through their use of derivatives. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes a Bank, thus creating a repayment (credit) risk for a Bank. When the fair value of the derivative contract is negative, a Bank owes the counterparty and, therefore, assumes no repayment risk.

The Banks typically enter into master agreements that contain netting provisions. These provisions allow the Banks to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A majority of derivative contracts are supported by collateral arrangements with counterparties. The System's exposure to counterparties, net of collateral of \$13 million at September 30, 2016 and \$150 million at December 31, 2015, was \$2 million and \$10 million.

To minimize the risk of credit losses, the Banks almost exclusively deal with non-customer counterparties that have an investment grade or better credit rating from a major rating agency, and also monitor the credit standing and levels of exposure to individual counterparties. The Banks do not anticipate nonperformance by any of these counterparties.

The Banks may also clear derivative transactions through a futures commission merchant (FCM) with a clearinghouse or a central counterparty (CCP). When the swap is cleared by the two parties, the single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
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several layers of protection against default including margin, member capital contributions, and FCM guarantees of their customers' transactions with the CCP. FCMs also pre-qualify the counterparties to all swaps that are sent to the CCP from a credit perspective, setting limits for each counterparty and collecting initial and variation margin daily from each counterparty for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. The initial and variation margin requirements are set by and held for the benefit of the CCP. Additional initial margin may be required and held by the FCM, due to its guarantees of its customers' trades with the CCP.

Each Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank's asset/liability and treasury functions. Each Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by each Bank's board of directors through the Bank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies.

***Fair-Value Hedges***

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item (principally, debt securities) attributable to the hedged risk are recognized in current earnings. The System includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the gains on interest rate swaps recognized in interest income for the first nine months of 2016 was \$42 million, as compared with losses on the Systemwide Debt Securities of \$42 million.

***Cash Flow Hedges***

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

***Derivatives not Designated as Hedges***

For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in "net gains on derivative and other transactions" in the condensed combined statement of income.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

***Fair Values of Derivative Instruments***

The following table represents the fair value of derivative instruments:

|  | Balance Sheet<br>Classification<br>Assets | Fair Value at<br>September 30,<br>2016 | Fair Value at<br>December 31,<br>2015 | Balance Sheet<br>Classification<br>Liabilities | Fair Value at<br>September 30,<br>2016 | Fair Value at<br>December 31,<br>2015 |
|--|---|--|---------------------------------------|--|--|---------------------------------------|
| <b>Derivatives designated as hedging instruments:</b>            |   |  |                                       |  |  |                                       |
| Receive-fixed swaps  | Other assets                              | \$ 79                                  | \$124                                 | Other liabilities                              | \$ 1                                   | \$ 4                                  |
| Pay-fixed and amortizing pay-fixed swaps                         | Other assets                              |  | 3                                     | Other liabilities                              | 159                                    | 65                                    |
| Interest rate caps   | Other assets                              | 22                                     | 37                                    |  |  |                                       |
| Floating-for-floating and amortizing floating-for-floating swaps |   |  |                                       | Other liabilities                              | 6                                      | 3                                     |
| Foreign exchange contracts                                       | Other assets                              | <u>1</u>                               | <u>2</u>                              | Other liabilities                              | <u>1</u>                               | <u>1</u>                              |
| Total derivatives designated as hedging instruments              |   | <u>\$102</u>                           | <u>\$166</u>                          |  | <u>\$167</u>                           | <u>\$ 73</u>                          |
| <b>Derivatives not designated as hedging instruments:</b>        |   |  |                                       |  |  |                                       |
| Pay-fixed and amortizing pay-fixed swaps                         |   |  |                                       | Other liabilities                              | \$ 1                                   |                                       |
| Derivatives entered into on behalf of customers                  | Other assets                              | \$268                                  | \$149                                 | Other liabilities                              | 220                                    | \$106                                 |
| Foreign exchange contracts                                       | Other assets                              | <u>2</u>                               | <u>3</u>                              | Other liabilities                              | <u>2</u>                               | <u>3</u>                              |
| Total derivatives not designated as hedging instruments          |   | <u>\$270</u>                           | <u>\$152</u>                          |  | <u>\$223</u>                           | <u>\$109</u>                          |
| Total derivatives  |   | <u>\$372</u>                           | <u>\$318</u>                          |  | <u>\$390</u>                           | <u>\$182</u>                          |

The following table sets forth the effect of derivative instruments on the Condensed Combined Statement of Income:

| <b>Derivatives — Fair Value Hedging Relationships</b> | <b>Location of (Loss) or Gain</b> | <b>For the Nine Months Ended</b> |                           |
|---|-----------------------------------|----------------------------------|---------------------------|
|   |                                   | <b>September 30, 2016</b>        | <b>September 30, 2015</b> |
| Receive-fixed swaps                                   | Interest expense                  | <u>\$(1)</u>                     | <u>\$2</u>                |

The following table sets forth the effect of derivative financial instruments in cash flow hedging relationships:

| <b>Derivatives — Cash Flow Hedging Relationships</b>             | <b>Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)</b> |                           | <b>Location of Gain or (Loss) Reclassification from AOCI into Income (Effective Portion)</b> | <b>Amount of Loss Reclassified from AOCI into Income (Effective Portion)</b> |                           |
|--|--|---------------------------|--|--|---------------------------|
|  | <b>September 30, 2016</b>  | <b>September 30, 2015</b> |  | <b>September 30, 2016</b>  | <b>September 30, 2015</b> |
| Pay-fixed and amortizing pay-fixed swaps                         | \$ (98)  | \$(26)                    |  |  |                           |
| Floating-for-floating and amortizing floating-for-floating swaps | (3)  | 1                         |  |  |                           |
| Interest rate caps   | (15)   | 2                         | Interest expense   | \$(3)  | \$(3)                     |
| Foreign exchange contracts                                       | <u>(2)</u>   | <u>(8)</u>                | Interest income  | <u>(1)</u>   | <u>(1)</u>                |
| Total  | <u>\$(118)</u>   | <u>\$(31)</u>             |  | <u>\$(4)</u>   | <u>\$(4)</u>              |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

The System had no significant gains or losses recognized in income on cash flow hedges (ineffective portion and amount excluded from effectiveness testing) for the nine months ended September 30, 2016 and 2015.

The following table sets forth the amount of gain recognized in the Condensed Combined Statement of Income related to derivatives not designated as hedging instruments:

| <b>Derivatives Not Designated as Hedging Instruments</b>  | <b>Location of Gain or (Loss)</b> | <b>For the Nine Months Ended</b> |                           |
|---|-----------------------------------|----------------------------------|---------------------------|
|   |                                   | <b>September 30, 2016</b>        | <b>September 30, 2015</b> |
| Pay-fixed and amortizing pay-fixed swaps . . . . .        | Noninterest income                | \$(1)                            | \$(1)                     |
| Derivatives entered into on behalf of customers . . . . . | Noninterest income                | 3                                | 18                        |
| Other derivative products . . . . .                       | Noninterest income                | (1)                              | —                         |
| <b>Total . . . . .</b>                                    |                                   | <u>\$ 1</u>                      | <u>\$17</u>               |

**NOTE 12 — ASSET/LIABILITY OFFSETTING**

The following tables represent the offsetting of financial assets and liabilities:

| <b>September 30, 2016</b>   | <b>Gross Amounts Recognized</b> | <b>Gross Amounts Offset in the Condensed Combined Statement of Condition</b> | <b>Net Amounts Presented in the Condensed Combined Statement of Condition</b> | <b>Gross Amounts Not Offset in the Condensed Combined Statement of Condition</b> |   |  | <b>Net Amount</b> |
|---|---------------------------------|--|---|--|---|--|-------------------|
|   |                                 |  |   | <b>Securities Received/Pledged</b>   | <b>Cash Collateral Received/Pledged</b> | <b>Cleared Derivative Initial Margin Pledged</b> |                   |
| <b>Assets:</b>  |                                 |  |   |  |   |  |                   |
| Interest rate swaps and other derivatives . . . . .                           | \$ 372                          | \$ (8)   | \$ 364  |  | \$ (13)                                 |  | \$ 351            |
| Federal Funds sold and securities purchased under resale agreements . . . . . | 1,583                           |  | 1,583   | \$(226)  |   |  | 1,357             |
| <b>Liabilities:</b>   |                                 |  |   |  |   |  |                   |
| Interest rate swaps and other derivatives . . . . .                           | 390                             | (8)  | 382   |  | (229)                                   | \$(43)   | 110               |

| <b>December 31, 2015</b>  | <b>Gross Amounts Recognized</b> | <b>Gross Amounts Offset in the Condensed Combined Statement of Condition</b> | <b>Net Amounts Presented in the Condensed Combined Statement of Condition</b> | <b>Gross Amounts Not Offset in the Condensed Combined Statement of Condition</b> |   |  | <b>Net Amount</b> |
|---|---------------------------------|--|---|--|---|--|-------------------|
|   |                                 |  |   | <b>Securities Received/Pledged</b>   | <b>Cash Collateral Received/Pledged</b> | <b>Cleared Derivative Initial Margin Pledged</b> |                   |
| <b>Assets:</b>  |                                 |  |   |  |   |  |                   |
| Interest rate swaps and other derivatives . . . . .                           | \$ 318                          | \$(17)   | \$ 301  | \$ (35)  | \$(115)                                 |  | \$ 151            |
| Federal Funds sold and securities purchased under resale agreements . . . . . | 1,661                           |  | 1,661   | (212)  |   |  | 1,449             |
| <b>Liabilities:</b>   |                                 |  |   |  |   |  |                   |
| Interest rate swaps and other derivatives . . . . .                           | 182                             | (17)   | 165   |  | (50)                                    | \$(43)   | 72                |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**NOTE 13 — COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Banks and Associations have various commitments and contingent liabilities, such as certain letters of credit and commitments to extend credit, which are not reflected in the accompanying condensed combined financial statements. No material losses are anticipated as a result of these transactions.

A summary of the contractual amount of credit-related instruments is as follows:

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
| Commitments to extend credit . . . . .           | \$80,785              | \$78,601             |
| Standby letters of credit . . . . .              | 2,414                 | 2,430                |
| Commercial and other letters of credit . . . . . | 231                   | 268                  |

On at least a quarterly basis, System institutions assess their liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For matters where it is probable the institution will incur a loss and the amount can be reasonably estimated, the institution would establish an accrual for the loss. Once established, the accrual would be adjusted as appropriate to reflect any relevant developments. For matters where a loss is not probable or the amount of loss cannot be estimated, no accrual would be established.

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% 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.

At September 30, 2016, various other lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on the System’s combined results of operations or financial condition.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**NOTE 14 — COMBINING BANK-ONLY INFORMATION**

The following condensed combining statements include the statement of condition, statement of comprehensive income and statement of changes in capital for the combined Banks without the affiliated Associations or other System institutions.

**Combining Bank-Only  
Statement of Condition**

**September 30, 2016**

|  | <u>AgFirst<br/>Farm<br/>Credit<br/>Bank</u> | <u>AgriBank,<br/>FCB</u> | <u>Farm<br/>Credit<br/>Bank of<br/>Texas</u> | <u>CoBank,<br/>ACB</u> | <u>Combination<br/>Entries</u> | <u>Combined<br/>Banks</u> |
|--|---|--------------------------|--|------------------------|--------------------------------|---------------------------|
| <b>Assets</b>  |   |                          |  |                        |                                |                           |
| Cash .....   | \$ 1,380                                    | \$ 313                   | \$ 505                                       | \$ 747                 |                                | \$ 2,945                  |
| Federal funds sold and securities purchased<br>under resale agreements ..... | 226   | 685                      | 22   | 650                    |                                | 1,583                     |
| Investments (Note 2)(2) .....  | 8,054                                       | 15,319                   | 4,899  | 28,095                 |                                | 56,367                    |
| Loans  |   |                          |  |                        |                                |                           |
| To Associations(1) .....   | 15,286                                      | 77,192                   | 10,462                                       | 44,704                 |                                | 147,644                   |
| To others(2) .....   | 7,447                                       | 7,847                    | 5,220  | 45,713                 | \$(443)                        | 65,784                    |
| Less: allowance for loan losses .....  | (16)  | (21)                     | (8)  | (520)                  |                                | (565)                     |
| Net loans .....  | <u>22,717</u>                               | <u>85,018</u>            | <u>15,674</u>                                | <u>89,897</u>          | <u>(443)</u>                   | <u>212,863</u>            |
| Accrued interest receivable .....  | 70  | 432                      | 52   | 321                    |                                | 875                       |
| Other assets .....   | 230   | 209                      | 190  | 1,040                  | 238                            | 1,907                     |
| Total assets .....   | <u>\$32,677</u>                             | <u>\$101,976</u>         | <u>\$21,342</u>                              | <u>\$120,750</u>       | <u>\$(205)</u>                 | <u>\$276,540</u>          |
| <b>Liabilities and Capital</b>   |   |                          |  |                        |                                |                           |
| Systemwide Debt Securities (Note 6):   |   |                          |  |                        |                                |                           |
| Due within one year .....  | \$14,021                                    | \$ 33,641                | \$ 9,244                                     | \$ 47,372              | \$ (1)                         | \$104,277                 |
| Due after one year .....   | 16,074                                      | 61,267                   | 10,263                                       | 60,113                 | (2)                            | 147,715                   |
| Total Systemwide Debt Securities .....                                       | 30,095                                      | 94,908                   | 19,507                                       | 107,485                | (3)                            | 251,992                   |
| Subordinated debt (Note 6) .....   |   |                          |  | 499                    |                                | 499                       |
| Accrued interest payable .....   | 45  | 250                      | 45   | 273                    |                                | 613                       |
| Other liabilities .....  | 87  | 1,468                    | 110  | 3,839                  | (32)                           | 5,472                     |
| Total liabilities .....  | <u>30,227</u>                               | <u>96,626</u>            | <u>19,662</u>                                | <u>112,096</u>         | <u>(35)</u>                    | <u>258,576</u>            |
| Capital  |   |                          |  |                        |                                |                           |
| Preferred stock .....  | 69  | 250                      | 600  | 1,500                  |                                | 2,419                     |
| Capital stock and participation certificates ..                              | 308   | 2,138                    | 283  | 2,956                  | (179)                          | 5,506                     |
| Additional paid-in-capital .....   | 53  |                          |  |                        |                                | 53                        |
| Accumulated other comprehensive<br>income (loss) .....                       | 48  | (155)                    | 3  | 134                    | (16)                           | 14                        |
| Surplus .....  | 1,972                                       | 3,117                    | 794  | 4,064                  | 25                             | 9,972                     |
| Total capital .....  | <u>2,450</u>                                | <u>5,350</u>             | <u>1,680</u>                                 | <u>8,654</u>           | <u>(170)</u>                   | <u>17,964</u>             |
| Total liabilities and capital .....  | <u>\$32,677</u>                             | <u>\$101,976</u>         | <u>\$21,342</u>                              | <u>\$120,750</u>       | <u>\$(205)</u>                 | <u>\$276,540</u>          |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

**Combining Bank-Only  
Statement of Condition**

**December 31, 2015**

|  | AgFirst<br>Farm<br>Credit<br>Bank | AgriBank,<br>FCB | Farm<br>Credit<br>Bank of<br>Texas | CoBank,<br>ACB   | Combination<br>Entries | Combined<br>Banks |
|--|-----------------------------------|------------------|------------------------------------|------------------|------------------------|-------------------|
| <b>Assets</b>  |                                   |                  |                                    |                  |                        |                   |
| Cash   | \$ 461                            | \$ 534           | \$ 545                             | \$ 3,113         |                        | \$ 4,653          |
| Federal funds sold and securities purchased<br>under resale agreements | 212                               | 1,427            | 22                                 |                  |                        | 1,661             |
| Investments (Note 2)(2)  | 7,512                             | 14,263           | 4,445                              | 24,504           |                        | 50,724            |
| <b>Loans</b>   |                                   |                  |                                    |                  |                        |                   |
| To Associations(1)   | 14,891                            | 74,697           | 9,578                              | 43,284           |                        | 142,450           |
| To others(2)   | 7,250                             | 8,123            | 5,193                              | 45,756           | \$(481)                | 65,841            |
| Less: allowance for loan losses  | (15)                              | (18)             | (6)                                | (486)            |                        | (525)             |
| Net loans  | <u>22,126</u>                     | <u>82,802</u>    | <u>14,765</u>                      | <u>88,554</u>    | <u>(481)</u>           | <u>207,766</u>    |
| Accrued interest receivable  | 62                                | 381              | 48                                 | 332              |                        | 823               |
| Other assets   | 248                               | 100              | 179                                | 968              | 283                    | 1,778             |
| Total assets   | <u>\$30,621</u>                   | <u>\$99,507</u>  | <u>\$20,004</u>                    | <u>\$117,471</u> | <u>\$(198)</u>         | <u>\$267,405</u>  |
| <b>Liabilities and Capital</b>   |                                   |                  |                                    |                  |                        |                   |
| Systemwide Debt Securities (Note 6):                                   |                                   |                  |                                    |                  |                        |                   |
| Due within one year  | \$ 9,838                          | \$30,068         | \$ 7,767                           | \$ 43,954        | \$ (5)                 | \$ 91,622         |
| Due after one year   | 18,135                            | 62,281           | 10,440                             | 60,860           | (3)                    | 151,713           |
| Total Systemwide Debt Securities                                       | 27,973                            | 92,349           | 18,207                             | 104,814          | (8)                    | 243,335           |
| Subordinated debt (Note 6)   |                                   | 498              | 50                                 | 903              |                        | 1,451             |
| Accrued interest payable   | 56                                | 232              | 44                                 | 290              |                        | 622               |
| Other liabilities  | 337                               | 1,254            | 149                                | 3,654            | (34)                   | 5,360             |
| Total liabilities  | <u>28,366</u>                     | <u>94,333</u>    | <u>18,450</u>                      | <u>109,661</u>   | <u>(42)</u>            | <u>250,768</u>    |
| <b>Capital</b>   |                                   |                  |                                    |                  |                        |                   |
| Preferred stock  | 115                               | 250              | 600                                | 1,125            |                        | 2,090             |
| Capital stock and participation certificates                           | 307                               | 2,063            | 283                                | 2,900            | (167)                  | 5,386             |
| Additional paid-in-capital   | 40                                |                  |                                    |                  |                        | 40                |
| Accumulated other comprehensive<br>income (loss)                       | 60                                | (85)             | (27)                               | (60)             | (16)                   | (128)             |
| Surplus  | 1,733                             | 2,946            | 698                                | 3,845            | 27                     | 9,249             |
| Total capital  | <u>2,255</u>                      | <u>5,174</u>     | <u>1,554</u>                       | <u>7,810</u>     | <u>(156)</u>           | <u>16,637</u>     |
| Total liabilities and capital  | <u>\$30,621</u>                   | <u>\$99,507</u>  | <u>\$20,004</u>                    | <u>\$117,471</u> | <u>\$(198)</u>         | <u>\$267,405</u>  |

(1) These loans represent direct loans to Associations, not retail loans to borrowers. Since the Associations operate under regulations that require maintenance of certain minimum capital levels, adequate reserves, and prudent underwriting standards, these loans are considered to carry less risk. Accordingly, these loans typically have little or no associated allowance for loan losses. The majority of the credit risk resides with the Banks' and Associations' retail loans to borrowers. Association retail loans are not reflected in the combining Bank-only financial statements.

Further, the loans to the Associations are risk-weighted at 20% of the loan amount in the computation of each Bank's regulatory permanent capital, total surplus and core surplus ratios. Based upon the lower risk-weighting of these loans to the Associations, the Banks, especially AgFirst, AgriBank and Texas, typically operate with more leverage and lower earnings than would be expected from a traditional retail bank. In the case of CoBank, approximately half of its loans are retail loans to cooperatives and other eligible borrowers.

(2) Loans to others represent retail loans held by the Banks. The Banks may purchase participations in loans to eligible borrowers made by Associations, other Banks and non-System lenders. Three Banks (AgFirst, AgriBank and Texas) have one or more participation pool programs designed to allow Associations to sell loan participation interests to the Bank in order to more efficiently manage the capital of each Bank and its related Associations within their respective District. Within these programs, a separate patronage pool is created for each participating Association. The net income from each pool is tracked separately so that, at the Bank board's discretion, patronage can be distributed from the pool. The declared patronage generally approximates the net earnings of the respective pool. At September 30, 2016 and December 31, 2015, such participation pools outstanding were \$404 million and \$428 million for AgFirst, \$2.976 billion and \$3.324 billion for AgriBank and \$24 million and \$27 million for Texas.

Also, the participation pool program for Texas includes investments that were sold to the Bank by its Associations of \$57 million and \$67 million at September 30, 2016 and December 31, 2015.

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
(unaudited)  
(dollars in millions, except as noted)

**Combining Bank-Only**  
**Statement of Comprehensive Income**  
**For the Nine Months Ended September 30,**

|  | AgFirst<br>Farm<br>Credit<br>Bank | AgriBank,<br>FCB | Farm<br>Credit<br>Bank of<br>Texas | CoBank,<br>ACB | Combination<br>Entries | Combined<br>Banks |
|--|-----------------------------------|------------------|------------------------------------|----------------|------------------------|-------------------|
| <b>2016</b>  |                                   |                  |                                    |                |                        |                   |
| Interest income . . . . .                                | \$ 577                            | \$1,314          | \$ 358                             | \$1,933        | \$ 12                  | \$ 4,194          |
| Interest expense . . . . .                               | (237)                             | (888)            | (186)                              | (916)          | 20                     | (2,207)           |
| Net interest income . . . . .                            | 340                               | 426              | 172                                | 1,017          | 32                     | 1,987             |
| (Provision for loan losses) loan loss reversal . . . . . | 4                                 | (6)              |                                    | (48)           |                        | (50)              |
| Noninterest income                                       |                                   |                  |                                    |                |                        |                   |
| Loan-related fee income . . . . .                        | 7                                 | 22               | 5                                  | 76             |                        | 110               |
| Losses on extinguishment of debt . . . . .               | (28)                              |                  |                                    | (17)           |                        | (45)              |
| Other noninterest income . . . . .                       | 15                                | 56               | 19                                 | 78             | (61)                   | 107               |
| Total noninterest income . . . . .                       | (6)                               | 78               | 24                                 | 137            | (61)                   | 172               |
| Noninterest expense . . . . .                            | (97)                              | (93)             | (64)                               | (269)          | (21)                   | (544)             |
| Provision for income taxes . . . . .                     |                                   |                  |                                    | (119)          |                        | (119)             |
| Net income . . . . .                                     | 241                               | 405              | 132                                | 718            | (50)                   | 1,446             |
| Other comprehensive (loss) income . . . . .              | (12)                              | (70)             | 30                                 | 194            |                        | 142               |
| Comprehensive income . . . . .                           | <u>\$ 229</u>                     | <u>\$ 335</u>    | <u>\$ 162</u>                      | <u>\$ 912</u>  | <u>\$(50)</u>          | <u>\$ 1,588</u>   |
| <b>2015</b>  |                                   |                  |                                    |                |                        |                   |
| Interest income . . . . .                                | \$ 524                            | \$1,113          | \$ 315                             | \$1,623        | \$ 22                  | \$ 3,597          |
| Interest expense . . . . .                               | (182)                             | (727)            | (145)                              | (683)          | 16                     | (1,721)           |
| Net interest income . . . . .                            | 342                               | 386              | 170                                | 940            | 38                     | 1,876             |
| (Provision for loan losses) loan loss reversal . . . . . | 2                                 | (5)              | 2                                  | (10)           |                        | (11)              |
| Noninterest income                                       |                                   |                  |                                    |                |                        |                   |
| Loan-related fee income . . . . .                        | 6                                 | 10               | 5                                  | 76             |                        | 97                |
| Losses on extinguishment of debt . . . . .               | (8)                               |                  |                                    | (20)           |                        | (28)              |
| Other noninterest income . . . . .                       | 5                                 | 60               | 22                                 | 82             | (60)                   | 109               |
| Total noninterest income . . . . .                       | 3                                 | 70               | 27                                 | 138            | (60)                   | 178               |
| Noninterest expense . . . . .                            | (93)                              | (88)             | (54)                               | (233)          | (21)                   | (489)             |
| Provision for income taxes . . . . .                     |                                   |                  |                                    | (135)          |                        | (135)             |
| Net income . . . . .                                     | 254                               | 363              | 145                                | 700            | (43)                   | 1,419             |
| Other comprehensive (loss) income . . . . .              | (17)                              | (15)             | 20                                 | 114            |                        | 102               |
| Comprehensive income . . . . .                           | <u>\$ 237</u>                     | <u>\$ 348</u>    | <u>\$ 165</u>                      | <u>\$ 814</u>  | <u>\$(43)</u>          | <u>\$ 1,521</u>   |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
(unaudited)  
(dollars in millions, except as noted)

**Combining Bank-Only**  
**Statement of Changes in Capital**

|   | AgFirst<br>Farm<br>Credit<br>Bank | AgriBank,<br>FCB | Farm<br>Credit<br>Bank of<br>Texas | CoBank,<br>ACB | Combination<br>Entries | Combined<br>Banks |
|---|-----------------------------------|------------------|------------------------------------|----------------|------------------------|-------------------|
| <b>Balance at December 31, 2014</b> .....                               | \$2,207                           | \$4,916          | \$1,479                            | \$7,370        | \$(125)                | \$15,847          |
| Comprehensive income .....  | 237                               | 348              | 165                                | 814            | (43)                   | 1,521             |
| Preferred stock retired .....   | (10)                              |                  |                                    |                |                        | (10)              |
| Preferred stock dividends .....   | (1)                               | (13)             | (30)                               | (45)           |                        | (89)              |
| Capital stock and participation certificates<br>issued .....            | 6                                 | 114              |                                    |                |                        | 120               |
| Capital stock, participation certificates, and<br>surplus retired ..... | (6)                               | (53)             |                                    | (32)           |                        | (91)              |
| Additional paid-in-capital .....  | 3                                 |                  |                                    |                |                        | 3                 |
| Patronage .....   |                                   | (210)            | (3)                                | (307)          | 26                     | (494)             |
| <b>Balance at September 30, 2015</b> .....                              | <u>\$2,436</u>                    | <u>\$5,102</u>   | <u>\$1,611</u>                     | <u>\$7,800</u> | <u>\$(142)</u>         | <u>\$16,807</u>   |
| <b>Balance at December 31, 2015</b> .....                               | \$2,255                           | \$5,174          | \$1,554                            | \$7,810        | \$(156)                | \$16,637          |
| Comprehensive income .....  | 229                               | 335              | 162                                | 912            | (50)                   | 1,588             |
| Preferred stock issued, net .....                                       |                                   |                  |                                    | 370            |                        | 370               |
| Preferred stock retired .....   | (46)                              |                  |                                    |                |                        | (46)              |
| Preferred stock dividends .....   | (2)                               | (13)             | (30)                               | (56)           |                        | (101)             |
| Capital stock and participation certificates<br>issued .....            | 7                                 | 122              |                                    |                |                        | 129               |
| Capital stock, participation certificates, and<br>surplus retired ..... | (6)                               | (47)             |                                    | (29)           |                        | (82)              |
| Additional paid-in-capital .....  | 13                                |                  |                                    |                |                        | 13                |
| Patronage .....   |                                   | (221)            | (6)                                | (353)          | 36                     | (544)             |
| <b>Balance at September 30, 2016</b> .....                              | <u>\$2,450</u>                    | <u>\$5,350</u>   | <u>\$1,680</u>                     | <u>\$8,654</u> | <u>\$(170)</u>         | <u>\$17,964</u>   |

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

Certain Bank-only capital ratios and other information is as follows:

|   | <b>AgFirst<br/>Farm<br/>Credit<br/>Bank</b> | <b>AgriBank,<br/>FCB</b> | <b>Farm<br/>Credit<br/>Bank of<br/>Texas</b> | <b>CoBank,<br/>ACB</b> |
|---|---|--------------------------|--|------------------------|
| <b>For the nine months ended:</b>   |   |                          |  |                        |
| <b><u>September 30, 2016</u></b>  |   |                          |  |                        |
| Return on average assets .....  | 1.03%                                       | 0.54%                    | 0.85%  | 0.80%                  |
| Return on average capital .....   | 13.61%                                      | 10.29%                   | 10.80%                                       | 11.40%                 |
| <b><u>September 30, 2015</u></b>  |   |                          |  |                        |
| Return on average assets .....  | 1.16%                                       | 0.52%                    | 1.05%  | 0.87%                  |
| Return on average capital .....   | 14.50%                                      | 9.65%                    | 12.41%                                       | 12.25%                 |
| <b>For the period ended:</b>  |   |                          |  |                        |
| <b><u>September 30, 2016</u></b>  |   |                          |  |                        |
| Nonperforming assets as a percentage of loans and<br>other property owned ..... | 0.22%                                       | 0.07%                    | 0.13%  | 0.21%                  |
| Allowance for loan losses as a percentage of loans .....                        | 0.07%                                       | 0.02%                    | 0.05%  | 0.58%                  |
| Capital as a percentage of total assets .....                                   | 7.50%                                       | 5.25%                    | 7.87%  | 7.17%                  |
| Net collateral ratio .....  | 107.2%                                      | 105.5%                   | 107.6%                                       | 107.0%                 |
| Permanent capital ratio .....   | 20.9%                                       | 20.4%                    | 17.1%  | 15.6%                  |
| Liquidity in days .....   | 186   | 144                      | 198  | 191                    |
| Average liquidity in days during 2016 .....                                     | 202   | 148                      | 187  | 191                    |
| <b><u>December 31, 2015</u></b>   |   |                          |  |                        |
| Nonperforming assets as a percentage of loans and<br>other property owned ..... | 0.25%                                       | 0.06%                    | 0.14%  | 0.18%                  |
| Allowance for loan losses as a percentage of loans .....                        | 0.07%                                       | 0.02%                    | 0.04%  | 0.55%                  |
| Capital as a percentage of total assets .....                                   | 7.36%                                       | 5.20%                    | 7.77%  | 6.65%                  |
| Net collateral ratio .....  | 106.9%                                      | 105.8%                   | 107.7%                                       | 106.9%                 |
| Permanent capital ratio .....   | 20.7%                                       | 20.8%                    | 17.7%  | 14.9%                  |
| Liquidity in days .....   | 206   | 136                      | 200  | 199                    |
| Average liquidity in days during 2015 .....                                     | 206   | 169                      | 215  | 181                    |

Bank-only information is considered meaningful because only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. That means that each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its lending activities and is also jointly and severally liable with respect to Systemwide Debt Securities issued to fund the other Banks.

The Associations are the primary owners of the Farm Credit Banks. The Agricultural Credit Bank (CoBank) is principally owned by cooperatives, other eligible borrowers and its affiliated Associations. Due to the financial and operational interdependence of the Banks and Associations, capital at the Association level reduces the Banks' credit exposure with

respect to the direct loans between the Banks and each of their affiliated Associations. However, capital of the Associations may not be available if the provisions of joint and several liability were to be invoked. There are various limitations and conditions with respect to each Bank's access to the capital of its affiliated Associations, as more fully discussed in Note 8.

In the event a Bank is unable to timely pay principal or interest on an insured debt obligation for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks

**FARM CREDIT SYSTEM**  
**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (continued)**  
**(unaudited)**  
**(dollars in millions, except as noted)**

on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once joint and several liability is triggered, the Farm Credit Administration is required to make “calls” to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank’s available collateral (collateral in excess of the aggregate of the Bank’s collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank’s remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank. The receiver would be required to expeditiously liquidate the Bank.

**NOTE 15 — SUBSEQUENT EVENTS**

On September 22, 2016, the AgStar Financial Services, ACA Board approved a resolution authorizing the redemption of all \$100 million of its 9.0% outstanding subordinated debt at par effective on the next payment date of December 15, 2016. The Association is redeeming their subordinated debt due to the occurrence of a “Regulatory Event,” as defined under the terms of the debt.

On November 4, 2016, an alleged class action complaint was filed in the Supreme Court of the State of New York against AgriBank by a purported beneficial owner of AgriBank’s 9.125% subordinated notes due in 2019 (“Subordinated Notes”). AgriBank redeemed the Subordinated Notes at par plus accrued interest on July 15, 2016 due to the occurrence of a “Regulatory Event” (as defined under the Subordinated Notes). The plaintiff has asserted a breach of contract claim and a breach of implied covenant of good faith and fair dealing claim alleging that AgriBank impermissibly redeemed the Notes. The plaintiff has requested damages in an amount to be determined at trial, reasonable attorneys’ fees, and other relief. AgriBank intends to vigorously defend against these allegations. The likelihood of any outcome of this proceeding cannot be determined at this time.

The Banks and Associations have evaluated subsequent events through November 9, 2016, which is the date the financial statements were issued.

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION**  
**(unaudited)**

The following condensed Combining Statements of Condition and Comprehensive Income present Bank-only and Insurance Fund information, as well as information related to the other entities included in the System's combined financial statements. As part of the combining process, all significant transactions

between the Banks and the Associations, including loans made by the Banks to the Associations and the interest income/interest expense related thereto, and investments of the Associations in the Banks and the earnings related thereto, have been eliminated.

**COMBINING STATEMENT OF CONDITION — (Condensed)**  
**September 30, 2016**  
**(in millions)**

|   | Combined<br>Banks | Combined<br>Associations | Eliminations       | Combined<br>without<br>Insurance<br>Fund | Insurance<br>Fund | System<br>Combined |
|---|-------------------|--------------------------|--------------------|--|-------------------|--------------------|
| Cash and investments                                | \$ 60,895         | \$ 2,283                 |                    | \$ 63,178                                |                   | \$ 63,178          |
| Loans   | 213,428           | 176,322                  | \$(147,626)        | 242,124                                  |                   | 242,124            |
| Less: allowance for loan losses                     | (565)             | (892)                    |                    | (1,457)                                  |                   | (1,457)            |
| Net loans   | 212,863           | 175,430                  | (147,626)          | 240,667                                  |                   | 240,667            |
| Other assets  | 2,782             | 8,816                    | (5,425)            | 6,173                                    |                   | 6,173              |
| Restricted assets                                   |                   |                          |                    |  | \$4,343           | 4,343              |
| Total assets  | <u>\$276,540</u>  | <u>\$186,529</u>         | <u>\$(153,051)</u> | <u>\$310,018</u>                         | <u>\$4,343</u>    | <u>\$314,361</u>   |
| Systemwide Debt Securities and<br>subordinated debt | \$252,491         | \$ 99                    |                    | \$252,590                                |                   | \$252,590          |
| Other liabilities                                   | 6,085             | 150,725                  | \$(147,430)        | 9,380                                    |                   | 9,380              |
| Total liabilities                                   | <u>258,576</u>    | <u>150,824</u>           | <u>(147,430)</u>   | <u>261,970</u>                           |                   | <u>261,970</u>     |
| Capital   |                   |                          |                    |  |                   |                    |
| Preferred stock                                     | 2,419             | 728                      |                    | 3,147                                    |                   | 3,147              |
| Capital stock and participation certificates        | 5,506             | 571                      | (4,304)            | 1,773                                    |                   | 1,773              |
| Additional paid-in-capital                          | 53                | 1,332                    |                    | 1,385                                    |                   | 1,385              |
| Restricted capital                                  |                   |                          |                    |  | \$4,343           | 4,343              |
| Accumulated other comprehensive<br>income (loss)    | 14                | (125)                    | (1,115)            | (1,226)                                  |                   | (1,226)            |
| Surplus   | 9,972             | 33,199                   | (202)              | 42,969                                   |                   | 42,969             |
| Total capital                                       | <u>17,964</u>     | <u>35,705</u>            | <u>(5,621)</u>     | <u>48,048</u>                            | <u>4,343</u>      | <u>52,391</u>      |
| Total liabilities and capital                       | <u>\$276,540</u>  | <u>\$186,529</u>         | <u>\$(153,051)</u> | <u>\$310,018</u>                         | <u>\$4,343</u>    | <u>\$314,361</u>   |

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION — (continued)**  
**(unaudited)**

**COMBINING STATEMENT OF CONDITION — (Condensed)**  
**December 31, 2015**  
**(in millions)**

|   | Combined<br>Banks | Combined<br>Associations | Eliminations       | Combined<br>without<br>Insurance<br>Fund | Insurance<br>Fund | System<br>Combined |
|---|-------------------|--------------------------|--------------------|--|-------------------|--------------------|
| Cash and investments .....                                | \$ 57,038         | \$ 2,340                 |                    | \$ 59,378                                |                   | \$ 59,378          |
| Loans .....   | 208,291           | 169,992                  | \$(142,393)        | 235,890                                  |                   | 235,890            |
| Less: allowance for loan losses .....                     | (525)             | (755)                    |                    | (1,280)                                  |                   | (1,280)            |
| Net loans .....   | 207,766           | 169,237                  | (142,393)          | 234,610                                  |                   | 234,610            |
| Other assets .....  | 2,601             | 8,433                    | (5,558)            | 5,476                                    |                   | 5,476              |
| Restricted assets .....                                   |                   |                          |                    |  | \$4,039           | 4,039              |
| Total assets .....  | <u>\$267,405</u>  | <u>\$180,010</u>         | <u>\$(147,951)</u> | <u>\$299,464</u>                         | <u>\$4,039</u>    | <u>\$303,503</u>   |
| Systemwide Debt Securities and<br>subordinated debt ..... | \$244,786         | \$ 99                    |                    | \$244,885                                |                   | \$244,885          |
| Other liabilities .....                                   | 5,982             | 146,289                  | \$(142,487)        | 9,784                                    |                   | 9,784              |
| Total liabilities .....                                   | <u>250,768</u>    | <u>146,388</u>           | <u>(142,487)</u>   | <u>254,669</u>                           |                   | <u>254,669</u>     |
| Capital   |                   |                          |                    |  |                   |                    |
| Preferred stock .....                                     | 2,090             | 652                      |                    | 2,742                                    |                   | 2,742              |
| Capital stock and participation certificates .....        | 5,386             | 563                      | (4,223)            | 1,726                                    |                   | 1,726              |
| Additional paid-in-capital .....                          | 40                | 1,276                    |                    | 1,316                                    |                   | 1,316              |
| Restricted capital .....                                  |                   |                          |                    |  | \$4,039           | 4,039              |
| Accumulated other comprehensive loss .....                | (128)             | (132)                    | (1,187)            | (1,447)                                  |                   | (1,447)            |
| Surplus .....   | 9,249             | 31,263                   | (54)               | 40,458                                   |                   | 40,458             |
| Total capital .....                                       | <u>16,637</u>     | <u>33,622</u>            | <u>(5,464)</u>     | <u>44,795</u>                            | <u>4,039</u>      | <u>48,834</u>      |
| Total liabilities and capital .....                       | <u>\$267,405</u>  | <u>\$180,010</u>         | <u>\$(147,951)</u> | <u>\$299,464</u>                         | <u>\$4,039</u>    | <u>\$303,503</u>   |

In the event a Bank is unable to timely pay principal or interest on an insured debt obligation for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent necessary to insure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act

providing for joint and several liability of the Banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to timely pay the principal or interest on the insured debt obligation.

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION — (continued)**  
**(unaudited)**

**COMBINING STATEMENT OF COMPREHENSIVE INCOME — (Condensed)**  
**For the Nine Months Ended September 30, 2016**  
**(in millions)**

|                                      | Combined<br>Banks | Combined<br>Associations | Eliminations   | Combined<br>without<br>Insurance<br>Fund | Insurance<br>Fund | Combination<br>Entries | System<br>Combined |
|--------------------------------------|-------------------|--------------------------|----------------|--|-------------------|------------------------|--------------------|
| Net interest income . . . . .        | \$1,987           | \$ 3,530                 | \$ 7           | \$ 5,524                                 |                   |                        | \$ 5,524           |
| Provision for loan losses . . . . .  | (50)              | (168)                    |                | (218)                                    |                   |                        | (218)              |
| Noninterest income . . . . .         | 172               | 930                      | (687)          | 415                                      | \$307             | \$(274)(a)             | 448                |
| Noninterest expense . . . . .        | (544)             | (1,882)                  | 126            | (2,300)                                  | (3)               | 274 (a)                | (2,029)            |
| Provision for income taxes . . . . . | (119)             | (17)                     |                | (136)                                    |                   |                        | (136)              |
| Net income . . . . .                 | 1,446             | 2,393                    | (554)          | 3,285                                    | 304               | 0                      | 3,589              |
| Other comprehensive income . . . . . | 142               | 7                        | 72             | 221                                      |                   |                        | 221                |
| Comprehensive income . . . . .       | <u>\$1,588</u>    | <u>\$ 2,400</u>          | <u>\$(482)</u> | <u>\$ 3,506</u>                          | <u>\$304</u>      | <u>\$ 0</u>            | <u>\$ 3,810</u>    |

**For the Nine Months Ended September 30, 2015**  
**(in millions)**

|                                      | Combined<br>Banks | Combined<br>Associations | Eliminations   | Combined<br>without<br>Insurance<br>Fund | Insurance<br>Fund | Combination<br>Entries | System<br>Combined |
|--------------------------------------|-------------------|--------------------------|----------------|--|-------------------|------------------------|--------------------|
| Net interest income . . . . .        | \$1,876           | \$ 3,325                 | \$ 16          | \$ 5,217                                 |                   |                        | \$ 5,217           |
| Provision for loan losses . . . . .  | (11)              | (76)                     |                | (87)                                     |                   |                        | (87)               |
| Noninterest income . . . . .         | 178               | 885                      | (623)          | 440                                      | \$216             | \$(193)(a)             | 463                |
| Noninterest expense . . . . .        | (489)             | (1,766)                  | 119            | (2,136)                                  | (2)               | 193 (a)                | (1,945)            |
| Provision for income taxes . . . . . | (135)             | (32)                     |                | (167)                                    |                   |                        | (167)              |
| Net income . . . . .                 | 1,419             | 2,336                    | (488)          | 3,267                                    | 214               | 0                      | 3,481              |
| Other comprehensive income . . . . . | 102               | 11                       | 76             | 189                                      |                   |                        | 189                |
| Comprehensive income . . . . .       | <u>\$1,521</u>    | <u>\$ 2,347</u>          | <u>\$(412)</u> | <u>\$ 3,456</u>                          | <u>\$214</u>      | <u>\$ 0</u>            | <u>\$ 3,670</u>    |

Combination entry (a) eliminates the Insurance Fund premiums expensed by the Banks in the first nine months of 2016 and 2015 of \$274 million and

\$193 million and the related income recognized by the Insurance Corporation.

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION — (continued)**  
**(unaudited)**

**STATEMENT OF CONDITION — (Condensed)**  
**September 30, 2016**  
**(in millions)**

The Banks and their affiliated Associations are referred to as Districts. Each District operates in such an interdependent manner that we believe the financial results of the Banks combined with their affiliated Associations are more meaningful to investors in

Systemwide Debt Securities than providing financial information of the Banks and Associations on a stand-alone basis. For the purpose of additional analysis, the following presentation reflects each District, the Insurance Fund and combination entries.

|   | <u>AgFirst<br/>District<br/>Combined</u> | <u>AgriBank<br/>District<br/>Combined</u> | <u>Texas<br/>District<br/>Combined</u> | <u>CoBank<br/>District<br/>Combined</u> | <u>Insurance<br/>Fund and<br/>Combination<br/>Entries</u> | <u>System<br/>Combined</u> |
|---|--|---|--|---|---|----------------------------|
| Cash and investments                                | \$ 9,769                                 | \$ 18,246                                 | \$ 5,456                               | \$ 29,706                               | \$ 1  | \$ 63,178                  |
| Loans   | 27,185                                   | 97,746                                    | 22,121                                 | 100,047                                 | (4,975)   | 242,124                    |
| Less: allowance for loan losses                     | (183)                                    | (382)                                     | (81)                                   | (811)                                   |   | (1,457)                    |
| Net loans   | 27,002                                   | 97,364                                    | 22,040                                 | 99,236                                  | (4,975)   | 240,667                    |
| Other assets  | 618                                      | 2,557                                     | 521                                    | 2,326                                   | 151   | 6,173                      |
| Restricted assets                                   |  |   |  |   | 4,343   | 4,343                      |
| Total assets  | <u>\$37,389</u>                          | <u>\$118,167</u>                          | <u>\$28,017</u>                        | <u>\$131,268</u>                        | <u>\$ (480)</u>   | <u>\$314,361</u>           |
| Systemwide Debt Securities and<br>subordinated debt | \$30,095                                 | \$ 95,007                                 | \$19,507                               | \$107,984                               | \$ (3)  | \$252,590                  |
| Other liabilities                                   | 1,293                                    | 2,747                                     | 4,304                                  | 5,618                                   | (4,582)   | 9,380                      |
| Total liabilities                                   | <u>31,388</u>                            | <u>97,754</u>                             | <u>23,811</u>                          | <u>113,602</u>                          | <u>(4,585)</u>  | <u>261,970</u>             |
| Capital   |  |   |  |   |   |                            |
| Preferred stock                                     | 69                                       | 350                                       | 600                                    | 2,128                                   |   | 3,147                      |
| Capital stock and participation certificates        | 171                                      | 328                                       | 91                                     | 1,432                                   | (249)   | 1,773                      |
| Additional paid-in-capital                          | 77                                       |   | 225                                    | 1,083                                   |   | 1,385                      |
| Restricted capital                                  |  |   |  |   | 4,343   | 4,343                      |
| Accumulated other comprehensive loss                | (311)                                    | (658)                                     | (114)                                  | (128)                                   | (15)  | (1,226)                    |
| Surplus   | 5,995                                    | 20,393                                    | 3,404                                  | 13,151                                  | 26  | 42,969                     |
| Total capital                                       | <u>6,001</u>                             | <u>20,413</u>                             | <u>4,206</u>                           | <u>17,666</u>                           | <u>4,105</u>  | <u>52,391</u>              |
| Total liabilities and capital                       | <u>\$37,389</u>                          | <u>\$118,167</u>                          | <u>\$28,017</u>                        | <u>\$131,268</u>                        | <u>\$ (480)</u>   | <u>\$314,361</u>           |

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION — (continued)**  
**(unaudited)**

**STATEMENT OF CONDITION — (Condensed)**  
**December 31, 2015**  
**(in millions)**

|   | <u>AgFirst<br/>District<br/>Combined</u> | <u>AgriBank<br/>District<br/>Combined</u> | <u>Texas<br/>District<br/>Combined</u> | <u>CoBank<br/>District<br/>Combined</u> | <u>Insurance<br/>Fund and<br/>Combination<br/>Entries</u> | <u>System<br/>Combined</u> |
|---|--|---|--|---|---|----------------------------|
| Cash and investments . . . . .                                | \$ 8,340                                 | \$ 17,999                                 | \$ 5,048                               | \$ 27,982                               | \$ 9  | \$ 59,378                  |
| Loans . . . . .   | 26,153                                   | 94,944                                    | 21,182                                 | 98,383                                  | (4,772)   | 235,890                    |
| Less: allowance for loan losses . . . . .                     | <u>(179)</u>                             | <u>(285)</u>                              | <u>(70)</u>                            | <u>(746)</u>                            |   | <u>(1,280)</u>             |
| Net loans . . . . .   | 25,974                                   | 94,659                                    | 21,112                                 | 97,637                                  | (4,772)   | 234,610                    |
| Other assets . . . . .  | 566                                      | 2,275                                     | 457                                    | 2,025                                   | 153   | 5,476                      |
| Restricted assets . . . . .                                   |  |   |  |   | 4,039   | 4,039                      |
| Total assets . . . . .  | <u>\$34,880</u>                          | <u>\$114,933</u>                          | <u>\$26,617</u>                        | <u>\$127,644</u>                        | <u>\$ (571)</u>   | <u>\$303,503</u>           |
| Systemwide Debt Securities and<br>subordinated debt . . . . . | \$27,973                                 | \$ 92,946                                 | \$18,257                               | \$105,717                               | \$ (8)  | \$244,885                  |
| Other liabilities . . . . .                                   | <u>1,236</u>                             | <u>2,702</u>                              | <u>4,431</u>                           | <u>5,800</u>                            | <u>(4,385)</u>  | <u>9,784</u>               |
| Total liabilities . . . . .                                   | <u>29,209</u>                            | <u>95,648</u>                             | <u>22,688</u>                          | <u>111,517</u>                          | <u>(4,393)</u>  | <u>254,669</u>             |
| Capital   |  |   |  |   |   |                            |
| Preferred stock . . . . .                                     | 115                                      | 350                                       | 600                                    | 1,677                                   |   | 2,742                      |
| Capital stock and participation certificates . . . . .        | 161                                      | 319                                       | 90                                     | 1,383                                   | (227)   | 1,726                      |
| Additional paid-in-capital . . . . .                          | 64                                       |   | 225                                    | 1,027                                   |   | 1,316                      |
| Restricted capital . . . . .                                  |  |   |  |   | 4,039   | 4,039                      |
| Accumulated other comprehensive loss . . . . .                | (325)                                    | (616)                                     | (157)                                  | (334)                                   | (15)  | (1,447)                    |
| Surplus . . . . .   | <u>5,656</u>                             | <u>19,232</u>                             | <u>3,171</u>                           | <u>12,374</u>                           | <u>25</u>   | <u>40,458</u>              |
| Total capital . . . . .                                       | <u>5,671</u>                             | <u>19,285</u>                             | <u>3,929</u>                           | <u>16,127</u>                           | <u>3,822</u>  | <u>48,834</u>              |
| Total liabilities and capital . . . . .                       | <u>\$34,880</u>                          | <u>\$114,933</u>                          | <u>\$26,617</u>                        | <u>\$127,644</u>                        | <u>\$ (571)</u>   | <u>\$303,503</u>           |

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION — (continued)**  
**(unaudited)**

**STATEMENT OF COMPREHENSIVE INCOME — (Condensed)**  
**For the Nine Months Ended September 30,**  
**(in millions)**

|  | <u>AgFirst<br/>District<br/>Combined</u> | <u>AgriBank<br/>District<br/>Combined</u> | <u>Texas<br/>District<br/>Combined</u> | <u>CoBank<br/>District<br/>Combined</u> | <u>Insurance<br/>Fund and<br/>Combination<br/>Entries</u> | <u>System<br/>Combined</u> |
|--|--|---|--|---|---|----------------------------|
| <b>2016</b>  |  |   |  |   |   |                            |
| Net interest income . . . . .                        | \$ 767                                   | \$2,136                                   | \$ 536                                 | \$2,051                                 | \$ 34   | \$ 5,524                   |
| Loan loss reversal (provision for loan losses) . . . | 1  | (121)                                     | (10)                                   | (88)                                    |   | (218)                      |
| Noninterest income . . . . .                         | 20                                       | 201                                       | 41                                     | 225                                     | (39)  | 448                        |
| Noninterest expense . . . . .                        | (376)                                    | (873)                                     | (253)                                  | (777)                                   | 250   | (2,029)                    |
| Provision for income taxes . . . . .                 |  | (12)                                      |  | (124)                                   |   | (136)                      |
| Net income . . . . .                                 | <u>412</u>                               | <u>1,331</u>                              | <u>314</u>                             | <u>1,287</u>                            | <u>245</u>  | <u>3,589</u>               |
| Other comprehensive income (loss) . . . . .          | 14                                       | (42)                                      | 43                                     | 206                                     |   | 221                        |
| Comprehensive income . . . . .                       | <u>\$ 426</u>                            | <u>\$1,289</u>                            | <u>\$ 357</u>                          | <u>\$1,493</u>                          | <u>\$245</u>  | <u>\$ 3,810</u>            |
| <b>2015</b>  |  |   |  |   |   |                            |
| Net interest income . . . . .                        | \$ 752                                   | \$2,009                                   | \$ 512                                 | \$1,905                                 | \$ 39   | \$ 5,217                   |
| Provision for loan losses . . . . .                  | (2)                                      | (58)                                      | (7)                                    | (20)                                    |   | (87)                       |
| Noninterest income . . . . .                         | 27                                       | 213                                       | 44                                     | 224                                     | (45)  | 463                        |
| Noninterest expense . . . . .                        | (359)                                    | (818)                                     | (233)                                  | (705)                                   | 170   | (1,945)                    |
| Provision for income taxes . . . . .                 | (1)                                      | (25)                                      |  | (141)                                   |   | (167)                      |
| Net income . . . . .                                 | <u>417</u>                               | <u>1,321</u>                              | <u>316</u>                             | <u>1,263</u>                            | <u>164</u>  | <u>3,481</u>               |
| Other comprehensive income . . . . .                 | 10                                       | 17  | 34                                     | 128                                     |   | 189                        |
| Comprehensive income . . . . .                       | <u>\$ 427</u>                            | <u>\$1,338</u>                            | <u>\$ 350</u>                          | <u>\$1,391</u>                          | <u>\$164</u>  | <u>\$ 3,670</u>            |

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL COMBINING INFORMATION — (continued)**  
(unaudited)

**STATEMENT OF CHANGES IN CAPITAL — (Condensed)**  
**For the Nine Months Ended September 30**  
(in millions)

|   | <u>AgFirst<br/>District<br/>Combined</u> | <u>AgriBank<br/>District<br/>Combined</u> | <u>Texas<br/>District<br/>Combined</u> | <u>CoBank<br/>District<br/>Combined</u> | <u>Insurance<br/>Fund and<br/>Combination<br/>Entries</u> | <u>System<br/>Combined</u> |
|---|--|---|--|---|---|----------------------------|
| <b>Balance at December 31, 2014</b> . . . . .                               | \$5,402                                  | \$17,849                                  | \$3,743                                | \$15,139                                | \$3,573   | \$45,706                   |
| Comprehensive income . . . . .  | 427                                      | 1,338                                     | 350                                    | 1,391                                   | 164   | 3,670                      |
| Preferred stock (retired) issued, net . . . . .                             | (10)                                     |   |  | 95                                      |   | 85                         |
| Capital stock and participation certificates<br>issued . . . . .            | 42                                       | 33  | 7                                      | 5                                       | (17)  | 70                         |
| Capital stock, participation certificates,<br>and surplus retired . . . . . | (29)                                     | (25)                                      | (6)                                    | (37)                                    | 11  | (86)                       |
| Additional paid-in-capital . . . . .  | 3  |   |  |   |   | 3                          |
| Equity issued or recharacterized upon<br>Association merger . . . . .       |  |   | 77                                     |   |   | 77                         |
| Equity retired or recharacterized upon<br>Association merger . . . . .      |  |   | (79)                                   |   |   | (79)                       |
| Patronage and dividends . . . . .   | (74)                                     | (128)                                     | (81)                                   | (317)                                   | 32  | (568)                      |
| <b>Balance at September 30, 2015</b> . . . . .                              | <u>\$5,761</u>                           | <u>\$19,067</u>                           | <u>\$4,011</u>                         | <u>\$16,276</u>                         | <u>\$3,763</u>  | <u>\$48,878</u>            |
| <b>Balance at December 31, 2015</b> . . . . .                               | \$5,671                                  | \$19,285                                  | \$3,929                                | \$16,127                                | \$3,822   | \$48,834                   |
| Comprehensive income . . . . .  | 426                                      | 1,289                                     | 357                                    | 1,493                                   | 245   | 3,810                      |
| Preferred stock (retired) issued, net . . . . .                             | (46)                                     |   |  | 446                                     |   | 400                        |
| Capital stock and participation certificates<br>issued . . . . .            | 32                                       | 36  | 7                                      | 6                                       | (21)  | 60                         |
| Capital stock, participation certificates,<br>and surplus retired . . . . . | (22)                                     | (27)                                      | (6)                                    | (34)                                    | 12  | (77)                       |
| Additional paid-in-capital . . . . .  | 13                                       |   |  |   |   | 13                         |
| Equity issued or recharacterized upon<br>Association merger . . . . .       |  |   |  | 57                                      |   | 57                         |
| Equity retired or recharacterized upon<br>Association merger . . . . .      |  |   |  | (56)                                    |   | (56)                       |
| Patronage and dividends . . . . .   | (73)                                     | (170)                                     | (81)                                   | (373)                                   | 47  | (650)                      |
| <b>Balance at September 30, 2016</b> . . . . .                              | <u>\$6,001</u>                           | <u>\$20,413</u>                           | <u>\$4,206</u>                         | <u>\$17,666</u>                         | <u>\$4,105</u>  | <u>\$52,391</u>            |

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL FINANCIAL INFORMATION**  
(unaudited)  
**COMBINED BANK AND ASSOCIATION (DISTRICT)**  
**SELECTED KEY FINANCIAL INFORMATION**

The following combined key financial ratios related to each combined Bank and its affiliated Associations is intended for the purpose of additional analysis.

|   | <u>AgFirst<br/>District<br/>Combined</u> | <u>AgriBank<br/>District<br/>Combined</u> | <u>Texas<br/>District<br/>Combined</u> | <u>CoBank<br/>District<br/>Combined</u> |
|---|--|---|--|---|
| <b>For the nine months ended:</b>   |  |   |  |   |
| <b><u>September 30, 2016</u></b>  |  |   |  |   |
| Return on average assets .....  | 1.53%                                    | 1.53%                                     | 1.53%                                  | 1.32%                                   |
| Return on average capital .....   | 9.31%                                    | 8.94%                                     | 10.20%                                 | 10.05%                                  |
| Net interest margin .....   | 2.94%                                    | 2.51%                                     | 2.69%                                  | 2.14%                                   |
| Net loan (recoveries) charge-offs as a % of average loans .....                 | (0.03)%                                  | 0.02%                                     | (0.01)%                                | 0.01%                                   |
| Operating expense as a % of net interest income and<br>noninterest income ..... | 47.79%                                   | 37.31%                                    | 43.48%                                 | 34.42%                                  |
| <b><u>September 30, 2015</u></b>  |  |   |  |   |
| Return on average assets .....  | 1.67%                                    | 1.63%                                     | 1.70%                                  | 1.44%                                   |
| Return on average capital .....   | 10.50%                                   | 9.53%                                     | 10.83%                                 | 10.57%                                  |
| Net interest margin .....   | 3.10%                                    | 2.53%                                     | 2.83%                                  | 2.23%                                   |
| Net loan (recoveries) charge-offs as a % of average loans .....                 | (0.01)%                                  | 0.03%                                     | 0.01%                                  | 0.02%                                   |
| Operating expense as a % of net interest income and<br>noninterest income ..... | 46.03%                                   | 36.79%                                    | 42.45%                                 | 33.09%                                  |
| <b>At the period ended:</b>   |  |   |  |   |
| <b><u>September 30, 2016</u></b>  |  |   |  |   |
| Nonperforming assets as a % of loans and other property owned ...               | 1.54%                                    | 0.83%                                     | 1.00%                                  | 0.61%                                   |
| Allowance for loan losses as a % of loans .....                                 | 0.67%                                    | 0.39%                                     | 0.37%                                  | 0.81%                                   |
| Capital as a % of total assets .....  | 16.05%                                   | 17.27%                                    | 15.01%                                 | 13.46%                                  |
| Capital and allowance for loan losses as a % of loans .....                     | 22.75%                                   | 21.27%                                    | 19.38%                                 | 18.47%                                  |
| Debt to capital .....   | 5.23:1                                   | 4.79:1                                    | 5.66:1                                 | 6.43:1                                  |
| <b><u>December 31, 2015</u></b>   |  |   |  |   |
| Nonperforming assets as a % of loans and other property owned ...               | 1.59%                                    | 0.64%                                     | 0.87%                                  | 0.53%                                   |
| Allowance for loan losses as a % of loans .....                                 | 0.68%                                    | 0.30%                                     | 0.33%                                  | 0.76%                                   |
| Capital as a % of total assets .....  | 16.26%                                   | 16.78%                                    | 14.76%                                 | 12.63%                                  |
| Capital and allowance for loan losses as a % of loans .....                     | 22.37%                                   | 20.61%                                    | 18.88%                                 | 17.15%                                  |
| Debt to capital .....   | 5.15:1                                   | 4.96:1                                    | 5.77:1                                 | 6.91:1                                  |

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL FINANCIAL INFORMATION — (continued)**  
**(unaudited)**

The table below reflects the combined results of each Bank and its affiliated Associations (District) measurement under market value of equity and net interest income sensitivity analysis in accordance with their respective asset/liability management policies and District limits.

| District       | Change in Market Value of Equity |        |        | Change in Net Interest Income |       |       |
|----------------|----------------------------------|--------|--------|-------------------------------|-------|-------|
|                | September 30, 2016               |        |        | September 30, 2016            |       |       |
|                | -14                              | +100   | +200   | -14                           | +100  | +200  |
| AgFirst .....  | 0.47%                            | -3.38% | -7.96% | 0.71%                         | 1.14% | 0.92% |
| AgriBank ..... | 0.51                             | -3.98  | -8.13  | -0.03                         | -0.17 | 0.58  |
| Texas .....    | 0.91                             | -5.39  | -10.99 | 0.23                          | 0.80  | 1.15  |
| CoBank .....   | 0.32                             | -2.25  | -4.62  | -0.34                         | 2.84  | 5.18  |

| District       | Change in Market Value of Equity |        |        | Change in Net Interest Income |       |       |
|----------------|----------------------------------|--------|--------|-------------------------------|-------|-------|
|                | December 31, 2015                |        |        | December 31, 2015             |       |       |
|                | -8                               | +100   | +200   | -8                            | +100  | +200  |
| AgFirst .....  | 0.24%                            | -3.67% | -8.14% | -0.27%                        | 2.13% | 3.24% |
| AgriBank ..... | 0.30                             | -3.75  | -7.32  | -0.28                         | -0.38 | 0.49  |
| Texas .....    | 0.00                             | -4.63  | -10.34 | -0.44                         | 1.69  | 2.45  |
| CoBank .....   | 0.21                             | -2.42  | -4.72  | -0.36                         | 4.04  | 7.85  |

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL FINANCIAL INFORMATION — (continued)**  
**(unaudited)**

**SELECTED ASSOCIATION KEY FINANCIAL INFORMATION**

The Banks serve as financial intermediaries between the capital markets and the retail lending activities of their related Associations. Accordingly, in addition to the supplemental combining Bank and Association (District) information provided on pages F-54 to F-57, selected financial information regarding Associations with asset size greater than \$1 billion is provided below for the purpose of additional analysis.

|   | At September 30, 2016 |                |  |  | For the<br>Nine Months Ended<br>September 30, 2016 |                                   |                                    |                           |
|---|-----------------------|----------------|--|--|--|-----------------------------------|------------------------------------|---------------------------|
|   | Total<br>Assets       | Gross<br>Loans | Allowance<br>for Loan<br>Losses as a<br>%<br>of Gross<br>Loans | Nonperforming<br>Assets as a %<br>of Gross Loans<br>and Other<br>Property<br>Owned | Permanent<br>Capital<br>Ratio                      | Return<br>on<br>Average<br>Assets | Return<br>on<br>Average<br>Capital | Net<br>Interest<br>Margin |
| (\$ in millions)                              |                       |                |  |  |  |                                   |                                    |                           |
| <b>AgFirst District</b>                       |                       |                |  |  |  |                                   |                                    |                           |
| MidAtlantic Farm Credit, ACA                  | \$ 2,641              | \$ 2,586       | 0.93%  | 1.35%  | 19.91%   | 1.78%                             | 8.19%                              | 2.66%                     |
| First South Farm Credit, ACA                  | 1,940                 | 1,829          | 0.66   | 0.81   | 16.61  | 1.35                              | 6.98                               | 2.75                      |
| AgCredit, ACA                                 | 1,819                 | 1,744          | 0.74   | 0.61   | 19.99  | 2.32                              | 14.37                              | 2.75                      |
| AgChoice Farm Credit, ACA                     | 1,791                 | 1,749          | 0.65   | 1.38   | 17.64  | 1.79                              | 9.17                               | 2.69                      |
| Farm Credit of the Virginias, ACA             | 1,789                 | 1,733          | 0.84   | 2.30   | 20.35  | 1.98                              | 9.21                               | 2.97                      |
| AgSouth Farm Credit, ACA                      | 1,714                 | 1,637          | 0.84   | 1.83   | 19.80  | 1.88                              | 9.64                               | 3.59                      |
| Carolina Farm Credit, ACA                     | 1,477                 | 1,394          | 0.52   | 1.48   | 21.93  | 1.80                              | 8.27                               | 3.40                      |
| AgCarolina Farm Credit, ACA                   | 1,163                 | 1,122          | 1.10   | 1.81   | 21.61  | 1.83                              | 7.97                               | 2.73                      |
| <b>AgriBank District</b>                      |                       |                |  |  |  |                                   |                                    |                           |
| Farm Credit Services of America, ACA          | 25,820                | 24,669         | 0.44   | 0.76   | 15.47  | 1.83                              | 10.25                              | 2.81                      |
| Farm Credit Mid-America, ACA                  | 22,546                | 20,383         | 0.40   | 1.31   | 17.33  | 1.36                              | 7.54                               | 2.08                      |
| AgStar Financial Services, ACA                | 8,664                 | 7,806          | 0.43   | 1.20   | 14.52  | 1.44                              | 9.71                               | 2.50                      |
| GreenStone FCS, ACA                           | 7,825                 | 7,586          | 0.61   | 0.70   | 16.00  | 1.70                              | 9.15                               | 2.61                      |
| 1st Farm Credit, ACA                          | 5,748                 | 5,343          | 0.34   | 0.70   | 16.46  | 1.69                              | 9.37                               | 2.32                      |
| AgCountry, ACA                                | 5,432                 | 5,063          | 0.29   | 0.27   | 16.82  | 1.76                              | 8.43                               | 2.63                      |
| Badgerland Financial, ACA                     | 4,079                 | 3,902          | 0.32   | 0.54   | 17.00  | 1.83                              | 8.78                               | 2.58                      |
| Farm Credit of Illinois, ACA                  | 4,004                 | 3,830          | 0.21   | 0.26   | 16.96  | 1.62                              | 7.94                               | 2.50                      |
| FCS Financial, ACA                            | 3,716                 | 3,561          | 0.46   | 0.25   | 17.28  | 1.58                              | 8.04                               | 2.54                      |
| United Farm Credit Services, ACA              | 1,693                 | 1,634          | 0.33   | 1.56   | 15.33  | 1.44                              | 8.17                               | 2.68                      |
| Farm Credit Services of North Dakota, ACA     | 1,229                 | 1,180          | 0.28   | 0.17   | 16.43  | 1.64                              | 8.26                               | 2.61                      |
| Farm Credit Services of Western Arkansas, ACA | 1,204                 | 1,155          | 0.13   | 0.69   | 18.63  | 1.66                              | 7.88                               | 3.11                      |
| AgHeritage Farm Credit Services, ACA          | 1,186                 | 1,136          | 0.46   | 0.90   | 19.38  | 1.88                              | 8.36                               | 3.06                      |
| Farm Credit Services of Mandan, ACA           | 1,108                 | 1,062          | 0.26   | 0.21   | 15.06  | 1.69                              | 9.14                               | 2.75                      |
| <b>Texas District</b>                         |                       |                |  |  |  |                                   |                                    |                           |
| Capital Farm Credit, ACA                      | 7,059                 | 6,900          | 0.45   | 1.57   | 14.82  | 2.11                              | 12.96                              | 3.19                      |
| AgTexas Farm Credit Services                  | 1,695                 | 1,631          | 0.37   | 1.50   | 12.92  | 1.78                              | 13.46                              | 2.70                      |
| Lone Star, ACA                                | 1,669                 | 1,645          | 0.41   | 0.47   | 18.89  | 1.71                              | 8.29                               | 2.73                      |
| Texas Farm Credit Services                    | 1,151                 | 1,116          | 0.27   | 0.43   | 14.60  | 1.77                              | 11.77                              | 2.96                      |
| Southern AgCredit, ACA                        | 1,006                 | 975            | 0.08   | 1.60   | 14.31  | 1.73                              | 11.66                              | 2.59                      |
| <b>CoBank District</b>                        |                       |                |  |  |  |                                   |                                    |                           |
| Northwest Farm Credit Services, ACA           | 10,866                | 10,354         | 0.76   | 0.74   | 16.74  | 2.27                              | 11.23                              | 2.96                      |
| Farm Credit West, ACA                         | 9,828                 | 9,280          | 0.61   | 1.85   | 17.35  | 2.23                              | 11.24                              | 2.78                      |
| American AgCredit, ACA                        | 8,172                 | 7,646          | 0.19   | 0.59   | 18.21  | 1.31                              | 5.61                               | 2.83                      |
| Farm Credit East, ACA                         | 6,403                 | 6,176          | 1.26   | 0.90   | 16.95  | 2.43                              | 12.74                              | 3.04                      |
| Yosemite Farm Credit, ACA                     | 2,520                 | 2,379          | 0.25   | 0.21   | 14.38  | 1.84                              | 10.45                              | 2.70                      |
| Frontier Farm Credit, ACA                     | 1,987                 | 1,874          | 0.35   | 0.59   | 15.42  | 1.70                              | 9.02                               | 2.73                      |
| Farm Credit of New Mexico, ACA                | 1,635                 | 1,559          | 0.80   | 0.36   | 20.85  | 1.26                              | 5.61                               | 2.67                      |
| Golden State, ACA                             | 1,383                 | 1,316          | 0.30   | 0.04   | 16.72  | 1.79                              | 8.74                               | 2.73                      |
| Oklahoma AgCredit, ACA                        | 1,160                 | 1,098          | 0.22   | 1.27   | 17.98  | 1.50                              | 7.29                               | 2.81                      |
| Fresno-Madera Farm Credit, ACA                | 1,131                 | 1,068          | 0.55   | 0.01   | 17.94  | 1.97                              | 8.90                               | 2.63                      |
| Southern Colorado, ACA                        | 1,014                 | 947            | 0.24   | 1.62   | 19.91  | 1.37                              | 6.08                               | 2.70                      |

**FARM CREDIT SYSTEM**  
**SUPPLEMENTAL FINANCIAL INFORMATION — (continued)**  
**(unaudited)**

**SELECTED ASSOCIATION KEY FINANCIAL INFORMATION**

|   | At December 31, 2015 |                |  |  | For the<br>Nine Months Ended<br>September 30, 2015 |                                   |                                    |                           |
|---|----------------------|----------------|--|--|--|-----------------------------------|------------------------------------|---------------------------|
|   | Total<br>Assets      | Gross<br>Loans | Allowance<br>for Loan<br>Losses as a<br>%<br>of Gross<br>Loans | Nonperforming<br>Assets as a %<br>of Gross Loans<br>and Other<br>Property<br>Owned | Permanent<br>Capital<br>Ratio                      | Return<br>on<br>Average<br>Assets | Return<br>on<br>Average<br>Capital | Net<br>Interest<br>Margin |
| (\$ in millions)                              |                      |                |  |  |  |                                   |                                    |                           |
| <b>AgFirst District</b>                       |                      |                |  |  |  |                                   |                                    |                           |
| MidAtlantic Farm Credit, ACA                  | \$ 2,525             | \$ 2,457       | 1.01%  | 1.68%  | 20.58%   | 1.87%                             | 8.26%                              | 2.83%                     |
| AgCredit, ACA                                 | 1,802                | 1,716          | 0.81   | 0.54   | 19.85  | 2.18                              | 13.80                              | 2.74                      |
| Farm Credit of the Virginias, ACA             | 1,758                | 1,693          | 0.86   | 2.56   | 20.07  | 2.03                              | 9.68                               | 3.06                      |
| AgChoice Farm Credit, ACA                     | 1,749                | 1,694          | 0.59   | 1.38   | 18.01  | 1.93                              | 9.63                               | 2.78                      |
| First South Farm Credit, ACA                  | 1,720                | 1,598          | 0.67   | 0.91   | 17.78  | 1.29                              | 6.40                               | 2.87                      |
| AgSouth Farm Credit, ACA                      | 1,651                | 1,558          | 0.84   | 1.65   | 20.68  | 2.09                              | 10.47                              | 3.75                      |
| Carolina Farm Credit, ACA                     | 1,483                | 1,384          | 0.53   | 1.50   | 21.62  | 1.71                              | 7.81                               | 3.54                      |
| AgCarolina Farm Credit, ACA                   | 1,068                | 1,021          | 1.17   | 1.74   | 23.00  | 1.75                              | 7.38                               | 2.74                      |
| <b>AgriBank District</b>                      |                      |                |  |  |  |                                   |                                    |                           |
| Farm Credit Services of America, ACA          | 24,773               | 23,639         | 0.27   | 0.31   | 15.38  | 2.13                              | 11.92                              | 2.82                      |
| Farm Credit Mid-America, ACA                  | 22,105               | 20,004         | 0.31   | 1.11   | 16.98  | 1.36                              | 7.56                               | 2.16                      |
| AgStar Financial Services, ACA                | 8,360                | 7,572          | 0.36   | 0.94   | 14.75  | 1.62                              | 10.49                              | 2.68                      |
| GreenStone FCS, ACA                           | 7,527                | 7,293          | 0.47   | 0.66   | 16.05  | 1.86                              | 9.86                               | 2.67                      |
| 1st Farm Credit, ACA                          | 5,575                | 5,245          | 0.34   | 0.67   | 16.42  | 1.76                              | 9.51                               | 2.44                      |
| AgCountry, ACA                                | 5,193                | 4,812          | 0.28   | 0.55   | 16.64  | 1.81                              | 8.57                               | 2.67                      |
| Farm Credit of Illinois, ACA                  | 3,991                | 3,824          | 0.14   | 0.15   | 16.61  | 1.68                              | 7.95                               | 2.50                      |
| Badgerland Financial, ACA                     | 3,941                | 3,776          | 0.31   | 0.51   | 16.58  | 2.05                              | 9.62                               | 2.73                      |
| FCS Financial, ACA                            | 3,592                | 3,452          | 0.46   | 0.32   | 17.52  | 1.81                              | 8.95                               | 2.68                      |
| United Farm Credit Services, ACA              | 1,686                | 1,633          | 0.27   | 0.59   | 15.35  | 1.66                              | 8.95                               | 2.73                      |
| Farm Credit Services of North Dakota, ACA     | 1,175                | 1,129          | 0.22   | 0.25   | 15.90  | 1.76                              | 8.70                               | 2.81                      |
| Farm Credit Services of Western Arkansas, ACA | 1,132                | 1,087          | 0.11   | 0.95   | 19.23  | 1.94                              | 8.72                               | 3.20                      |
| Farm Credit Services of Mandan, ACA           | 1,056                | 1,015          | 0.20   | 0.25   | 15.04  | 1.85                              | 9.70                               | 3.04                      |
| AgHeritage Farm Credit Services, ACA          | 1,029                | 977            | 0.16   | 0.26   | 19.91  | 2.08                              | 9.64                               | 3.15                      |
| <b>Texas District</b>                         |                      |                |  |  |  |                                   |                                    |                           |
| Capital Farm Credit, ACA                      | 6,677                | 6,537          | 0.36   | 1.16   | 14.82  | 2.11                              | 12.31                              | 3.29                      |
| AgTexas Farm Credit Services                  | 1,591                | 1,529          | 0.35   | 1.41   | 13.05  | 2.07                              | 15.18                              | 2.90                      |
| Lone Star, ACA                                | 1,583                | 1,562          | 0.44   | 0.42   | 19.74  | 1.80                              | 8.16                               | 3.04                      |
| Texas Farm Credit Services                    | 1,080                | 1,047          | 0.27   | 0.42   | 16.13  | 1.93                              | 12.18                              | 3.02                      |
| <b>CoBank District</b>                        |                      |                |  |  |  |                                   |                                    |                           |
| Northwest Farm Credit Services, ACA           | 10,619               | 10,104         | 0.76   | 0.55   | 16.14  | 2.45                              | 12.54                              | 3.07                      |
| Farm Credit West, ACA                         | 9,495                | 8,951          | 0.50   | 1.53   | 17.54  | 2.28                              | 10.84                              | 2.81                      |
| American AgCredit, ACA                        | 7,798                | 7,292          | 0.12   | 0.80   | 19.70  | 1.48                              | 5.75                               | 2.82                      |
| Farm Credit East, ACA                         | 6,326                | 6,095          | 1.25   | 1.06   | 16.35  | 2.44                              | 13.11                              | 3.05                      |
| Yosemite Farm Credit, ACA                     | 2,368                | 2,231          | 0.24   | 0.19   | 14.72  | 1.90                              | 10.54                              | 2.75                      |
| Frontier Farm Credit, ACA                     | 1,947                | 1,832          | 0.23   | 0.34   | 15.05  | 1.70                              | 9.10                               | 2.69                      |
| Farm Credit of New Mexico, ACA                | 1,593                | 1,514          | 0.50   | 0.20   | 21.89  | 1.83                              | 7.57                               | 2.72                      |
| Golden State, ACA                             | 1,287                | 1,216          | 0.27   | 0.02   | 18.04  | 1.93                              | 9.06                               | 2.72                      |
| Fresno-Madera Farm Credit, ACA                | 1,131                | 1,073          | 0.58   | 0.37   | 17.54  | 1.49                              | 6.57                               | 2.49                      |

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## CONTROLS AND PROCEDURES

As of September 30, 2016, the Funding Corporation carried out an evaluation under the supervision and with the participation of the Funding Corporation's management, including the President and CEO and the Managing Director — Financial Management Division, of the effectiveness of the design and operation of the Funding Corporation's disclosure controls and procedures<sup>(1)</sup> with respect to the System's quarterly information statement. This evaluation relies upon the evaluations made by the individual Banks and the related certifications they provide to the Funding Corporation. Based upon and as of the date of the Funding Corporation's evaluation, the President and CEO and the Managing Director — Financial Management Division concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the System that is required to be disclosed by the System in the annual and quarterly information statements it files or submits to the Farm Credit Administration.

There have been no significant changes in the System's internal control over financial reporting<sup>(2)</sup> that occurred during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the System's internal control over financial reporting.

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<sup>(1)</sup> For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the System that are designed to ensure that the financial information required to be disclosed by the System in this quarterly information statement is recorded, processed, summarized and reported, within the time periods specified under the rules and regulations of the Farm Credit Administration.

<sup>(2)</sup> For purposes of this discussion, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the System's principal executive officers and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the System's condensed combined financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the System; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the System's condensed combined financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the System are being made only in accordance with authorizations of managements and directors of the System; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the System's assets that could have a material effect on the System's condensed combined financial statements.

## CERTIFICATION

I, Theresa E. McCabe, certify that:

1. I have reviewed the *Third Quarter 2016 Quarterly Information Statement of the Farm Credit System*.

2. Based on my knowledge, this quarterly information statement 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 quarterly information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this quarterly information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures<sup>(1)</sup> and internal control over financial reporting<sup>(2)</sup> for the System 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 System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this quarterly information statement 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 System's disclosure controls and procedures and presented in this quarterly information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly information statement based on such evaluation; and

(d) disclosed in this quarterly information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(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 System'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 System's internal control over financial reporting.



Theresa E. McCabe  
President and CEO

Date: November 9, 2016

(1) See footnote 1 on page S-2.

(2) See footnote 2 on page S-2.

## CERTIFICATION

I, Karen R. Brenner, certify that:

1. I have reviewed the *Third Quarter 2016 Quarterly Information Statement of the Farm Credit System*.

2. Based on my knowledge, this quarterly information statement 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 quarterly information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this quarterly information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures<sup>(1)</sup> and internal control over financial reporting<sup>(2)</sup> for the System 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 System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this quarterly information statement 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 System's disclosure controls and procedures and presented in this quarterly information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly information statement based on such evaluation; and

(d) disclosed in this quarterly information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(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 System'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 System's internal control over financial reporting.



Karen R. Brenner  
Managing Director — Financial  
Management Division

Date: November 9, 2016

(1) See footnote 1 on page S-2.

(2) See footnote 2 on page S-2.

## FARM CREDIT SYSTEM ENTITIES (As of September 30, 2016)

### BANKS

AgFirst Farm Credit Bank  
P.O. Box 1499  
Columbia, SC 29202-1499  
(803) 799-5000

AgriBank, FCB  
30 East 7th Street  
Suite 1600  
St. Paul, MN 55101-4914  
(651) 282-8800

CoBank, ACB  
P.O. Box 5110  
Denver, CO 80217-5110  
(303) 740-4000

Farm Credit Bank of Texas  
P.O. Box 202590  
Austin, TX 78720-2590  
(512) 465-0400

### CERTAIN OTHER ENTITIES

Farm Credit Leasing Services Corporation  
600 Highway 169 South, Suite 300  
Minneapolis, MN 55426-1219  
(952) 417-7800

Federal Farm Credit Banks  
Funding Corporation  
101 Hudson Street, Suite 3505  
Jersey City, NJ 07302-3913  
(201) 200-8000

FCS Building Association  
1501 Farm Credit Drive  
McLean, VA 22102-5090  
(703) 883-4000

The Farm Credit Council  
50 F Street, N.W., Suite 900  
Washington, DC 20001-1530  
(202) 626-8710

### ASSOCIATIONS

#### AgFirst District

Ag Credit, ACA  
610 W. Lytle Street  
Fostoria, OH 44830-3422

AgCarolina Farm Credit, ACA  
4000 Poole Road  
Raleigh, NC 27610

AgChoice Farm Credit, ACA  
900 Bent Creek Blvd.  
Mechanicsburg, PA 17050-1860

AgGeorgia Farm Credit, ACA  
468 Perry Parkway  
Perry, GA 31069

AgSouth Farm Credit, ACA  
26 South Main Street  
Statesboro, GA 30458

ArborOne, ACA  
800 Woody Jones Blvd.  
Florence, SC 29501

Cape Fear Farm Credit, ACA  
333 East Russell Street  
Fayetteville, NC 28301

Carolina Farm Credit, ACA  
146 Victory Lane  
Statesville, NC 28625

Central Kentucky, ACA  
640 S. Broadway, Room 108  
Lexington, KY 40588

Colonial Farm Credit, ACA  
7104 Mechanicsville Turnpike  
Mechanicsville, VA 23111

Farm Credit of Central Florida, ACA  
115 S. Missouri Avenue, Suite 400  
Lakeland, FL 33815

Farm Credit of Florida, ACA  
11903 Southern Blvd.  
Suite 200  
Royal Palm Beach, FL 33411

Farm Credit of Northwest Florida, ACA  
5052 Highway 90  
East Marianna, FL 32446

Farm Credit of the Virginias, ACA  
106 Sangers Lane  
Staunton, VA 24401

First South Farm Credit, ACA  
574 Highland Colony Parkway,  
Suite 100  
Ridgeland, MS 39157

MidAtlantic Farm Credit, ACA  
45 Aileron Court  
Westminster, MD 21157

Puerto Rico Farm Credit, ACA  
213 Manuel V. Domenech Avenue  
Hato Rey, PR 00918

River Valley AgCredit, ACA  
328 East Broadway  
Mayfield, KY 42066

Southwest Georgia Farm Credit, ACA  
305 Colquitt Highway  
Bainbridge, GA 39817

#### **AgriBank District**

1st Farm Credit Services, ACA  
2000 Jacobssen Drive  
Normal, IL 61761

AgCountry Farm Credit Services, ACA  
1900 44th Street South  
Fargo, ND 58108

AgHeritage Farm Credit Services, ACA  
119 East Third Street, Suite 200  
Little Rock, AR 72201

AgStar Financial Services, ACA  
1921 Premier Drive  
Mankato, MN 56001

Badgerland Financial, ACA  
1430 North Ridge Drive  
Prairie du Sac, WI 53578

Delta ACA  
118 E. Speedway  
Dermott, AR 71638

Farm Credit Midsouth, ACA  
3000 Prosperity Drive  
Jonesboro, AR 72404

Farm Credit Services of America, ACA  
5015 South 118th Street  
Omaha, NE 68137

Farm Credit Illinois, ACA  
1100 Farm Credit Drive  
Mahomet IL 61853

Farm Credit Mid-America, ACA  
1601 UPS Drive  
Louisville, KY 40223

Farm Credit Services of Mandan, ACA  
1600 Old Red Trail  
Mandan, ND 58554-5001

Farm Credit Services of North Dakota, ACA  
3100 10th Street, S.W.  
Minot, ND 58702-0070

Farm Credit Services of Western Arkansas, ACA  
3115 West 2nd Court  
Russellville, AR 72801

FCS Financial, ACA  
1934 East Miller Street  
Jefferson City, MO 65101-3881

GreenStone Farm Credit Services, ACA  
3515 West Road  
East Lansing, MI 48823

Progressive Farm Credit Services, ACA  
1116 N. Main Street  
Sikeston, MO 63801

United Farm Credit Services, ACA  
4401 Highway 71 South  
P.O. Box 1330  
Willmar, MN 56201-1560

#### **CoBank District**

AgPreference, ACA  
3120 North Main  
Altus, OK 73521

American AgCredit, ACA  
400 Aviation Boulevard  
Suite 100  
Santa Rosa, CA 95403

Farm Credit East, ACA  
240 South Road  
Enfield, CT 06082

Farm Credit of Enid, ACA  
1605 W. Owen K. Garriott Road  
Enid, OK 73703

Farm Credit of Ness City, FLCA  
101 Eagle Drive  
Ness City, KS 67560

Farm Credit of New Mexico, ACA  
5651 Balloon Fiesta Parkway NE  
Albuquerque, NM 87113

Farm Credit of Southern Colorado, ACA  
5110 Edison Avenue  
Colorado Springs, CO 80915

Farm Credit of Southwest Kansas, ACA  
1606 E. Kansas Avenue  
Garden City, KS 67846

Farm Credit of Western Kansas, ACA  
1190 South Range Avenue  
Colby, KS 67701

Farm Credit of Western Oklahoma, ACA  
3302 Williams Avenue  
Woodward, OK 73801

Farm Credit Services of Colusa-Glenn, ACA  
605 Jay Street  
Colusa, CA 95932

Farm Credit Services of Hawaii, ACA  
99-860 Iwaena Street, Suite A  
Aiea, HI 96701

Farm Credit West, ACA  
1478 Stone Point Drive, Suite 450  
Roseville, CA 95661

Fresno-Madera Farm Credit, ACA  
4635 West Spruce Ave.  
Fresno, CA 93722

Frontier Farm Credit, ACA  
2009 Vanesta Place  
Manhattan, KS 66503

Golden State Farm Credit, ACA  
1580 Ellis Street  
Kingsburg, CA 93631

High Plains Farm Credit, ACA  
605 Main Street  
Larned, KS 67550

Idaho AgCredit, ACA  
188 West Judicial  
Blackfoot, ID 83221

Northwest Farm Credit Services, ACA  
2001 South Flint Road, Suite 102  
Spokane, WA 99224

Oklahoma AgCredit, ACA  
601 E. Kenosha Street  
Broken Arrow, OK 74012

Premier Farm Credit, ACA  
202 Poplar Street  
Sterling, CO 80751

Western AgCredit, ACA  
10980 South Jordan Gateway  
South Jordan, UT 84095

Yankee Farm Credit, ACA  
289 Hurricane Lane, Suite 102  
Williston, VT 05495

Yosemite Farm Credit, ACA  
806 West Monte Vista Avenue  
Turlock, CA 95382

#### **Texas District**

Ag New Mexico, Farm Credit Services, ACA  
233 Fairway Terrace North  
Clovis, NM 88101

AgTexas Farm Credit Services  
6901 Quaker Avenue, Suite 300  
Lubbock, TX 79413

Alabama Ag Credit, ACA  
2660 EastChase Lane, Suite 401  
Montgomery, AL 36117

Alabama Farm Credit, ACA  
1740 Eva Road NE  
Cullman, AL 35055

Capital Farm Credit, ACA  
3000 Briarcrest Drive, Suite 601  
Bryan, TX 77802

Central Texas Farm Credit, ACA  
1026 Early Boulevard  
Early, TX 76802

Heritage Land Bank, ACA  
4608 Kinsey Drive, Suite 100  
Tyler, TX 75703

Legacy Ag Credit, ACA  
303 Connally Street  
Sulphur Springs, TX 75482

Lone Star, ACA  
1612 Summit Avenue, Suite 300  
Fort Worth, TX 76102

Louisiana Land Bank, ACA  
2413 Tower Drive  
Monroe, LA 71201

Mississippi Land Bank, ACA  
5509 Highway 51 North  
Senatobia, MS 38668

Plains Land Bank, FLCA  
5625 Fulton Drive  
Amarillo, TX 79109

Southern AgCredit, ACA  
402 West Parkway Place  
Ridgeland, MS 39157

Texas Farm Credit Services  
545 South Highway 77  
Robstown, TX 78380



