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AgriBank 2016 Quarterly Report
September 30, 2016

AgriBank
FARM CREDIT BANK

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Message from the Chair

AgriBank, FCB

Effective August 1, 2016, William J. Thone was named interim Chief Executive Officer (CEO) of AgriBank following the departure of Bill 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 the Bank'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 financial position remains strong and our strategic direction remains unchanged. The focus of our business remains on creating competitive advantages for affiliated Farm Credit Associations, so they can provide the best financial solutions for farmers and ranchers. The board's search for the new CEO continues and will focus on the leadership necessary to carry our strategic direction forward.

Management's Discussion and Analysis

The following discussion is a review of the financial position and results of operations of AgriBank, FCB (AgriBank). This information should be read in conjunction with the accompanying Financial Statements, the Notes to the Financial Statements and the 2015 Annual Report.

AgriBank is one of the Banks of the Farm Credit System (the System). We serve customers in states across America's heartland. AgriBank provides funding to, and is primarily owned by, its affiliated Associations. AgriBank and its affiliated Associations are collectively referred to as the District. The affiliated Associations are chartered to serve customers in substantially all of Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin and Wyoming. In this position, with its prime location in America's agricultural heartland and over 100 years of experience, AgriBank and affiliated Associations are respected partners for rural America based on our collective expertise in providing financial products and services for rural communities and agriculture.

Forward-Looking Information

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2015 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Financial Overview

Net income increased $42.7 million, or 11.8 percent, to $405.5 million for the nine months ended September 30, 2016, as compared to the same period of the prior year. The increase was driven primarily by an increase in net interest income, partially offset by a reduction in mineral income due to continued low oil prices. Refer to the Results of Operations section for further discussion.

The credit quality of our total loan portfolio remains sound with 99.6 percent of our portfolio in the acceptable category. The credit quality of our retail loan portfolio moderated to 95.5 percent acceptable as of September 30, 2016, but remained in a sound position. Robust capital levels ensure we are well positioned to manage the cyclicality that is characteristic of the agricultural market. Refer to the Loan Portfolio and Funding, Liquidity and Shareholders' Equity sections for further discussion.

Economic Conditions

Interest Rate Environment

U.S. economic activity is expected to continue advancing at a steady pace as consumer spending remains resilient and international headwinds begin to subside. For 2017, the U.S. economy is forecasted to grow at 2.1 percent due to continued growth in consumer spending as the economy reaches full employment. A strong dollar is reducing demand for U.S. exports and could be a hindrance to economic growth if the dollar continues to strengthen.

After seven years of accommodative monetary policy, in December 2015 the Federal Open Market Committee (FOMC) of the Federal Reserve raised the target range for the federal funds rate by 25 basis points (bps), in an effort to kick-start the process toward normalization in the level of interest rates. The path for federal funds rates is expected to remain data-dependent and, according to Federal Reserve communication, anticipated economic conditions will warrant only very gradual increases in policy rates. The consensus forecast of economists suggests that the FOMC will increase the federal funds rate by an additional 75 bps before the end of 2017. Accommodative monetary policies by central banks are constraining longer term interest rates in developed markets around the world. As such, long term U.S. Treasury rates are expected to increase by a lesser amount, approximately 40 bps before the end of 2017.

We manage interest rate risk consistent with policies established by the Board of Directors and limits established by AgriBank's Asset and Liability Committee (ALCO) (refer to Interest Rate Risk Management section). While many factors can impact our net interest income, it is management's expectation that financial performance will remain relatively consistent under most interest rate environments over the next 12 months.

Agricultural Conditions

The U.S. Department of Agriculture's Economic Research Service (USDA) projects both net cash and net farm income to decline for the third consecutive year in 2016, after reaching a record high in 2013. Revised net farm income is projected to fall by 11.5 percent to $71.5 billion for 2016 compared to revised final 2015 estimates. This decrease is primarily attributable to a sharp decline in both crop and livestock cash receipts, driven by lower prices across most major grain and livestock categories. Conversely, the lower prices contribute to lower expenses for both feed and feeder animals for livestock and dairy production. Additionally, lower crude oil prices have contributed to lower energy costs and lower prices for inputs, such as fertilizer. While still strong, the aggregate farm debt-to-asset ratio is expected to moderately decline to 12.4 percent compared to a historic low of 11.3 percent in 2012.

For U.S. agriculture, the increased value of the U.S. dollar has reduced U.S. export competitiveness versus international competitors. To date, however, this impact has been limited. Of longer term concern to U.S. agricultural exports is the potential downside risks to global economic growth in developed economies. Slowly rising crude oil prices and an eventual decline in the U.S. dollar should improve the demand situation; however, the recovery is likely to be slow and steady over several years.

Updated Industry Conditions

The following are industry conditions for which we have updated our outlook since December 31, 2015. For further analysis of industry conditions which have not experienced a change in outlook since December 31, 2015, refer to the Agricultural Conditions section of Management's Discussion and Analysis of the 2015 Annual Report.

Cow-Calf

The USDA estimates the U.S. beef cow herd has increased 3.5 percent compared to the prior year as a result of capacity added by cow-calf operations in recent years to meet feedlot demand. Despite expectations that the credit quality of the District's cow-calf portfolio will remain strong, the increase in supply and resulting price decline are expected to have an overall negative impact on producers which is not expected to be overcome by the consumer level response to lower retail beef prices. Based on these conditions, the cow-calf outlook as of September 30, 2016 was neutral-to-negative, compared to the positive outlook discussed in the 2015 Annual Report.

Timber

Housing starts have increased year over year, consumer confidence remains cautiously optimistic and the U.S. labor market has continued to improve, all of which have contributed to timber customers, especially mills, showing strong profits. These factors are slightly offset by the strength of the U.S. Dollar which has increased timber imports and caused some price compression. Based on these overall conditions, the timber outlook as of September 30, 2016 was positive-to-neutral, compared to the neutral outlook discussed in the 2015 Annual Report.

Pork

The USDA projects the average 2016 hog price to decline 8.1 percent compared to the prior year primarily driven by increasing supply of market hogs due to ongoing improvement in production practices, genetics, and less impact from disease. Operating margins have declined below break-even levels during 2016 and are projected to remain low through the first quarter of 2017. This decline in hog prices has been partially offset by the lower feed costs. Risk management strategies are common across the industry and may help mitigate the negative impact of declining pork prices on operating margins. Based on these overall conditions, the pork outlook as of September 30, 2016 was neutral-to-negative, compared to the neutral outlook discussed in the 2015 Annual Report.

Land Values

The AgriBank District continues to closely monitor agricultural land values. As part of this monitoring, the District conducts an annual Benchmark Survey, completed by licensed real estate appraisers, of a sample of benchmark farms selected to represent the lending footprint of the affiliated Associations throughout the District. The District's most recent real estate market value survey indicated that District real estate value changes ranged from a decrease of 10.5 percent to an increase of 10.6 percent over the twelve-month period ending June 30, 2016.

Qualitative surveys of lending officers compiled by the Federal Reserve Banks of Chicago, Kansas City, and St. Louis as of the end of the second quarter 2016 indicated declining farmland values. The Federal Reserve Bank surveys cited a year-over-year change in the average value of non-irrigated farmland from a decrease of 0.7 percent to a decrease of 3.0 percent.

The USDA 2016 land value survey, released August 2016 and based primarily on agricultural producer opinions, indicated a 0.3 percent decrease in farmland values and a 1.0 percent decrease in cropland values in the AgriBank District. States heavily concentrated in corn, soybeans, and wheat production experienced declines in cropland values.

Declining land values are a potential lending risk following periods of sustained, rapid land value increases. Nominal and real (inflation-adjusted) agricultural land values increased in proportions greater than other asset classes such as stocks and urban residential and commercial land during the past decade. This is largely because the agricultural sector, particularly crop farming, remained profitable throughout the economic crisis period, and demand for agricultural income-producing land remained strong. However, with continued low commodity price forecasts, we do expect the moderation of land values to continue.

AgriBank District credit risk policies focus on loan repayment capacity in addition to conservative loan-to-value levels (LTVs) on the collateral that secures loans. Although FCA regulations allow real estate mortgage loans of up to 85 percent of appraised value, our underwriting standards generally limit lending to no more than 65 percent at origination. Due to very strong land values in much of our District in recent years, many affiliated Associations implemented risk management practices that incorporate loan-to-appraised value thresholds below the 65 percent level. In addition, many District lenders impose lending caps per acre based on the land's sustainable income-producing capacity. While underwriting exceptions on loan-to-appraised-value are sometimes granted, in such cases, loans are typically structured with shorter amortization schedules and/or additional principal payments in the early years to reduce risk.

Loan Portfolio

Components of Loans

(in thousands)	**September 30, 2016**	December 31, 2015
Accrual loans:		
Wholesale	**$77,192,232**	$74,697,130
Retail loans:		
Real estate mortgage	**3,596,997**	3,832,879
Production and intermediate term	**3,482,120**	3,425,439
Agribusiness	**65,512**	96,709
Loans to other financing institutions (OFIs)	**599,161**	685,083
Other	**49,304**	39,018
Total retail loans	**7,793,094**	8,079,128
Nonaccrual retail loans	**53,545**	43,394
Total loans	**$85,038,871**	$82,819,652

The Other category is primarily comprised of communication, rural residential real estate and energy-related loans.

Loans totaled $85.0 billion at September 30, 2016, an increase of $2.2 billion, or 2.7 percent, from December 31, 2015. The increase in total loans was driven primarily by increased wholesale loans, partially offset by repayments received on real estate mortgage retail participations purchased. Wholesale loans increased due to loan growth at the affiliated Associations, primarily in the real estate mortgage and agribusiness sectors.

Credit quality on loans remained sound with 99.6 percent of our portfolio classified in the acceptable category at September 30, 2016, compared to 99.7 percent at December 31, 2015. Adversely classified loans were 0.2

percent at September 30, 2016 and December 31, 2015. As a majority of our loans are wholesale loans, we expect our credit quality will remain sound even when affiliated Associations experience declines in their retail credit quality. Credit quality of our retail loan portfolio moderated to 95.5 percent classified as acceptable as of September 30, 2016 compared to 97.3 percent at December 31, 2015. Given the current outlook for commodity prices, we anticipate the volume of special mention and adversely classified loans in both our retail and affiliated Associations' loan portfolios will continue to increase as we move through this agriculture efficiency cycle.

Components of Risk Assets

(in thousands)	**September 30, 2016**	December 31, 2015
Nonaccrual loans	**$53,545**	$43,394
Accruing restructured loans	**3,988**	4,429
Accruing loans 90 days or more past due	**114**	1,240
Total risk loans	**57,647**	49,063
Other property owned	**312**	565
Total risk assets	**$57,959**	$49,628
Risk loans as a % of total loans	**0.07%**	0.06%
Nonaccrual loans as a % of total loans	**0.06%**	0.05%
Delinquencies as a % of total loans	**0.06%**	0.08%

Note: Accruing loans include accrued interest receivable.

Risk assets have increased from December 31, 2015, primarily due to increased nonaccrual loans in the production and intermediate-term sector, but remain at acceptable levels. Risk loans as a percentage of total loans remains within our established risk management guidelines. At September 30, 2016, 59.4 percent of nonaccrual loans were current as to principal and interest, compared to 63.9 percent at December 31, 2015.

Our accounting policy requires loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

As of September 30, 2016, no affiliated Associations were declared in default of any covenants. No affiliated Associations are currently paying a risk premium.

Allowance Coverage Ratios

	September 30, 2016	December 31, 2015
Allowance as a percentage of:		
Loans	**0.02%**	0.02%
Nonaccrual loans	**39.33%**	41.66%
Total risk loans	**36.53%**	36.84%
Adverse assets to risk funds*	**3.42%**	2.72%

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

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions. As of September 30, 2016, the allowance increased $3.0 million, compared to December 31, 2015. This was driven by provision for loan losses of $5.5 million, partially offset by $2.5 million of net charge-offs during the period, primarily related to loans in the production and intermediate-term sector. We believe the allowance for loan losses is reasonable in relation to the risk in the portfolio at September 30, 2016.

Funding, Liquidity and Shareholders' Equity

We are responsible for meeting the District's funding, liquidity and asset/liability management needs. Access to the unsecured debt capital markets remains our primary source of liquidity. The System continues to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. During the nine months ended September 30, 2016, investor demand for System-wide debt securities remained favorable.

We also maintain a secondary source of liquidity through a high-quality investment portfolio and other short-term liquid assets. We manage liquidity for our operating and debt repayment needs through managing debt maturities, as well as forecasting and anticipating seasonal demands. We maintain maturing investments and bank balances of at least $500 million on hand each day to meet cash management and loan disbursements needs in the normal course of business.

The composition of the liquidity investment portfolio is structured to meet both regulatory requirements and our operational demands. Specifically, we provide at least 15 days of liquidity coverage from cash, overnight investments and U.S. Treasury securities less than three years in maturity. Other short-term money market investments, as well as government and agency mortgage-backed securities (MBS), are positioned to cover regulatory requirements for 30- and 90-day intervals. Additionally, a supplemental liquidity buffer provides days coverage in excess of 90 days from money market instruments greater than 90 days in maturity and asset-backed securities (ABS). At September 30, 2016, we held qualifying assets in excess of each incremental level to meet the liquidity coverage intervals.

Farm Credit Administration (FCA) regulations require maintaining a minimum of 90 days of liquidity on a continuous basis. The days of liquidity measurement refers to the number of days that maturing debt is covered by liquid investments. As of September 30, 2016, we had sufficient liquidity to fund all debt maturing within 144 days.

We maintain a contingency funding plan (CFP) that helps inform our operating and funding needs and addresses actions we would consider in the event that there is not ready access to traditional funding sources. These potential actions include borrowing overnight via federal funds, using investment securities as collateral to borrow, using the proceeds from maturing investments and selling our liquid investments. We size our investment portfolio using the CFP to cover all operating and funding needs for a minimum of 30 days with a targeted $500 million buffer.

Total shareholders' equity at September 30, 2016 was $5.4 billion, a $176.3 million increase from December 31, 2015. The increase was primarily driven by comprehensive income for the period, partially offset by earnings reserved for patronage distributions and preferred stock dividends.

At September 30, 2016, we exceeded the regulatory minimum capital ratios. Refer to the Additional Regulatory Information section as well as Note 4 in the accompanying Financial Statements for further discussion of capital ratios and the revised regulations.

On July 15, 2016, we redeemed all $500 million of outstanding subordinated notes at par value following FCA notification of certain changes to our regulatory capital requirements.

Results of Operations

Net income for the nine months ended September 30, 2016 was $405.5 million, an 11.8 percent increase, compared to $362.8 million for the same period in 2015. The return on average assets was 0.54 percent for the nine months ended September 30, 2016, compared to 0.52 percent for the same period of 2015.

Changes in Significant Components of Net Income

(in thousands) **For the nine months ended September 30,**	**2016**	2015	Increase (decrease) in net income
Net interest income	**$425,705**	$386,109	$39,596
Provision for loan losses	**5,500**	5,000	(500)
Non-interest income	**77,798**	70,545	7,253
Non-interest expense	**92,525**	88,869	(3,656)
Net income	**$405,478**	$362,785	$42,693

Net interest income (NII) for the nine months ended September 30, 2016 was positively impacted by increased loan volume, as well as increases in interest rates on our wholesale loans to affiliated Associations and production and intermediate term loans in our retail portfolio compared to the same period of 2015. These positive variances were partially offset by an increase in interest expense on System-wide debt securities, driven by an increase in interest rates as well as increases in volume.

Changes in NII

(in thousands) **For the nine months ended September 30,**	**2016 vs 2015**		
Increase (decrease) due to:	**Volume**	**Rate**	**Total**
Interest income:			
Loans	**$91,067**	**$77,817**	**$168,884**
Investments	**481**	**31,704**	**32,185**
Total interest income	**91,548**	**109,521**	**201,069**
Interest expense:			
System-wide debt securities and other	**(52,797)**	**(108,676)**	**(161,473)**
Net change in NII	**$38,751**	**$845**	**$39,596**

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

(in thousands) For the nine months ended September 30,	2016			2015		
	ADB	Rate	NII	ADB	Rate	NII
Interest earning assets:						
Wholesale loans	$75,478,213	1.74%	$988,403	$69,017,905	1.60%	$825,215
Retail accrual loans	7,807,599	3.68%	215,876	7,781,532	3.63%	211,350
Retail nonaccrual loans	49,431	7.97%	2,957	41,386	5.77%	1,787
Investment securities and federal funds	15,899,148	0.90%	106,922	15,796,515	0.63%	74,737
Total earning assets	99,234,391	1.76%	1,314,158	92,637,338	1.61%	1,113,089
Interest bearing liabilities	94,244,893	1.26%	888,453	88,024,740	1.10%	726,980
Interest rate spread	$4,989,498	0.50%		$4,612,598	0.51%	
Impact of equity financing		0.07%			0.05%	
Net interest margin		0.57%			0.56%	
Net interest income			$425,705			$386,109

Net interest margin increased one basis point for the nine months ended September 30, 2016, compared to the same period last year. The positive impact of increased rates on our wholesale loans, along with higher loan volume compared to the prior year, was partially offset by increases in interest expense related to System-wide debt securities as well as our changing earning asset mix. The earning asset mix changes were driven by increases in lower yielding loans to affiliated Associations relative to higher yielding retail participations purchased. To a lesser extent, competitive pressures on the retail loan portfolio, excluding the majority of our production and intermediate term loans, contributed to compressed spreads. Equity financing represents the benefit of non-interest rate bearing funding, which increased slightly from the prior period primarily due to an increase in interest rates. The benefit of equity financing is greater when interest rates are higher as this equity allows the Bank to fund higher earning assets with equity rather than higher rate funding.

We recorded a $5.5 million provision for loan losses during the nine months ended September 30, 2016. Refer to the Loan Portfolio section for further discussion.

The increase in non-interest income was primarily due increased loan prepayment and fee income and gains on sales of investments for the nine months ended September 30, 2016, compared to the same period of 2015. These increases were partially offset by a decline in mineral income, a result of continued low oil prices. We anticipate 2016 oil prices will remain below 2015 levels.

The increase in non-interest expense was primarily due to increased Farm Credit System Insurance Corporation (FCSIC) expense. The change was due to increases in the premium rate charged on accrual loans by FCSIC from 13 basis points in 2015 to 16 basis points for the first half and 18 basis points for the second half of 2016.

Additional Regulatory Information

Regulatory Capital Requirements

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the rule are to:

- Modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise

- 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
- Make System regulatory capital requirements more transparent
- Meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act

The final rule replaces existing core surplus and total surplus ratios with common equity tier 1, tier 1 and total capital risk-based capital ratios. The final rule also replaces the existing net collateral ratio with a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. Refer to Note 4 for additional information regarding the revised capital ratios. The effective date of the new capital requirements is January 1, 2017. We are currently evaluating the impact of the changes.

The final rule to modify regulatory capital requirements changes the capital treatment of our subordinated notes. The terms of our subordinated notes provide that, at any time following FCA notification of certain changes to regulatory capital requirements, the subordinated notes are redeemable in whole at par on any interest payment date. On July 15, 2016, we redeemed all $500 million of outstanding subordinated notes at par value. Our permanent capital, total surplus and net collateral ratios all declined as a result of this redemption, but remain above required levels as of September 30, 2016.

Investment Securities Eligibility
On June 12, 2014, the FCA Board approved a proposed rule to revise the requirements governing the eligibility of investment securities for System Banks and Associations. The stated objectives of the proposed rule are to:

- Strengthen the safety and soundness of System Banks and Associations
- Ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption
- Enhance the ability of the System Banks to supply credit to agricultural and aquatic producers
- Comply with the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act
- Modernize the investment eligibility criteria for System Banks
- 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 proposed rule is currently on FCA's Unified Agenda of Regulations and Reviews for 2017.

Certification

The undersigned have reviewed the September 30, 2016 Quarterly Report of AgriBank, FCB, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate and complete to the best of our knowledge and belief.

Matthew D. Walther
Chair of the Board
November 9, 2016

William J. Thone
Interim Chief Executive Officer
November 9, 2016

Brian J. O'Keane
Executive Vice President, Banking and Finance and Chief Financial Officer
November 9, 2016

Statements of Condition

AgriBank, FCB

(in thousands) *(unaudited)*	**September 30, 2016**	December 31, 2015
Assets		
Loans	**$85,038,871**	$82,819,652
Allowance for loan losses	**21,057**	18,076
Net loans	**85,017,814**	82,801,576
Investment securities	**15,319,181**	14,262,883
Cash	**313,271**	533,711
Federal funds	**685,000**	1,427,125
Accrued interest receivable	**431,500**	381,104
Derivative assets	**1,728**	698
Other property owned	**312**	565
Allocated prepaid pension costs	**28,553**	30,002
Cash collateral pledged to counterparties	**131,351**	32,023
Other assets	**46,974**	37,147
Total assets	**$101,975,684**	$99,506,834
Liabilities		
Bonds and notes	**$96,066,019**	$93,404,251
Subordinated notes	**--**	498,283
Accrued interest payable	**250,121**	231,464
Derivative liabilities	**156,298**	52,002
Accounts and other payables	**136,726**	130,060
Other liabilities	**16,091**	16,658
Total liabilities	**96,625,255**	94,332,718
Commitments and contingencies (Note 6)		
Shareholders' equity		
Perpetual preferred stock	**250,000**	250,000
Capital stock and participation certificates	**2,138,684**	2,063,343
Unallocated surplus	**3,116,806**	2,945,638
Accumulated other comprehensive loss	**(155,061)**	(84,865)
Total shareholders' equity	**5,350,429**	5,174,116
Total liabilities and shareholders' equity	**$101,975,684**	$99,506,834

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

Statements of Comprehensive Income

AgriBank, FCB

(in thousands)
(unaudited)

For the periods ended September 30,	Three months 2016	Three months 2015	Nine months 2016	Nine months 2015
Interest income				
Loans	**$407,991**	$357,113	**$1,207,236**	$1,038,352
Investment securities	**37,855**	24,602	**106,922**	74,737
Total interest income	**445,846**	381,715	**1,314,158**	1,113,089
Interest expense	**300,905**	250,866	**888,453**	726,980
Net interest income	**144,941**	130,849	**425,705**	386,109
Provision for loan losses	**1,000**	2,000	**5,500**	5,000
Net interest income after provision for loan losses	**143,941**	128,849	**420,205**	381,109
Non-interest income				
Mineral income	**10,182**	14,275	**27,397**	44,841
Loan prepayment and fee income	**13,867**	3,890	**25,888**	12,139
Business services income	**4,260**	3,878	**12,524**	11,290
Miscellaneous income and other gains, net	**5,469**	150	**11,989**	2,275
Total non-interest income	**33,778**	22,193	**77,798**	70,545
Non-interest expense				
Salaries and employee benefits	**10,273**	9,443	**29,697**	28,973
Other operating expenses	**9,545**	8,637	**26,662**	26,345
Loan servicing fees paid to affiliated Associations	**8,941**	8,572	**25,918**	24,830
Farm Credit System insurance expense	**3,680**	2,688	**10,248**	8,028
Net impairment losses recognized in earnings	**--**	620	**--**	693
Total non-interest expense	**32,439**	29,960	**92,525**	88,869
Net income	**$145,280**	$121,082	**$405,478**	$362,785
Other comprehensive (loss) income				
Investments available-for-sale:				
Not-other-than-temporarily-impaired investments	**$(22,112)**	$7,500	**$38,113**	$12,181
Other-than-temporarily-impaired investments	**(4,245)**	813	**(10,561)**	(2,176)
Derivatives and hedging activity	**17,513**	(46,125)	**(97,748)**	(25,137)
Total other comprehensive loss	**(8,844)**	(37,812)	**(70,196)**	(15,132)
Comprehensive income	**$136,436**	$83,270	**$335,282**	$347,653

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

Statements of Changes in Shareholders' Equity

AgriBank, FCB

(in thousands) *(unaudited)*	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2014	$250,000	$1,944,292	$2,766,818	$(45,065)	$4,916,045
Net income			362,785		362,785
Other comprehensive loss				(15,132)	(15,132)
Patronage			(210,204)		(210,204)
Perpetual preferred stock dividends			(12,891)		(12,891)
Capital stock/participation certificates issued		113,650			113,650
Capital stock/participation certificates retired		(52,270)			(52,270)
Balance at September 30, 2015	$250,000	$2,005,672	$2,906,508	$(60,197)	$5,101,983
Balance at December 31, 2015	$250,000	$2,063,343	$2,945,638	$(84,865)	$5,174,116
Net income			**405,478**		**405,478**
Other comprehensive loss				**(70,196)**	**(70,196)**
Patronage			**(221,419)**		**(221,419)**
Perpetual preferred stock dividends			**(12,891)**		**(12,891)**
Capital stock/participation certificates issued		**122,193**			**122,193**
Capital stock/participation certificates retired		**(46,852)**			**(46,852)**
Balance at September 30, 2016	**$250,000**	**$2,138,684**	**$3,116,806**	**$(155,061)**	**$5,350,429**

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

Statements of Cash Flows

AgriBank, FCB

(in thousands)

(unaudited)

For the nine months ended September 30,	**2016**	2015
Cash flows from operating activities		
Net income	**$405,478**	$362,785
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation on premises and equipment	**2,640**	2,191
Provision for loan losses	**5,500**	5,000
Gain on sales of other property owned, net	**(5)**	(37)
Net impairment losses recognized in earnings	**--**	693
Gain on sale of investment securities, net	**(10,178)**	(1,324)
Amortization of (discounts) premiums on investments, net	**(10,849)**	10,254
Amortization of discounts (premiums) on debt and deferred debt issuance costs, net	**71,876**	26,001
Loss (gain) on derivative activities, net	**292**	(190)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	**(995,146)**	(843,712)
(Increase) decrease in other assets	**(4,313)**	4,332
Increase in accrued interest payable	**18,657**	34,293
Increase (decrease) in other liabilities	**6,134**	(6,346)
Net cash used in operating activities	**(509,914)**	(406,060)
Cash flows from investing activities		
Increase in loans, net	**(1,277,411)**	(1,645,373)
Proceeds from sales of other property owned	**681**	1,911
(Increase) decrease in investment securities, net	**(1,078,198)**	265,685
Proceeds from the sale of investment securities	**70,479**	29,669
Purchases of premises and equipment, net	**(2,408)**	(1,846)
Net cash used in investing activities	**(2,286,857)**	(1,349,954)
Cash flows from financing activities		
Consolidated bonds and notes issued	**150,858,323**	156,420,829
Consolidated bonds and notes retired	**(148,261,488)**	(154,928,446)
Subordinated notes retired	**(500,000)**	--
Increase in cash collateral pledged to counterparties	**(99,328)**	(25,826)
Decrease in cash collateral pledged by counterparties	**--**	(3,620)
Patronage distributions paid	**(225,751)**	(247,897)
Preferred stock dividends paid	**(12,891)**	(12,891)
Capital stock/participation certificates issued, net	**75,341**	61,380
Net cash provided by financing activities	**1,834,206**	1,263,529
Net decrease in cash and federal funds	**(962,565)**	(492,485)
Cash and federal funds at beginning of period	**1,960,836**	2,117,728
Cash and federal funds at end of period	**$998,271**	$1,625,243
Supplemental schedule of non-cash activities		
(Increase) decrease in derivative assets	**$(1,030)**	$8,263
Increase in derivative liabilities	**104,296**	25,618
Decrease in bonds from derivative activity	**(5,226)**	(8,934)
Decrease in shareholders' equity from cash flow derivatives	**(97,748)**	(25,137)
Increase in shareholders' equity from investment securities	**27,552**	10,005
Loans transferred to other property owned	**423**	617
Interest capitalized to loan principal	**944,750**	803,156
Preferred stock dividends accrued	**4,297**	4,297
Patronage refunds payable to owners	**82,747**	79,928
Supplemental information		
Interest paid	**$869,796**	$692,687

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

Notes to Financial Statements

AgriBank, FCB

NOTE 1

Organization and Significant Accounting Policies

AgriBank, FCB (AgriBank) is one of the Banks of the Farm Credit System (the System), a nationwide system of cooperatively owned Banks and Associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes. AgriBank and its affiliated Associations are collectively referred to as the District. At September 30, 2016, the District had 17 Agricultural Credit Association parent Associations, each of which has wholly owned Federal Land Credit Association and Production Credit Association subsidiaries. AgriBank serves as the intermediary between the financial markets and the retail lending activities of the District Associations.

A description of our organization and operation, significant accounting policies followed, financial condition and results of operations as of and for the year ended December 31, 2015 are contained in the 2015 Annual Report. These unaudited third quarter 2016 Financial Statements should be read in conjunction with the Annual Report. The results for the nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ended December 31, 2016.

The accompanying Financial Statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

We adopted ASU 2015-03 “Interest-Imputation of Interest,” as of December 31, 2015 which required retroactive reclassification of certain line items in the Statement of Cash Flows for the nine months ended September 30, 2015.

Recently Issued or Adopted Accounting Pronouncements

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

Standard	Description	Effective date and financial statement impact
In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-15 “Classification of Certain Cash Receipts and Cash Payments.”	The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.	This guidance is effective for public entities for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the financial condition or results of operations, but could change the classification of certain items in the statement of cash flows.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses."	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	The guidance is effective for non-U.S. Securities Exchange Commission filers for annual reporting periods beginning after December 15, 2020 including interim periods within those annual periods. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on the financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 "Leases."	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2018 including interim periods within that year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on the financial condition, results of operations, cash flows, and financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities.”	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2017 including interim periods within that year. Early adoption is permitted for only a portion of the guidance, but that guidance does not apply to the Financial Statements. We are currently evaluating the impact of the remaining guidance on the financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In May 2015, the FASB issued ASU 2015-07 "Disclosures of Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)."	The guidance removes the requirements to categorize assets valued using net asset value per share within the fair value hierarchy (Levels 1 - 3) as well as certain other disclosures.	The guidance is effective for public entities for interim and annual reporting periods beginning after December 15, 2015. We have not elected early adoption and the disclosures impacted are only required for annual reporting. The adoption of this guidance does not impact results of operations, financial condition or cash flows. We are in process of revising the disclosures in accordance with the guidance for the 2016 Annual Report.
In February 2015, the FASB issued ASU 2015-02 "Consolidation-Amendments to the Consolidation Analysis."	The guidance modifies the assessment of Variable Interest Entity (VIE) characteristics as well as the assessment of related parties.	The guidance is effective for public entities for annual periods beginning after December 15, 2015. Early adoption is allowed, including in any interim period. The adoption of this guidance will not have a material impact on the financial condition, results of operations, cash flows and financial statement disclosures.
In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements-Going Concern."	The 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 to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations for the assessed period.	This guidance becomes effective for all entities for interim and annual periods ending after December 15, 2016, and early application is permitted. The adoption of this guidance will not have a material impact on the financial statement disclosures.
In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of contracts within the District would be excluded from the scope of this new guidance.	The guidance is effective for public entities for the first interim reporting period within the annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on the financial condition and results of operations.

NOTE 2

Loans and Allowance for Loan Losses

Loans by Type

(in thousands)	September 30, 2016 Amount	%	December 31, 2015 Amount	%
Wholesale loans	**$77,192,232**	**90.7%**	$74,697,131	90.1%
Retail loans:				
Real estate mortgage	**3,623,141**	**4.3%**	3,859,885	4.7%
Production and intermediate term	**3,509,124**	**4.1%**	3,441,472	4.2%
Agribusiness	**65,512**	**0.1%**	96,709	0.1%
Loans to other financing institutions (OFIs)	**599,161**	**0.7%**	685,083	0.8%
Other	**49,701**	**0.1%**	39,372	0.1%
Total retail Loans	**7,846,639**	**9.3%**	8,122,521	9.9%
Total loans	**$85,038,871**	**100.0%**	$82,819,652	100.0%

The Other category is primarily comprised of communication, rural residential real estate and energy-related loans.

Participations

We may purchase participations from and sell participations to others, primarily affiliated Associations. We had no purchases outside of the System in the periods presented. We did not have any participation interests sold as of September 30, 2016 or December 31, 2015.

Retail Loan Participations Purchased

(in thousands)	September 30, 2016	December 31, 2015
Real estate mortgage	**$3,622,805**	$3,859,466
Production and intermediate term	**3,509,124**	3,441,472
Agribusiness	**65,512**	96,709
Other	**49,701**	39,372
Total loans	**$7,247,142**	$7,437,019

Portfolio Performance

One credit quality indicator we utilize is the Farm Credit Administration (FCA) Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are non-criticized assets representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other Assets Especially Mentioned (Special Mention) – are currently collectible but exhibit some potential weakness. These assets involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- Loss – assets are considered uncollectible.

Credit Quality of Loans

(in thousands) **As of September 30, 2016**	**Acceptable**		**Special mention**		**Substandard/Doubtful**		**Total**	
Wholesale loans	**$77,526,086**	**100.0%**	**$ --**	**--**	**$ --**	**--**	**$77,526,086**	**100.0%**
Retail loans:								
Real estate mortgage	**3,475,193**	**94.5%**	**112,422**	**3.1%**	**87,243**	**2.4%**	**3,674,858**	**100.0%**
Production and intermediate term	**3,382,106**	**95.7%**	**61,948**	**1.8%**	**87,310**	**2.5%**	**3,531,364**	**100.0%**
Agribusiness	**58,076**	**88.3%**	**--**	**--**	**7,678**	**11.7%**	**65,754**	**100.0%**
Loans to OFIs	**601,416**	**100.0%**	**--**	**--**	**--**	**--**	**601,416**	**100.0%**
Other	**48,432**	**97.3%**	**248**	**0.5%**	**1,084**	**2.2%**	**49,764**	**100.0%**
Total retail loans	**7,565,223**	**95.5%**	**174,618**	**2.2%**	**183,315**	**2.3%**	**7,923,156**	**100.0%**
Total loans	**$85,091,309**	**99.6%**	**$174,618**	**0.2%**	**$183,315**	**0.2%**	**$85,449,242**	**100.0%**

(in thousands) As of December 31, 2015	Acceptable		Special mention		Substandard/Doubtful		Total	
Wholesale loans	$74,990,957	100.0%	$ --	--	$ --	--	$74,990,957	100.0%
Retail loans:								
Real estate mortgage	3,766,278	96.5%	56,983	1.5%	78,955	2.0%	3,902,216	100.0%
Production and intermediate term	3,385,379	97.8%	24,837	0.7%	53,106	1.5%	3,463,322	100.0%
Agribusiness	89,568	92.3%	--	--	7,487	7.7%	97,055	100.0%
Loans to OFIs	686,841	100.0%	--	--	--	--	686,841	100.0%
Other	37,866	96.0%	400	1.0%	1,168	3.0%	39,434	100.0%
Total retail loans	7,965,932	97.3%	82,220	1.0%	140,716	1.7%	8,188,868	100.0%
Total loans	$82,956,889	99.7%	$82,220	0.1%	$140,716	0.2%	$83,179,825	100.0%

Note: Accruing loans include accrued interest receivable.

We had no loans categorized as loss at September 30, 2016 or December 31, 2015.

Aging Analysis of Loans

(in thousands) **As of September 30, 2016**	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less than 30 Days Past Due**	**Total Loans**	**Accruing loans 90 days or more past due**
Wholesale loans	**$ --**	**$ --**	**$ --**	**$77,526,086**	**$77,526,086**	**$ --**
Real estate mortgage	**15,933**	**8,993**	**24,926**	**3,649,932**	**3,674,858**	**44**
Production and intermediate term	**16,164**	**8,608**	**24,772**	**3,506,592**	**3,531,364**	**70**
Agribusiness	**31**	**--**	**31**	**65,723**	**65,754**	**--**
Loans to OFIs	**--**	**--**	**--**	**601,416**	**601,416**	**--**
Other	**142**	**--**	**142**	**49,622**	**49,764**	**--**
Total loans	**$32,270**	**$17,601**	**$49,871**	**$85,399,371**	**$85,449,242**	**$114**

(in thousands) As of December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Accruing loans 90 days or more past due
Wholesale loans	$ --	$ --	$ --	$74,990,957	$74,990,957	$ --
Real estate mortgage	14,203	8,585	22,788	3,879,428	3,902,216	932
Production and intermediate term	31,391	3,785	35,176	3,428,146	3,463,322	308
Agribusiness	--	--	--	97,055	97,055	--
Loans to OFIs	--	--	--	686,841	686,841	--
Other	5,463	243	5,706	33,728	39,434	--
Total loans	$51,057	$12,613	$63,670	$83,116,155	$83,179,825	$1,240

Note: Accruing loans include accrued interest receivable.

Risk Assets

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands)	**September 30, 2016**	December 31, 2015
Nonaccrual loans:		
Current as to principal and interest	**$31,807**	$27,739
Past due	**21,738**	15,655
Total nonaccrual loans	**53,545**	43,394
Accruing restructured loans	**3,988**	4,429
Accruing loans 90 days or more past due	**114**	1,240
Total risk loans	**$57,647**	$49,063
Volume with specific reserves	**$25,946**	$18,441
Volume without specific reserves	**31,701**	30,622
Total risk loans	**$57,647**	$49,063
Specific reserves	**$4,246**	$3,564

For the nine months ended September 30,	**2016**	2015
Income on accrual risk loans	**$170**	$163
Income on nonaccrual loans	**2,957**	1,787
Total income on risk loans	**$3,127**	$1,950
Average recorded risk loans	**$54,606**	$46,408

Note: Accruing loans include accrued interest receivable.

Risk Assets by Loan Type

(in thousands)	**September 30, 2016**	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	**$26,144**	$27,006
Production and intermediate term	**27,004**	16,033
Other	**397**	355
Total nonaccrual loans	**$53,545**	$43,394
Accruing restructured loans:		
Real estate mortgage	**$3,800**	$4,247
Production and intermediate term	**188**	182
Total accruing restructured loans	**$3,988**	$4,429
Accruing loans 90 days or more past due:		
Real estate mortgage	**$44**	$932
Production and intermediate term	**70**	308
Total accruing loans 90 days or more past due	**$114**	$1,240
Total risk loans	**$57,647**	$49,063
Other property owned	**312**	565
Total risk assets	**$57,959**	$49,628

We had no wholesale loans classified as risk loans at September 30, 2016 or December 31, 2015.

All risk loans are considered to be impaired loans.

Additional Impaired Loan Information by Loan Type

	As of September 30, 2016			For the nine months ended September 30, 2016	
(in thousands)	Recorded Investment *	Unpaid Principal Balance **	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$5,317**	**$6,413**	**$1,250**	**$5,503**	**$ --**
Production and intermediate term	**20,588**	**20,912**	**2,973**	**16,872**	**--**
Other	**41**	**43**	**23**	**34**	**--**
Total loans	**$25,946**	**$27,368**	**$4,246**	**$22,409**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$24,671**	**$41,808**	**$ --**	**$23,837**	**$1,704**
Production and intermediate term	**6,674**	**5,722**	**--**	**8,046**	**1,423**
Other	**356**	**590**	**--**	**314**	**--**
Total loans	**$31,701**	**$48,120**	**$ --**	**$32,197**	**$3,127**
Total impaired loans:					
Real estate mortgage	**$29,988**	**$48,221**	**$1,250**	**$29,340**	**$1,704**
Production and intermediate term	**27,262**	**26,634**	**2,973**	**24,918**	**1,423**
Other	**397**	**633**	**23**	**348**	**--**
Total loans	**$57,647**	**$75,488**	**$4,246**	**$54,606**	**$3,127**

	As of December 31, 2015			For the nine months ended September 30, 2015	
(in thousands)	Recorded Investment*	Unpaid Principal Balance**	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$5,109	$5,641	$1,119	$4,304	$ --
Production and intermediate term	13,111	13,542	2,357	9,446	--
Other	221	220	88	44	--
Total loans	$18,441	$19,403	$3,564	$13,794	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$27,076	$44,625	$ --	$28,189	$1,395
Production and intermediate term	3,412	5,142	--	4,286	555
Other	134	379	--	139	--
Total loans	$30,622	$50,146	$ --	$32,614	$1,950
Total impaired loans:					
Real estate mortgage	$32,185	$50,266	$1,119	$32,493	$1,395
Production and intermediate term	16,523	18,684	2,357	13,732	555
Other	355	599	88	183	--
Total loans	$49,063	$69,549	$3,564	$46,408	$1,950

*The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct write-down of the investment. The recorded investment may be less than the unpaid principal balance as payments on non-cash basis nonaccrual loans reduce the recorded investment.

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

We did not have any material commitments to lend additional money to borrowers whose loans were at risk as of September 30, 2016.

Troubled Debt Restructurings

Included within our loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

There were no TDRs that occurred during the nine months ended September 30, 2016 or 2015. The primary types of modification typically include forgiveness of interest, interest rate reduction below market or extension of maturity.

We had no TDRs that defaulted during the nine months ended September 30, 2016 or 2015, in which the modifications were within 12 months of the respective reporting period.

TDRs Outstanding

(in thousands)	**September 30, 2016**	December 31, 2015
Accrual Status		
Real estate mortgage	**$3,800**	$4,247
Production and intermediate term	**188**	182
Total TDRs in accrual status	**$3,988**	$4,429
Nonaccrual Status		
Real estate mortgage	**$4,402**	$5,378
Production and intermediate term	**7**	11
Total TDRs in nonaccrual status	**$4,409**	$5,389
Total TDRs	**$8,397**	$9,818

We have no additional commitments to lend to borrowers whose loans have been modified as TDRs as of September 30, 2016.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

For the nine months ended September 30,	**2016**	2015
Balance at beginning of period	**$18,076**	$12,520
Provision for loan losses	**5,500**	5,000
Charge-offs	**(3,462)**	(3,212)
Recoveries	**943**	1,699
Balance at end of period	**$21,057**	$16,007

Our allowance for loan losses increased from December 31, 2015, to $21.1 million at September 30, 2016, reflecting $5.5 million of provision expense recorded for the period, partially offset by net charge-offs of $2.5 million. The provision expense and net charge-offs were primarily related to declines in credit quality of loans in the production and intermediate-term sector of our retail portfolio, driven primarily by continued low commodity prices.

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Wholesale loans	Real estate mortgage	Production and intermediate term	Agribusiness	Loans to OFIs	Other	Total
Allowance for loan losses:							
Balance at December 31, 2015	$ --	$1,928	$15,381	$269	$278	$220	$18,076
Provision for (reversal of) loan losses	--	1,057	4,436	49	(42)	--	5,500
Charge-offs	--	(998)	(2,408)	--	--	(56)	(3,462)
Recoveries	--	146	791	--	--	6	943
Balance at September 30, 2016	$ --	$2,133	$18,200	$318	$236	$170	$21,057
At September 30, 2016:							
Ending balance: individually evaluated for impairment	$ --	$1,250	$2,973	$ --	$ --	$23	$4,246
Ending balance: collectively evaluated for impairment	$ --	$883	$15,227	$318	$236	$147	$16,811
Recorded investments in loans outstanding:							
Ending balance at September 30, 2016	$77,526,086	$3,674,858	$3,531,364	$65,754	$601,416	$49,764	$85,449,242
Ending balance for loans individually evaluated for impairment	$77,526,086	$29,988	$27,262	$ --	$ --	$397	$77,583,733
Ending balance for loans collectively evaluated for impairment	$ --	$3,644,870	$3,504,102	$65,754	$601,416	$49,367	$7,865,509

(in thousands)	Wholesale loans	Real estate mortgage	Production and intermediate term	Agribusiness	Loans to OFIs	Other	Total
Allowance for loan losses:							
Balance at December 31, 2014	$ --	$2,003	$9,710	$457	$235	$115	$12,520
(Reversal of) provision for loan losses	--	(326)	5,381	(168)	37	76	5,000
Charge-offs	--	(270)	(2,941)	--	--	(1)	(3,212)
Recoveries	--	121	1,572	--	--	6	1,699
Balance at September 30, 2015	$ --	$1,528	$13,722	$289	$272	$196	$16,007
At December 31, 2015:							
Ending balance: individually evaluated for impairment	$ --	$1,118	$2,358	$ --	$ --	$88	$3,564
Ending balance: collectively evaluated for impairment	$ --	$810	$13,023	$269	$278	$132	$14,512
Recorded investments in loans outstanding:							
Ending balance at December 31, 2015	$74,990,957	$3,902,216	$3,463,322	$97,055	$686,841	$39,434	$83,179,825
Ending balance for loans individually evaluated for impairment	$74,990,957	$32,185	$16,523	$ --	$ --	$355	$75,040,020
Ending balance for loans collectively evaluated for impairment	$ --	$3,870,031	$3,446,799	$97,055	$686,841	$39,079	$8,139,805

Note: Accruing loans include accrued interest receivable.

NOTE 3

Investment Securities

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

Investment Securities

(in thousands) **As of September 30, 2016**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Mortgage-backed securities	**$5,638,288**	**$19,753**	**$23,039**	**$5,635,002**	**1.3%**
Commercial paper and other	**5,021,752**	**598**	**285**	**5,022,065**	**0.9%**
U.S. Treasury securities	**3,885,261**	**9,527**	**557**	**3,894,231**	**1.1%**
Asset-backed securities	**766,770**	**1,152**	**39**	**767,883**	**1.0%**
Total	**$15,312,071**	**$31,030**	**$23,920**	**$15,319,181**	**1.1%**

(in thousands) As of December 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$5,774,742	$15,807	$33,538	$5,757,011	1.1%
Commercial paper and other	4,914,613	213	441	4,914,385	0.5%
U.S. Treasury securities	2,822,368	129	7,240	2,815,257	1.1%
Asset-backed securities	771,602	6,036	1,408	776,230	0.8%
Total	$14,283,325	$22,185	$42,627	$14,262,883	0.9%

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

Contractual Maturities of Investment Securities

	Year of Maturity				
(in thousands) **As of September 30, 2016**	**One Year or Less**	**One to Five Years**	**Five to Ten Years**	**More Than Ten Years**	**Total**
Mortgage-backed securities	**$48**	**$17,655**	**$90,402**	**$5,526,897**	**$5,635,002**
Commercial paper and other	**5,022,065**	**--**	**--**	**--**	**5,022,065**
U.S. Treasury securities	**1,334,540**	**2,559,691**	**--**	**--**	**3,894,231**
Asset-backed securities	**6,013**	**761,870**	**--**	**--**	**767,883**
Total	**$6,362,666**	**$3,339,216**	**$90,402**	**$5,526,897**	**$15,319,181**
Weighted average yield	**0.9%**	**1.1%**	**1.5%**	**1.3%**	**1.1%**

The expected average life is 0.7 years for asset-backed securities (ABS) and 3.2 years for mortgage-backed securities (MBS) at September 30, 2016. Expected maturities differ from contractual maturities because borrowers may have the right to prepay obligations.

Additional Investment Security Information

(in thousands) For the nine months ended September 30,	2016	2015
Proceeds from sales	$70,479	$29,669
Realized gross gains on sales	10,979	2,560
Realized gross losses on sales	801	1,236

The proceeds from sales in 2016 and 2015 were related to the sale of home-equity ABS and non-agency MBS investments. Of the securities sold during the nine months ended September 30, 2016 and 2015, we sold $27.8 million and $9.7 million of other-than-temporarily impaired (OTTI) AFS securities resulting in net gains of $10.6 million and $2.6 million, respectively. The 2016 sales included all remaining OTTI AFS securities. Accordingly, no OTTI AFS securities were outstanding as of September 30, 2016. At December 31, 2015 we held OTTI AFS securities with a fair value of $41.8 million.

A summary of the investment securities in an unrealized loss position presented by the length of time that the securities have been in a continuous unrealized loss position follows:

	Less than 12 months		More than 12 months	
(in thousands) As of September 30, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$2,211,633	$11,243	$1,378,912	$11,796
Commercial paper and other	942,109	285	--	--
U.S. Treasury securities	333,647	557	--	--
Asset-backed securities	24,963	36	25,098	3
Total	$3,512,352	$12,121	$1,404,010	$11,799

	Less than 12 months		More than 12 months	
(in thousands) As of December 31, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$3,484,228	$21,377	$693,595	$12,161
Commercial paper and other	2,461,453	441	--	--
U.S. Treasury securities	2,413,587	7,240	--	--
Asset-backed securities	709,820	1,254	59,641	154
Total	$9,069,088	$30,312	$753,236	$12,315

We evaluate our investment securities for OTTI on a quarterly basis. We have determined no securities were in an OTTI loss position at September 30, 2016. No impairment losses were recognized during the nine months ended September 30, 2016. We recognized $693 thousand in net impairment losses during the same period in 2015, reflecting a gross impairment charge of $748 thousand, net of $55 thousand related to the non-credit component which was recognized in other comprehensive income.

The following represents the activity related to the credit-loss component for investment securities that have been written down for OTTI that has been recognized in earnings:

(in thousands) **For the nine months ended September 30,**	**2016**	2015
Credit-loss component, beginning of period	**$25,160**	$42,062
Additions:		
Initial credit impairment	--	73
Subsequent credit impairments	--	620
Reductions:		
For gain on securities sold	**(10,559)**	(2,560)
For impairment previously recognized on securities sold	**(14,137)**	(2,968)
For increases in expected cash flows	**(464)**	(4,600)
Credit-loss component, end of period	**$ --**	$32,627

NOTE 4

Capital

AgriBank Regulatory Capital Requirements and Ratios

	Regulatory Minimums	**September 30, 2016**	December 31, 2015
Permanent capital ratio	7.0%	**20.4%**	20.8%
Total surplus ratio	7.0%	**17.1%**	17.9%
Core surplus ratio	3.5%	**12.4%**	12.1%
Net collateral ratio*	103.0%	**105.5%**	105.8%

* FCA requires us to maintain a higher minimum of 104.0% during any period in which we have subordinated notes outstanding. Concurrent with the call of our subordinated notes on July 15, 2016 FCA's regulatory minimum requirement reverted to 103.0%.

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The final rule replaces existing core surplus and total surplus ratios with common equity tier 1, tier 1 and total capital risk-based capital ratios. The final rule also replaces the existing net collateral ratio with a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. The effective date of the new capital requirements is January 1, 2017.

FCA Revised Capital Requirements

	Regulatory Minimums	**Capital Conservation Buffer**	**Total**
Risk adjusted:			
Common equity Tier 1 capital ratio	4.5%	2.5%	7.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%
Total capital ratio	8.0%	2.5%	10.5%
Non-risk adjusted:			
Tier 1 leverage ratio	4.0%	1.0%	5.0%

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The final rule to modify regulatory capital requirements changed the capital treatment of our subordinated notes. The terms of our subordinated notes provide that, at any time following FCA notification of certain changes to regulatory capital requirements, the subordinated notes are redeemable in whole at par on any interest payment date. On July 15, 2016, we redeemed all $500 million of outstanding subordinated notes at par value.

Protected participation certificates of $241 thousand are included in Capital Stock and Participation Certificates on the Statements of Changes in Shareholders' Equity as of September 30, 2016 and December 31, 2015.

Beginning in 2016, certain affiliated Associations and OFIs began paying additional spread on their wholesale loans. This additional spread paid may be returned in the form of patronage if approved by our Board.

NOTE 5

Employee Benefit Plans

We participate in District-wide employee benefit plans. The funded status of the post-employment benefit plans is recorded at the District-level only.

District Components of Net Periodic Benefit Cost

	2016		2015	
(in thousands)	**Pension**	**Other**	Pension	Other
For the nine months ended September 30,	**Benefits**	**Benefits**	Benefits	Benefits
Service cost	**$22,955**	**$339**	$22,564	$419
Interest cost	**34,751**	**812**	37,946	1,044
Expected return on plan assets	**(44,501)**	**--**	(41,714)	--
Amortization of prior service cost	**(839)**	**(333)**	(948)	(346)
Actuarial loss (gain)	**30,067**	**(332)**	32,835	(16)
Settlements	**2,330**	**--**	--	--
Net periodic benefit cost	**$44,763**	**$486**	$50,683	$1,101

Certain employees in the AgriBank District participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. Refer to Note 8 in the 2015 Annual Report for a more complete description of the Employee Benefit Plans.

For the nine months ended September 30, 2016, District employers have contributed $30.1 million to fund Pension Benefits and our share was $2.5 million. District employers anticipate contributing an additional $66.9 million to fund Pension Benefits in 2016. District employers typically fund 40 percent of their annual contributions to the AgriBank District Retirement Plan in June and the remaining 60 percent in December. The increase in anticipated contributions for 2016 is due to changes in the plan's funding policy approved in the third quarter of 2016.

For the nine months ended September 30, 2016, District employers have contributed $1.1 million for Other Benefits and our share was $219 thousand. District employers anticipate contributing an additional $569 thousand for Other Benefits in 2016.

Our allocated portion of the District benefit expenses for the nine months ended September 30, 2016 was $3.5 million for Pension Benefits and income of $89 thousand for Other Benefits.

NOTE 6

Commitments and Contingencies

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Financial Statements. We do not anticipate any material losses because of the contingencies or commitments.

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 our 9.125% subordinated notes due in 2019 ("Subordinated Notes"). We 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 we impermissibly redeemed the Notes. The plaintiff has requested damages in an amount to be determined at trial, reasonable attorneys' fees, and other relief. We intend to vigorously defend against these allegations. The likelihood of any outcome of this proceeding cannot be determined at this time.

Additionally, from time to time we may be named as defendants in certain lawsuits or legal actions in the normal course of business. At the date of these Financial Statements, our management team was not aware of any actions deemed material. However, management cannot ensure that such actions or other contingencies will not arise in the future.

While primarily liable for our portion of System-wide bonds and notes, we are jointly and severally liable for the System-wide bonds and notes of the other System Banks. The total bonds and notes of the System at September 30, 2016 was $252.0 billion.

NOTE 7

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Assets and liabilities measured at fair value on a recurring and non-recurring basis consist of federal funds, investments available-for-sale, derivative assets and liabilities, collateral assets and liabilities, impaired loans and other property owned. The fair value is also calculated and disclosed for other financial instruments that are not measured at fair value on the Statements of Condition. These assets and liabilities consist of cash, non-impaired loans, bonds and notes, subordinated notes and commitments to extend credit and letters of credit. Refer to Note 13 in the 2015 Annual Report for descriptions of the valuation methodologies we use for asset and liabilities recorded at fair value on a recurring or non-recurring basis and for estimating fair value for financial instruments not recorded at fair value.

A fair value hierarchy is used for disclosure of fair value measurements to maximize the use of observable inputs. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Refer to Note 2 within the 2015 Annual Report for a more complete description of these input levels.

Recurring Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(in thousands)	Fair Value Measurement Using			Total Fair
As of September 30, 2016	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets:				
Federal funds	**$ --**	**$685,000**	**$ --**	**$685,000**
Investments available-for-sale:				
Mortgage-backed securities	**--**	**5,635,002**	**--**	**5,635,002**
Commercial paper and other	**--**	**5,022,065**	**--**	**5,022,065**
U.S. Treasury securities	**--**	**3,894,231**	**--**	**3,894,231**
Asset-backed securities	**--**	**767,883**	**--**	**767,883**
Total investments available-for-sale	**--**	**15,319,181**	**--**	**15,319,181**
Cash collateral pledged to counterparties	**131,351**	**--**	**--**	**131,351**
Derivative assets	**--**	**1,728**	**--**	**1,728**
Total assets	**$131,351**	**$16,005,909**	**$ --**	**$16,137,260**
Liabilities:				
Derivative liabilities	**$ --**	**$156,298**	**$ --**	**$156,298**
Total liabilities	**$ --**	**$156,298**	**$ --**	**$156,298**

(in thousands)	Fair Value Measurement Using			Total Fair
As of December 31, 2015	Level 1	Level 2	Level 3	Value
Assets:				
Federal funds	$ --	$1,427,125	$ --	$1,427,125
Investments available-for-sale:				
Mortgage-backed securities	--	5,686,573	70,438	5,757,011
Commercial paper and other	--	4,914,385	--	4,914,385
U.S. Treasury securities	--	2,815,257	--	2,815,257
Asset-backed securities	--	768,272	7,958	776,230
Total investments available-for-sale	--	14,184,487	78,396	14,262,883
Cash collateral pledged to counterparties	32,023	--	--	32,023
Derivative assets	--	698	--	698
Total assets	$32,023	$15,612,310	$78,396	$15,722,729
Liabilities:				
Derivative liabilities	$ --	$52,002	$ --	$52,002
Total liabilities	$ --	$52,002	$ --	$52,002

Fair Value Measurement Activity of Level 3 Instruments

	Investments Available-For-Sale		
(in thousands)	Mortgage-backed Securities	Asset-backed Securities	Total
Balance at December 31, 2015	$70,438	$7,958	$78,396
Total gains (losses) realized/unrealized:			
Included in earnings	**4,608**	**5,570**	**10,178**
Included in other comprehensive income	**(3,610)**	**(5,957)**	**(9,567)**
Sales	**(63,156)**	**(7,322)**	**(70,478)**
Settlements	**(8,280)**	**(249)**	**(8,529)**
Balance at September 30, 2016	**$ --**	**$ --**	**$ --**
Balance at December 31, 2014	$124,890	$33,716	$158,606
Total gains (losses) realized/unrealized:			
Included in earnings	526	105	631
Included in other comprehensive income	(472)	(658)	(1,130)
Sales	(16,729)	(12,940)	(29,669)
Settlements	(15,679)	(6,788)	(22,467)
Balance at September 30, 2015	$92,536	$13,435	$105,971

There were no assets or liabilities transferred between levels during the nine months ended September 30, 2016 or 2015.

Non-Recurring Measurements

Assets Measured at Fair Value on a Non-recurring Basis

	As of September 30, 2016				For the nine months ended September 30, 2016
	Fair Value Measurement Using			Total Fair	Total
(in thousands)	Level 1	Level 2	Level 3	Value	(Losses) Gains
Impaired loans	**$ --**	**$ --**	**$22,785**	**$22,785**	**$(4,144)**
Other property owned	**--**	**--**	**324**	**324**	**5**

	As of December 31, 2015				For the nine months ended September 30, 2015
	Fair Value Measurement Using			Total Fair	Total
(in thousands)	Level 1	Level 2	Level 3	Value	(Losses) Gains
Impaired loans	$ --	$ --	$15,621	$15,621	$(3,465)
Other property owned	--	--	588	588	37

Other Financial Instrument Measurements

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

(in thousands) **As of September 30, 2016**	**Total Carrying Amount**	**Fair Value Measurement Using**			**Total Fair Value**
		Level 1	**Level 2**	**Level 3**	
Assets:					
Cash	**$313,271**	**$313,271**	**$ --**	**$ --**	**$313,271**
Net non-impaired loans	**84,996,114**	**--**	**--**	**85,687,210**	**85,687,210**
Total assets	**$85,309,385**	**$313,271**	**$ --**	**$85,687,210**	**$86,000,481**
Liabilities:					
Bonds and notes	**$96,066,019**	**$ --**	**$ --**	**$96,611,734**	**$96,611,734**
Total liabilities	**$96,066,019**	**$ --**	**$ --**	**$96,611,734**	**$96,611,734**
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		**$ --**	**$ --**	**$(19,241)**	**$(19,241)**

(in thousands) As of December 31, 2015	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	$533,711	$533,711	$ --	$ --	$533,711
Net non-impaired loans	82,786,699	--	--	82,692,611	82,692,611
Total assets	$83,320,410	$533,711	$ --	$82,692,611	$83,226,322
Liabilities:					
Bonds and notes	$93,404,251	$ --	$ --	$93,319,254	$93,319,254
Subordinated notes	498,283	--	--	604,885	604,885
Total liabilities	$93,902,534	$ --	$ --	$93,924,139	$93,924,139
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		$ --	$ --	$(10,996)	$(10,996)

NOTE 8

Derivative and Hedging Activity

Use of Derivatives

We 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. Our 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 net interest margin. We consider the use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

We primarily 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. We use various derivative instruments as follows:

- Interest rate swaps allow us to change the characteristics of fixed or floating debt we issue by swapping to a synthetic fixed or floating rate lower than those available to us if borrowings were made directly. Under interest rate swap arrangements, we 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.
- Interest rate options allow us to manage the impact of changing interest rates on certain assets and liabilities.
- We also facilitate interest rate swaps to qualified borrowers of the affiliated Associations. These swaps allow qualified borrowers to manage their interest rate risk and lock in a fixed interest rate similar to a fixed rate loan. We manage the interest rate risk from customer swaps with the execution of offsetting interest rate swap transactions.

Derivative Instruments Activity (in notional amount)

(in millions)	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Floating and Amortizing Floating-for Floating	Other Derivatives	Total
Balance at December 31, 2015	$1,550	$1,523	$2,500	$35	$5,608
Additions	**766**	**566**	**1,400**	**56**	**2,788**
Maturities/amortization	**(200)**	**--**	**(800)**	**--**	**(1,000)**
Balance at September 30, 2016	**$2,116**	**$2,089**	**$3,100**	**$91**	**$7,396**
Balance at December 31, 2014	$1,550	$1,235	$1,150	$40	$3,975
Additions	500	358	1,100	15	1,973
Maturities/amortization	(250)	(200)	(350)	--	(800)
Forward starting becoming effective	--	20	--	(20)	--
Balance at September 30, 2015	$1,800	$1,413	$1,900	$35	$5,148

Other derivatives consisted of forward starting swaps and retail customer derivative products.

By using derivative products, we expose ourselves to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, our credit risk will equal the fair value gain in a derivative. To minimize the risk of credit losses, for non-customer bilateral derivatives we deal only with counterparties that have an investment-grade or better credit rating from a rating agency and we monitor the credit standing and levels of exposure to individual counterparties. At September 30, 2016 we do not anticipate nonperformance by any of these counterparties. We typically enter into master agreements that contain netting provisions. All derivative contracts are supported by bilateral collateral agreements with counterparties. As of September 30, 2016, certain derivatives were in a negative fair value position, requiring us to post cash collateral of $39.4 million to counterparties.

We may also clear derivative transactions through a futures commission merchant (FCM) with a clearinghouse or a central counterparty (CCP). CCPs have several layers of protection against default including margin, member capital contributions and FCM guarantees of their customers' transactions with the CCP. FCMs also pre-qualify the credit worthiness of counterparties to all swaps that are sent to the CCP, set limits for each counterparty, and collect initial and variation margin daily from each counterparty for changes in the value of cleared derivatives. At September 30, 2016, initial margin pledged to counterparties was $25.3 million, and variation margin pledged to counterparties was $66.6 million, compared to initial margin pledged to counterparties of $17.8 million and variation margin pledged to counterparties of $14.3 million as of December 31, 2015.

Our derivative activities are monitored by our Asset-Liability Committee (ALCO) as part of the Committee's oversight of our asset/liability and treasury functions. Our hedging strategies are developed within limits established by our Board of Directors through our analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into our overall interest rate risk-management strategies. Refer to Note 13 of the 2015 Annual Report for additional information regarding counterparty risk and our risk mitigation practices.

Financial Statement Impact of Derivatives

Refer to Notes 2 and 13 of the 2015 Annual Report for additional information regarding the accounting for derivatives.

The following tables present the gross fair value, offsetting and net exposure amounts of derivative assets and derivative liabilities. The fair value of our derivative contracts are presented as "Derivative assets" and "Derivative liabilities" on the Statements of Condition, and are presented net for counterparties with master netting agreements.

	September 30, 2016		December 31, 2015	
(in thousands)	**Fair Value Assets**	**Fair Value Liabilities**	Fair Value Assets	Fair Value Liabilities
Derivatives designated as hedging instruments:				
Receive-fixed swaps	**$7,362**	**$707**	$13,480	$649
Pay-fixed and amortizing pay-fixed swaps	**--**	**155,979**	3,380	64,587
Floating-for-floating and amortizing floating-for-floating swaps	**--**	**6,191**	151	3,368
Total derivatives designated as hedging instruments	**7,362**	**162,877**	17,011	68,604
Derivatives not designated as hedging instruments:				
Pay-fixed and amortizing pay-fixed swaps	**292**	**1,075**	40	305
Other derivative products	**1,553**	**--**	483	--
Total derivatives not designated as hedging instruments	**1,845**	**1,075**	523	305
Credit valuation adjustments	**175**	**--**	71	--
Total gross amounts of derivatives	**$9,382**	**$163,952**	$17,605	$68,909
Gross amounts offset in Statements of Condition	**(7,654)**	**(7,654)**	(16,907)	(16,907)
Net amounts in Statements of Condition	**$1,728**	**$156,298**	$698	$52,002

(in thousands)	**September 30, 2016**	December 31, 2015
Derivative assets, net	**$1,728**	$698
Derivative liabilities, net	**(156,298)**	(52,002)
Accrued interest (payable) receivable on derivatives, net	**(5,312)**	2,426
Gross amounts not offset in Statements of Condition:		
Cash collateral pledged to counterparties	**131,351**	32,023
Net exposure amounts	**$(28,531)**	$(16,855)

The fair value of derivatives includes credit valuation adjustments (CVA). The CVA reflects credit risk of each derivative counterparty to which we have exposure, net of any collateral posted by the counterparty, and an adjustment for our credit worthiness where the counterparty has exposure to us. The change in the CVA for the period is included in "Miscellaneous income and other gains, net" on the Statements of Comprehensive Income.

Fair-Value Hedges: We recorded $950 thousand of losses related to swaps for the nine months ended September 30, 2016, compared to $93 thousand of gains for the same period in 2015. The gains and losses on the derivative instruments are recognized in "Interest expense" on the Statements of Comprehensive Income.

Cash Flow Hedges: The following table presents the amount of other comprehensive income (OCI) recognized on derivatives, the amount reclassified from accumulated other comprehensive income (AOCI) into earnings on effective cash flow hedges and amount excluded from effectiveness testing. These net losses reclassified into earnings are expected to reduce net interest income related to the respective hedged items.

(in thousands) **For the nine months ended September 30, 2016** **Cash Flow Hedging Relationships**	**Amount of Loss Recognized in OCI on Derivatives (Effective Portion)**	**Amount of Loss Reclassified from AOCI into Income (Effective Portion)**	**Amount of Loss Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing**
Pay-fixed and amortizing pay-fixed swaps	**$(94,773)**	**$ --**	**$ --**
Floating-for-floating and amortizing floating-for-floating swaps	**(2,975)**	**--**	**(47)**
Total	**$(97,748)**	**$ --**	**$(47)**

(in thousands) For the nine months ended September 30, 2015 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing
Pay-fixed and amortizing pay-fixed swaps	$(26,499)	$(27)	$2
Floating-for-floating and amortizing floating-for-floating swaps	1,404	--	(1)
Other derivative products	(105)	(36)	--
Total	$(25,200)	$(63)	$1

Derivatives not Designated as Hedges: We recorded $518 thousand of losses on swaps for the nine months ended September 30, 2016, compared to $655 thousand of gains for same period in 2015. The gains and losses on the derivative instruments are recognized in "Miscellaneous income and other gains, net" on the Statements of Comprehensive Income.

NOTE 9

Accumulated Other Comprehensive Income

Changes in Components of Accumulated Other Comprehensive Income (Loss)

(in thousands)	Not-other-than-temporarily-impaired Investments	Other-than-temporarily-impaired Investments	Derivatives and Hedging Activity	Total
Balance at December 31, 2014	$4,605	$15,191	$(64,861)	$(45,065)
Other comprehensive income (loss) before reclassifications	10,872	(236)	(25,200)	(14,564)
Amounts reclassified from accumulated other comprehensive income	1,309	(1,940)	63	(568)
Net other comprehensive income (loss)	12,181	(2,176)	(25,137)	(15,132)
Balance at September 30, 2015	$16,786	$13,015	$(89,998)	$(60,197)
Balance at December 31, 2015	$(31,002)	$10,561	$(64,424)	$(84,865)
Other comprehensive income (loss) before reclassifications	**37,732**	**(2)**	**(97,748)**	**(60,018)**
Amounts reclassified from accumulated other comprehensive income	**381**	**(10,559)**	**--**	**(10,178)**
Net other comprehensive income (loss)	**38,113**	**(10,561)**	**(97,748)**	**(70,196)**
Balance at September 30, 2016	**$7,111**	**$ --**	**$(162,172)**	**$(155,061)**

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

(in thousands) Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statements of Comprehensive Income
For the nine months ended September 30,	**2016**	2015	
Not-other-than-temporarily-impaired investments:			
Impairment losses	**$ --**	$73	Net impairment losses recognized in earnings
Realized loss on sale of investment securities	**381**	1,236	Miscellaneous income and other gains, net
	381	1,309	
Other-than-temporarily-impaired investments:			
Impairment losses	**--**	620	Net impairment losses recognized in earnings
Realized gain on sale of investment securities	**(10,559)**	(2,560)	Miscellaneous income and other gains, net
	(10,559)	(1,940)	
Derivatives and hedging activity:			
Interest rate contracts	**--**	63	Interest expense
Total reclassifications	**$(10,178)**	$(568)	

NOTE 10

Subsequent Events

We have evaluated subsequent events through November 9, 2016, which is the date the Financial Statements were available to be issued. Other than the complaint discussed in Note 6, there have been no material subsequent events that would require recognition in the Quarterly Financial Statements or disclosure in the Notes to those Financial Statements.

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