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AgriBank District 2016 Quarterly Report
June 30, 2016

AgriBank, FCB and affiliated Associations

AgriBank
FARM CREDIT BANK

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Management's Discussion and Analysis

AgriBank, FCB and affiliated Associations

The following discussion is a review of the combined financial position and results of operations of AgriBank, FCB (AgriBank) and affiliated Associations which are part of the Farm Credit System (the System). This information should be read in conjunction with the accompanying Combined Financial Statements, the Notes to the Combined Financial Statements and the 2015 Annual Report.

AgriBank is a funding Bank that supports and is primarily owned by 17 affiliated Farm Credit Associations. The District has over $115 billion in assets. The District covers America's Midwest, a 15-state area stretching from Wyoming to Ohio and Minnesota to Arkansas. About half of the nation's cropland is located within the AgriBank District. 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.

Under a letter of intent, the Boards of Directors of two affiliated Associations, AgCountry Farm Credit Services, ACA and United FCS, ACA, recently made a strategic decision to pursue a merger of the two organizations. The consolidated affiliated Association would be named AgCountry Farm Credit Services, ACA and would be headquartered in Fargo, ND with nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and assets of over $7 billion. Providing that all due diligence is satisfactory, customer-owners will vote on the merger in early 2017. If approved, the merger will be effective July 1, 2017.

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 the District's 2015 Annual Report. AgriBank and affiliated Associations 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 interest income from core lending activities increased across the District for the six months ended June 30, 2016, compared to the same period of the prior year. While net interest income increased, net income decreased $10.4 million, or 2.4 percent, to $844.6 million, over the same comparative period. This decline was primarily attributable to increases in provision for credit losses, a decline in mineral income and increases in both Farm Credit System insurance expense and operating expenses. Refer to the Results of Operations section for further discussion.

Loan portfolio credit quality remains sound and robust capital levels ensure AgriBank and affiliated Associations 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 despite a backdrop of international headwinds, including the recent Brexit vote. For 2016, the U.S. economy is forecasted to grow at 1.9 percent, supported by consumer spending as a result of job market improvement and continued recovery in housing prices. A strong dollar is reducing demand for U.S. exports, while business investment growth is slowing due to the large declines in oil prices experienced over the past 24 months.

After seven years of record low policy rates, 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 policy 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. Global economic weakness and heightened uncertainty as a result of the Brexit vote has raised doubts about the future path of policy rates and most economist now project U.S. Treasury rates to end the year close to current levels, much lower than their beginning of the year forecasts.

AgriBank manages interest rate risk consistent with policies established by its 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 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's (USDA-ERS) projects both net cash and net farm income to decline for the third consecutive year in 2016, after reaching a record high in 2013. Net farm income is projected to fall by 3.0 percent to $54.8 billion for 2016 compared to 2015. The total aggregate value of farm assets is projected to decline while the amount of assumed debt is projected to increase over the next year, resulting in an increase in the aggregate farm debt-to-asset ratio to 13.2 percent, after bottoming out at 11.3 percent in 2012 and 2013. Net cash income for all U.S. farming operations, on a combined basis, is projected to fall due to a decline in 2016 cash receipts of $9.6 billion (2.5 percent) compared to the same period last year, primarily related to feed crops, dairy and most protein sectors. Crop producers may benefit somewhat from a projected increase in direct government farm payments as well as reduced expenses, primarily related to energy cost savings.

Macroeconomic events of recent concern to agriculture include the recent Brexit referendum vote by the British public to begin the process of leaving the European Union and the resulting political and economic fallout from the decision. For U.S. agriculture, the immediate risk is through the impact of the decision on exchange rates and the potential for continued appreciation in the U.S. dollar which has had a negative impact upon U.S. agricultural exports. To date, however, this impact has been limited. Of longer term concern is the impact of splitting the 4th largest U.S. agricultural export market into two markets representing approximately eight percent (EU without UK) and one percent (UK only). Also, it is uncertain how this event will impact the progress of the ongoing Transatlantic Trade and Investment Partnership (TTIP) negotiations with U.S. agriculture as one of the primary beneficiaries of the trade pact.

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 will complete its annual survey as of June 30, 2016, which will be released during the third quarter of 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 first quarter 2016 indicated declining farmland values. The Federal Reserve Banks surveys cited a year-over-year change in the average value of non-irrigated farmland from a decrease of 4.0 percent to a decrease of 7.0 percent.

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 the prospects for lower commodity prices, AgriBank expects 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, the underwriting standards of AgriBank and affiliated Associations generally limit lending to no more than 65 percent at origination. Due to very strong land values in much of the 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.

Updated Industry Conditions

The following provides an update to industry conditions observed after 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.

<u>Cow-Calf</u>

The USDA estimates the U.S. beef cow herd has increased 3.5 percent compared to the prior year as a result of improved pasture conditions the past two years and significantly lower calf prices. 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. Based on these projections AgriBank has downgraded the cow-calf outlook to neutral as of June 30, 2016, from 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 AgriBank has upgraded the timber outlook to neutral-to-positive as of June 30, 2016, from the neutral outlook discussed in the 2015 Annual Report.

Loan Portfolio

Components of Loans

(in thousands)	**June 30, 2016**	December 31, 2015
Accrual loans:		
Real estate mortgage	**$54,093,885**	$52,884,753
Production and intermediate term	**24,775,246**	25,472,420
Agribusiness	**10,268,842**	8,772,556
Rural residential real estate	**2,763,236**	2,797,025
Other	**4,591,981**	4,500,616
Nonaccrual loans	**648,449**	517,009
Total loans	**97,141,639**	$94,944,379

The Other category is primarily comprised of communication and energy related loans, certain assets originated under the Mission Related Investment authority and loans to AgriBank's other financing institutions (OFIs), as well as finance leases.

District loans totaled $97.1 billion at June 30, 2016, a $2.2 billion, or 2.3 percent, increase from December 31, 2015. The increase in total loans was primarily driven by large multiple lender credits in the agribusiness sector as well as real estate mortgage portfolios at most affiliated Associations. Production and intermediate term loan volume increased during the second quarter of 2016 primarily due to seasonal draws to fund operations, and to a lesser extent, growth in the AgDirect portfolio, however; overall production and intermediate term volume remains below year-end 2015 balances elevated by draws made for tax planning purposes and subsequent repayments made during the first quarter.

Credit quality across the District declined to 93.6 percent of the portfolio in the acceptable category, compared to 95.8 percent at December 31, 2015. While the percentage of loans in the acceptable category have fallen slightly below the District 15-year average, portfolio credit quality remains in line with the historically high credit quality underlying this measure. Due to continued low commodity prices and the current economic outlook, the District observed an increase in adverse credit quality, delinquencies and related allowance for loan losses, compared to December 31, 2015. Adversely classified loans were 3.2 percent at June 30, 2016, compared to 2.1 percent at December 31, 2015. Substandard and doubtful loans, collectively called adverse loans, are loans AgriBank and affiliated Associations have identified as showing some credit weakness outside typical credit standards.

Components of Risk Assets

(in thousands)	June 30, 2016	December 31, 2015
Nonaccrual loans	**$648,449**	$517,009
Accruing restructured loans	**72,966**	65,233
Accruing loans 90 days or more past due	**25,540**	11,096
Total risk loans	**746,955**	593,338
Other property owned	**12,249**	13,051
Total risk assets	**$759,204**	$606,389
Risk loans as a % of total loans	**0.77%**	0.62%
Nonaccrual loans as a % of total loans	**0.67%**	0.54%
Delinquencies as a % of total loans	**0.57%**	0.44%

Note: Accruing loans include accrued interest receivable.

Risk assets have increased from December 31, 2015, but remain at acceptable levels. At June 30, 2016, 53.8 percent of nonaccrual loans were current as to principal and interest, compared to 61.4 percent at December 31, 2015. Nonaccrual loans have increased slightly from historical lows, primarily due to low commodity prices and current agricultural economic conditions.

AgriBank's and affiliated Associations' policies require loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on AgriBank's and affiliated Associations' analyses, all accruing loans 90 days or more past due were eligible to remain in accruing status at June 30, 2016.

Allowance Coverage Ratios

	June 30, 2016	December 31, 2015
Allowance as a % of:		
Loans	**0.38%**	0.30%
Nonaccrual loans	**56.53%**	55.26%
Total risk loans	**49.07%**	48.15%
Net charge-offs as a % of average loans	**0.02%**	0.03%
Adverse assets as a % of risk funds*	**15.54%**	10.37%

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

The allowance for loan losses is an estimate of losses on loans in the portfolio as of the financial statement date. AgriBank and affiliated Associations 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. The allowance for loan losses increased from December 31, 2015, to $366.5 million as of June 30, 2016, as a result of additional provision for loan losses of $89.1 million primarily related to increases in commodity related industry reserves due to current commodity prices and agricultural economic conditions, as well as deterioration in credit quality throughout the District. The provision for loan losses was partially offset by net charge-offs of $8.3 million. The management of AgriBank and each affiliated Association, respectively, believe the allowance for loan losses is reasonable in relation to the risk in the portfolios at June 30, 2016.

Funding, Liquidity and Shareholders' Equity

AgriBank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Access to the unsecured debt capital markets remains the District's 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 six months ended June 30, 2016, investor demand for System-wide debt securities remained favorable.

AgriBank also maintains a secondary source of liquidity through a high-quality investment portfolio and other short-term liquid assets. AgriBank manages liquidity for operating and debt repayment needs through managing debt maturities, as well as forecasting and anticipating seasonal demands. AgriBank maintains 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 operational demands within the District. Specifically, AgriBank provides 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, asset-backed securities (ABS) and non-agency MBS. At June 30, 2016, AgriBank 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 June 30, 2016, AgriBank had sufficient liquidity to fund all debt maturing within 151 days.

AgriBank maintains a contingency funding plan (CFP) that helps inform operating and funding needs and addresses actions that would be considered 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 liquid investments. AgriBank sizes the 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 June 30, 2016 was $20.0 billion, a $716.1 million increase from December 31, 2015. Shareholders' equity increased primarily due to comprehensive income for the period, partially offset by earnings reserved for patronage distributions and preferred stock dividends.

At June 30, 2016, AgriBank and each affiliated Association exceeded the regulatory minimum capital ratios. Refer to the Additional Regulatory Information section as well as Note 4 in the accompanying Combined Financial Statements for further discussion of capital ratios and the recently approved revised regulations.

On April 26, 2016, AgriBank announced the intention to redeem the AgriBank subordinated notes, which were redeemable on any interest payment date at any time following FCA notification of certain changes to AgriBank's regulatory capital requirements. On July 15, 2016, AgriBank redeemed all $500 million of outstanding subordinated notes at par value.

Results of Operations

District net income for the six months ended June 30, 2016 was $844.6 million, a 2.4 percent decrease, compared to $855.0 million for the same period in 2015. The return on average assets was 1.5 percent for the six months ended June 30, 2016, compared to 1.6 percent for the same period in 2015.

Changes in Significant Components of Net Income

(in thousands) **For the six months ended June 30,**	**2016**	2015	Increase (Decrease) in Net Income
Net interest income	**$1,406,571**	$1,323,321	$83,250
Provision for credit losses	**94,896**	26,960	(67,936)
Non-interest income	**117,688**	121,782	(4,094)
Non-interest expense	**572,033**	540,004	(32,029)
Provision for income taxes	**12,711**	23,162	10,451
Net income	**$844,619**	$854,977	$(10,358)

Net interest income (NII) for the six months ended June 30, 2016 increased $83.3 million, or 6.3 percent, compared to the same period in 2015. NII was positively impacted primarily by an increase in loan volume. This positive influence on NII was partially offset by increases in rates paid on interest bearing liabilities, which outpaced increases in retail rates primarily due to competitive pressures.

Changes in NII

(in thousands) **For the six months ended June 30,**	**2016 vs 2015**		
Increase (decrease) due to:	**Volume**	**Rate**	**Total**
Interest income:			
Loans	**$157,786**	**$16,020**	**$173,806**
Investments and other earning assets	**(99)**	**21,061**	**20,962**
Total interest income	**$157,687**	**$37,081**	**$194,768**
Interest expense:			
Systemwide debt securities and other	**(36,060)**	**(75,458)**	**(111,518)**
Net change in net interest income	**$121,627**	**$(38,377)**	**$83,250**

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

(in thousands) **For the six months ended June 30,**	**2016**			2015		
	ADB	**Rate**	**NII**	ADB	Rate	NII
Interest earning assets:						
Accrual loans	**$94,634,379**	**3.99%**	**$1,887,555**	$86,779,563	3.96%	$1,716,530
Nonaccrual loans	**566,269**	**6.30%**	**17,847**	513,472	5.87%	15,066
Investment securities and federal funds	**17,514,722**	**1.06%**	**92,670**	17,538,858	0.82%	72,162
Other earning assets	**27,694**	**4.30%**	**596**	14,850	1.91%	142
Total earning assets	**112,743,064**	**3.55%**	**1,998,668**	104,846,743	3.44%	1,803,900
Interest bearing liabilities	**93,640,864**	**1.26%**	**592,097**	87,342,191	1.11%	480,579
Interest rate spread	**$19,102,200**	**2.29%**		$17,504,552	2.33%	
Impact of equity financing		**0.21%**			0.19%	
Net interest margin		**2.50%**			2.52%	
Net interest income			**$1,406,571**			$1,323,321

Net interest margin decreased two basis points over the same period last year driven by compression of net interest rate spreads earned on loans due to portfolio composition and competitive pressures. In general, operating loans, which are typically variable rate, have the highest spreads. Longer term fixed rate loans generally carry narrower spreads. As the product mix changes between operating and real estate or intermediate term loans and competition increases, the interest rate spreads earned may change accordingly.

The District's provision for credit losses for the six months ended June 30, 2016 was $94.9 million, compared to $27.0 million for the same period in 2015. The provision for credit losses reflects the change in the estimated losses in the loan portfolios during these periods. Refer to the Loan portfolio section for further discussion.

The decrease in non-interest income was primarily due to a decline in mineral income for the six months ended June 30, 2016, compared to the same period of 2015, a result of continued low oil prices. Based on oil futures, AgriBank anticipates oil prices may continue to remain low throughout 2016, resulting in further declines in mineral income compared to the prior year. The decrease was partially offset by higher net gains on sales of investments from AgriBank's liquidity portfolio for the six months ended June 30, 2016, compared to the same period of 2015.

Non-interest expense was driven higher primarily due to increased Farm Credit System insurance expense as well as increased salaries expense. The Farm Credit System Insurance Corporation premium rate was 16 basis points for the six months ended June 30, 2016, compared to 13 basis points for the same period in 2015 resulting in increased insurance expense. The Insurance Corporation has announced premiums will be 16 basis points for the first half of 2016 and 18 basis points for the second half. Staffing increases and merit increases during the first two quarters of 2016 pushed salaries expense slightly above those for the same period in 2015.

The decrease in the provision for income taxes was primarily due to a decrease in taxable income driven by increased provision for loan losses.

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 and is applicable to all banks and associations. 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. AgriBank and affiliated Associations are currently evaluating the impact of the recently announced changes.

The final rule to modify regulatory capital requirements changes the capital treatment of AgriBank subordinated notes. The terms of AgriBank's subordinated notes provide that, at any time following FCA notification of certain changes to AgriBank's regulatory capital requirements, the subordinated notes are redeemable in whole at par on any interest payment date. On July 15, 2016, AgriBank redeemed all $500 million of outstanding subordinated notes at par value. AgriBank's Permanent Capital Ratio and Total Surplus Ratio are expected to each decrease approximately 1.1 percentage points, but will remain above required levels. AgriBank's Net Collateral Ratio is expected to decrease approximately 0.3 percentage points, but will also remain above required levels.

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 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.

Other Matters

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 its strategic direction remains unchanged. The focus of AgriBank's 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 begins immediately and will focus on the leadership necessary to carry AgriBank's strategic direction forward.

Certification

The undersigned have reviewed the June 30, 2016 Quarterly Report of AgriBank, FCB and affiliated Associations, which has been prepared under the oversight of the AgriBank 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 the District's knowledge and belief.

Matthew D. Walther
Chair of the Board
AgriBank, FCB
August 9, 2016

William J. Thone
Interim Chief Executive Officer
AgriBank, FCB
August 9, 2016

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

Combined Statements of Condition

AgriBank, FCB and affiliated Associations

(in thousands) *(unaudited)*	**June 30, 2016**	December 31, 2015
Assets		
Loans	**$97,141,639**	$94,944,379
Allowance for loan losses	**366,548**	285,711
Net loans	**96,775,091**	94,658,668
Investment securities - AgriBank, FCB	**15,290,472**	14,262,883
Investment securities - affiliated Associations	**1,788,983**	1,704,159
Cash	**233,964**	596,730
Federal funds	**410,009**	1,427,125
Accrued interest receivable	**960,633**	974,722
Premises and equipment, net	**504,066**	484,646
Deferred tax assets, net	**18,855**	16,543
Assets held for lease, net	**454,306**	514,461
Derivative assets	**1,895**	777
Other property owned	**12,249**	13,051
Cash collateral pledged to counterparties	**105,305**	33,323
Other assets	**212,638**	245,914
Total assets	**$116,768,466**	$114,933,002
Liabilities		
Bonds and notes	**$94,681,315**	$93,404,251
Subordinated notes	**598,042**	597,775
Accrued interest payable	**230,861**	231,858
Derivative liabilities	**164,068**	52,034
Deferred tax liabilities, net	**126,018**	142,059
Accounts payable	**155,664**	191,841
Patronage and dividends payable	**79,245**	287,687
Post-employment liability	**497,113**	515,954
Other liabilities	**235,245**	224,774
Total liabilities	**96,767,571**	95,648,233
Commitments and contingencies (Note 6)		
Shareholders' equity		
Perpetual preferred stock	**350,000**	350,000
Capital stock and participation certificates	**268,500**	268,697
Allocated surplus	**435,978**	406,758
Unallocated surplus	**19,549,483**	18,824,372
Accumulated other comprehensive loss	**(658,410)**	(616,099)
Noncontrolling interest	**55,344**	51,041
Total shareholders' equity	**20,000,895**	19,284,769
Total liabilities and shareholders' equity	**$116,768,466**	$114,933,002

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

Combined Statements of Comprehensive Income

AgriBank, FCB and affiliated Associations

(in thousands)
(Unaudited)

	Three months		Six months	
For the periods ended June 30,	**2016**	2015	**2016**	2015
Interest income				
Loans	**$960,796**	$872,381	**$1,905,402**	$1,731,596
Investment securities and other earning assets	**47,816**	34,829	**93,266**	72,304
Total interest income	**1,008,612**	907,210	**1,998,668**	1,803,900
Interest expense	**300,729**	243,639	**592,097**	480,579
Net interest income	**707,883**	663,571	**1,406,571**	1,323,321
Provision for credit losses	**54,859**	16,756	**94,896**	26,960
Net interest income after provision for credit losses	**653,024**	646,815	**1,311,675**	1,296,361
Non-interest income				
Financially related services	**17,897**	17,504	**39,896**	38,127
Mineral income	**8,680**	13,680	**17,215**	30,566
Loan prepayment and fee income	**23,410**	14,529	**34,466**	29,087
Miscellaneous income and other gains, net	**11,274**	6,213	**26,111**	24,002
Total non-interest income	**61,261**	51,926	**117,688**	121,782
Non-interest expense				
Salaries and employee benefits	**166,177**	163,958	**339,610**	331,537
Other operating expenses	**71,658**	63,667	**142,091**	135,929
Occupancy expense	**11,570**	10,787	**23,066**	21,575
Farm Credit System insurance expense	**33,828**	25,189	**67,266**	50,890
Net impairment losses recognized in earnings	**--**	--	**--**	73
Total non-interest expense	**283,233**	263,601	**572,033**	540,004
Income before income taxes	**431,052**	435,140	**857,330**	878,139
Provision for income taxes	**3,514**	9,808	**12,711**	23,162
Net income	**$427,538**	$425,332	**$844,619**	$854,977
Other comprehensive (loss) income				
Investments available-for-sale:				
Not-other-than-temporarily-impaired investments	**$19,318**	$(10,888)	**$60,225**	$4,598
Other-than-temporarily-impaired investments	**(6,234)**	(2,861)	**(6,316)**	(2,989)
Derivatives and hedging activity	**(43,929)**	43,704	**(115,261)**	20,988
Employee benefit plans activity	**9,521**	10,515	**19,041**	21,018
Total other comprehensive (loss) income	**(21,324)**	40,470	**(42,311)**	43,615
Comprehensive income	**$406,214**	$465,802	**$802,308**	$898,592

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

Combined Statements of Changes in Shareholders' Equity

AgriBank, FCB and affiliated Associations

(in thousands) *(Unaudited)*	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance at December 31, 2014	$350,000	$266,420	$371,004	$17,368,747	$(549,705)	$42,616	$17,849,082
Noncontrolling interest equity investment						3,440	3,440
Net income				854,977			854,977
Other comprehensive income					43,615		43,615
Patronage				(53,490)			(53,490)
Surplus allocated under nonqualified patronage program			28,714	(28,714)			--
Redemption of surplus allocated under nonqualified patronage program			(319)				(319)
Perpetual preferred stock issuance costs							--
Perpetual preferred stock dividends				(11,969)			(11,969)
Capital stock/participation certificates issued		9,813					9,813
Capital stock/participation certificates retired		(9,063)					(9,063)
Balance at June 30, 2015	$350,000	$267,170	$399,399	$18,129,551	$(506,090)	$46,056	$18,686,086
Balance at December 31, 2015	$350,000	$268,697	$406,758	$18,824,372	$(616,099)	$51,041	$19,284,769
Noncontrolling interest equity investment						**4,303**	**4,303**
Net income				**844,619**			**844,619**
Other comprehensive loss					**(42,311)**		**(42,311)**
Patronage				**(78,011)**			**(78,011)**
Surplus allocated under nonqualified patronage program			**29,528**	**(29,528)**			--
Redemption of surplus allocated under nonqualified patronage program			**(308)**				**(308)**
Perpetual preferred stock dividends				**(11,969)**			**(11,969)**
Capital stock/participation certificates issued		**10,392**					**10,392**
Capital stock/participation certificates retired		**(10,589)**					**(10,589)**
Balance at June 30, 2016	**$350,000**	**$268,500**	**$435,978**	**$19,549,483**	**$(658,410)**	**$55,344**	**$20,000,895**

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

Combined Statements of Cash Flows

AgriBank, FCB and affiliated Associations

(in thousands)
(Unaudited)

For the six months ended June 30,	2016	2015
Cash flows from operating activities		
Net income	**$844,619**	$854,977
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation on premises and equipment	**21,699**	19,875
Gain on sales of premises and equipment	**(1,282)**	(1,063)
Depreciation on assets held for lease	**48,630**	52,072
Loss (gain) on disposal of assets held for lease	**285**	(162)
Provision for credit losses	**94,896**	26,960
Loss on other property owned, net	**475**	1,128
Loss (gain) on derivative activities	**378**	(387)
Net impairment losses recognized in earnings	**--**	73
Gain on sale of investment securities, net	**(6,389)**	(1,445)
Amortization of premiums and discounts on debt and deferred debt issuance costs, net	**41,848**	15,955
Amortization of premiums and discounts on loans and investments, net	**3,638**	16,948
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable	**14,089**	3,617
Decrease (increase) in other assets	**30,964**	(25,626)
(Decrease) increase in accrued interest payable	**(997)**	17,971
Decrease in other liabilities	**(46,882)**	(76,552)
Net cash provided by operating activities	**1,045,971**	904,341
Cash flows from investing activities		
Increase in loans, net	**(2,213,233)**	(619,089)
Proceeds from sales of other property owned	**5,951**	14,376
Increase in investment securities, net	**(1,111,434)**	(153,498)
Proceeds from the sale of investment securities	**57,737**	60,393
Proceeds from sale of (purchases of) assets held for lease, net	**11,240**	(22,551)
Purchases of premises and equipment, net	**(39,837)**	(28,843)
Net cash used in investing activities	**(3,289,576)**	(749,212)
Cash flows from financing activities		
Consolidated bonds and notes issued	**99,109,322**	93,948,370
Consolidated bonds and notes retired	**(97,878,993)**	(94,499,367)
Increase in cash collateral pledged to counterparties	**(71,982)**	(3,620)
Increase in cash collateral pledged by counterparties	**--**	464
Patronage distribution paid	**(286,453)**	(271,421)
Redemption of surplus allocated under nonqualified patronage program	**(308)**	(319)
Capital stock/participation certificates (retired) issued, net	**(197)**	750
Preferred stock dividends paid	**(11,969)**	(11,969)
Increase in noncontrolling interest	**4,303**	3,440
Net cash provided by (used in) financing activities	**863,723**	(833,672)
Net decrease in cash and federal funds	**(1,379,882)**	(678,543)
Cash and federal funds at beginning of period	**2,023,855**	2,168,049
Cash and federal funds at end of period	**$643,973**	$1,489,506
Supplemental schedule of non-cash activities		
(Increase) decrease in derivative assets	**$(1,125)**	$2,792
Increase (decrease) in derivative liabilities	**111,603**	(16,017)
Increase (decrease) in bonds from derivative activity	**5,154**	(8,150)
(Decrease) increase in shareholders' equity from cash flow derivatives	**(115,261)**	20,988
Increase in shareholders' equity from investment securities	**53,909**	1,609
Increase in shareholders' equity from employee benefits	**19,041**	21,018
Loans transferred to other property owned	**6,812**	7,027
Preferred stock dividends accrued but not paid	**4,297**	4,297
Cash distributions payable to members	**74,948**	51,523
Financed sales of other property owned	**(1,188)**	(1,236)
Supplemental Information		
Interest paid	**$593,094**	$462,608
Taxes (refunded) paid	**(22,226)**	23,474

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

Notes to Combined Financial Statements

NOTE 1

Organization and Significant Accounting Policies

AgriBank, FCB (AgriBank) and affiliated Associations (the District) comprise one of the four Districts 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 June 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 the organization and operation of the District, significant accounting policies followed, combined 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 second quarter 2016 Combined Financial Statements should be read in conjunction with the Annual Report. The results for the six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the year ended December 31, 2016.

The Combined Financial Statements include the accounts of AgriBank combined with its 17 affiliated Associations and certain related entities. All significant transactions and balances between AgriBank and affiliated Associations have been eliminated in combination. The Combined 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.

Certain amounts in the 2015 Combined Financial Statements have been reclassified to conform to the current year’s presentation.

Recently Issued or Adopted Accounting Pronouncements

AgriBank and affiliated Associations 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 the District:

Standard	Description	Effective date and financial statement impact
In June 2016, the Financial Accounting Standards Board (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. AgriBank and affiliated Associations are currently evaluating the impact of the guidance on the financial condition, results of operations, cash flows, and financial statement disclosures.
In March 2016, the FASB issued ASU 2016-06 "Contingent Put and Call Options in Debt Instruments."	The guidance clarifies the steps required when assessing the economic characteristics and risks of call (put) options and their relationship with the economic characteristics and risks of their debt hosts. When a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The guidance is an improvement to GAAP because it eliminates diversity in practice in assessing embedded contingent call (put) options in debt instruments.	The guidance is effective for public entities for the first interim reporting period within the annual reporting periods beginning after December 15, 2016. The guidance is effective for nonpublic entities for annual reporting after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. AgriBank and affiliated Associations 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. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019 and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. AgriBank and affiliated Associations are currently evaluating the impact of the guidance on the financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
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. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15, 2019. Early adoption is permitted for only a portion of the guidance, but that guidance does not apply to the Combined District Financial Statements. AgriBank and affiliated Associations are currently evaluating the impact of the remaining guidance on the financial condition, results of operations, cash flows, and financial statement disclosures.
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. Neither AgriBank nor any affiliated Association 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. AgriBank and affiliated Associations 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. The guidance is effective for nonpublic entities for annual reporting after December 15, 2016 and interim periods within annual periods beginning after December 15, 2017. Early adoption is allowed, including in any interim period. AgriBank and affiliated Associations are currently evaluating the 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.

Standard	Description	Effective date and financial statement impact
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. AgriBank and affiliated Associations 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

	June 30, 2016		December 31, 2015	
(in thousands)	**Amount**	**%**	Amount	%
Real estate mortgage	**$54,431,881**	**56.0%**	$53,163,216	56.0%
Production and intermediate term	**25,029,782**	**25.8%**	25,626,860	27.0%
Agribusiness	**10,282,411**	**10.6%**	8,799,656	9.3%
Rural residential real estate	**2,803,108**	**2.9%**	2,839,004	3.0%
Other	**4,594,457**	**4.7%**	4,515,643	4.7%
Total loans	**$97,141,639**	**100.0%**	$94,944,379	100.0%

The Other category is primarily comprised of communication and energy related loans, certain assets originated under the Mission Related Investment authority and loans to AgriBank’s other financing institutions, as well as finance leases.

Participations

AgriBank and affiliated Associations may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration (FCA) regulations or General Financing Agreement limitations.

Participations Purchased and Sold

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(in thousands)	Participations	Participations	Participations	Participations	Participations	Participations
As of June 30, 2016	**Purchased**	**Sold**	**Purchased**	**Sold**	**Purchased**	**Sold**
Real estate mortgage	**$1,193,904**	**$252,431**	**$2,765,925**	**$63,612**	**$3,959,829**	**$316,043**
Production and intermediate term	**1,693,836**	**549,830**	**3,935,743**	**56,570**	**5,629,579**	**606,400**
Agribusiness	**4,764,082**	**1,098,212**	**608,568**	**144,679**	**5,372,650**	**1,242,891**
Rural residential real estate	**85**	**--**	**12,360**	**--**	**12,445**	**--**
Other	**2,887,724**	**140,699**	**13,957**	**--**	**2,901,681**	**140,699**
Total loans	**$10,539,631**	**$2,041,172**	**$7,336,553**	**$264,861**	**$17,876,184**	**$2,306,033**

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(in thousands)	Participations	Participations	Participations	Participations	Participations	Participations
As of December 31, 2015	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$1,092,943	$245,742	$2,571,879	$57,250	$3,664,822	$302,992
Production and intermediate term	1,452,221	544,141	4,020,889	55,102	5,473,110	599,243
Agribusiness	4,136,700	879,557	525,225	163,740	4,661,925	1,043,297
Rural residential real estate	91	--	21,215	373	21,306	373
Other	2,722,551	136,097	13,017	--	2,735,568	136,097
Total loans	$9,404,506	$1,805,537	$7,152,225	$276,465	$16,556,731	$2,082,002

Information in the preceding chart excludes certain assets entered into under the Mission Related Investment and leasing authorities.

Portfolio Performance

One credit quality indicator utilized in the District is the 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 June 30, 2016**	**Acceptable**		**Special mention**		**Substandard/Doubtful**		**Total**	
Real estate mortgage	**$51,871,205**	**94.3%**	**$1,567,556**	**2.8%**	**$1,576,904**	**2.9%**	**$55,015,665**	**100.0%**
Production and intermediate term	**22,749,693**	**89.9%**	**1,230,212**	**4.9%**	**1,328,207**	**5.2%**	**25,308,112**	**100.0%**
Agribusiness	**9,994,699**	**96.9%**	**200,416**	**1.9%**	**122,802**	**1.2%**	**10,317,917**	**100.0%**
Rural residential real estate	**2,662,683**	**94.4%**	**49,812**	**1.8%**	**107,638**	**3.8%**	**2,820,133**	**100.0%**
Other	**4,485,563**	**97.4%**	**100,681**	**2.2%**	**17,309**	**0.4%**	**4,603,553**	**100.0%**
Total loans	**$91,763,843**	**93.6%**	**$3,148,677**	**3.2%**	**$3,152,860**	**3.2%**	**$98,065,380**	**100.0%**

(in thousands) As of December 31, 2015	Acceptable		Special mention		Substandard/Doubtful		Total	
Real estate mortgage	$51,703,832	96.2%	$1,019,026	1.9%	$1,016,500	1.9%	$53,739,358	100.0%
Production and intermediate term	24,430,268	94.2%	731,410	2.8%	772,619	3.0%	25,934,297	100.0%
Agribusiness	8,585,744	97.3%	136,666	1.5%	109,636	1.2%	8,832,046	100.0%
Rural residential real estate	2,728,644	95.5%	36,894	1.3%	90,535	3.2%	2,856,073	100.0%
Other	4,432,089	98.0%	64,687	1.4%	27,496	0.6%	4,524,272	100.0%
Total loans	$91,880,577	95.8%	$1,988,683	2.1%	$2,016,786	2.1%	$95,886,046	100.0%

Note: Accruing loans include accrued interest receivable.

AgriBank and affiliated Associations had no loans categorized as loss at June 30, 2016 or December 31, 2015.

Aging Analysis of Loans

(in thousands) **As of June 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**
Real estate mortgage	**$139,010**	**$94,559**	**$233,569**	**$54,782,096**	**$55,015,665**	**$7,845**
Production and intermediate term	**144,682**	**127,573**	**272,255**	**25,035,857**	**25,308,112**	**14,694**
Agribusiness	**1,268**	**7,112**	**8,380**	**10,309,537**	**10,317,917**	**--**
Rural residential real estate	**19,082**	**10,673**	**29,755**	**2,790,378**	**2,820,133**	**114**
Other	**6,863**	**4,448**	**11,311**	**4,592,242**	**4,603,553**	**2,887**
Total loans	**$310,905**	**$244,365**	**$555,270**	**$97,510,110**	**$98,065,380**	**$25,540**

(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
Real estate mortgage	$122,241	$61,015	$183,256	$53,556,102	$53,739,358	$1,998
Production and intermediate term	95,252	61,614	156,866	25,777,431	25,934,297	2,981
Agribusiness	5,808	18,668	24,476	8,807,570	8,832,046	--
Rural residential real estate	23,290	11,645	34,935	2,821,138	2,856,073	--
Other	11,379	6,259	17,638	4,506,634	4,524,272	6,117
Total loans	$257,970	$159,201	$417,171	$95,468,875	$95,886,046	$11,096

Note: Accruing loans include accrued interest receivable.

The increase in delinquencies, primarily in the production and intermediate term and real estate mortgage sectors, is due to continued low commodity prices and the current economic outlook compared to historically high performance observed during recent years.

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)	**June 30, 2016**	December 31, 2015
Nonaccrual loans:		
Current as to principal and interest	**$348,907**	$317,596
Past due	**299,542**	199,413
Total nonaccrual loans	**648,449**	517,009
Accruing restructured loans	**72,966**	65,233
Accruing loans 90 days or more past due	**25,540**	11,096
Total risk loans	**$746,955**	$593,338
Volume with specific reserves	**$155,167**	$129,524
Volume without specific reserves	**591,788**	463,814
Total risk loans	**$746,955**	$593,338
Specific reserves	**$56,141**	$40,890
For the six months ended June 30,	**2016**	2015
Income on accrual risk loans	**$2,279**	$2,150
Income on nonaccrual loans	**17,847**	15,066
Total income on risk loans	**$20,126**	$17,216
Average risk loans	**$661,854**	$599,771

Note: Accruing loans include accrued interest receivable.

Risk Assets by Loan Type

(in thousands)	**June 30, 2016**	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	**$337,995**	$278,463
Production and intermediate term	**254,536**	154,440
Agribusiness	**13,569**	27,100
Rural residential real estate	**39,872**	41,979
Other	**2,477**	15,027
Total nonaccrual loans	**$648,449**	$517,009
Accruing restructured loans:		
Real estate mortgage	**$49,170**	$49,501
Production and intermediate term	**22,559**	14,964
Agribusiness	**212**	214
Rural residential real estate	**1,025**	554
Total accruing restructured loans	**$72,966**	$65,233
Accruing loans 90 days or more past due:		
Real estate mortgage	**$7,845**	$1,998
Production and intermediate term	**14,694**	2,981
Rural residential real estate	**114**	--
Other	**2,887**	6,117
Total accruing loans 90 days or more past due	**$25,540**	$11,096
Total risk loans	**$746,955**	$593,338
Other property owned	**$12,249**	$13,051
Total risk assets	**$759,204**	$606,389

Note: Accruing loans include accrued interest receivable.

All risk loans are considered to be impaired loans.

Additional Impaired Loan Information by Loan Type

	As of June 30, 2016			For the six months ended June 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	$40,075	$47,358	$8,436	$37,989	$ --
Production and intermediate term	104,519	113,922	44,168	82,850	--
Agribusiness	5,732	5,668	1,760	1,309	--
Rural residential real estate	3,773	4,597	1,284	3,879	--
Other	1,068	1,072	493	--	--
Total	$155,167	$172,617	$56,141	$126,027	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$354,936	$444,501	$ --	$324,172	$10,630
Production and intermediate term	187,270	250,052	--	145,516	6,368
Agribusiness	8,049	12,758	--	11,153	1,717
Rural residential real estate	37,238	47,409	--	39,696	1,294
Other	4,295	4,159	--	15,290	117
Total	$591,788	$758,879	$ --	$535,827	$20,126
Total impaired loans:					
Real estate mortgage	$395,011	$491,859	$8,436	$362,161	$10,630
Production and intermediate term	291,789	363,974	44,168	228,366	6,368
Agribusiness	13,781	18,426	1,760	12,462	1,717
Rural residential real estate	41,011	52,006	1,284	43,575	1,294
Other	5,363	5,231	493	15,290	117
Total	$746,955	$931,496	$56,141	$661,854	$20,126

	As of December 31, 2015			For the six months ended June 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	$42,611	$52,354	$10,462	$46,170	$ --
Production and intermediate term	64,081	69,938	25,324	67,035	--
Agribusiness	17,062	18,455	3,339	866	--
Rural residential real estate	5,008	5,928	1,486	5,586	--
Other	762	762	279	4,561	--
Total	$129,524	$147,437	$40,890	$124,218	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$287,352	$377,470	$ --	$288,490	$9,312
Production and intermediate term	108,305	174,647	--	114,682	5,870
Agribusiness	10,252	17,204	--	10,693	827
Rural residential real estate	37,525	48,451	--	36,344	959
Other	20,380	23,380	--	25,344	248
Total	$463,814	$641,152	$ --	$475,553	$17,216
Total impaired loans:					
Real estate mortgage	$329,963	$429,824	$10,462	$334,660	$9,312
Production and intermediate term	172,386	244,585	25,324	181,717	$5,870
Agribusiness	27,314	35,659	3,339	11,559	$827
Rural residential real estate	42,533	54,379	1,486	41,930	$959
Other	21,142	24,142	279	29,905	$248
Total	$593,338	$788,589	$40,890	$599,771	$17,216

*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.

AgriBank and affiliated Associations had no material commitments to lend additional money to borrowers whose loans were at risk as of June 30, 2016.

Troubled Debt Restructurings

Included within 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 District allowance for loan losses.

Troubled Debt Restructuring Activity

(in thousands) **For the six months ended June 30, 2016**	**Pre-modification Outstanding Recorded Investment***	**Post-modification Outstanding Recorded Investment***
Troubled debt restructurings:		
Real estate mortgage	**$1,446**	**$1,447**
Production and intermediate term	**22,430**	**22,280**
Agribusiness	**69**	**69**
Rural residential real estate	**277**	**269**
Total loans	**$24,222**	**$24,065**

(in thousands) For the six months ended June 30, 2015	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$6,443	$6,513
Production and intermediate term	8,057	7,633
Agribusiness	26,888	26,888
Rural residential real estate	687	578
Total loans	$42,075	$41,612

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

The primary types of modification typically include forgiveness of interest, interest rate reduction below market or extension of maturity.

Troubled Debt Restructurings that Subsequently Defaulted within the Previous 12 Months

(in thousands)	Recorded Investment	
For the six months ended June 30,	**2016**	2015
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage	**$164**	$179
Production and intermediate term	**281**	339
Rural residential real estate	**107**	303
Total	**$552**	$821

TDRs Outstanding

(in thousands)	June 30, 2016	December 31, 2015
Accrual Status		
Real estate mortgage	**$49,170**	$49,501
Production and intermediate term	**22,559**	14,964
Agribusiness	**212**	214
Rural residential real estate	**1,025**	554
Total TDRs in accrual status	**$72,966**	$65,233
Nonaccrual Status		
Real estate mortgage	**$35,841**	$36,619
Production and intermediate term	**26,175**	21,825
Agribusiness	**6,114**	24,708
Rural residential real estate	**2,677**	3,138
Other	**--**	13,964
Total TDRs in nonaccrual status	**$70,807**	$100,254
Total TDRs	**$143,773**	$165,487

AgriBank and affiliated Associations had no material commitments to lend to borrowers whose loans have been modified as TDRs as of June 30, 2016.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

For the six months ended June 30,	**2016**	2015
Balance at beginning of year	**$285,711**	$248,081
Provision for loan losses	**89,130**	21,832
Charge-offs	**(14,436)**	(19,756)
Recoveries	**6,143**	5,974
Balance at end of period	**$366,548**	$256,131

During the six months ended June 30, 2016, the allowance for loan losses increased to $366.5 million, reflecting $89.1 million of provision for loan losses (not including provision for credit losses of $5.8 million for unfunded commitments), offset by net charge-offs of $8.3 million. The increase in allowance directly relates to increases in risk loans, adverse credit quality and industry related reserves, which are the result of continued low commodity prices and the general agricultural economic outlook during this agricultural efficiency cycle.

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

(in thousands)	**Real estate mortgage**	**Production and intermediate term**	**Agribusiness**	**Rural residential real estate**	**Other**	**Total**
Allowance for loan losses:						
Balance at December 31, 2015	**$111,000**	**$118,409**	**$32,166**	**$8,986**	**$15,150**	**$285,711**
Provision for loan losses	**26,665**	**43,595**	**13,892**	**2,933**	**2,045**	**89,130**
Charge-offs	**(2,692)**	**(7,545)**	**(3,040)**	**(1,159)**	**--**	**(14,436)**
Recoveries	**2,000**	**3,047**	**782**	**314**	**--**	**6,143**
Balance at June 30, 2016	**$136,973**	**$157,506**	**$43,800**	**$11,074**	**$17,195**	**$366,548**
At June 30, 2016:						
Ending balance: individually evaluated for impairment	**$8,436**	**$44,168**	**$1,760**	**$1,284**	**$493**	**$56,141**
Ending balance: collectively evaluated for impairment	**$128,537**	**$113,338**	**$42,040**	**$9,790**	**$16,702**	**$310,407**
Recorded investments in loans outstanding:						
Ending balance at June 30, 2016	**$55,015,665**	**$25,308,112**	**$10,317,917**	**$2,820,133**	**$4,603,553**	**$98,065,380**
Ending balance for loans individually evaluated for impairment	**$395,011**	**$291,789**	**$13,781**	**$41,011**	**$5,363**	**$746,955**
Ending balance for loans collectively evaluated for impairment	**$54,620,654**	**$25,016,323**	**$10,304,136**	**$2,779,122**	**$4,598,190**	**$97,318,425**

(in thousands)	Real estate mortgage	Production and intermediate term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance at December 31, 2014	$88,542	$101,976	$30,790	$9,673	$17,100	$248,081
Provision for (reversal of) loan losses	11,796	16,711	(5,001)	924	(2,598)	21,832
Charge-offs	(6,234)	(9,454)	(160)	(1,531)	(2,377)	(19,756)
Recoveries	1,471	2,585	1,111	307	500	5,974
Balance at June 30, 2015	$95,575	$111,818	$26,740	$9,373	$12,625	$256,131
At December 31, 2015:						
Ending balance: individually evaluated for impairment	$10,462	$25,324	$3,339	$1,486	$279	$40,890
Ending balance: collectively evaluated for impairment	$100,538	$93,085	$28,827	$7,500	$14,871	$244,821
Recorded investments in loans outstanding:						
Ending balance at December 31, 2015	$53,739,358	$25,934,297	$8,832,046	$2,856,073	$4,524,272	$95,886,046
Ending balance for loans individually evaluated for impairment	$329,963	$172,386	$27,314	$42,533	$21,142	$593,338
Ending balance for loans collectively evaluated for impairment	$53,409,395	$25,761,911	$8,804,732	$2,813,540	$4,503,130	$95,292,708

NOTE 3

Investment Securities

AgriBank Investment Securities

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

AgriBank AFS Investment Securities

(in thousands) **As of June 30, 2016**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Mortgage-backed securities	**$5,631,084**	**$33,266**	**$18,825**	**$5,645,525**	**1.2%**
Commercial paper and other	**5,077,071**	**921**	**22**	**5,077,970**	**0.8%**
U.S. Treasury securities	**3,840,502**	**17,627**	**102**	**3,858,027**	**1.0%**
Asset-backed securities	**708,349**	**682**	**81**	**708,950**	**1.0%**
Total	**$15,257,006**	**$52,496**	**$19,030**	**$15,290,472**	**1.0%**

(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 AgriBank AFS Investment Securities

	Year of Maturity				
(in thousands) **As of June 30, 2016**	**One Year or Less**	**One to Five Years**	**Five to Ten Years**	**More Than Ten Years**	**Total**
Mortgage-backed securities	**$84**	**$21,322**	**$98,270**	**$5,525,849**	**$5,645,525**
Commercial paper and other	**5,077,970**	--	--	--	**5,077,970**
U.S. Treasury securities	**1,104,738**	**2,753,289**	--	--	**3,858,027**
Asset-backed securities	**4,549**	**704,401**	--	--	**708,950**
Total	**$6,187,341**	**$3,479,012**	**$98,270**	**$5,525,849**	**$15,290,472**
Weighted average yield	**0.8%**	**1.1%**	**1.5%**	**1.2%**	**1.0%**

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

Additional AgriBank AFS Investment Security Information

(in thousands) For the six months ended June 30,	2016	2015
Proceeds from sales	$8,735	$29,669
Realized gross gains on sales	6,155	2,560
Realized gross losses on sales	174	1,236

The proceeds from AgriBank sales in 2016 and 2015 were related to the sale of home-equity ABS and non-agency MBS investments.

A summary of the AgriBank 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 June 30, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$2,112,126	$9,598	$1,174,732	$9,227
Commercial paper and other	541,929	22	--	--
U.S. Treasury securities	220,773	102	--	--
Asset-backed securities	164,901	51	81,012	30
Total	$3,039,729	$9,773	$1,255,744	$9,257

	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

AgriBank evaluates its investment securities for other-than-temporary impairment (OTTI) on a quarterly basis. The impairments primarily reflect recent performance of underlying collateral for these securities. AgriBank has determined no other securities were in an OTTI loss position at June 30, 2016.

OTTI Investments

(in thousands)	June 30, 2016	December 31, 2015
Fair Value of OTTI Investments	$31,318	$41,848
For the six months ended June 30,	**2016**	2015
Gross impairment charges on OTTI Investments	$ --	$128
Non-credit component recognized in other comprehensive income	--	(55)
Net impairment charges on OTTI investments	$ --	$73

Of the securities sold during the six months ended June 30, 2016 and 2015, $8.7 million and $9.7 million were OTTI AFS securities resulting in gains of $6.2 million and $2.6 million, respectively.

Securities totaling $57.5 million were sold in July 2016, including all remaining OTTI securities, at a net gain of $4.1 million.

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

(in thousands) **For the six months ended June 30,**	**2016**	2015
Credit-loss component, beginning of period	**$25,160**	$42,062
Additions:		
Initial credit impairment	**--**	73
Reductions:		
For gain on securities sold	**(6,155)**	(2,560)
For impairment previously recognized on securities sold	**(8,174)**	(2,968)
For increases in expected cash flows	**(464)**	(4,104)
Credit-loss component, end of period	**$10,367**	$32,503

Affiliated Associations Investment Securities
Periodically, one affiliated Association may sell loans held for sale to a third party and purchase back securities collateralized by the loans sold. As the affiliated Association may not hold the investments to maturity, all or a portion of these securities are classified as AFS. The contractual maturities for AFS securities held by the affiliated Association are generally greater than ten years. The affiliated Association held no AFS securities at June 30, 2016 or December 31, 2015.

During the six months ended June 30, 2016, the affiliated Association sold AFS securities with total sales proceeds of $49.0 million, and $30.7 million during the six months ended June 30, 2016 and 2015, respectively, resulting in gains of $408 thousand and $121 thousand, respectively. No securities sold were in an other-than-temporary impaired position.

All other investments held by affiliated Associations are classified as held-to-maturity (HTM).

HTM Investment Securities

(in thousands) **As of June 30, 2016**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Government guaranteed instruments	**$1,447,329**	**$12,009**	**$50,194**	**$1,409,144**	**2.4%**
Farmer Mac mortgage-backed securities	**334,426**	**5,910**	**1**	**340,335**	**4.2%**
Agricultural and Rural Community bonds	**7,228**	**--**	**1**	**7,227**	**1.9%**
Total	**$1,788,983**	**$17,919**	**$50,196**	**$1,756,706**	**2.7%**

(in thousands) **As of December 31, 2015**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Government guaranteed instruments	$1,420,940	$12,351	$43,507	$1,389,784	2.3%
Farmer Mac mortgage-backed securities	275,990	1,338	2,115	275,213	4.3%
Agricultural and Rural Community bonds	7,230	--	4	7,226	1.8%
Total	$1,704,160	$13,689	$45,626	$1,672,223	2.6%

The investments were evaluated for OTTI. No securities were other-than-temporarily impaired as of June 30, 2016 or December 31, 2015.

Other Investments

One affiliated Association holds non-controlling investments in venture capital equity funds of $8.3 million and $7.9 million at June 30, 2016 and December 31, 2015, respectively. These investments represent the affiliated Association's ownership in venture capital equity funds focused on the needs of rural start-up companies. There was $1.5 million of remaining commitment to the funds at June 30, 2016.

AgriBank and certain affiliated Associations are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. As of June 30, 2016 and December 31, 2015, $23.0 million and $19.0 million, respectively, were invested by AgriBank and certain affiliated Associations.

These other investments were evaluated for impairment. No impairments were recognized on these investments during the six months ended June 30, 2016 or 2015. Other investments are included in "Other assets" on the Combined Statements of Condition.

NOTE 4

Capital

Regulatory Capital Requirements and Ratios

	Regulatory Minimums	**June 30 2016**	December 31 2015
Permanent capital ratio	7.0%		
AgriBank		**21.2%**	20.8%
Affiliated Associations		**14.4% - 22.5%**	14.8% - 21.0%
District Association weighted average		**16.3%**	16.2%
Total surplus ratio	7.0%		
AgriBank		**18.0%**	17.9%
Affiliated Associations		**14.2% - 20.3%**	14.6% - 19.6%
District Association weighted average		**16.0%**	16.0%
Core surplus ratio	3.5%		
AgriBank		**12.3%**	12.1%
Affiliated Associations		**11.9% - 20.3%**	12.3% - 19.6%
District Association weighted average		**15.8%**	15.8%
AgriBank net collateral ratio*	104.0%	**105.8%**	105.8%

* FCA regulations require AgriBank to maintain a net collateral ratio of at least 103.0%. However, AgriBank is required by FCA to maintain a higher minimum of 104.0% during any period in which subordinated notes are outstanding.

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 ratio ratios. The final rule also replaces the existing net collateral ratio with a tier 1 leverage ratio and is applicable to all banks and associations. 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 changes the capital treatment of AgriBank subordinated notes. The terms of AgriBank's subordinated notes provide that, at any time following FCA notification of certain changes to AgriBank's regulatory capital requirements, the subordinated notes are redeemable in whole at par on any interest payment date. On July 15, 2016, AgriBank redeemed all $500 million of outstanding subordinated notes at par value.

Protected participation certificates of $271 thousand and $282 thousand are included in Capital Stock and Participation Certificates on the Statements of Changes in Shareholders' Equity as of June 30, 2016 and December 31, 2015, respectively.

NOTE 5

Employee Benefit Plans

AgriBank and affiliated Associations participate in District-wide employee benefit plans.

Components of Net Periodic Benefit Cost

(in thousands)	**2016**		2015	
For the six months ended June 30,	**Pension Benefits**	**Other Benefits**	Pension Benefits	Other Benefits
Service cost	**$15,303**	**$226**	$15,043	$279
Interest cost	**23,168**	**542**	25,297	696
Expected return on plan assets	**(29,668)**	**--**	(27,810)	--
Amortization of prior service cost	**(560)**	**(222)**	(632)	(230)
Actuarial loss (gain)	**20,045**	**(221)**	21,890	(10)
Settlements	**2,330**	**--**	--	--
Net periodic benefit cost	**$30,618**	**$325**	$33,788	$735

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 10 in the 2015 Annual Report for a more complete description of the Employee Benefit Plans.

For the six months ended June 30, 2016, District employers have contributed $30.0 million to fund Pension Benefits. District employers anticipate contributing an additional $35.0 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.

For the six months ended June 30, 2016, District employers have contributed $697 thousand for Other Benefits. District employers anticipate contributing an additional $922 thousand for Other Benefits in 2016.

NOTE 6

Commitments and Contingencies

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

AgriBank and affiliated Associations may, from time to time, be named as defendants in certain lawsuits or legal actions in the normal course of business. As of June 30, 2016 one affiliated Association had a contingent liability of $2.1 million related to an ongoing litigation in which they are involved. At the date of these Combined Financial Statements, management teams were not aware of any other material actions. However, AgriBank and affiliated Association management cannot ensure that such actions or other contingencies will not arise in the future.

While primarily liable for its portion of System-wide bonds and notes, AgriBank is 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 June 30, 2016 was $254.6 billion.

NOTE 7

Fair Value Measurements

AgriBank and affiliated Associations 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, unfunded loan commitments, standby letters of credit 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 Combined Statements of Condition. These assets and liabilities consist of cash, investments held-to-maturity, non-impaired loans, other earning assets, bonds and notes, subordinated notes and commitments to extend credit and letters of credit. Refer to Note 14 in the District's 2015 Annual Report for descriptions of the valuation methodologies used 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 June 30, 2016	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets:				
Federal funds	$ --	$410,009	$ --	$410,009
AgriBank investments available-for-sale:				
Mortgage-backed securities	--	5,583,974	61,551	5,645,525
Commercial paper and other	--	5,077,970	--	5,077,970
U.S. Treasury securities	--	3,858,027	--	3,858,027
Asset-backed securities	--	708,950	--	708,950
Total investments available-for-sale	--	15,228,921	61,551	15,290,472
Cash collateral pledged to counterparties	105,305	--	--	105,305
Derivative assets	72	1,823	--	1,895
Total assets	$105,377	$15,640,753	$61,551	$15,807,681
Liabilities:				
Derivative liabilities	--	164,068	--	164,068
Total liabilities	$ --	$164,068	$ --	$164,068

(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
AgriBank 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	33,323	--	--	33,323
Derivative assets	--	777	--	777
Total assets	$33,323	$15,612,389	$78,396	$15,724,108
Liabilities:				
Derivative liabilities	32	52,002	--	52,034
Total liabilities	$32	$52,002	$ --	$52,034

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	**415**	**5,566**	**5,981**
Included in other comprehensive income	**(280)**	**(5,957)**	**(6,237)**
Sales	**(1,417)**	**(7,318)**	**(8,735)**
Settlements	**(7,605)**	**(249)**	**(7,854)**
Balance at June 30, 2016	**$61,551**	**$ --**	**$61,551**
Balance at December 31, 2014	$124,890	$33,716	$158,606
Total gains (losses) realized/unrealized:			
Included in earnings	1,146	105	1,251
Included in other comprehensive income	(1,384)	(402)	(1,786)
Sales	(16,729)	(12,940)	(29,669)
Settlements	(9,981)	(4,267)	(14,248)
Balance at June 30, 2015	$97,942	$16,212	$114,154

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

Non-Recurring Measurements

Assets Measured at Fair Value on a Non-recurring Basis

	As of June 30, 2016				For the six months ended June 30, 2016
	Fair Value Measurement Using			Total Fair	Total
(in thousands)	Level 1	Level 2	Level 3	Value	Losses
Impaired Loans	**$ --**	**$37,055**	**$66,921**	**$103,976**	**$(29,687)**
Other property owned	**--**	**--**	**12,739**	**12,739**	**(475)**

	As of December 31, 2015				For the six months ended June 30, 2015
	Fair Value Measurement Using			Total Fair	Total
(in thousands)	Level 1	Level 2	Level 3	Value	Losses
Impaired Loans	$ --	$34,441	$58,624	$93,065	$(18,820)
Other property owned	--	--	13,573	13,573	(1,128)

Other Financial Instrument Measurements

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

(in thousands) **As of June 30, 2016**	**Total Carrying Amount**	**Fair Value Measurement Using**			**Total Fair Value**
		Level 1	**Level 2**	**Level 3**	
Assets:					
Cash	**$233,964**	**$233,964**	**$ --**	**$ --**	**$233,964**
Investments held-to-maturity	**1,788,983**	**--**	**346,385**	**1,410,321**	**1,756,706**
Net non-impaired loans	**96,676,065**	**--**	**--**	**98,036,997**	**98,036,997**
Total assets	**$98,699,012**	**$233,964**	**$346,385**	**$99,447,318**	**$100,027,667**
Liabilities:					
Bonds and notes	**$94,681,315**	**$ --**	**$ --**	**$95,200,607**	**$95,200,607**
Subordinated notes	**598,042**	**--**	**--**	**612,009**	**612,009**
Unfunded loan commitments	**22,211**	**--**	**--**	**22,211**	**22,211**
Total liabilities	**$95,301,568**	**$ --**	**$ --**	**$95,834,827**	**$95,834,827**
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		**$ --**	**$ --**	**$(27,945)**	**$(27,945)**

(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	$596,730	$596,730	$ --	$ --	$596,730
Investments held-to-maturity	1,712,097	--	390,435	1,289,725	1,680,160
Net non-impaired loans	94,570,034	--	--	94,607,252	94,607,252
Total assets	$96,878,861	$596,730	$390,435	$95,896,977	$96,884,142
Liabilities:					
Bonds and notes	$93,404,251	$ --	$ --	$93,319,254	$93,319,254
Subordinated notes	597,775	--	--	713,785	713,785
Unfunded loan commitments	16,445	--	--	16,445	16,445
Total liabilities	$94,018,471	$ --	$ --	$94,049,484	$94,049,484
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		$ --	$ --	$(27,863)	$(27,863)

NOTE 8

Derivative and Hedging Activity

Use of Derivatives

AgriBank maintains 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. AgriBank's 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. AgriBank considers 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.

AgriBank primarily enters 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. AgriBank uses various derivative instruments as follows:

- Interest rate swaps allow AgriBank to change characteristics of fixed or floating debt issued by swapping to a synthetic fixed or floating rate lower than those available if borrowings were made directly. Under interest rate swap arrangements, AgriBank agrees 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 AgriBank to manage the impact of changing interest rates on certain assets and liabilities.
- AgriBank also facilitates 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. AgriBank manages the interest rate risk from customer swaps with the execution of offsetting interest rate swap transactions.

AgriBank 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	**664**	**390**	**1,400**	**--**	**2,454**
Maturities/amortization	**--**	**--**	**(800)**	**--**	**(800)**
Balance at June 30, 2016	**$2,214**	**$1,913**	**$3,100**	**$35**	**$7,262**
Balance at December 31, 2014	$1,550	$1,235	$1,150	$40	$3,975
Additions	500	115	--	615	1,230
Maturities/amortization	(250)	(100)	(100)	--	(450)
Forward starting becoming effective	--	20	600	(620)	--
Balance at June 30, 2015	$1,800	$1,270	$1,650	$35	$4,755

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

By using derivative products, AgriBank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, AgriBank's credit risk will equal the fair value gain in a derivative. To minimize the risk of credit losses, for non-customer bilateral derivatives AgriBank deals only with counterparties that have an investment-grade or better credit rating from a rating agency and monitors the credit standing and levels of exposure to individual counterparties. At June 30, 2016 AgriBank does not anticipate nonperformance by any of these counterparties. AgriBank typically enters into master agreements that contain netting provisions. All derivative contracts are supported by bilateral collateral agreements with counterparties. As of June 30, 2016, certain derivatives were in a negative fair value position, requiring AgriBank to post cash collateral of $14.2 million to counterparties.

AgriBank 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 June 30, 2016, initial margin pledged to counterparties was $21.3 million, and variation margin pledged to counterparties was $68.5 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.

AgriBank's derivative activities are monitored by its Asset-Liability Committee (ALCO) as part of the Committee's oversight of AgriBank's asset/liability and treasury functions. The hedging strategies are developed within limits established by the AgriBank Board of Directors through analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into overall interest rate risk-management strategies. Refer to Note 15 of the 2015 Annual Report for additional information regarding counterparty risk and AgriBank's risk mitigation practices.

One affiliated Association is party to derivative financial instruments called to-be-announced (TBAs) securities to manage exposure to interest rate risk and changes in the fair value of forward loans held for sale and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined. The margin pledged to the counterparty was $1.3 million as of June 30, 2016 and December 31, 2015.

Financial Statement Impact of Derivatives

Refer to Notes 2 and 15 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 derivative contracts are presented as “Derivative assets” and “Derivative liabilities” on the Combined Statements of Condition, and are presented net for counterparties with master netting agreements.

	June 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	$17,479	$ --	$13,480	$649
Pay-fixed and amortizing pay-fixed swaps	--	172,941	3,380	64,587
Floating-for-floating and amortizing floating-for-floating swaps	--	6,743	151	3,368
Total derivatives designated as hedging instruments	17,479	179,684	17,011	68,604
Derivatives not designated as hedging instruments:				
Pay-fixed and amortizing pay-fixed swaps	--	1,400	40	305
Other derivative products	1,670	463	562	32
Total derivatives not designated as hedging instruments	1,670	1,863	602	337
Credit valuation adjustments	225	--	71	--
Total gross amounts of derivatives	$19,374	$181,547	$17,684	$68,941
Gross amounts offset in Combined Statements of Condition	(17,479)	(17,479)	(16,907)	(16,907)
Net amounts in Combined Statements of Condition	$1,895	$164,068	$777	$52,034

(in thousands)	June 30, 2016	December 31, 2015
Derivative assets, net	$1,895	$777
Derivative liabilities, net	(164,068)	(52,034)
Accrued interest receivable on derivatives, net	2,572	2,426
Gross amounts not offset in Combined Statements of Condition:		
Cash collateral pledged to counterparties	105,305	33,323
Net exposure amounts	$(54,296)	$(15,508)

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

Fair-Value Hedges: AgriBank recorded $506 thousand of losses related to swaps for the six months ended June 30, 2016, compared to $411 thousand of gains for the same period in 2015. The gains and losses on the derivative instruments are recognized in “Interest expense” on the Combined 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 six months ended June 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 and Amount Excluded from Effectiveness Testing (Ineffective Portion)**
Pay-fixed and amortizing pay-fixed swaps	**$(111,735)**	**$ --**	**$ --**
Floating-for-floating and amortizing floating-for-floating swaps	**(3,526)**	**--**	**(47)**
Total	**$(115,261)**	**$ --**	**$(47)**

(in thousands) For the six months ended June 30, 2015 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain Recognized in Income on Derivatives and Amount Excluded from Effectiveness Testing (Ineffective Portion)
Pay-fixed and amortizing pay-fixed swaps	$19,897	$(27)	$2
Floating-for-floating and amortizing floating-for-floating swaps	1,064	--	--
Other derivative products	(36)	(36)	--
Total	$20,925	$(63)	$2

Derivatives not Designated as Hedges: For the six months ended June 30, 2016, AgriBank and one affiliated Association recorded $2.5 million of net losses related to swaps and TBAs. This was compared to $90 thousand of net gains for the same period in 2015. The gains and losses on the derivative instruments are recognized in "Miscellaneous income and other gains, net" on the Combined 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	Employee Benefit Plans Activity	Total
Balance at December 31, 2014	$4,687	$15,191	$(64,861)	$(504,722)	$(549,705)
Other comprehensive income (loss) before reclassifications	3,410	(429)	20,925	--	23,906
Amounts reclassified from accumulated other comprehensive income	1,188	(2,560)	63	21,018	19,709
Net other comprehensive income (loss)	4,598	(2,989)	20,988	21,018	43,615
Balance at June 30, 2015	$9,285	$12,202	$(43,873)	$(483,704)	$(506,090)
Balance at December 31, 2015	$(31,002)	$10,561	$(64,424)	$(531,234)	$(616,099)
Other comprehensive income (loss) before reclassifications	**60,051**	**(161)**	**(115,261)**	**--**	**(55,371)**
Amounts reclassified from accumulated other comprehensive income	**174**	**(6,155)**	**--**	**19,041**	**13,060**
Net other comprehensive income (loss)	**60,225**	**(6,316)**	**(115,261)**	**19,041**	**(42,311)**
Balance at June 30, 2016	**$29,223**	**$4,245**	**$(179,685)**	**$(512,193)**	**$(658,410)**

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 Combined Statements of Comprehensive Income
For the six months ended June 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, net	**174**	1,115	Miscellaneous income and other gains, net
	174	1,188	
Other-than-temporarily-impaired investments:			
Realized gain on sale of investment securities	**(6,155)**	(2,560)	Miscellaneous income and other gains, net
Derivatives and hedging activity:			
Interest rate contracts	**--**	63	Interest expense
Employee benefit plans activity:			
Prior service cost	**(782)**	(862)	Salaries and employee benefits
Actuarial loss	**19,823**	21,880	Salaries and employee benefits
	19,041	21,018	
Total reclassifications	**$13,060**	$19,709	

NOTE 10

AgriBank Only Financial Data

Statements of Condition

(in thousands)	**June 30, 2016**	December 31, 2015
Net loans	**$84,475,933**	$82,801,576
Other assets	**16,484,535**	16,705,258
Total assets	**$100,960,468**	$99,506,834
Total liabilities	**95,693,868**	94,332,718
Total shareholders' equity	**5,266,600**	5,174,116
Total liabilities and shareholders' equity	**$100,960,468**	$99,506,834

Statements of Income

	For the six months ended June 30,	
(in thousands)	**2016**	2015
Interest income	**$868,312**	$731,374
Interest expense	**587,548**	476,115
Net interest income	**280,764**	255,259
Provision for loan losses	**4,500**	3,000
Other expense, net	**(16,066)**	(10,558)
Net income	**$260,198**	$241,701
Patronage	**$146,780**	$139,252
Preferred stock dividends	**8,594**	8,594

Substantially all patronage is paid to affiliated Associations and is eliminated in combination.

NOTE 11

Subsequent Events

Subsequent events have been evaluated through August 9, 2016, which is the date the Combined Financial Statements were available to be issued.

- On July 15, 2016, AgriBank redeemed all $500 million of outstanding subordinated notes at par value. Refer to Note 4 for additional information related to the redemption of AgriBank's subordinated notes.
- Effective August 1, 2016, William J. Thone has been named interim Chief Executive Officer (CEO) of AgriBank following the departure of Bill York, who left AgriBank as CEO on July 25, 2016.

There have been no other material subsequent events that would require recognition in the Combined Quarterly Financial Statements or disclosure in the Notes to those Financial Statements.

AgriBank
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