CoBank

COBANK DISTRICT

2015 FINANCIAL INFORMATION

District Financial Information
December 31, 2015

District Financial Information

CoBank, ACB and Affiliated Associations

Introduction and District Overview

CoBank, ACB (CoBank, the Bank, we, our, or us) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to support agriculture, rural infrastructure and rural communities across the United States. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise. CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA).

We are cooperatively owned by our U.S. customers. Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural energy, communications and water cooperatives and companies; rural community facilities; farmer-owned financial institutions including Agricultural Credit Associations and Federal Land Credit Associations (Associations); and other businesses that serve agriculture and rural communities. The Associations originate and service long-term real estate mortgage loans as well as short- and intermediate-term loans for agricultural purposes. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

We are chartered by the FCA to serve the Associations that provide credit and related financial services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. We collectively refer to these entities as our affiliated Associations. Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities). Therefore, we are the primary funding source for our affiliated Associations. As of January 1, 2016, we have 24 affiliated Associations serving customers in 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. Accordingly, the financial information of affiliated Associations is not included in the consolidated financial statements presented in CoBank's 2015 Annual Report to Shareholders (the Annual Report). However, because of the interdependent manner in which CoBank and our affiliated Associations operate, we believe that presenting combined Bank and Association financial information is meaningful for purposes of additional analysis.

CoBank and its affiliated Associations operate under a debtor-creditor relationship evidenced by a General Financing Agreement (GFA) entered into separately with each Association. The GFA sets forth the business relationship between us and each Association and also references certain requirements contained in the Farm Credit Act and FCA regulations. The Associations' respective boards of directors are expected to establish and monitor the necessary policies and procedures to comply with all FCA regulations. In all other respects, the lending relationship with the Associations is substantially similar to that with our other borrowers.

We make loans to the Associations, which, in turn, make loans to their eligible borrowers. We have senior secured interests in substantially all of the Associations' assets, which extend to the underlying collateral of the Associations' loans to their customers. Total loans outstanding to our affiliated Associations was $39.1 billion at December 31, 2015. During 2015, $90.5 billion of advances on loans were made to our affiliated Associations and repayments totaled $87.5 billion.

We have no direct access to Association capital. Our bylaws permit our Board of Directors to set the target equity level for Association investment in the Bank within a range of 4 to 6 percent of the one-year historical average of Association borrowings. In 2015, the required investment level was 4 percent. There are no capital sharing agreements between us and our affiliated Associations.

The Financial Highlights, Management's Discussion and Analysis and the Condensed Combined Income Statements and Balance Sheets included on the following pages present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the "District." As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

Farm Credit Services Southwest, ACA Matter

In 2014, one of our affiliated Associations, Farm Credit Services Southwest, ACA (FCSSW), noted a sudden significant increase in delinquencies in a discrete portion of its retail lending portfolio. An in-depth investigation directed by a special investigative committee of the FCSSW board of directors identified material weaknesses in internal controls relating to credit origination, administration, servicing and cash management procedures. As a result, it was determined that certain loans were made to ineligible borrowers under the Farm Credit Act and/or were inadequately secured. In October 2014, the board of directors and management of FCSSW announced that FCSSW's financial statements as of and for the year ended December 31, 2013, and the prior years included therein, as well as the three months ended March 31, 2014 and the six months ended June 30, 2014 could no longer be relied upon. In July 2015, FCSSW published restated financial reports for the above-mentioned periods. Effective November 1, 2015, FCSSW became a wholly-owned subsidiary of Farm Credit West, ACA, another of our affiliated Associations.

As a result of the matters described above, the District's unaudited, condensed combined financial statements for the year ended December 31, 2014 include out-of-period adjustments to the provision for loan losses of $47.0 million, charge-offs of $42.0 million and the transfer of $62.0 million in loans to nonaccrual status, $20.0 million of which remained in nonaccrual loans at year-end 2014. The District's unaudited, condensed combined financial statements for the year ended December 31, 2015 include out-of-period adjustments to the provision for loan losses of $2.4 million and the transfer of $4.7 million in loans to nonaccrual status. Such errors are not material to the current and historical District unaudited, condensed combined financial statements.

Financial Highlights

($ in Thousands)

As of December 31,	2015	2014	2013
Total Loans	**$ 98,382,641**	$ 89,132,415	$ 81,602,878
Less: Allowance for Loan Losses	**745,522**	749,257	739,745
Net Loans	**97,637,119**	88,383,158	80,863,133
Total Assets	**127,644,371**	116,918,704	106,306,625
Total Shareholders' Equity	**16,127,219**	15,139,164	13,973,480

Year Ended December 31,	2015	2014	2013
Net Interest Income	**$ 2,570,513**	$ 2,451,105	$ 2,337,151
Provision for Loan Losses/(Loan Loss Reversal)	**28,452**	32,972	(23,385)
Net Fee Income	**128,114**	132,408	147,176
Net Income	**1,667,019**	1,577,755	1,576,970
Net Interest Margin	**2.22 %**	2.26 %	2.33 %
Return on Average Assets	**1.40**	1.42	1.54
Return on Average Total Shareholders' Equity	**10.43**	10.76	11.63
Average Loans	**$ 92,245,347**	$ 85,030,096	$ 79,529,070
Average Earning Assets	**115,611,119**	108,563,098	100,152,982
Average Assets	**118,832,383**	110,748,032	102,213,961

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

Average loan volume in the District increased 8 percent to $92.2 billion in 2015 compared to $85.0 billion in 2014. The increase in average loan volume primarily reflected growth in energy, real estate mortgage, agribusiness, production and intermediate-term, and communications loans.

District net income increased by $89.3 million to $1,667 million in 2015, from $1,578 million in 2014. The increase in earnings resulted primarily from higher levels of net interest income, a lower level of losses on early extinguishments of debt, net of prepayment income, as well as gains on the sale of investment securities. These factors were partially offset by increases in operating expenses and impairment losses on investment securities in 2015.

District net interest income increased to $2,571 million in 2015 from $2,451 million in 2014. The increase in net interest income was driven by growth in average loan volume, partially offset by lower spreads in lending portfolios as well as a reduction in the Bank's net accretion of its merger-related fair value adjustments. These factors led to a decrease in the District's overall net interest margin to 2.22 percent in 2015 as compared to 2.26 percent in 2014.

The District recorded a provision for loan losses of $28.5 million in 2015, compared to $33.0 million in 2014. CoBank recorded a provision for loan losses of $10.0 million in 2015 primarily reflecting increased exposure resulting from growth in overall lending activity. In 2014, CoBank recorded a $15.0 million loan loss reversal due primarily from a decline in the level of specific reserves. The Associations recorded a net combined provision for loan losses of $18.5 million in 2015, compared to a net combined provision of $48.0 million in 2014. The net combined 2015 provision for loan losses at the Associations was driven by a provision of $19.8 million recorded at one Association primarily due to deteriorating credit quality and increased loan volume. The net combined 2014 provision for loan losses at the Associations was driven by the provision recorded at FCSSW as a result of the events discussed beginning on page 1.

Noninterest income increased $32.3 million to $283.5 million in 2015 from $251.2 million in 2014. Noninterest income is primarily composed of fee income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. The increase in noninterest income was driven by a $26.8 million decrease in losses on early extinguishments of debt, net of prepayment income. In 2014, a higher level of losses on debt extinguishments were undertaken by CoBank for balance sheet positioning purposes. CoBank sold investment securities with a combined book value of $148.3 million for gains totaling $22.6 million during 2015. In 2014, sales of investment securities at CoBank resulted in gains totaling $4.2 million. These gains were partially offset by impairments of $11.1 million recognized at CoBank during 2015 on two credit-impaired investment securities due to lower repayment cash flows resulting from loan modification activity in the underlying collateral. No impairment losses on investment securities were recorded during 2014.

Total District operating expenses increased 7 percent to $981.3 million in 2015 from $918.5 million in 2014. Employee compensation expense increased $21.5 million to $547.5 million in 2015 from $526.0 million in 2014. The increase in employee compensation was primarily due to an increase in pension expense related to lower discount rates, the adoption of new mortality assumptions for 2015, and a decrease in the rate of return assumption. Higher benefit expenses also contributed to higher employee compensation due to increases in health insurance and taxes related to an increased number of employees. Farm Credit Insurance Fund (Insurance Fund) premium expense increased by $15.5 million in 2015 due to higher premium rates and growth in average loan volume. Insurance Fund premium rates were 13 basis points of adjusted insured debt obligations during 2015 compared to 12 basis points throughout 2014. Occupancy and equipment expenses increased $7.7 million to $53.7 million in 2015 from $46.0 million in 2014 primarily due to costs related to CoBank's new corporate headquarters, which was completed in late 2015. Information technology expenses increased by $4.8 million in 2015 to $62.8 million in 2015, due to greater expenditures at CoBank related to service offering enhancements and costs associated with relocating the data center to the new corporate headquarters building. Increases at the Associations related to both higher depreciation expenses on new computer equipment as well as technology service provider fees. Other operating expenses increased $15.6 million to $63.3 million in 2015 from $47.7 million in 2014 as this expense category now includes management fees paid by an affiliated Association to a non-affiliated Association with which it formed a strategic alliance effective in 2015. In 2014 and 2013, the operating expenses for this Association were reported in various operating expense categories on the combined statement of income. This change did not result in a material change in the overall level of operating expenses.

Income tax expense increased $4.1 million to $177.2 million in 2015 compared to $173.1 million in 2014. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax.

Loan Portfolio

The following table presents the District's outstanding loans classified in accordance with the FCA's loan types.

($ in Thousands)

District Loans by Loan Type

December 31,	2015	2014	2013
Real Estate Mortgage	**$ 28,720,815**	$ 26,584,467	$ 24,459,913
Non-affiliated Associations	**4,291,104**	3,847,208	3,838,682
Production and Intermediate-term	**13,866,604**	13,091,451	13,936,988
Agribusiness:			
Loans to Cooperatives	**11,790,613**	11,411,523	10,002,849
Processing and Marketing Operations	**8,225,584**	7,202,571	4,369,018
Farm Related Businesses	**1,701,660**	1,603,071	1,436,470
Communications	**4,042,813**	3,388,172	2,754,218
Energy	**15,207,910**	12,397,400	11,586,577
Water/Wastewater	**1,447,650**	1,274,346	1,131,043
Agricultural Export Finance	**4,642,753**	4,378,277	4,518,185
Rural Residential Real Estate	**899,763**	845,057	871,202
Lease Receivables	**3,375,203**	2,965,287	2,594,696
Other	**170,169**	143,585	103,037
Total	**$ 98,382,641**	$ 89,132,415	$ 81,602,878

District loan volume increased $9.3 billion to $98.4 billion at December 31, 2015, compared to $89.1 billion at December 31, 2014. The increase was primarily due to growth in energy loans driven by increased lending to electric distribution and power supply customers; increases in real estate mortgage loans at the Associations primarily due to new loans resulting from lower land values and low interest rates; increases in processing and marketing operations loans primarily resulting from increased loan demand by Association customers in the poultry, grape, timber, meat packing, dairy and nuts industries; increases in production and intermediate-term loans primarily due to new loan growth, strategic customer initiatives focused on improving their operational efficiencies and seasonal borrowing; and increases in lending to communications customers.

Portfolio Diversification

The following tables present the District's combined loan portfolio by primary business/commodity and geographic distribution, as a percent of total loans for the periods presented.

Distribution by Primary Business / Commodity

	2015	2014	2013
Fruits, Nuts and Vegetables	**14 %**	13 %	14 %
Farm Supply, Grain and Marketing	**11**	12	12
Dairy	**9**	10	10
Electric Distribution	**8**	7	7
Cattle	**6**	6	6
Forest Products	**6**	6	6
International Lending	**5**	5	5
Field Crops Except Grains	**5**	5	5
Other Farm Credit Entities	**4**	4	5
Generation and Transmission	**4**	4	4
Livestock, Fish and Poultry	**4**	4	4
Farm Related Business Services	**4**	3	3
Leasing	**3**	3	3
Rural Home	**3**	3	3
Local Telephone Exchange Carriers	**1**	1	1
Nursery, Greenhouse	**1**	1	1
Other	**12**	13	11
Total	**100 %**	100 %	100 %

Geographic Distribution

	2015	2014	2013
California	**21 %**	21 %	21 %
Texas	**7**	7	7
Kansas	**6**	6	6
Washington	**4**	5	5
New York	**4**	4	4
Colorado	**4**	4	4
Oregon	**3**	3	4
Idaho	**3**	3	3
Oklahoma	**3**	3	3
Illinois	**2**	2	2
Other (less than 2 percent each for the current year)	**38**	37	36
Total States	**95 %**	95 %	95 %
Latin America	**2**	2	2
Europe, Mideast and Africa	**1**	1	1
Other International	**2**	2	2
Total International	**5 %**	5 %	5 %
Total	**100 %**	100 %	100 %

District Financial Information
CoBank, ACB and Affiliated Associations

Loan Quality

The following table presents loans and related accrued interest receivable, classified by management at the various District entities pursuant to the FCA's Uniform Loan Classification System, as a percent of total loans and related accrued interest.

District Loan Quality

December 31,	2015	2014	2013
Acceptable	**96.39 %**	96.41 %	95.80 %
Special Mention	**2.00**	1.91	2.08
Substandard	**1.60**	1.63	2.05
Doubtful	**0.01**	0.05	0.07
Loss	**-**	-	-
Total	**100.00 %**	100.00 %	100.00 %

Loan quality within the District is very favorable, with over 96 percent of all loans and related accrued interest in the highest category of credit quality. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's retail loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply, grain marketing, electric distribution, and generation and transmission sectors.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled $520.6 million as of December 31, 2015 compared to $558.8 million at December 31, 2014. The decrease was driven by sales of dairy and cattle properties as well as payoffs of accruing restructured loans in the cattle, grain and dairy industries at three Associations. Nonperforming assets represented 0.53 percent of total District loan volume and other property owned at December 31, 2015 compared to 0.63 percent at December 31, 2014. Nonaccrual loan volume, the largest component of nonperforming assets, was 0.45 percent of total loans at December 31, 2015 compared to 0.50 percent at December 31, 2014. Accruing loans 90 days or more past due decreased to $5.1 million at December 31, 2015 from $10.1 million at December 31, 2014.

The following table displays the District's nonperforming assets for the periods presented.

($ in Thousands)

Nonperforming Assets

December 31,	2015	2014	2013
Nonaccrual Loans:			
Real Estate Mortgage	**$ 196,925**	$ 192,669	$ 226,103
Production and Intermediate-term	**81,534**	101,328	168,634
Agribusiness	**70,985**	49,703	26,625
Communications	**71,983**	56,685	78,395
Energy	**-**	28,092	19,700
Rural Residential Real Estate	**4,903**	7,130	10,705
Lease Receivables	**17,433**	6,332	5,421
Total Nonaccrual Loans	**443,763**	441,939	535,583
Accruing Restructured Loans:			
Real Estate Mortgage	**34,403**	45,985	24,533
Production and Intermediate-term	**19,415**	28,019	25,832
Agribusiness	**-**	-	3,213
Energy	**-**	-	2,707
Rural Residential Real Estate	**2,425**	2,008	1,200
Mission Related	**-**	71	-
Total Accruing Restructured Loans	**56,243**	76,083	57,485
Accruing Loans 90 Days or More Past Due:			
Real Estate Mortgage	**2,333**	4,537	4,560
Production and Intermediate-term	**1,979**	5,209	3,038
Agribusiness	**-**	-	512
Rural Residential Real Estate	**197**	98	190
Lease Receivables	**547**	239	193
Total Accruing Loans 90 Days or More Past Due	**5,056**	10,083	8,493
Total Nonperforming Loans	**505,062**	528,105	601,561
Other Property Owned	**15,579**	30,741	48,275
Total Nonperforming Assets	**$ 520,641**	$ 558,846	$ 649,836
Nonaccrual Loans as a Percentage of Total Loans	**0.45 %**	0.50 %	0.66 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	**0.53**	0.63	0.80
Nonperforming Assets as a Percentage of Capital	**3.23**	3.69	4.65

District Financial Information

CoBank, ACB and Affiliated Associations

The following tables present an aging of past due loans and related accrued interest in the District for the periods presented.

($ in Thousands)

Aging of Past Due Loans

	December 31, 2015					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 54,185	$ 61,321	$ 115,506	$ 28,871,190	$ 28,986,696	$ 2,333
Production and Intermediate-term	31,072	24,444	55,516	13,896,350	13,951,866	1,979
Agribusiness	10,880	8,196	19,076	21,769,468	21,788,544	-
Communications	-	24,913	24,913	4,026,744	4,051,657	-
Energy	-	-	-	15,264,122	15,264,122	-
Water/Waste Water	-	-	-	1,455,953	1,455,953	-
Agricultural Export Finance	-	-	-	4,655,393	4,655,393	-
Rural Residential Real Estate	6,845	2,020	8,865	894,015	902,880	197
Lease Receivables	13,209	2,418	15,627	3,360,021	3,375,648	547
Non-affiliated Associations	-	-	-	4,294,025	4,294,025	-
Other	-	-	-	170,512	170,512	-
Total	$ 116,191	$ 123,312	$ 239,503	$ 98,657,793	$ 98,897,296	$ 5,056

($ in Thousands)

Aging of Past Due Loans

	December 31, 2014					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 59,110	$ 55,028	$ 114,138	$ 26,713,611	$ 26,827,749	$ 4,537
Production and Intermediate-term	32,192	34,273	66,465	13,102,114	13,168,579	5,209
Agribusiness	1,751	8,110	9,861	20,270,079	20,279,940	-
Communications	-	1,138	1,138	3,393,996	3,395,134	-
Energy	-	21,039	21,039	12,426,120	12,447,159	-
Water/Waste Water	-	-	-	1,281,922	1,281,922	-
Agricultural Export Finance	-	-	-	4,389,165	4,389,165	-
Rural Residential Real Estate	7,639	2,736	10,375	838,410	848,785	98
Lease Receivables	8,417	1,421	9,838	2,955,853	2,965,691	239
Non-affiliated Associations	-	-	-	3,849,440	3,849,440	-
Other	71	-	71	143,816	143,887	-
Total	$ 109,180	$ 123,745	$ 232,925	$ 89,364,526	$ 89,597,451	$ 10,083

District Financial Information
CoBank, ACB and Affiliated Associations

($ in Thousands)

Aging of Past Due Loans

	December 31, 2013					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 62,204	$ 47,747	$ 109,951	$ 24,576,776	$ 24,686,727	$ 4,560
Production and Intermediate-term	45,784	66,058	111,842	13,907,985	14,019,827	3,038
Agribusiness	5,370	20,689	26,059	15,836,453	15,862,512	512
Communications	-	54,923	54,923	2,706,053	2,760,976	-
Energy	-	-	-	11,633,602	11,633,602	-
Water/Waste Water	-	-	-	1,137,639	1,137,639	-
Agricultural Export Finance	-	-	-	4,528,308	4,528,308	-
Rural Residential Real Estate	8,098	2,736	10,834	864,177	875,011	190
Lease Receivables	6,257	1,418	7,675	2,587,565	2,595,240	193
Non-affiliated Associations	-	-	-	3,840,908	3,840,908	-
Other	-	-	-	103,247	103,247	-
Total	$ 127,713	$ 193,571	$ 321,284	$ 81,722,713	$ 82,043,997	$ 8,493

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled $158.2 million at December 31, 2015.

Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at December 31, 2015 totaled $745.5 million compared to $749.3 million at December 31, 2014. Changes in the allowance included an overall provision for loan losses of $28.5 million, which is described on page 3, a $4.1 million net transfer to the reserve for unfunded commitments, net charge-offs of $14.9 million, and a $13.1 million reduction due to Association mergers. Charge-offs in 2015 were driven by an $11.9 million charge-off at one Association in the farm related business services and nursery industries as well as an $8.3 million charge-off at CoBank primarily associated with a small number of communications customers.

The following presents detailed changes in the allowance for loan losses in the District for the periods presented.

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers (to) from Reserve for Unfunded Commitments	Association Merger Impact	Balance at December 31, 2015
Real Estate Mortgage	**$ 111,585**	**$ (1,901)**	**$ 1,356**	**$ 1,979**	**$ (2,696)**	**$ (5,168)**	**$ 105,155**
Production and Intermediate-term	**142,835**	**(9,817)**	**10,225**	**(7,854)**	**1,631**	**(7,801)**	**129,219**
Agribusiness	**284,727**	**(12,297)**	**2,799**	**(15,034)**	**11,817**	**(139)**	**271,873**
Communications	**54,432**	**-**	**606**	**(998)**	**(695)**	**-**	**53,345**
Energy	**98,149**	**(5,596)**	**434**	**41,376**	**(12,958)**	**-**	**121,405**
Water/Waste Water	**9,813**	**-**	**20**	**1,988**	**(1,174)**	**(1)**	**10,646**
Agricultural Export Finance	**8,924**	**-**	**163**	**2,259**	**(53)**	**-**	**11,293**
Rural Residential Real Estate	**6,216**	**(430)**	**153**	**(273)**	**-**	**-**	**5,666**
Lease Receivables and Other	**32,576**	**(1,075)**	**422**	**5,009**	**-**	**(12)**	**36,920**
Total	**$ 749,257**	**$ (31,116)**	**$ 16,178**	**$ 28,452**	**$ (4,128)**	**$ (13,121)**	**$ 745,522**

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers (to) from Reserve for Unfunded Commitments	Association Merger Impact	Balance at December 31, 2014
Real Estate Mortgage	$ 103,685	$ (1,557)	$ 1,833	$ 31,891	$ (22,444)	$ (1,823)	$ 111,585
Production and Intermediate-term	182,301	(51,972)	8,518	6,842	688	(3,542)	142,835
Agribusiness	233,062	(1,396)	3,274	44,826	5,883	(922)	284,727
Communications	64,930	(4,087)	1,189	(11,748)	4,150	(2)	54,432
Energy	97,354	(531)	106	(35,422)	36,644	(2)	98,149
Water/Waste Water	9,425	-	-	(3,505)	3,893	-	9,813
Agricultural Export Finance	7,439	-	54	1,524	(93)	-	8,924
Rural Residential Real Estate	6,671	(408)	16	(50)	-	(13)	6,216
Lease Receivables and Other	34,878	(1,333)	418	(1,386)	-	(1)	32,576
Total	$ 739,745	$ (61,284)	$ 15,408	$ 32,972	$ 28,721	$ (6,305)	$ 749,257

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers (to) from Reserve for Unfunded Commitments	Balance at December 31, 2013
Real Estate Mortgage	$ 89,743	$ (9,101)	$ 3,121	$ 23,144	$ (3,222)	$ 103,685
Production and Intermediate-term	201,398	(28,725)	41,462	(30,818)	(1,016)	182,301
Agribusiness	255,027	(2,024)	9,477	(25,426)	(3,992)	233,062
Communications	66,265	(26)	1,061	(9)	(2,361)	64,930
Energy	93,403	(537)	26	6,571	(2,109)	97,354
Water/Waste Water	9,853	-	-	(214)	(214)	9,425
Agricultural Export Finance	6,238	-	1,213	(9)	(3)	7,439
Rural Residential Real Estate	5,519	(657)	16	1,793	-	6,671
Lease Receivables and Other	32,180	(428)	1,543	1,583	-	34,878
Total	$ 759,626	$ (41,498)	$ 57,919	$ (23,385)	$ (12,917)	$ 739,745

District Capital Resources

Combined District shareholders' equity at December 31, 2015 totaled $16.1 billion, a net increase of $1.0 billion as compared to $15.1 billion at December 31, 2014. The increase primarily resulted from District net income of $1,667 million, net issuance of preferred stock by Associations of $54.1 million and net issuance of CoBank common stock of $33.1 million. These factors were somewhat offset by accrued patronage of $642.3 million, additional other comprehensive loss of $67.3 million, and preferred stock dividends of $66.9 million.

The increase in the District's total accumulated other comprehensive loss in 2015 primarily relates to a decline in unrealized gains on CoBank's investment securities driven by interest rate fluctuations as well as changes in pension-related values primarily due to changes in underlying assumptions.

The components of the District's accumulated other comprehensive loss are detailed in the following table.

($ in Thousands)

Accumulated Other Comprehensive Income (Loss) December 31,	2015	2014	2013
Unrealized Gains on Investment Securities	**$ 48,754**	$ 94,454	$ 1,305
Net Pension Adjustment	**(342,188)**	(327,259)	(195,430)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	**(40,157)**	(33,460)	(2,246)
Accumulated Other Comprehensive Loss	**$ (333,591)**	$ (266,265)	$ (196,371)

The following table presents regulatory capital ratios for CoBank and the range of ratios at the affiliated Associations.

District Capital Ratios

	December 31, 2015			December 31, 2014			December 31, 2013		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
CoBank	**14.95%**	**14.07%**	**10.29%**	15.70%	14.81%	10.47%	16.72%	15.74%	10.82%
Associations	**13.53 - 35.97%**	**12.99 - 35.51%**	**12.99 - 30.44%**	13.40 - 35.69%	12.97 - 35.25%	12.88 - 30.09%	13.59 - 35.69%	13.41 - 35.25%	13.41 - 30.02%
Regulatory Minimum	**7.00%**	**7.00%**	**3.50%**	7.00%	7.00%	3.50%	7.00%	7.00%	3.50%

As depicted in the table above, at December 31, 2015, CoBank and all affiliated Associations exceeded the FCA's regulatory minimum capital ratios.

Although aggregated in the District's condensed financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide Debt Securities are applicable only to System banks and do not include Associations. CoBank has limited access to Association capital. There are no capital sharing agreements between CoBank and its affiliated Associations.

Association Mergers

Effective January 1, 2014, two Association mergers occurred in the CoBank District. The Federal Land Bank Association of Kingsburg, FLCA and Northern California Farm Credit, ACA, merged to form Golden State Farm Credit, ACA. Additionally, Farm Credit of Maine, ACA merged into Farm Credit East, ACA. Effective October 1, 2014, Farm Credit of Central Oklahoma, ACA, merged into Farm Credit of Western Oklahoma, ACA.

Effective January 1, 2015, Frontier Farm Credit (Frontier), one of our affiliated Associations, and Farm Credit Services of America (FCSAmerica), an Association affiliated with AgriBank, FCB, formed a strategic alliance. As part of the alliance, Frontier and FCSAmerica have integrated their day-to-day business operations, systems and leadership teams while continuing to exist as separate Associations. Each Association has its own board, with representatives participating in a coordinating committee to facilitate board governance between the two organizations. CoBank continues to serve as the funding bank for Frontier.

As previously described, effective November 1, 2015, FCSSW became a wholly-owned subsidiary of Farm Credit West, ACA, another of our affiliated Associations.

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

District Financial Information

CoBank, ACB and Affiliated Associations

Condensed Combined Statements of Income

(unaudited)

($ in Thousands)

Year Ended December 31,	2015	2014	2013
Interest Income			
Loans	**$ 3,141,004**	$ 2,937,598	$ 2,806,758
Investment Securities	**368,051**	360,144	323,746
Total Interest Income	**3,509,055**	3,297,742	3,130,504
Interest Expense	**938,542**	846,637	793,353
Net Interest Income	**2,570,513**	2,451,105	2,337,151
Provision for Loan Losses/(Loan Loss Reversal)	**28,452**	32,972	(23,385)
Net Interest Income After Provision for Loan Losses/Loan Loss Reversal	**2,542,061**	2,418,133	2,360,536
Noninterest Income			
Net Fee Income	**128,114**	132,408	147,176
Prepayment Income	**32,230**	26,269	79,258
Losses on Early Extinguishment of Debt	**(37,455)**	(58,316)	(96,839)
Gains on Sale of Investment Securities	**22,603**	4,206	-
Other-Than-Temporary Impairment Losses on Investment Securities	**(11,100)**	-	(2,500)
Other, Net	**149,060**	146,635	118,861
Total Noninterest Income	**283,452**	251,202	245,956
Operating Expenses			
Employee Compensation	**547,526**	525,990	515,743
General and Administrative	**71,759**	73,004	63,282
Information Technology	**62,810**	58,032	55,858
Insurance Fund Premium	**104,065**	88,517	67,493
Farm Credit System Related	**24,695**	26,192	24,577
Occupancy and Equipment	**53,726**	45,961	42,308
Purchased Services	**53,348**	53,129	44,069
Other	**63,323**	47,671	46,156
Total Operating Expenses	**981,252**	918,496	859,486
Income Before Income Taxes	**1,844,261**	1,750,839	1,747,006
Provision for Income Taxes	**177,242**	173,084	170,036
Net Income	**$ 1,667,019**	$ 1,577,755	$ 1,576,970

Condensed Combined Balance Sheets
(unaudited)

($ in Thousands)

As of December 31,	2015	2014	2013
Assets			
Total Loans	**$ 98,382,641**	$ 89,132,415	$ 81,602,878
Less: Allowance for Loan Losses	**745,522**	749,257	739,745
Net Loans	**97,637,119**	88,383,158	80,863,133
Cash	**3,311,777**	2,071,427	1,500,552
Investment Securities	**24,670,926**	24,529,619	21,937,745
Interest Rate Swaps and Other Financial Instruments	**294,856**	454,530	672,955
Accrued Interest Receivable and Other Assets	**1,729,693**	1,479,970	1,332,240
Total Assets	**$ 127,644,371**	$ 116,918,704	$ 106,306,625
Liabilities			
Bonds and Notes	**$ 108,052,092**	$ 98,740,184	$ 89,424,650
Subordinated Debt	**902,685**	902,205	901,726
Interest Rate Swaps and Other Financial Instruments	**112,509**	111,228	120,271
Reserve for Unfunded Commitments	**158,186**	154,058	184,137
Accrued Interest Payable and Other Liabilities	**2,291,680**	1,871,865	1,702,361
Total Liabilities	**111,517,152**	101,779,540	92,333,145
Shareholders' Equity			
Preferred Stock Issued by Bank	**1,125,000**	1,125,000	961,750
Preferred Stock Issued by Associations	**552,145**	498,020	432,022
Common Stock	**1,382,758**	1,325,998	1,278,417
Paid In Capital	**1,028,135**	894,823	654,933
Unallocated Retained Earnings	**12,372,772**	11,561,588	10,842,729
Accumulated Other Comprehensive Loss	**(333,591)**	(266,265)	(196,371)
Total Shareholders' Equity	**16,127,219**	15,139,164	13,973,480
Total Liabilities and Shareholders' Equity	**$ 127,644,371**	$ 116,918,704	$ 106,306,625

CoBANK

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