
CoBANK


ROOTED IN THE PAST
FARM CREDIT
EST. 1916
A CENTURY OF SERVICE TO RURAL AMERICA

CoBANK

FOCUSED ON THE FUTURE

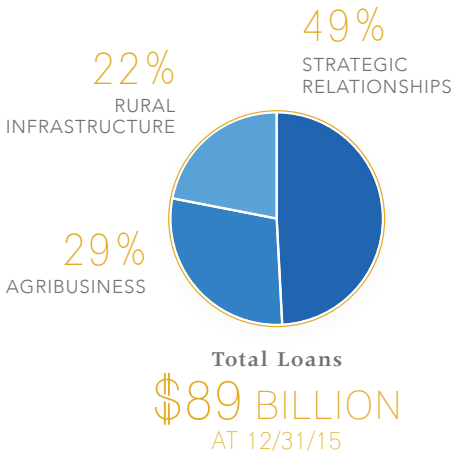
2015 ANNUAL REPORT

Financial Highlights

2015

AS AN INTEGRAL MEMBER OF THE FARM CREDIT SYSTEM, OUR MISSION IS TO SERVE AS A DEPENDABLE PROVIDER OF CREDIT AND OTHER VALUE-ADDED FINANCIAL SERVICES TO AGRICULTURE AND RURAL INFRASTRUCTURE BUSINESSES FOR THE BENEFIT OF RURAL AMERICA.

Key Metrics

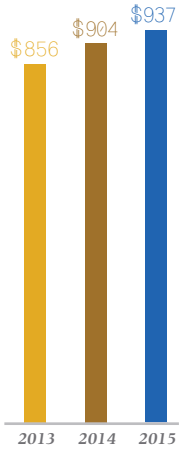


FOR THE YEAR ($ in millions)	2015	2014	2013
NET INTEREST INCOME	$ 1,273	$ 1,232	$ 1,163
PROVISION (REVERSAL) FOR LOAN LOSSES	10	(15)	–
NET INCOME	937	904	856
PATRONAGE DISTRIBUTION	514	467	415

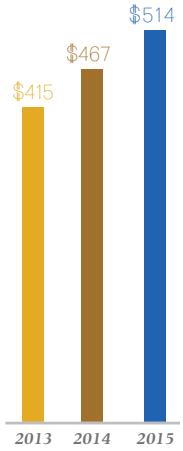
AT YEAR-END ($ in millions)	2015	2014	2013
AGRIBUSINESS	$ 26,131	$ 24,359	$ 21,182
STRATEGIC RELATIONSHIPS	43,358	39,919	37,897
RURAL INFRASTRUCTURE	19,552	16,104	14,524
TOTAL LOANS	**89,041**	80,382	73,603
ALLOWANCE FOR CREDIT LOSSES	602	597	615
TOTAL ASSETS	117,471	107,381	97,596
TOTAL SHAREHOLDERS' EQUITY	7,810	7,370	6,705

FINANCIAL RATIOS (for the year)	2015	2014	2013
RETURN ON AVERAGE COMMON EQUITY	13.57 %	14.27 %	14.40 %
RETURN ON AVERAGE ASSETS	0.86	0.89	0.91
RETURN ON ACTIVE PATRON INVESTMENT	19.76	18.59	17.53
NET INTEREST MARGIN	1.20	1.23	1.26
PERMANENT CAPITAL RATIO *(at year end)*	14.95	15.70	16.72

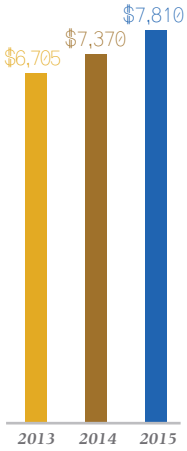
Total Assets
($ in billions)



Net Income
($ in millions)



Patronage Distribution
($ in millions)



Total Shareholders' Equity
($ in millions)

"THE YEAR 2015 WAS ONE OF EXCEPTIONAL PERFORMANCE FOR COBANK ON BEHALF OF THE CUSTOMERS WE SERVE ACROSS RURAL AMERICA."

— EVERETT M. DOBRINSKI & ROBERT B. ENGEL

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To Our Shareholders

By virtually any financial measure, the year 2015 was one of exceptional performance for CoBank on behalf of the customers we serve across rural America. Loan volume and profitability reached all-time highs. Credit quality, liquidity and capital levels remained very strong. The patronage distribution approved by our board of directors was the largest in company history.

And yet the story of success goes well beyond the numbers. At CoBank, the definition of success must always include mission service—especially at a time when the operating environment for many rural industries is becoming more difficult, and the challenges of rural communities persist. Success means standing by our customers and helping them to manage through market volatility and disruptive change. It means providing more value to our customers than dependable credit, including information and market insights that help them better understand and respond to the complex world around them. It means investing in new products and services that will benefit customers and improve their banking experience over the long term, as well as serving as a socially responsible corporate citizen. Over the past year, CoBank made solid progress in all of these areas, thanks to the leadership and encouragement provided by our board and the dedication and hard work of our employees.

We're extremely pleased to share these accomplishments in our 2015 annual report. The pages that follow provide a comprehensive overview about the performance of your bank, including year-end financials, governance information, customer profiles, and details about our various loan portfolios and the industries we serve. We hope this report provides you with a good understanding of our business and the role we play as a strategically important source of credit for the U.S. rural economy and advocate for rural communities. We also hope it provides our customers with assurance about the strength and dependability of their bank as they face a new year of challenge and opportunity.

2015 FINANCIAL RESULTS

CoBank's average loan and lease volume increased approximately 8 percent in 2015, to $83.1 billion. That growth was driven by higher levels of borrowing from affiliated Farm Credit associations, rural electric and communications service providers, and food and agribusiness customers. Net interest income increased by 3 percent, to $1.3 billion, reflecting higher loan volume partially offset by lower spreads in our loan and investment portfolios. Net income also rose 4 percent to $936.7 million, compared to $904.3 million in 2014.

Remarkably, it was CoBank's 16th consecutive year of increased profitability. We're extremely proud of that achievement, which reflects not only our growth but a continued focus on risk management and being good stewards of the resources our shareholders entrust with us. There is likely no other bank in the world with such a long track record of continuous success delivering higher earnings on behalf of its shareholders.

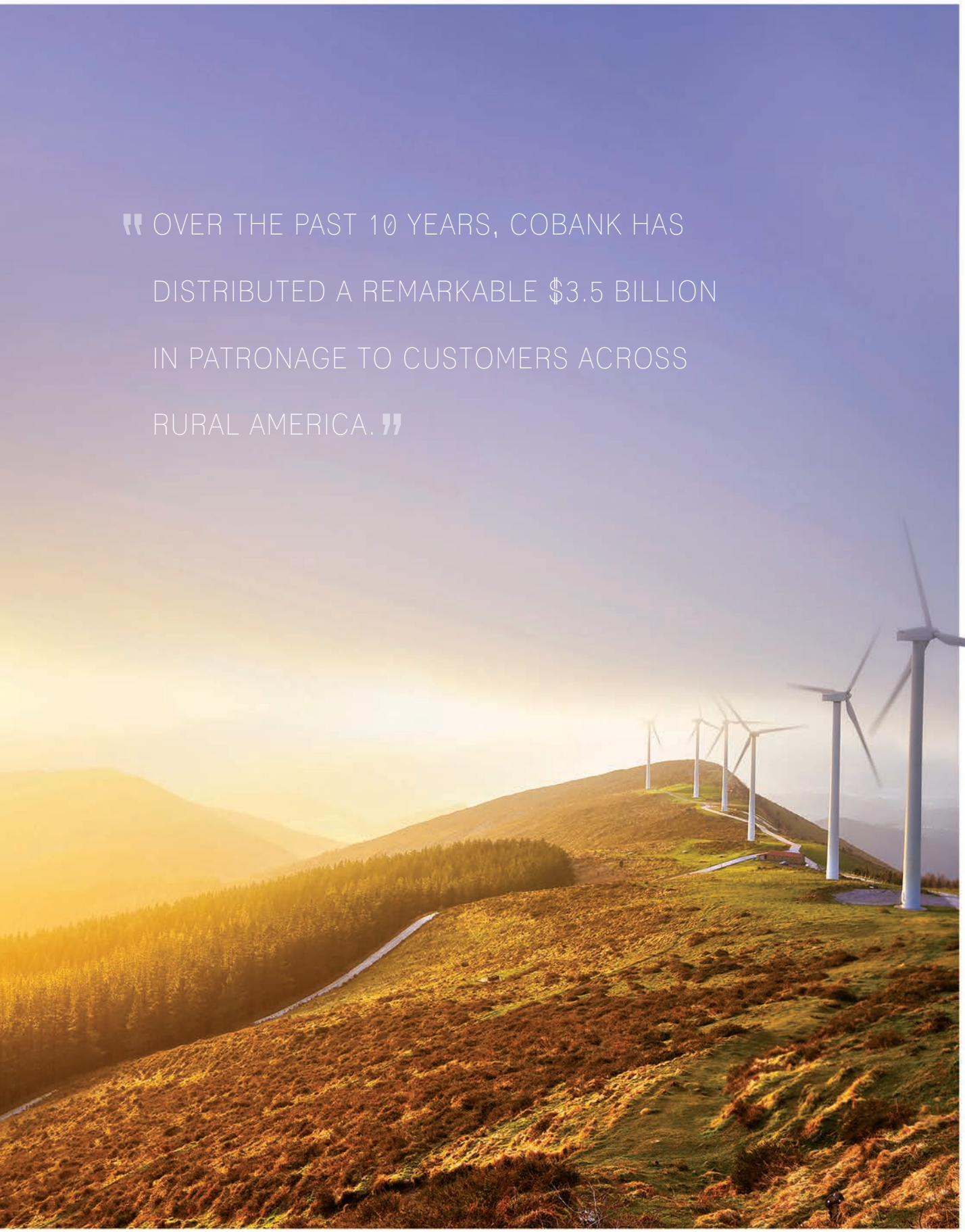
Credit quality in CoBank's loan portfolio continued to be extremely favorable, reflecting the strong performance and credit profile of our customer base. At year-end, only 0.70 percent of the bank's loans were classified as adverse assets, compared to 1.84 percent at December 31, 2014. Nonaccrual loans totaled $156.8 million, compared to $130.3 million the year before. The bank's allowance for credit losses totaled $601.6 million at year-end, providing strong protection for the bank against losses in our loan portfolio. CoBank finished the year with $7.8 billion of shareholders' equity, and our capital levels remained well in excess of regulatory minimums.

As we move into 2016, we're very pleased with the strong financial condition of the bank and its ongoing ability to meet the financing needs of its customers and fulfill its mission of service to agriculture, rural infrastructure and rural communities.

"WE'RE VERY PLEASED WITH THE STRONG FINANCIAL CONDITION OF THE BANK AND ITS ONGOING ABILITY TO MEET THE FINANCING NEEDS OF ITS CUSTOMERS."

Robert B. Engel
Chief Executive Officer

Everett M. Dobrinski
Chairman



"OVER THE PAST 10 YEARS, COBANK HAS DISTRIBUTED A REMARKABLE $3.5 BILLION IN PATRONAGE TO CUSTOMERS ACROSS RURAL AMERICA."

PATRONAGE

Patronage payouts for 2015 will total a record $514.1 million—over half of the bank's earnings for the year. Under CoBank's patronage plan for cooperatives and other eligible borrowers, customers receive 100 basis points of their average qualifying loan balance from the bank, 75 percent of which is paid in cash. The remaining 25 percent is distributed in CoBank stock until customers meet their equity requirement. Meanwhile, affiliated Farm Credit associations receive 45 basis points in cash under their own patronage plan.

We think it's hard to overstate the value our customers derive from CoBank's patronage plans. Cash patronage reduces their overall cost of capital—and is especially meaningful in the ongoing low interest rate environment. The stock component of their patronage enables them to build an equity stake in the bank over time and to have a voice in the governance of our business.

Over the past 10 years, CoBank has distributed a remarkable $3.5 billion in patronage to customers across rural America, highlighting once again the enduring power of the cooperative model. Few other businesses have returned more monetary value to America's rural industries than CoBank over that same time frame.

GOVERNANCE AND BOARD RESTRUCTURING

In 2015, CoBank shareholders approved changes to our governance bylaws that had been proposed as part of a formal governance review process that our board undertakes every five years. The changes will be implemented gradually over a four-year period ending in 2020 and include the following:

- Reducing the number of elected directors from 24 to 14. The size of our board increased dramatically following CoBank's merger with U.S. AgBank in 2012, and this change brings us closer to historical norms;
- Increasing the maximum number of appointed board members from three to four in order to enhance the board's flexibility to fill in skill and experience gaps as well as ensure a strong diversity of viewpoints. In addition, the board will continue to have two outside directors with no customer or Farm Credit System affiliations;
- Modifying board experience requirements so there is more balanced representation between directors with agricultural, rural infrastructure and Farm Credit backgrounds.

Other key aspects of CoBank's governance structure remain unchanged. We are maintaining our existing six voting regions, as well as an even balance between board seats elected on a one-member-one-vote basis and those elected on a modified equity basis. Most importantly, our board members will continue to be drawn from the rural industries we serve, and reflect our enduring commitment to CoBank's mission and the needs of rural America.

MISSION FULFILLMENT AND CORPORATE SOCIAL RESPONSIBILITY

As a mission-based financial cooperative, CoBank makes every effort to embody the cooperative principle of "Concern for Community." The bank has been fortunate to experience very strong financial results in recent years, and our board believes we have an obligation to share that success with people and communities in need. To that end, we contributed approximately $8.4 million to nonprofit organizations during 2015 (including commitments for future years), along with an additional $2.4 million in commercial sponsorships and industry advocacy.

A substantial majority of our contributions and sponsorships are targeted to promote the health, vibrancy and development of America's rural industries and communities. In partnership with customers, Farm Credit institutions and other stakeholders, we support large, medium and small nonprofit organizations in rural areas across the U.S. We contribute to dozens of land grant and other universities by funding research, scholarships and programs focused on agriculture, energy and other rural industries. And we sponsor hundreds of trade groups and trade associations that advocate the policy interests of the customers and industries we serve.

Mission fulfillment at CoBank takes other forms as well. We have formal programs in place designed to ensure we serve the full continuum of borrowers in each of our industry segments, from large, established enterprises with substantial capital needs to smaller cooperatives and other businesses that are just starting out. We've invested tens of millions of dollars in equity funds that promote economic development and job creation in rural communities. We continue to pursue public-private partnership opportunities with the U.S. Department of Agriculture and other federal agencies in order to accelerate the flow of capital to rural America.

More information about all of these programs is available in our 2015 corporate social responsibility report, which is being published and distributed to customers as a companion to our annual report. That document, entitled "Growing Rural America," is one we hope you will take time to review in detail. As you'll see, the investments that CoBank is making are having a significant positive impact on the ground and helping to promote the continued strength and development of the nation's rural economy.

"OUR COOPERATIVE STRUCTURE ENSURES WE REMAIN ALIGNED WITH AND FOCUSED ON THE NEEDS OF OUR CUSTOMERS—AS BOTH CUSTOMERS AND SHAREHOLDERS—AND ON BUILDING THE FINANCIAL AND OPERATIONAL CAPACITY OF THE BANK FOR THE LONG TERM."

FARM CREDIT: A CENTURY OF SERVICE TO RURAL AMERICA

CoBank is a proud member of the Farm Credit System, a nationwide network of cooperatively owned banks and lending associations specifically chartered to serve rural communities and agriculture. Through Farm Credit, CoBank enjoys ready access to the capital markets that fund our loans as well as substantial lending capacity through partnerships with other System institutions. It is an important component of the overall value proposition that we provide to our customers.

This year marks the centennial anniversary of the Farm Credit System, which was established by Congress in 1916 to ensure that farmers, ranchers, cooperatives and other rural borrowers had consistent, reliable access to loans and financial services. Since its founding, Farm Credit has evolved considerably. It began with only $9 million in assets; today, it has over $300 billion in total assets and is the leading provider of credit to agriculture and other rural industries. In addition to production loans, farmland mortgages and other forms of credit, System institutions including CoBank now offer cash management, online banking, mobile banking, risk management tools, and other modern financial products and services that were unimaginable back in the early years. Nonetheless, Farm Credit's essential characteristics remain the same: It is cooperatively owned, mission-oriented and focused exclusively on the needs of rural America.

The theme of our annual report—"Rooted in the Past, Focused on the Future"—is meant to honor Farm Credit's long history of service to rural America and the role CoBank has played financing essential rural industries that make the quality of life in America better for everyone. We're proud of the positive difference the Farm Credit System has made in agriculture, rural infrastructure and rural communities over the past 100 years, and we look forward to the next century of service and success.

BUSINESS OUTLOOK

As we begin 2016, it's clear that the U.S. rural economy faces a number of significant headwinds that are likely to persist for the foreseeable future. Lower prices for agricultural commodities are exerting downward pressure on farm incomes and farmland values. The strength of the dollar against other currencies is making U.S. ag products and other exports less competitive in the global marketplace. The economy in China—a key source of demand growth for American producers in recent years—is decelerating. Rural power providers are dealing with environmental regulation and stagnant demand as well as the challenges to the utility business model presented by distributed generation technology. Rural communications companies continue to deal with intense competition and disruptive technology change, and rural water providers need to invest tens if not hundreds of billions of dollars to replace aging infrastructure while finding ways to comply with more stringent water quality standards. Meanwhile, the precipitous decline in the price of oil has decimated the U.S. fracking industry, which has been a huge driver of investment and jobs in rural areas over the past several years. It all represents a major reversal from just a few years ago, when robust commodity prices, strong foreign demand and a weaker dollar were helping rural industries lead the broader U.S. economy out of the Great Recession.

CoBank also faces its own set of difficult challenges. Competition for the business of our customers from banks and other lenders remains intense and negatively impacts our margins. Low interest rates and a flatter yield curve have reduced our returns on invested capital. At the same time, we must continue to make investments in people, processes and systems that will maintain the safety and soundness of the bank and enhance the overall experience we provide to our customers.

That's why all of us at CoBank are so thankful to be organized as a cooperative. Our cooperative structure ensures we remain aligned with and focused on the needs of our customers—as both customers and shareholders—and on building the financial and operational capacity of the bank for the long term. While the year ahead will be more challenging for CoBank from an earnings standpoint, we are highly confident in the ability of the bank to meet the important promises we make to our customers and fulfill all aspects of our broad mission of service to rural America.

As always, we remain grateful for the enormous trust our customers place in CoBank as their financial partner. We thank you for your ongoing support and look forward to reporting back to you on our future progress.

Everett M. Dobrinski
Chairman

Robert B. Engel
Chief Executive Officer

"OUR BOARD MEMBERS ARE DRAWN FROM THE RURAL INDUSTRIES WE SERVE AND REFLECT OUR ONGOING COMMITMENT TO COBANK'S MISSION."

EVERETT M. DOBRINSKI
Chairman

Occupation: Farming
Hometown: Makoti, ND

DANIEL T. KELLEY
1st Vice Chair

Occupation: Farming
Hometown: Normal, IL

KEVIN A. STILL
2nd Vice Chair

Occupation:
Agribusiness cooperative management
Hometown: Danville, IN

ROBERT M. BEHR

Occupation:
Agribusiness cooperative management
Hometown: Lakeland, FL

M. DAN CHILDS

Occupation: Farming and livestock
Hometown: Mannsville, OK

WILLIAM M. FARROW, III

Occupation: Banking
Hometown: Chicago, IL

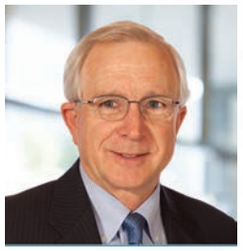
BENJAMIN J. FREUND

Occupation: Farming
Hometown: East Canaan, CT

ANDREW J. GILBERT

Occupation: Farming
Hometown: Potsdam, NY

J. LESS GUTHRIE



Occupation: Farming and ranching
Hometown: Porterville, CA

JAMES A. KINSEY

Occupation: Livestock
Hometown: Flemington, WV

DAVID J. KRAGNES

Occupation: Farming
Hometown: Felton, MN

JAMES R. MAGNUSON

Occupation:
Agribusiness cooperative management
Hometown: Sully, IA

JON E. MARTHEDAL

Occupation: Farming
Hometown: Fresno, CA

GARY A. MILLER

Occupation:
Electric cooperative management
Hometown: Douglasville, GA

CATHERINE MOYER

Occupation:
Rural communications management
Hometown: Ulysses, KS

ALARIK MYRIN

Occupation: Farming and ranching
Hometown: Altamont, UT

RONALD J. RAHJES

Occupation: Farming
Hometown: Kensington, KS

DAVID L. REINDERS

Occupation:
Agribusiness cooperative management
Hometown: Sunray, TX

KEVIN G. RIEL

Occupation: Farming
Hometown: Yakima, WA

CLINT E. ROUSH

Occupation: Farming and livestock
Hometown: Arapaho, OK

BARRY M. SABLOFF

Occupation: Retired, commercial banking
Hometown: Chicago, IL

STEPHANIE HERSETH SANDLIN

Occupation: General Counsel
Hometown: Sioux Falls, SD

KAREN L. SCHOTT

Occupation: Farming
Hometown: Broadview, MT

KENNETH W. SHAW

Occupation: Livestock
Hometown: Mountainair, NM

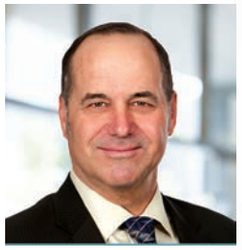
RICHARD W. SITMAN

Occupation:
Electric cooperative director
Hometown: Kentwood, LA

WILLIAM A. SQUIRES

Occupation:
Rural communications management
Hometown: Missoula, MT

EDGAR A. TERRY



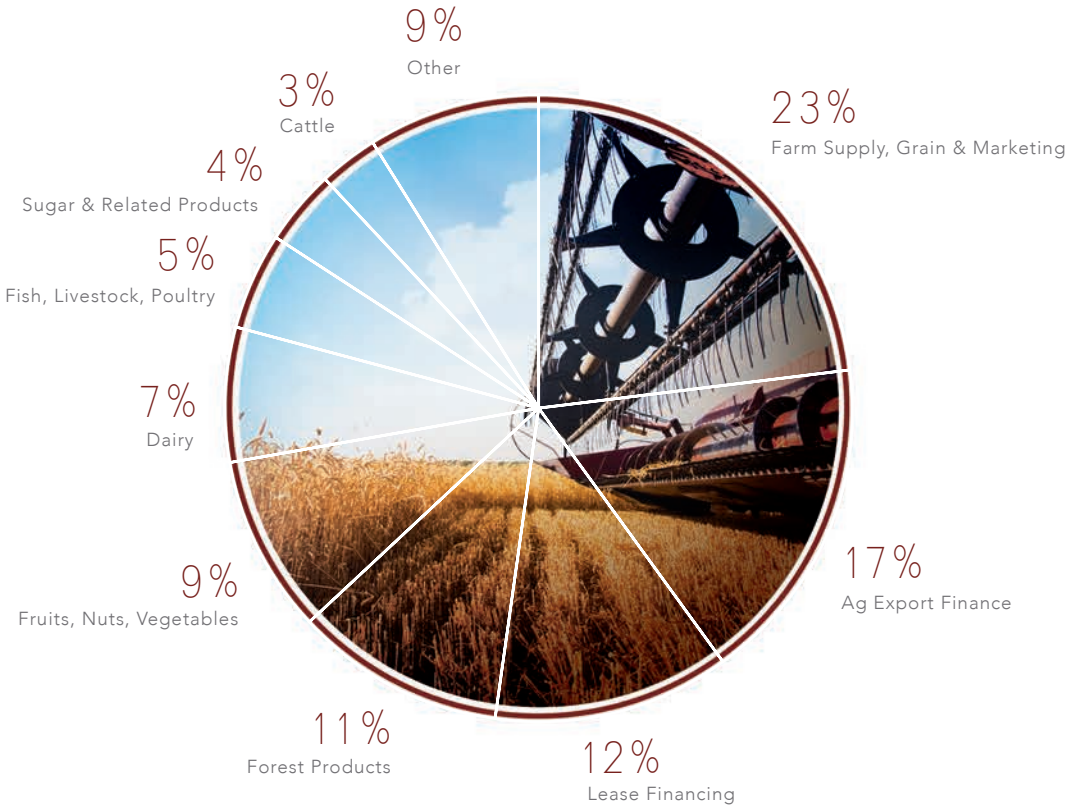
Occupation: Farming
Hometown: Ventura, CA

SCOTT H. WHITTINGTON

Occupation:
Electric cooperative management
Hometown: Burlington, KS

2016 BOARD OF DIRECTORS

AGRIBUSINESS
PORTFOLIO



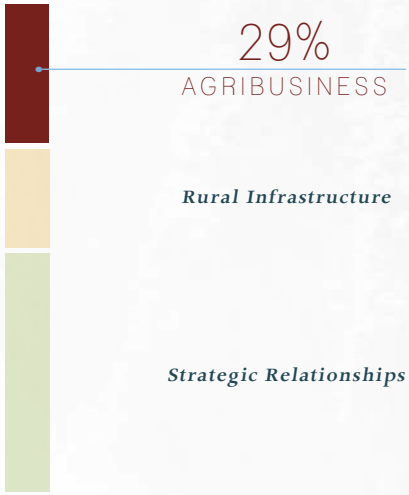
CoBank's Agribusiness operating segment includes the Regional Agribusiness Banking Group, Corporate Agribusiness Banking Group, Agricultural Export Finance Division and Banking Services Group, which includes Farm Credit Leasing. It serves cooperatives and other customers involved in a wide variety of industries, including grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products.

Average Loan Volume

$ 24.9
BILLION IN 2015

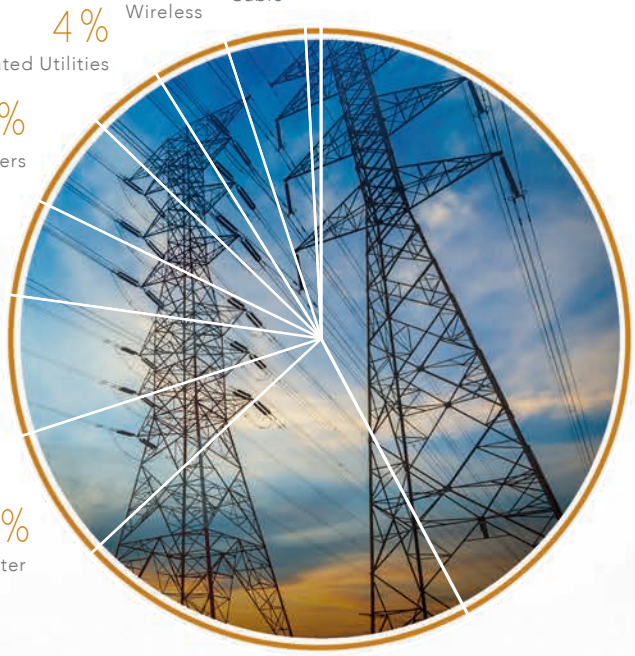
FOR THE YEAR *($ in millions)*	2015	2014	2013
PERIOD-END LOANS	$ 26,131	$ 24,359	$ 21,182
AVERAGE LOANS	24,872	23,598	21,077
NET INCOME	449	386	380

% OF PORTFOLIO



Rural Infrastructure

PORTFOLIO

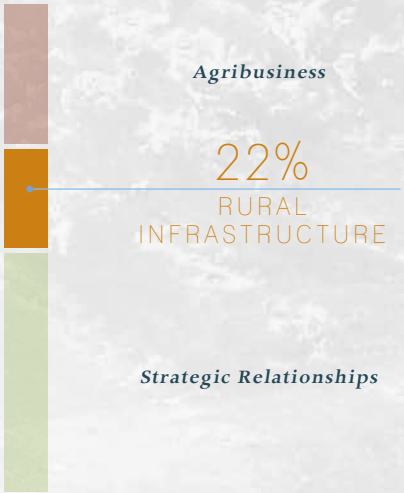


CoBank's Rural Infrastructure operating segment includes the following banking divisions: Electric Distribution, Water & Community Facilities; Power, Energy & Utilities; Project Finance; and Communications. It serves rural utilities and other customers across a wide variety of industries, including electric generation, transmission and distribution cooperatives; water and wastewater companies; broadband, wireline, cable and wireless communications service providers; and rural health care and other community facilities.

Average Loan Volume $ 17.8 BILLION IN 2015

FOR THE YEAR *($ in millions)*	2015	2014	2013
PERIOD-END LOANS	$ 19,552	$ 16,104	$ 14,524
AVERAGE LOANS	17,770	15,192	14,215
NET INCOME	255	280	230

% OF PORTFOLIO



CoBank's Affiliated

Farm Credit Associations (as of 1/1/16)

California

1 American AgCredit
SANTA ROSA

2 Farm Credit West
ROSEVILLE

3 FCS of Colusa-Glenn
COLUSA

4 Fresno Madera Farm Credit
FRESNO

5 Golden State Farm Credit
KINGSBURG

6 Yosemite Farm Credit
TURLOCK

Colorado

7 FC of Southern Colorado
COLORADO SPRINGS

8 Premier Farm Credit
STERLING

Connecticut

9 Farm Credit East
ENFIELD

Hawaii

10 FCS of Hawaii
HONOLULU

Idaho

11 Idaho AgCredit
BLACKFOOT

Kansas

12 FC of Ness City
NESS CITY

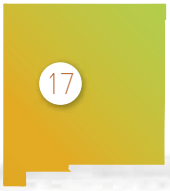
13 FC of Southwest Kansas
GARDEN CITY

14 FC of Western Kansas
COLBY

15 Frontier Farm Credit
MANHATTAN

16 High Plains Farm Credit
LARNED

New Mexico



17 FC of New Mexico
ALBUQUERQUE

Oklahoma

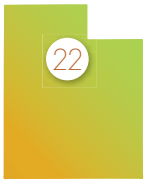
18 AgPreference
ALTUS

19 Farm Credit of Enid
ENID

20 Oklahoma AgCredit
BROKEN ARROW

21 FC of Western Oklahoma
WOODWARD

Utah



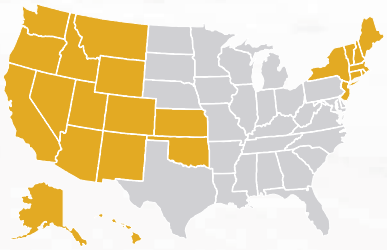
22 Western AgCredit
SOUTH JORDAN

Vermont

23 Yankee Farm Credit
WILLISTON

Washington

24 Northwest Farm Credit Services
SPOKANE

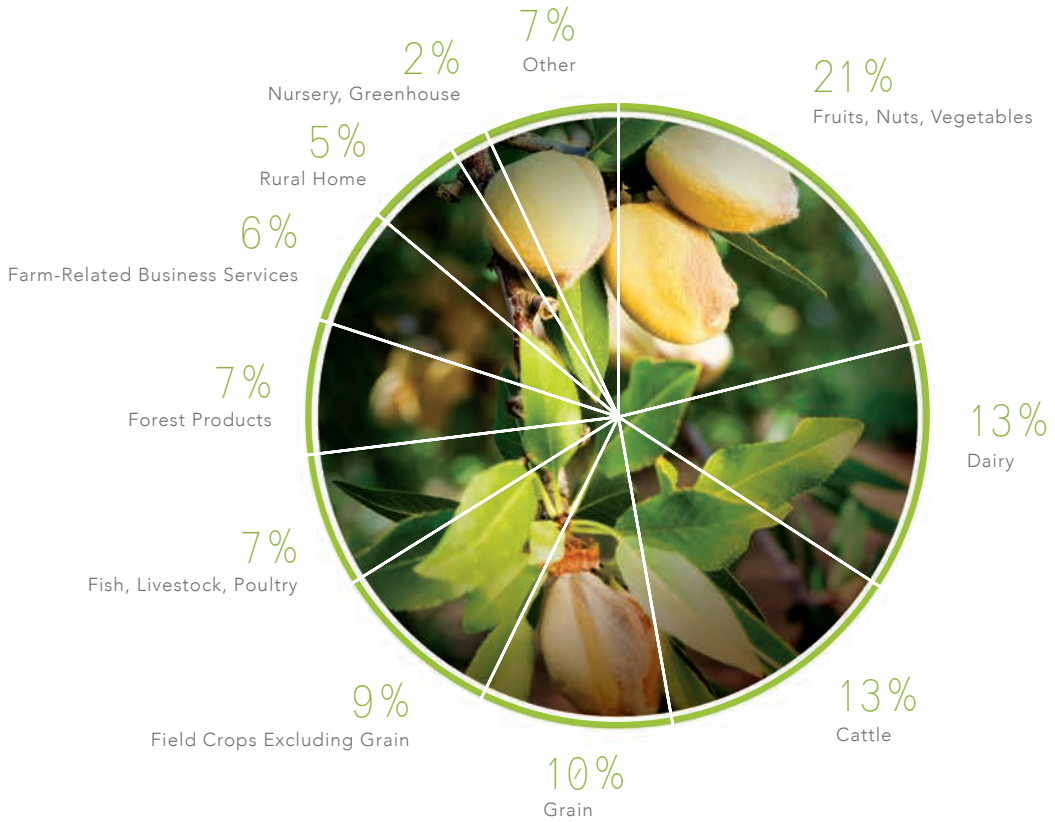


States served by CoBank affiliated associations

● —Headquarters location

Strategic Relationships

PORTFOLIO



In addition to providing loans to retail cooperatives and other customers in all 50 states, CoBank serves as a funding bank for 24 affiliated Farm Credit associations across the country. Those associations provide loans and financial services to more than 75,000 farmers, ranchers and other rural borrowers in 23 states. They serve a diverse array of industries, from fruits, nuts and vegetables to grains and other row crops to dairy, beef, poultry and forest products.

CoBank provides these association customers with wholesale financing as well as other value-added products and services. In turn, the associations provide the bank with added lending capacity by serving as participation partners on large credit transactions. At the same time, CoBank derives additional value from our association partners by being able to purchase participations in their loans.

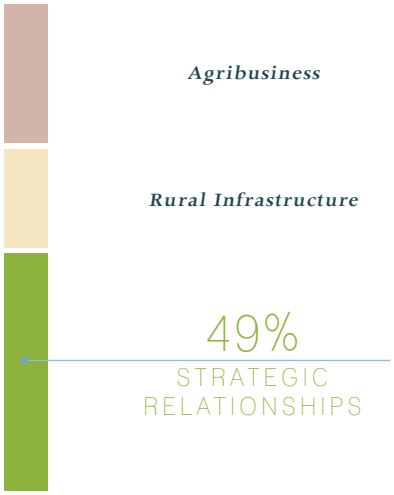
CoBank also serves as a partner of choice for a number of nonaffiliated Farm Credit associations throughout the country on loan participations and syndications, leasing, and other non-credit services.

Average Loan Volume

$ 40.4 BILLION IN 2015

FOR THE YEAR *($ in the millions)*	2015	2014	2013
PERIOD-END LOANS	$ 43,358	$ 39,919	$ 37,897
AVERAGE LOANS	40,414	37,804	36,565
NET INCOME	242	244	255

% OF PORTFOLIO



Regional Agribusiness

BANKING GROUP

Show Heartland Co-op CEO Tom Hauschel a photo of any of the 63 grain elevators his cooperative operates throughout the state of Iowa, and he can proudly name the location of every one of them without hesitation.

But the current apple of his eye is a massive new elevator in Fairfield, Iowa, which opened in October 2015 after four years of planning and 18 months of construction. The Fairfield facility can store an astonishing 4.4 million bushels of corn and soybeans, and can load a 112-car train full of grain in under 15 hours.

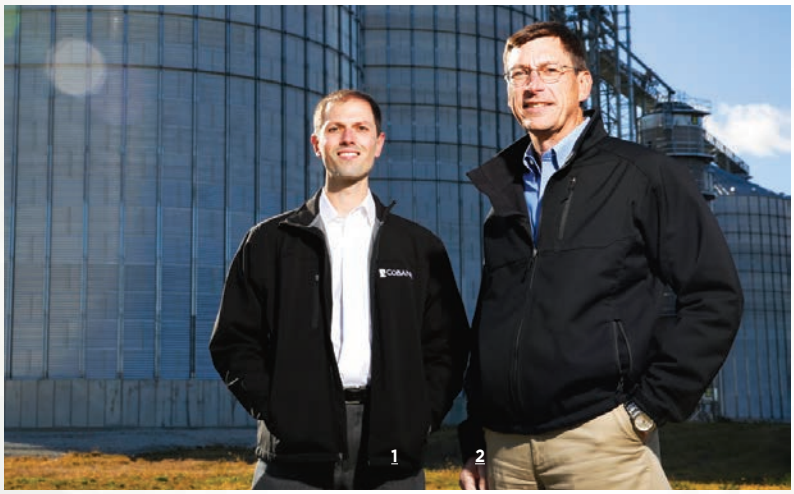
Based in West Des Moines, Iowa, Heartland has come a long way since three co-ops banded together under that name in 1987. Today, the business operates in 71 locations throughout the state. Heartland registered more than $800 million in sales in fiscal 2015 and handled nearly 150 million bushels of grain on behalf of approximately 5,800 farmer-members.

Fairfield isn't Heartland's only new elevator—at the same time it was being constructed, there were similar facilities going up in Randolph and Winterset, Iowa. "Heartland is investing record amounts in property, plant and equipment to meet the growing needs of our members," Hauschel says.

Not surprisingly, Heartland's continuous growth requires significant amounts of capital, much of which is supplied by CoBank. The bank provides Heartland with both term debt and seasonal lines of credit, with commitments totaling over $400 million at the end of 2015, in addition to cash management services and lease financing.

"CoBank understands our business, especially the volatility of the grain markets," says Hauschel. "It's great doing business with a financial partner who has such a long history with our industry."

Amy Gales, executive vice president of CoBank's Regional Agribusiness Banking Group, notes that Heartland is one of CoBank's largest and most successful cooperative customers in the region. "It's wonderful to see a co-op investing so much on behalf of its members and their success," Gales says. "Our job is to make sure they have the financing they need when they need it—today and in the future."



TROY COLLINS 1
Relationship Manager
CoBank

TOM HAUSCHEL 2
CEO
Heartland Co-op

When the Pitman family started poultry farming in California in 1954, it was unusual for anyone in the industry to be focused on delivering free-range birds to the marketplace. But that's just what the Pitmans did—and it has paid off in a big way.

Today, Pitman Farms is one of the nation's leading free-range chicken producers. Its processing facility in the Central Valley community of Sanger has significantly increased its capacity for chickens, turkeys and ducks—many of them marketed under the Mary's Free Range label at premium and niche supermarkets throughout the western U.S.

"It's been very gratifying to see the growth in demand for poultry products that are produced humanely and processed with a focus on quality," says David Pitman, grandson of the company's founder.

Pitman Farms continues to innovate and invest in growth. David makes frequent trips to Europe to gain insights on practices he can apply at home, including importing a breed of chicken from France that is well-adapted to the Pitmans' free-range pastures and the central California climate. The Pitmans also recently opened their own mill, which makes organic feed.

"That's helped us stay true to our mission of producing only the best-quality GMO-free poultry, which is the vision that my grandfather had," says David Pitman.

For financing, Pitman Farms relies on Fresno Madera Farm Credit, one of CoBank's California-based affiliated associations, including for a recent loan that helped expand the company's central processing plant. CoBank participates in the loan and also provides the Pitmans with lease financing and cash management services.

"Serving U.S. agriculture has always been in CoBank's DNA," says Keith Hesterberg, Fresno Madera Farm Credit's chief executive officer. "Combining their commitment to agriculture with their balance sheet capacity creates a lasting and reliable advantage for us. It allows us to confidently deliver capacity and offer related services to our members as their operations grow and expand."

RIDGE EASTON 1
Relationship Manager
CoBank

DAVID PITMAN 2
Secretary/Treasurer
Pitman Farms

DAVID YLARREGUI 3
Senior Vice President of Field Operations
Fresno Madera Farm Credit

Corporate Agribusiness

BANKING GROUP

As the nation's largest cooperative enterprise, CHS is used to doing things on a significant scale. The company generates over $35 billion in annual revenues, employs over 12,500 people in 25 countries and markets over 50 million metric tons of grain annually.

Headquartered in Inver Grove Heights, Minnesota, CHS also supplies member cooperatives with 3 billion gallons of gas and diesel each year, along with crop nutrients delivered through over 500 retail locations.

In 2015, CHS undertook yet another typically ambitious business initiative: a $2.8 billion strategic investment in a joint venture with CF Industries, one of the world's biggest nitrogen fertilizer companies. CHS President and CEO Carl Casale calls the investment a "game changer" for the co-op. "This positions CHS and our owners for long-term dependable fertilizer supply, supply chain efficiency and economic value," Casale says.

To help finance the investment, CHS turned to CoBank, with whom it has a decades-long lending relationship. The bank put together a $3.6 billion financing package, including a $600 million term loan placed entirely in the Farm Credit System, as well as a $3 billion broadly syndicated revolving line of credit that will provide liquidity for the co-op over the next five years. CoBank's ability to syndicate the loan package to both commercial banks and partner organizations in the Farm Credit System provided it with the capacity to meet the co-op's significant borrowing needs.

In addition to capacity, speed was also a critical success factor for the financing, said Jamey Grafing, vice president and corporate treasurer for CHS. "We went to CoBank in confidence and said, 'Here's the opportunity, but we need to move quickly,'" says Grafing. "Because CoBank understood our business, we knew that they would be able to get the deal done in a very compressed window."

"CoBank's large balance sheet and capital markets relationships are big advantages when handling a transaction of this size," says Jonathan Logan, executive vice president of CoBank's Corporate Agribusiness Banking Group. "We look forward to seeing the value this strategic transaction delivers for CHS' members over the long term."

1 **TIMOTHY SKIDMORE**
Executive Vice President & CFO
CHS

2 **JAMEY GRAFING**
Vice President & Corporate Treasurer
CHS

3 **MICHAEL TOUSIGNANT**
Sector Vice President/Managing Director
CoBank

4 **JACQUIE FREDERICKS**
Managing Director/Capital Markets
CoBank

Florida Crystals Corporation's roots in sugar production date all the way back to Cuba in the mid-19th century. Today, the company with its affiliates is one of the largest in the industry, including sugar and rice farming, milling, refining, packaging and distribution operations.

"It is an exciting time to be in the agricultural sector, because technological advancements are allowing us to increase our yields to produce more food on less land, while farming in the most sustainable manner possible," says Luis Fernandez, who represents the latest generation of family leadership as Florida Crystals' executive vice president and chief financial officer. "I believe agricultural producers are at the forefront of feeding society while being leaders in environmental preservation."

Based in West Palm Beach, Florida, Florida Crystals co-owns ASR Group, another CoBank customer and the world's largest cane sugar refiner. Florida Crystals and its related companies are one of the bank's largest customers, with more than $250 million in revolving and term loan commitments. CoBank also provided a series of interest-rate swaps that helped Florida Crystals lock in attractive long-term rates on recent term loans.

"CoBank has been a key partner since our first major acquisition in 1984, which expanded our operations from farming and milling into refining," says Fernandez. "It's a relationship that has grown stronger ever since. CoBank has been instrumental in helping finance the acquisitions of our large-scale refineries."

Those acquisitions are a result of a strong and longstanding partnership between Florida Crystals and ASR Group's co-owner Sugar Cane Growers Cooperative of Florida, a co-op owned by 46 farmers in south Florida and also financed by CoBank.

Jonathan Logan, executive vice president and manager of CoBank's Corporate Agribusiness Banking Group, notes that the bank today stands as one of the largest providers of credit to the American sugar industry, with almost $1 billion in total commitments. "Like other agricultural commodities, sugar is subject to considerable volatility," says Logan. "Because CoBank has a deep understanding of industry cycles, we are able to stand by our customers in good times and bad. We're proud to support the American sugar industry and customers like Florida Crystals."

1 **MICHAEL TOUSIGNANT**
Sector Vice President/Managing Director
CoBank

2 **LUIS FERNANDEZ**
Executive Vice President & CFO
Florida Crystals

3 **TERRY O'CONNOR**
Vice President & Assistant Treasurer
Florida Crystals

Electric Distribution, Water & Community Facilities

BANKING DIVISION

Sam Houston ELECTRIC COOPERATIVE

Your Touchstone Energy® Cooperative

As chief financial officer for the Sam Houston Electric cooperative in Livingston, Texas, Joe Conner had a straightforward financial goal for 2015. With interest rates running at historically low levels, he felt it was the right time for the co-op to refinance its existing debt.

Conner turned to CoBank, the co-op's long-term financial partner, to help him review his options. "We asked them to look at a lot of different ways that we could proceed," he says, "to make sure all the decisions made sense for Sam Houston."

The co-op ended up refinancing $200 million of its debt with CoBank. It was just the latest step in a long series of transactions Sam Houston has undertaken with CoBank, which has been a trusted partner for 15 years now. That partnership has helped Sam Houston grow to serve more than 52,000 member-owners with 6,000 miles of line, spread through 10 counties in southeast Texas.

CoBank's decades of experience lending to electric co-ops has been a key factor in that relationship. "CoBank understands that if a co-op has a bad year, driven by an extreme weather event, they're not doing poorly," Conner says. "They understand that expansion is necessary to keep up with technological advances. Those understandings are critical in our business."

The CoBank-Sam Houston partnership also includes the Sharing Success program, through which CoBank earmarks $3 million a year in matching grants for contributions made by customers to charitable organizations around the country. The co-op was a charter member of that program, through which the bank has been able to double Sam Houston's support for the local American Cancer Society.

"We applaud Sam Houston Electric and all of our civic-minded customers who take part in the Sharing Success program," says Nivin Elgohary, CoBank senior vice president for electric distribution, water and community facilities. "We appreciate the opportunity to serve not only as a financial partner for electric co-ops, but as a community partner as well."

KYLE KUNTZ 1
CEO
Sam Houston Electric

JOE CONNER 2
CFO
Sam Houston Electric

WELDON SCHILLER 3
Lead Relationship Manager
CoBank

TALQUIN ELECTRIC COOPERATIVE, INC. WATER & WASTEWATER, INC.

After nearly 15 years working for electric co-ops throughout the Southeast, Tracy Bensley was thrilled to be able to return to his hometown of Quincy, Florida, in 2011 as general manager of the local power and water cooperative. "It's an honor to be able to provide such vital services to these smaller communities," Bensley says.

Talquin Electric Cooperative and Talquin Water & Wastewater serve homes and businesses across four counties in the Florida panhandle. Talquin is unusual in that it provides electricity, water and wastewater services, but Bensley says the arrangement works well for Talquin's members. "Our members trust us and know we are managing the business with their long-term interests in mind," he says.

Like all Florida utilities, Talquin has to plan for the ravages of weather—especially storms and hurricanes. In 2015, the co-op invested $750,000 in a new sewer main and pump station serving customers in rural Wakulla County. The facility was deliberately sited away from the coastline in order to minimize the risk of storm damage and environmental liabilities.

In addition to helping finance that project, CoBank provided a new $6.5 million loan for the water and wastewater side of the business in 2015, and is refinancing $15.4 million in Rural Utilities Services loans for the electric side. The refinance allows Talquin to reduce the interest rate on some of its long-term debt and pass those savings along to its members. The bank also provides the co-op with leases for its fleet of service trucks and other vehicles. "With the flexible payment options, buyout options and competitive rates, leasing really helps with our cash flow needs," Bensley says. "We save a lot of money through that program."

Christopher Shaffner, sector vice president for CoBank's water and community facilities banking, notes that water and wastewater services are a critical part of the infrastructure supporting rural America. "Reliable, high-quality water services elevate the quality of life in rural communities and enable growth and economic development," Shaffner says.

Bill LaDuca, sector vice president of the bank's electric distribution portfolio, agrees. "Financing these systems is part of CoBank's mission, and we're proud to work with customers like Talquin that are doing so much to help people in their local areas."

1 **SEAN ALDERMAN**
Director of Financial Services
Talquin

2 **TRACY BENSLEY**
General Manager
Talquin

3 **TIM WADDLE**
Director of Water Services
Talquin

4 **KURT MORRIS**
Senior Relationship Manager
CoBank

5 **JULIA MCCUSKER**
Senior Relationship Manager
CoBank

It's a common problem across rural America—aging hospitals and other health care facilities that lack the infrastructure and professional staff to deliver state-of-the-art medical care to patients in their communities. But Moose Lake, Minnesota—population 2,800—is a proud exception to that rule.

In October 2015, the community celebrated a significant renovation and expansion of Mercy Hospital, the leading medical center in the area. The $38 million project took over two years to complete, but it enables area patients to get more of the care they need locally rather than making the one-hour drive to urban hospitals in Duluth.

"The new wing has completely transformed the way we can serve the entire community—not just Moose Lake, but the surrounding area as well," says Mike Delfs, chief executive officer of Mercy Hospital. The expansion includes private rooms, specialized birthing facilities, two intensive care units and a new MRI machine.

Financing for the Mercy Hospital project was provided by a combination of public and private sources. While the U.S. Department of Agriculture provided funding through its Rural Utilities Service, CoBank and AgStar from the Farm Credit System also helped finance the project, in partnership with local community banks in Minnesota.

The impact of the renovation has been immediate: Mercy Hospital had 900 more patient visits in 2015 than in any previous year. "This has been a huge investment in the future of Moose Lake and the entire region," notes John Monson, senior vice president with AgStar.

Chris Shaffner, CoBank sector vice president and manager of the bank's community facilities portfolio, says community facilities financing complements the bank's broader mission of service to rural America. "The Mercy Hospital project is a tremendous success story," Shaffner says. "It illustrates both the huge need for additional investment in community facilities around the country as well as the incredibly positive impact a project can have in a local community."

1 **AARON KNEWTSON**
Relationship Manager
AgStar

2 **ANGELA GRAN**
Director of Finance
Mercy Hospital

3 **MIKE DELFS**
CEO
Mercy Hospital

4 **HUNTER HOOK**
Relationship Manager
CoBank

Power, Energy & Utilities

BANKING DIVISION

When sourcing power on behalf of the rural communities throughout its service territory, Hoosier Energy, a generation and transmission cooperative in Bloomington, Indiana, has adopted what Chief Financial Officer Donna Snyder calls an "all-of-the-above" strategy.

That means not just traditional coal and natural gas generation facilities, but a wide variety of renewable energy sources as well, including solar, landfill gas and coalbed methane, wind turbines, and hydropower.

Hoosier Energy adopted the strategy in 2006 in order to offer its cooperative members a mix that balances reliability, affordability and environmental concerns, with a goal of 10 percent of the co-op's energy provided by renewables by 2025. "We know it's an ambitious agenda, and we are not being required to adopt it," says Snyder. "However, we've taken these significant actions simply because they were the right thing to do for our cooperative members."

Hoosier Energy provides power to 18 member electric distribution cooperatives serving more than 300,000 homes, businesses and industries in central and southern Indiana and southeastern Illinois. After working with Hoosier Energy for nearly 30 years, CoBank today serves as one of the co-op's largest lenders, providing it with a wide variety of financing products, including term debt and clean renewable energy bonds. In 2015, the bank also provided Hoosier with lease financing that funded the construction of one of 10 planned one-megawatt solar arrays.

"We've always considered CoBank to be one of our key business partners," says Snyder. "Their understanding of the renewable industry has helped us choose the right funding mechanism for each of the projects we have undertaken."

"CoBank appreciates the opportunity to serve progressive cooperatives like Hoosier Energy that are fulfilling their traditional mission of supplying reliable, affordable power to rural communities while embracing change," says Todd Telesz, senior vice president of CoBank's Power, Energy and Utilities Banking Division. "CoBank's lending capacity and broad industry knowledge enable us to serve as a strategic financial partner as G&T's innovate and implement new technologies and plan for the future."

1 **TOM FAGERQUIST**
Senior Relationship Manager
Farm Credit Leasing

2 **STEVE SMITH**
CEO
Hoosier Energy

3 **JOSH BATCHELDER**
Lead Relationship Manager
CoBank

4 **DONNA SNYDER**
CFO
Hoosier Energy

Communications

BANKING DIVISION

Indiana Fiber Network was founded in 2002 to give independent local telephone companies serving rural areas in the state access to leading-edge connectivity and communications technology.

Since then, the company has deployed more than 4,000 route miles of fiber optic network infrastructure across the state, enhancing data, voice and video services for hundreds of rural businesses.

In 2015 IFN embarked on its broadest and most ambitious venture yet: Connecting 77 hospitals and clinics in the Parkview Health System network, which stretches across northern Indiana from Fort Wayne to Lafayette. The project will allow rural health care providers to share diagnostic information and help give patients access to the same quality of care available at big-city hospitals.

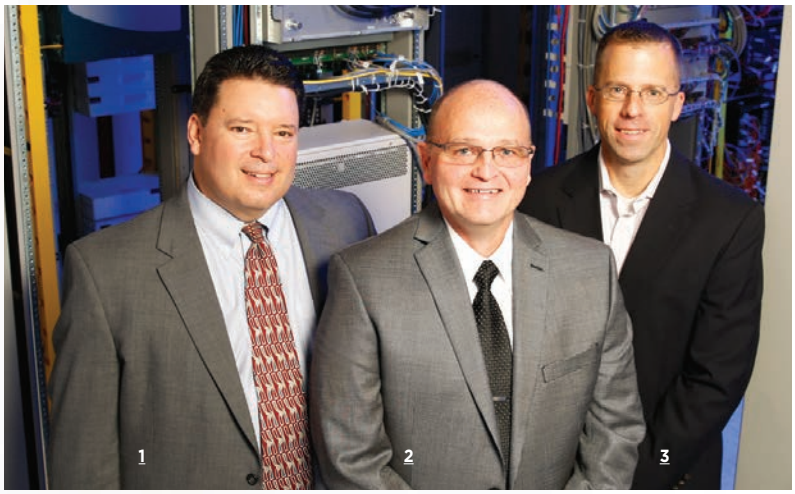
"On the capital side, this was four times what we usually do in an entire year," says CEO Kelly Dyer. "But as a chance for us to bring state-of-the-art communications to these rural clinics, it was the obvious investment for us to make."

With a deep background in broadband and the necessary lending capacity, CoBank stepped in to help fund the project, which required a $40 million loan as part of the overall financing strategy.

"This project really pushed the comfort level of our existing lender, who has had little communications experience," says Dyer. "With CoBank, I knew if I told them about the opportunity and it made sense to them, they would do it."

With financing now in place, the Parkview project is scheduled to get underway early in 2016. Dyer believes the benefit to clinics and patients in Indiana's rural communities will be incalculable.

"We felt this deal was right in the sweet spot for CoBank," says Rob West, senior vice president and manager of CoBank's Communications Banking Division. "It shows how extending broadband communications to these smaller towns can help build out their health care infrastructure as well."



ANDY SMITH 1
Lead Relationship Manager
CoBank

KELLY DYER 2
President & CEO
Indiana Fiber Network

RON GALLE 3
CFO
Indiana Fiber Network

The Farm Credit System

A CENTURY OF SERVICE TO RURAL AMERICA

1916

President Woodrow Wilson signs legislation establishing the Farm Credit System, with a mission to provide dependable credit to the nation's farmers, ranchers and other rural borrowers.

2016 marks the centennial year of a landmark event in the history of rural America — the founding of the Farm Credit System.

On July 17, 1916, President Woodrow Wilson signed legislation creating a nationwide network of lending institutions specifically chartered to serve the needs of farmers, ranchers and other rural borrowers. Since then, Farm Credit has grown to become the single largest provider of debt capital to the U.S. rural economy, with more than $300 billion in total assets. Though it has evolved considerably since the early years, Farm Credit's essential characteristics remain the same: It is cooperatively owned, mission-oriented and focused exclusively on the needs of rural America.

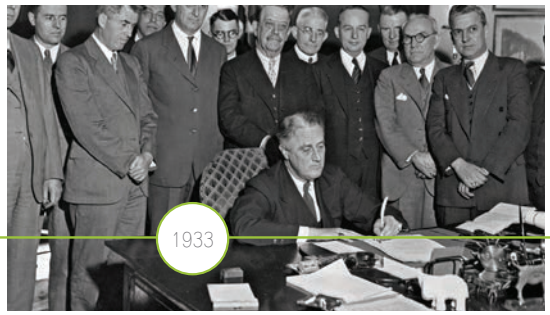
In addition to agricultural producers, Farm Credit is also a vital source of financing for agribusiness and rural infrastructure. Through CoBank and its predecessor companies, Farm Credit serves farmer-owned agricultural cooperatives, rural electric cooperatives, rural communications companies and rural water companies in all 50 states. Together, these businesses play a vital role in keeping rural communities vibrant and strong.

Farm Credit's centennial anniversary offers CoBank and every other Farm Credit institution a chance to look back at a century of accomplishment and dedication to the needs of rural America. More importantly, it's an opportunity to look forward—to continued fulfillment of our mission, and to the next 100 years of service and success.

A CENTURY OF SERVICE

1923

Congress passes the Agricultural Credits Act, allowing for the sale of consolidated bonds on behalf of all 12 Federal Land Banks and providing an independent mechanism for funding the Farm Credit System.



1933

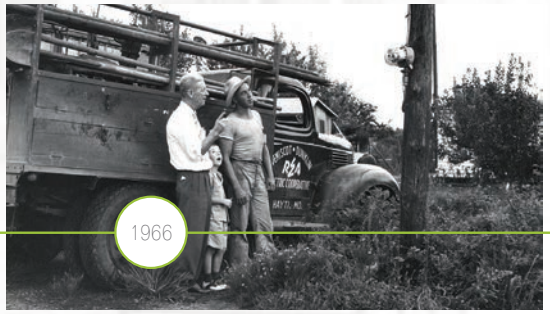
The Farm Credit Act of 1933 creates 13 Banks for Cooperatives to serve farmer-owned agricultural co-ops throughout the country.

1947

The Federal Land Banks become completely farmer-owned, with all government seed money repaid.

1958

Borrowing from Farm Credit institutions reaches $2 billion a year.



1966

The cooperative banks make their first utility loan to an electric distribution cooperative.

1968

The last of the government seed money used to capitalize the Banks for Cooperatives is completely repaid, meaning all Farm Credit Banks are now 100 percent owned by their member borrowers.

TO RURAL AMERICA

1971

The Farm Credit Act of 1971 broadens the scope of Farm Credit services to include financing rural telephone cooperatives.

1980

The Farm Credit Act Amendments of 1980 authorize the cooperative banks to finance agricultural exports.

1987

Following the farm crisis of the 1980s, the 1987 Agricultural Credit Act revamps the System to give it additional flexibility and financial security.

1989

CoBank is formed through a merger of 11 of the 13 Banks for Cooperatives.

1990

Through the 1990 Farm Bill, Congress authorizes the cooperative banks to finance water and waste disposal systems serving rural areas and communities.

1995

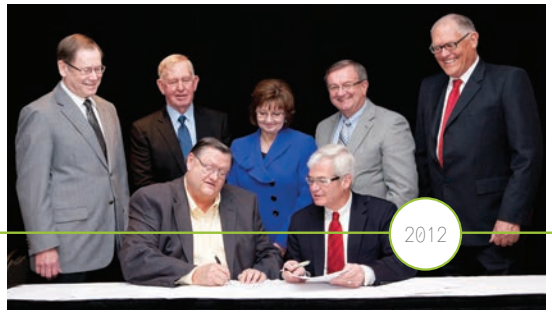
CoBank merges with Farm Credit Bank of Springfield (Mass.) and the Springfield Bank for Cooperatives to form CoBank ACB. The transaction marks the first-ever consolidation of a Farm Credit Bank and a Bank for Cooperatives.

1999

CoBank completes its merger with St. Paul Bank for Cooperatives.

2005

The Farm Credit System surpasses $100 billion in total loan volume.



2012

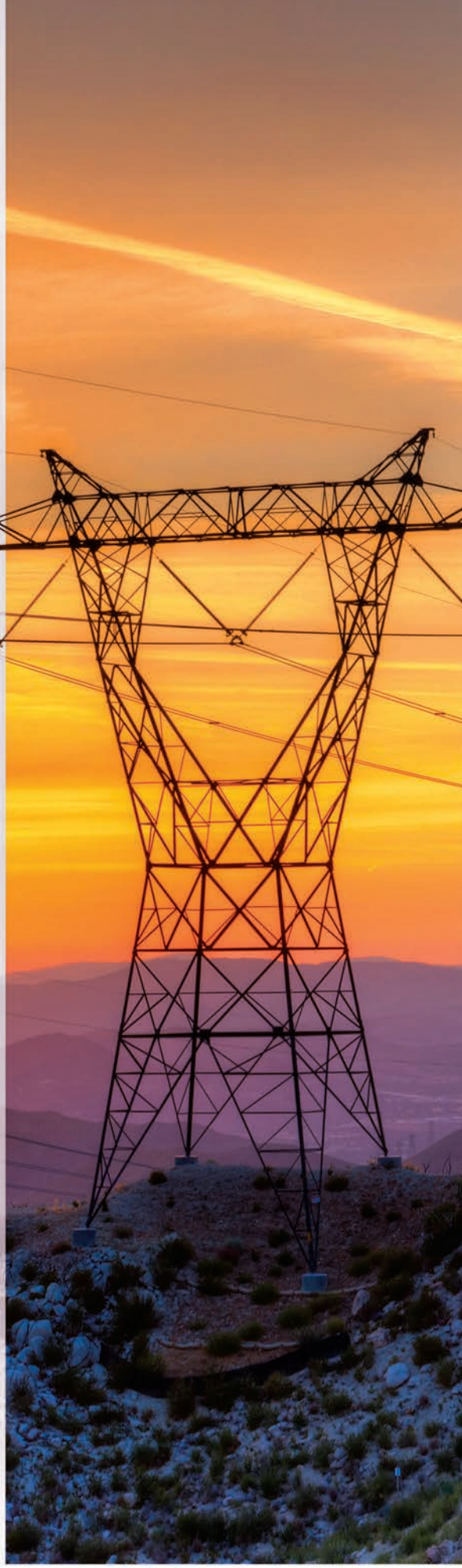
CoBank completes a merger with Wichita-based U.S. AgBank, becoming the largest entity in the Farm Credit System with more than $85 billion in assets.

2016

FARM CREDIT 100 ESTABLISHED 1916

Value Proposition

COBANK IS A FINANCIALLY STRONG, ***DEPENDABLE*** COOPERATIVE BANK THAT PROVIDES CREDIT AND FINANCIAL SOLUTIONS TO RURAL AMERICA. WE ARE ***KNOWLEDGEABLE***, RESPONSIVE AND COMMITTED TO ENHANCING OUR ***CAPACITY*** TO DELIVER A SUPERIOR CUSTOMER EXPERIENCE AND COMPETITIVELY PRICED PRODUCTS, WHILE MAINTAINING THE SAFETY AND SOUNDNESS OF THE BANK FOR FUTURE GENERATIONS. WE CONSISTENTLY DEMONSTRATE OUR ***FOCUS*** ON RURAL AMERICA, REPEATEDLY STRIVE TO BE A TRUSTED ADVISOR FOR OUR CUSTOMERS AND A TRUSTED PARTNER FOR THOSE WITH WHOM WE DO BUSINESS, WHILE PROVIDING A CONSISTENT RETURN ON SHAREHOLDERS' INVESTMENT AND ***OWNERSHIP*** IN COBANK.



COBANK 2015
FINANCIAL REPORT

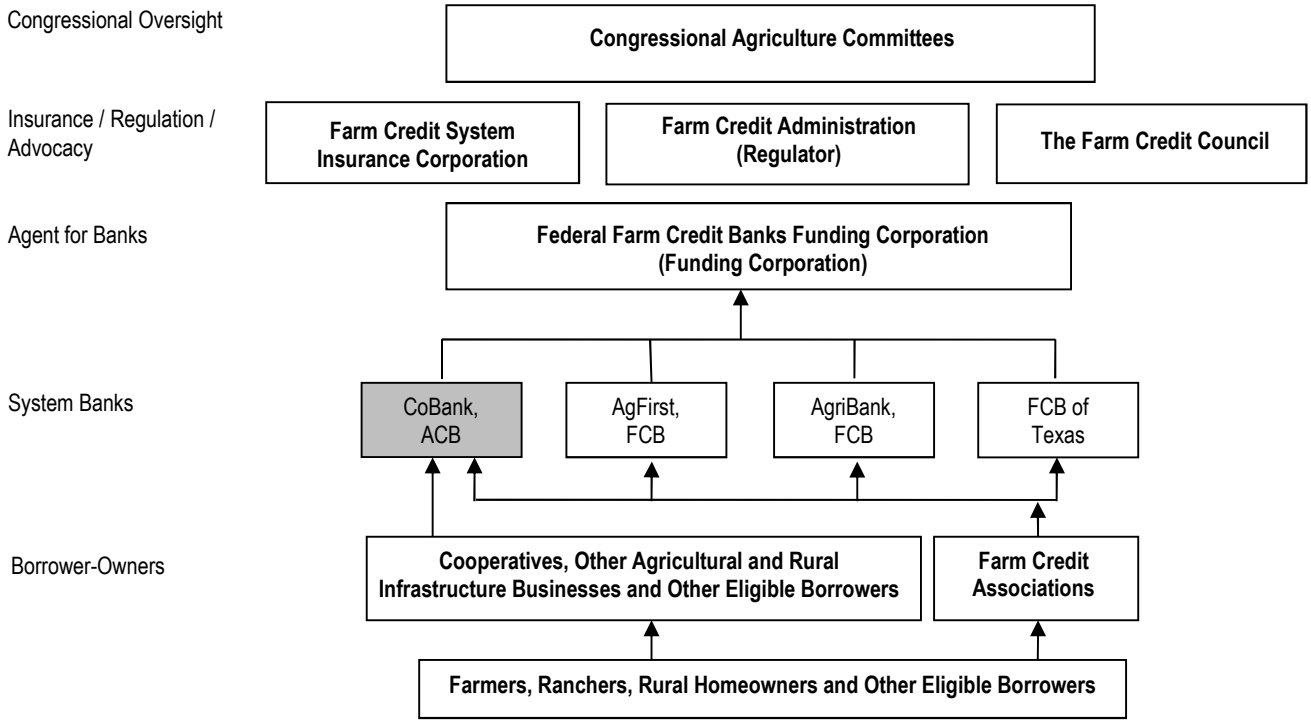
Table of Contents

Company Introduction

CoBank, ACB (CoBank or the Bank) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to vital industries across the rural communities of America. The System is a federally chartered network of borrower-owned cooperative lending institutions and related service organizations.

Cooperatives are organizations that are owned and governed by the members who use the cooperative's products or services. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise (GSE). As a member of a GSE, we have certain attributes that are important to our ability to fulfill our mission to a highly diverse customer base – in good times and bad – irrespective of market conditions. We also fulfill our broader mission as a member of a GSE by supporting rural communities and agriculture in their vital role of providing food security, energy security, economic growth and a high-quality of life to all Americans.

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



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 a mission-based lender with authority to make loans and provide related financial services to eligible borrowers in the agribusiness and rural infrastructure industries, and to certain related entities, as defined by the Farm Credit Act. We are not legally authorized to accept deposits. We raise funds for our operations primarily by issuing debt securities through the System's agent, the Federal Farm Credit Banks Funding Corporation (Funding Corporation). Such securities are the joint and several obligations of the four System banks.

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. We are the primary funding source for certain Associations serving specified geographic regions in the United States (which are also regulated cooperative financial institutions and members of the System). We collectively refer to these entities as our affiliated Associations.

We provide a broad range of loans and other financial services to vital industries through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

The information and disclosures contained in this Annual Report to Shareholders primarily relate to CoBank. System annual and quarterly information statements and press releases for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), are available for inspection at, or will be furnished without charge upon request to, the Federal Farm Credit Banks Funding Corporation, 101 Hudson Street, 35th Floor, Jersey City, New Jersey 07302; telephone (201) 200-8000. These documents are also available on the Funding Corporation's website at www.farmcreditfunding.com. This website also provides a link to each System bank's website where financial and other information of each bank can be found.

The Federal Agricultural Mortgage Corporation (Farmer Mac) is a federally chartered corporation that was formed to provide a secondary market for a variety of loans made to borrowers in rural America. Although Farmer Mac is examined and regulated by the FCA, it is an entirely separate enterprise, and any reference to "the System" herein does not include Farmer Mac. For more information on Farmer Mac and its relationship with System entities, please see "Relationship with the Federal Agricultural Mortgage Corporation" on page 56.

The accompanying consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." We separately publish certain unaudited combined financial information of the CoBank District, including a condensed statement of condition and statement of income, which can be found on our website at www.cobank.com. Such information is not incorporated by reference into, and should not be viewed as part of, this annual report.

Financial Condition and Results of Operations

Overview

CoBank's loans outstanding grew to $89.0 billion as of December 31, 2015, compared to $80.4 billion at the end of 2014. Our average loan volume was $83.1 billion during 2015, compared to $76.6 billion in 2014. The increases in both year-end and average loan volume resulted from increased lending across all three of our operating segments.

Our earnings grew to $936.7 million in 2015, a $32.4 million increase compared to 2014 earnings. The increase in earnings primarily resulted from higher net interest income, a lower level of losses on extinguishments of debt, net of prepayment income, gains on the sale of investment securities and greater levels of other noninterest income. These items were partially offset by a provision for loan losses, an increase in operating expenses, which included an increase in Farm Credit Insurance Fund (Insurance Fund) premiums, and impairment losses on investment securities.

Loan quality remained strong throughout 2015. Adversely classified loans and related accrued interest were 0.70 percent of total loans and related accrued interest at December 31, 2015 compared to 1.84 percent at December 31, 2014. Adversely classified loans and related accrued interest at December 31, 2014 included a wholesale loan to one of our affiliated Associations, which merged with another of our affiliated Associations during 2015, as discussed further on page 116. CoBank did not recognize any losses associated with this wholesale loan, and the wholesale loan of the merged entity is rated in the Acceptable credit quality classification at December 31, 2015. Excluding the impact of this Association loan, adversely classified loans and related accrued interest represented 0.73 percent of total loans and related accrued interest at December 31, 2014.

Nonaccrual loans increased to $156.8 million at December 31, 2015 from $130.3 million at December 31, 2014 primarily due to credit quality deterioration impacting a small number of agricultural customers and a communications customer, somewhat offset by the sale of an energy loan that had been in nonaccrual status.

Our financial position remains strong as of December 31, 2015, reflecting solid levels of capital and liquidity. Our shareholders' equity increased to $7.8 billion at year-end 2015, compared to $7.4 billion at year-end 2014. Our permanent capital and core surplus ratios were 14.95 percent and 10.29 percent, respectively, as of December 31, 2015, compared to the regulatory minimum requirements of 7.00 and 3.50 percent, respectively. As of year-end 2015, we held $27.6 billion in investments and cash, primarily as a liquidity reserve, and our days liquidity was 199 days.

A five-year summary of selected consolidated financial data is shown in the following table.

Five-Year Summary of Selected CoBank Consolidated Financial Data[1] ($ in Thousands)

As of and for the Year Ended December 31,	2015	2014	2013	2012	2011
Consolidated Statement of Income Data					
Net Interest Income	**$ 1,273,335**	$ 1,231,767	$ 1,163,433	$ 1,238,170	$ 1,071,027
Provision for Loan Losses/(Loan Loss Reversal)	**10,000**	(15,000)	-	70,000	58,000
Noninterest Income	**169,773**	124,171	132,085	113,321	117,936
Operating Expenses	**325,315**	303,800	280,094	263,883	228,270
Provision for Income Taxes	**171,120**	162,868	158,969	163,691	196,106
Net Income	**$ 936,673**	$ 904,270	$ 856,455	$ 853,917	$ 706,587
Net Income Distributed					
Patronage Distributions:					
Common Stock	**$ 98,117**	$ 88,745	$ 76,527	$ 80,472	$ 109,900
Cash	**415,982**	378,735	338,001	344,516	230,751
Total Patronage Distributions	**514,099**	467,480	414,528	424,988	340,651
Preferred Stock Dividends	**59,179**	53,564	62,980	72,065	63,799
Total Net Income Distributed	**$ 573,278**	$ 521,044	$ 477,508	$ 497,053	$ 404,450
Consolidated Balance Sheet Data					
Total Loans	**$ 89,040,580**	$ 80,382,497	$ 73,603,375	$ 71,980,458	$ 46,285,142
Less: Allowance for Loan Losses	**486,144**	481,156	447,126	437,376	388,056
Net Loans	**88,554,436**	79,901,341	73,156,249	71,543,082	45,897,086
Investment Securities	**24,504,448**	24,319,943	21,688,489	17,999,191	12,995,458
Cash	**3,113,101**	1,855,634	1,335,024	1,253,509	2,771,842
Other Assets	**1,298,581**	1,304,171	1,416,695	1,634,742	1,592,120
Total Assets	**$ 117,470,566**	$ 107,381,089	$ 97,596,457	$ 92,430,524	$ 63,256,506
Debt Obligations with Maturities ≤ 1Year	**$ 45,904,672**	$ 46,263,479	$ 35,650,715	$ 27,794,604	$ 22,017,449
Debt Obligations with Maturities > 1Year	**61,968,079**	52,174,200	53,663,787	56,669,966	35,053,328
Reserve for Unfunded Commitments	**115,444**	115,680	167,592	157,703	153,919
Other Liabilities	**1,671,902**	1,458,067	1,409,747	1,367,107	1,136,277
Total Liabilities	**109,660,097**	100,011,426	90,891,841	85,989,380	58,360,973
Preferred Stock	**1,125,000**	1,125,000	961,750	961,750	700,000
Common Stock	**2,899,728**	2,768,546	2,677,485	2,605,933	1,654,314
Unallocated Retained Earnings	**3,845,728**	3,482,379	3,103,926	2,729,031	2,439,531
Accumulated Other Comprehensive Income (Loss)	**(59,987)**	(6,262)	(38,545)	144,430	101,688
Total Shareholders' Equity	**7,810,469**	7,369,663	6,704,616	6,441,144	4,895,533
Total Liabilities and Shareholders' Equity	**$ 117,470,566**	$ 107,381,089	$ 97,596,457	$ 92,430,524	$ 63,256,506
Key Financial Ratios					
For the Year:					
Return on Average Common Shareholders' Equity	**13.57 %**	14.27 %	14.40 %	15.16 %	16.05 %
Return on Average Total Shareholders' Equity	**12.34**	13.07	13.15	14.03	15.02
Return on Average Assets	**0.86**	0.89	0.91	0.94	1.07
Net Interest Margin	**1.20**	1.23	1.26	1.41	1.69
Net (Charge-offs) Recoveries / Average Loans	**(0.01)**	(0.00)	0.03	(0.02)	(0.03)
Patronage Distributions / Total Average Common Stock Owned by Active Borrowers	**19.76**	18.59	17.53	18.41	22.65
At Year-end:					
Debt / Total Shareholders' Equity (: 1)	**14.04**	13.58	13.56	13.36	11.93
Total Shareholders' Equity / Total Assets	**6.65 %**	6.86 %	6.87 %	6.97 %	7.74 %
Allowance for Credit Losses[2] / Total Loans	**0.68**	0.74	0.84	0.83	1.17
Permanent Capital Ratio	**14.95**	15.70	16.72	16.14	16.37
Total Surplus Ratio	**14.07**	14.81	15.74	15.22	16.01
Core Surplus Ratio	**10.29**	10.47	10.82	10.06	10.02
Net Collateral Ratio	**106.82**	107.22	107.57	107.08	109.05

[1] U.S. AgBank, FCB (AgBank), which was also a System bank, merged with and into CoBank effective January 1, 2012. Beginning in 2012, our financial position, results of operations, cash flows and related metrics include the effects of the merger with AgBank. Financial information prior to the date of the merger has not been restated to reflect the impact of the merger.

[2] Includes the allowance for loan losses and the reserve for unfunded commitments.

Net Interest Income

Interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities are shown in the following table.

Average Balances and Rates

Year Ended December 31,	2015			2014			2013		
($ in Millions)	Average Balance	Average Rate	Interest Income/ Expense	Average Balance	Average Rate	Interest Income/ Expense	Average Balance	Average Rate	Interest Income/ Expense
Interest-earning Assets									
Total Loans	$ 83,056	2.23 %	$ 1,850	$ 76,594	2.25 %	$ 1,725	$ 71,857	2.30 %	$ 1,651
Investment Securities	23,139	1.56	360	23,286	1.50	350	20,341	1.53	312
Total Interest-earning Assets	$ 106,195	2.08	$ 2,210	$ 99,880	2.08	$ 2,075	$ 92,198	2.13	$ 1,963
Interest-bearing Liabilities									
Bonds and Notes	$ 85,681	1.01 %	$ 867	$ 76,682	1.03 %	$ 792	$ 73,259	1.02 %	$ 750
Discount Notes	10,914	0.25	27	13,511	0.13	18	9,934	0.15	15
Subordinated Debt	902	4.10	37	902	4.10	37	901	4.11	37
Other Notes Payable	1,914	0.31 *	6 *	1,931	(0.21) *	(4) *	1,777	(0.11) *	(2) *
Total Interest-bearing Liabilities	$ 99,411	0.94	$ 937	$ 93,026	0.91	$ 843	$ 85,871	0.93	$ 800
Interest Rate Spread		1.14			1.17			1.20	
Impact of Equity Financing	$ 7,668	0.06		$ 7,011	0.06		$ 6,627	0.06	
Net Interest Margin and Net Interest Income		1.20 %	$ 1,273		1.23 %	$ 1,232		1.26 %	$ 1,163

* Average rate was favorably impacted by derivative-related fair value accretion resulting from merger accounting.

Changes in our interest income, interest expense and net interest income due to volume and rate variances for interest-earning assets and interest-bearing liabilities are summarized in the table below.

Changes in Net Interest Income Due to Changes in Average Volume and Interest Rates*

	2015			2014		
($ in Millions)	Increase (Decrease) From Previous Year Due To			Increase (Decrease) From Previous Year Due To		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Total Loans	$ 144	$ (19)	$ 125	$ 108	$ (34)	$ 74
Investment Securities	(2)	12	10	45	(7)	38
Total Interest Income	142	(7)	135	153	(41)	112
Total Interest Expense	59	35	94	66	(23)	43
Changes in Net Interest Income	$ 83	$ (42)	$ 41	$ 87	$ (18)	$ 69

* The change in interest income or expense not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amount of the change in volume and rate.

Net interest income increased $41.6 million, or 3 percent, to $1,273 million in 2015, compared to $1,232 million in 2014. The increase in net interest income was primarily driven by higher average loan volume, partially offset by lower spreads in our lending and investment portfolios. Average loan volume increased to $83.1 billion, or 8 percent, in 2015 primarily as a result of growth in wholesale lending to affiliated Associations in our Strategic Relationships operating segment, energy and communications customers in our Rural Infrastructure operating segment, and food and agribusiness companies in our Agribusiness operating segment. Average investment securities decreased slightly to $23.1 billion in 2015 from $23.3 billion in 2014.

Our net interest margin declined to 1.20 percent in 2015 from 1.23 percent in 2014, and interest rate spread decreased to 1.14 percent in 2015 from 1.17 percent in 2014. The reduction in our net interest margin included the impact of a higher level of cash balances held during 2015; lower spreads in many sectors of our loan portfolio, reflective of increased competition for the business of our customers; spread compression in our investment portfolio; and lower fair value accretion income resulting from merger accounting.

Net interest income includes $40.2 million and $50.6 million of net accretion of merger-related asset and liability fair value adjustments for 2015 and 2014, respectively. These amounts resulted from the application of business combination accounting standards in connection with

our 2012 merger with U.S. AgBank, FCB (AgBank). The amount of net accretion income recognized is expected to continue to decline in the coming years.

In 2014, our net interest income increased 6 percent to $1,232 million, compared to $1,163 million in 2013. The increase in net interest income was primarily driven by higher average loan volume as well as increased earnings from our balance sheet positioning. Average loan volume increased $4.7 billion, or 7 percent, in 2014 as a result of growth in lending across all of our operating segments. Net interest margin declined in 2014 to 1.23 percent from 1.26 percent in 2013, and interest rate spread decreased to 1.17 percent in 2014 from 1.20 percent in 2013. The decline in our net interest margin and spread included the impact of lower merger-related accretion as well as slightly lower spreads in many of our lending portfolios, reflective of increased competition. In addition, earnings on our shareholders' equity and our investment portfolio were negatively impacted by the low market interest rates. These factors were somewhat offset by increased earnings on balance sheet positioning strategies.

Provision for Loan Losses (Loan Loss Reversal) and Allowance for Credit Losses

The provision for loan losses (loan loss reversal) reflects our estimate of credit losses inherent in our loan and finance lease portfolios, including unfunded commitments. The allowance for loan losses covers the funded portion of our loans outstanding, while the reserve for unfunded commitments covers losses on unfunded lending commitments. The sum of the allowance for loan losses and the reserve for unfunded commitments is referred to as the allowance for credit losses. We base our allowance for probable and estimable losses on the factors discussed in "Critical Accounting Estimates – Allowance for Credit Losses" on page 60. The tables on page 37 summarize the activity in our allowance for credit losses, by operating segment, for the past five years.

We recorded a $10.0 million provision for loan losses in 2015, primarily reflecting increased exposure resulting from growth in overall lending activity. The $10.0 million net provision for loan losses included a $40.8 million provision for loan losses in our Rural Infrastructure operating segment offset by a $30.8 million loan loss reversal in our Agribusiness operating segment.

In 2014, we recorded a $15.0 million loan loss reversal which primarily reflected a reduction in specific reserves. The $15.0 million net reversal included a $52.0 million reversal in our Rural Infrastructure operating segment, somewhat offset by a $37.0 million provision for loan losses in our Agribusiness operating segment. The reversal in our Rural Infrastructure operating segment included the impact of a lower level of reserves needed for credit challenges impacting specific customers, while the provision in our Agribusiness operating segment reflected modest deterioration in credit quality and growth in loan volume. For both periods, the provisions for loan losses and loan loss reversals within our operating segments also resulted from enhancements made to our methodology for estimating credit losses inherent in our loan portfolio, which is discussed further on page 60.

Adversely classified loans and related accrued interest represented 0.70 percent of total loans and related accrued interest at December 31, 2015, compared to 1.84 percent at December 31, 2014. Adversely classified loans and related accrued interest at December 31, 2014 included a wholesale loan to one of our affiliated Associations, which merged with another of our affiliated Associations during 2015, as discussed further on page 116. The adverse classification of this wholesale loan did not impact our provision for loan losses or allowance for credit losses and we did not experience any losses related to this Association loan, and the wholesale loan of the merged entity is rated in the Acceptable credit quality classification at December 31, 2015. Excluding the impact of this Association loan, adversely classified loans and related accrued interest represented 0.73 percent of total loans and related accrued interest at December 31, 2014.

Total nonaccrual loans increased to $156.8 million (0.18 percent of total loans) at December 31, 2015 from $130.3 million (0.16 percent of total loans) at December 31, 2014 primarily due to credit quality deterioration impacting a small number of agricultural customers and a communications customer, somewhat offset by the sale of an energy loan that had been in nonaccrual status. We recorded charge-offs, net of recoveries, of $5.2 million in 2015 compared to $2.9 million in 2014.

In 2013, we did not record a provision for loan losses. While there was no provision for loan losses on a consolidated basis, we did record a $6.0 million provision for loan losses in our Rural Infrastructure operating segment due to growth in lending to energy customers, which was offset by a reversal of $6.0 million of the allowance for credit losses in our Agribusiness operating segment due to improved credit quality. Recoveries, net of charge-offs, were $19.6 million in 2013, and nonaccrual loans were $147.8 million at December 31, 2013, or 0.20 percent of total loans.

Our allowance for credit losses was $601.6 million at December 31, 2015, compared to $596.8 million and $614.7 million as of December 31, 2014 and 2013, respectively. The allowance for credit losses represented 0.68 percent of total loans as of the end of 2015, compared to 0.74 percent and 0.84 percent of total loans at December 31, 2014 and 2013, respectively. At December 31, 2015, our allowance for credit losses represented 1.36 percent of non-guaranteed loans excluding wholesale loans to Associations, compared to 1.54 percent at December 31, 2014.

Refer to "Corporate Risk Profile – Credit Risk Management" beginning on page 41 for further information on nonperforming loans, charge-offs, loan quality trends and the factors considered in determining the levels of our provision for loan losses and allowance for credit losses.

Noninterest Income

The following table details our noninterest income for each of the last three years.

Noninterest Income ($ in Thousands)

Year Ended December 31,	2015	2014	2013
Net Fee Income	**$ 104,441**	$ 108,584	$ 118,737
Prepayment Income	**31,946**	25,079	78,217
Losses on Early Extinguishment of Debt	**(37,455)**	(58,316)	(96,839)
Gain on Sale of Investment Securities	**22,603**	4,206	-
Other-Than-Temporary Impairment Losses on Investment Securities	**(11,100)**	-	(2,500)
Other, Net	**59,338**	44,618	34,470
Total Noninterest Income	**$ 169,773**	$ 124,171	$ 132,085

Noninterest income is primarily composed of fee income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishment of debt and impairment losses on investment securities.

Total noninterest income increased in 2015 to $169.8 million, or 37 percent, from $124.2 million in 2014. The increase in noninterest income was driven by a $27.7 million decrease in losses on early extinguishments of debt, net of prepayment income, gains of $22.6 million resulting from the sale of certain investment securities and an increase in other noninterest income of $14.7 million due to a higher level of patronage income received from other System institutions. These items were partially offset by impairments recognized on investment securities and a lower level of net fee income.

Our net fee income, which includes arrangement fees and unused commitment fees, among others, decreased to $104.4 million in 2015 compared to $108.6 million in 2014 primarily due to decreased fee income in our Agribusiness operating segment.

Prepayment income increased to $31.9 million in 2015 from $25.1 million in 2014 due to a greater level of customer refinancing activity. We extinguish debt to offset the current and prospective impact of prepayments in our loan and investment portfolios and to maintain a desired mix of interest-earning assets and interest-bearing liabilities. During 2015, we extinguished $5.8 billion of Systemwide Debt Securities compared to $615.1 million in 2014. The 2015 debt extinguishments included $5.4 billion in Systemwide Debt Securities sold at market value to other Farm Credit Banks. Losses on early extinguishment of Systemwide Debt Securities were $37.5 million in 2015 compared to $58.3 million in 2014. Debt extinguishment losses in excess of prepayment income reflect debt extinguishments to better position our balance sheet in the low interest rate environment, which reduces our future interest expense.

During 2015, we sold investment securities with a combined book value of $148.3 million for gains totaling $22.6 million. In 2014, sales of investment securities resulted in gains totaling $4.2 million. The sale of investment securities is discussed in “Liquidity and Capital Resources” beginning on page 56.

We recorded other-than-temporary impairment losses of $11.1 million in 2015 related to two FHA/VA non-wrapped reperformer mortgage-backed securities (MBS) with a total fair value of $54.5 million. These losses resulted from lower projected cash flows due to the impact of loan modification activity in the underlying collateral. One of these securities was subsequently sold during 2015 for total proceeds of $21.3 million, which resulted in a gain of $0.8 million. We recorded no impairment losses on investment securities in 2014 and $2.5 million of impairment losses in 2013. The impairments in 2013 resulted from credit quality deterioration of certain residential mortgage- and asset-backed securities. The 2015 impairments and a portion of the 2013 impairments related to non-agency residential mortgage-backed investment securities originally acquired in connection with our 2012 merger with AgBank. Such securities were among those identified as credit-impaired investment securities acquired in the merger. The credit quality of our investment portfolio is discussed in “Liquidity and Capital Resources” on page 57.

Other net noninterest income increased to $59.3 million in 2015 from $44.6 million in 2014 primarily due to an increased level of patronage income received from other System institutions on loan participations we sold to them.

In 2014, total noninterest income decreased to $124.2 million, or 6 percent, from $132.1 million in 2013. The 2014 period included a greater level of losses on early extinguishment of debt, net of prepayment income, of $33.2 million. These factors were somewhat offset by an increase in other noninterest income due to an increased level of patronage income received from other System institutions and gains resulting from the sale of certain investment securities in the 2014 period.

Operating Expenses

The following table details our operating expenses for each of the last three years.

Analysis of Operating Expenses ($ in Thousands)

Year Ended December 31,	2015	2014	2013
Employee Compensation	**$ 150,585**	$ 145,803	$ 148,024
General and Administrative	**24,167**	24,183	21,517
Information Technology	**28,231**	25,558	27,020
Insurance Fund Premium	**59,919**	50,613	36,974
Travel and Entertainment	**18,425**	18,297	16,019
Farm Credit System Related	**12,215**	13,935	12,817
Occupancy and Equipment	**16,220**	8,847	8,330
Purchased Services	**15,553**	16,564	9,393
Total Operating Expenses	**$ 325,315**	$ 303,800	$ 280,094
Total Operating Expenses/ (Net Interest Income + Net Fee Income)	**23.6 %**	22.7 %	21.8 %
Operating Expenses, Excluding Insurance Fund Premium/ (Net Interest Income + Net Fee Income)	**19.3**	18.9	19.0

Total operating expenses increased 7 percent in 2015 to $325.3 million, compared to $303.8 million for 2014. Employee compensation expense, which includes salaries, incentive compensation and employee benefits, increased to $150.6 million in 2015 from $145.8 million in 2014 primarily due to a higher benefits expense related to retirement and health plans and an increase in the number of employees, somewhat offset by a lower level of accrued incentive compensation. As of December 31, 2015, we had 883 employees, compared to 839 at December 31, 2014.

General and administrative expenses were $24.2 million in 2015, unchanged in total from 2014. General and administrative expenses include contributions and other support provided to civic, charitable and other organizations that benefit the residents, communities and industries we serve in rural America, consistent with our overall corporate social responsibility program and the fulfillment of our mission.

Information technology expenses increased to $28.2 million in 2015 from $25.6 million in 2014 due to greater expenditures to enhance our service offerings and costs associated with relocating our data center to a new corporate headquarters building.

Insurance Fund premium expenses increased to $59.9 million in 2015 from $50.6 million in 2014 primarily due to an increase in premium rates and growth in our average loan volume. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation (Insurance Corporation) and were 13 basis points of average outstanding adjusted insured debt obligations for 2015, compared to 12 basis points for 2014. Effective January 1, 2016, premium rates were increased to 16 basis points and will further increase to 18 basis points on July 1, 2016. The increase in Insurance Fund premium rates has resulted from continued growth in overall Farm Credit System assets.

Our travel and entertainment expenses increased slightly to $18.4 million in 2015 from $18.3 million in 2014 due to a greater level of expenditures for customer-facing activities.

Farm Credit System related expenses declined to $12.2 million in 2015 compared to $13.9 million in 2014 due to changes in the level and timing of certain initiatives. These expenses primarily represent our share of costs to fund the operations of the FCA and the Farm Credit Council (FCC), a national trade organization that represents System entities. Each System institution is assessed a pro rata share of the FCA's total expenses based primarily on each institution's average risk-adjusted assets. FCC costs are generally allocated based on the number of directors that represent each district (a System bank and its affiliated Associations) and the level of bank assets.

Occupancy and equipment expenses increased to $16.2 million in 2015 from $8.8 million in 2014 due to costs related to our new corporate headquarters in Greenwood Village, Colorado, which was completed in late 2015. Upon completion, the building was sold and CoBank became the lessee. This arrangement is discussed further on page 72.

Purchased services expenses decreased to $15.6 million in 2015 from $16.6 million in 2014 primarily as a result of a lower level of consulting services due to the completion of a new cash management platform, somewhat offset by other service enhancement initiatives.

Total operating expenses as a percent of net interest income plus net fee income were 23.6 percent in 2015 compared to 22.7 percent in 2014 and 21.8 percent in 2013. Excluding the impact of Insurance Fund premium expense, operating expenses as a percent of net interest income plus net fee income were 19.3 percent in 2015, compared to 18.9 percent in 2014 and 19.0 percent in 2013.

The $23.7 million increase in total operating expenses in 2014 compared to 2013 included a $13.6 million increase in Insurance Fund premium expense driven by an increase in the premium rate, which was 12 basis points of adjusted insured debt obligations in 2014 compared to 10 basis points in 2013. CoBank's loan growth from 2013 to 2014 also contributed to the increase in premium expense. Purchased services expenses increased by $7.2 million in 2014 as a result of increased consulting services related to the development of a new cash management platform and other service enhancement initiatives. General and administrative expenses increased by $2.7 million in 2014 reflecting greater levels of contributions and other support provided to civic, charitable and other organizations that benefit the residents, communities and industries we serve in rural America. Our travel and entertainment expenses increased by $2.3 million in 2014 due to a greater level of expenditures for customer-facing activities. These factors were partially offset by the decreases in employee compensation and information technology expenses of $2.2 million and $1.5 million, respectively, in 2014. The decrease in employee compensation expenses was primarily due to lower expense related to retirement plans, and the decrease in information technology expenses resulted from a lower level of integration expenses related to our 2012 merger with AgBank.

Provision for Income Taxes

Our provision for income taxes increased to $171.1 million in 2015 from $162.9 million in 2014. Our effective tax rate was 15.4 percent for 2015 compared to 15.3 percent for 2014. Our effective tax rates are less than the applicable federal and state statutory income tax rates primarily due to tax-deductible patronage distributions. In addition, as more fully discussed in Note 1 to the accompanying consolidated financial statements, a portion of CoBank's activities are statutorily exempt from income taxes. These tax-exempt activities primarily include wholesale lending to Farm Credit Associations. The slight increase in our effective tax rate in 2015 resulted from greater earnings in our taxable business activities in 2015.

Our effective tax rate decreased to 15.3 percent for 2014 compared to 15.7 percent for 2013 as a result of an increase in earnings in non-taxable business activities in 2014. Our provision for income taxes was $159.0 million in 2013.

Operating Segment Financial Review

We conduct lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure. We hold investment securities primarily as a liquidity reserve to support our core lending operations. Net interest income on investment securities and gains or losses on investment securities are allocated to all operating segments, whereas the underlying investment assets are not allocated to the operating segments.

In addition to the operating segments described below, our Banking Services Group (BSG) provides capital markets services, which support our lending divisions. BSG manages syndications and loan sales with approximately 136 financial institutions. In 2015, we syndicated or sold approximately $25.1 billion of loan commitments to System entities and other financial institutions to help meet customers' credit needs and to effectively diversify risk and manage capital. BSG's Knowledge Exchange Division provides the Bank and our customers industry specific research and strategic insight to enhance understanding of emerging trends, business opportunities, and risks.

In addition, we offer non-credit products and services including cash management, online banking, mobile banking, commercial credit card and merchant card processing solutions. Revenues generated from non-credit products and services and by BSG, as well as all related operating expenses, are allocated to the operating segments.

Net income by operating segment is summarized in the accompanying table and is more fully disclosed in Note 14 to the accompanying consolidated financial statements. The following tables also provide period-end and average loan amounts.

Net Income by Operating Segment ($ in Thousands)

Year Ended December 31,	2015	2014	2013
Operating Segment:			
Agribusiness	**$ 448,931**	$ 385,529	$ 379,630
Strategic Relationships	**241,987**	243,532	254,749
Rural Infrastructure	**255,271**	279,966	229,632
Total Operating Segments	**946,189**	909,027	864,011
Corporate/Other	**(9,516)**	(4,757)	(7,556)
Total	**$ 936,673**	$ 904,270	$ 856,455

Period-end Loan Portfolio by Operating Segment ($ in Millions)

December 31,	2015	2014	2013	2012	2011
Agribusiness	**$ 26,131**	$ 24,359	$ 21,182	$ 21,394	$ 18,869
Strategic Relationships[1]	**43,358**	39,919	37,897	36,707	15,236
Rural Infrastructure	**19,552**	16,104	14,524	13,879	12,180
Total Loans	**$ 89,041**	$ 80,382	$ 73,603	$ 71,980	$ 46,285

Average Loan Portfolio by Operating Segment ($ in Millions)

Year Ended December 31,	2015	2014	2013	2012	2011
Agribusiness	**$ 24,872**	$ 23,598	$ 21,077	$ 22,209	$ 23,104
Strategic Relationships[1]	**40,414**	37,804	36,565	34,976	15,215
Rural Infrastructure	**17,770**	15,192	14,215	13,086	11,880
Total Average Loans	**$ 83,056**	$ 76,594	$ 71,857	$ 70,271	$ 50,199

[1] The merger with AgBank resulted in a $19.5 billion increase in Strategic Relationships loan volume as of January 1, 2012, including $18.9 billion in loans outstanding and $530.9 million in fair value adjustments recorded pursuant to business combination accounting standards.

The following table presents activity in the allowance for credit losses by operating segment.

Analysis of the Allowance for Credit Losses ($ in Thousands)	2015	2014	2013	2012	2011
Beginning of Year	**$ 596,836**	$ 614,718	$ 595,079	$ 541,975	$ 500,543
Charge-offs:					
Agribusiness	**(2,668)**	(1,599)	(1,622)	(29,069)	(10,559)
Strategic Relationships	**-**	-	-	-	-
Rural Infrastructure	**(5,597)**	(4,618)	(26)	(1,556)	(12,956)
Total Charge-offs	**(8,265)**	(6,217)	(1,648)	(30,625)	(23,515)
Recoveries:					
Agribusiness	**1,977**	2,040	20,199	11,022	6,527
Strategic Relationships	**-**	-	-	-	-
Rural Infrastructure	**1,040**	1,295	1,088	2,707	420
Total Recoveries	**3,017**	3,335	21,287	13,729	6,947
Net (Charge-offs) Recoveries	**(5,248)**	(2,882)	19,639	(16,896)	(16,568)
Provision (Reversal) Charged (Credited) to Earnings:					
Agribusiness	**(30,800)**	37,000	(6,000)	16,550	37,000
Strategic Relationships	**-**	-	-	-	-
Rural Infrastructure	**40,800**	(52,000)	6,000	53,450	21,000
Total Provision (Reversal) Charged (Credited) to Earnings	**10,000**	(15,000)	-	70,000	58,000
End of Year	**$ 601,588**	$ 596,836	$ 614,718	$ 595,079	$ 541,975
Components:					
Allowance for Loan Losses	**$ 486,144**	$ 481,156	$ 447,126	$ 437,376	$ 388,056
Reserve for Unfunded Commitments	**115,444**	115,680	167,592	157,703	153,919
Total Allowance for Credit Losses (ACL)	**$ 601,588**	$ 596,836	$ 614,718	$ 595,079	$ 541,975
ACL/Total Loans	**0.68 %**	0.74 %	0.84 %	0.83 %	1.17 %
ACL/Non-guaranteed Loans (Excluding Loans to Associations)	**1.36**	1.54	1.85	1.87	1.92
ACL/Impaired Loans	**382**	457	413	345	402
ACL/Nonaccrual Loans	**384**	458	416	350	402
Net (Charge-offs) Recoveries / Average Loans	**(0.01)**	(0.00)	0.03	(0.02)	(0.03)

Allowance for Credit Losses by Operating Segment ($ in Thousands)					
December 31,	**2015**	**2014**	**2013**	**2012**	**2011**
Agribusiness	**$ 402,814**	$ 434,305	$ 396,864	$ 384,287	$ 385,784
Strategic Relationships	**-**	-	-	-	-
Rural Infrastructure	**198,774**	162,531	217,854	210,792	156,191
Total Allowance for Credit Losses	**$ 601,588**	$ 596,836	$ 614,718	$ 595,079	$ 541,975

Agribusiness

Overview

The Agribusiness operating segment includes loans and other financial services provided to a diverse market of cooperatives and other businesses in various agricultural sectors including grain handling and marketing, farm supply, fruits, nuts, vegetables, forest products, dairy, livestock, biofuels and food processing. Primary products and services include term loans, revolving lines of credit, trade finance, capital markets services, and cash management and investment products. To enhance portfolio diversification, and to assist System partners in meeting the needs of their increasingly diverse customer base, we purchase participations in agribusiness loans from other System entities and participate in syndicated agribusiness loans with other financial institutions.

A portion of Agribusiness loan volume finances seasonal grain inventories, through the use of lines of credit, for grain cooperative customers. This seasonal loan volume is affected by a number of factors, including grain volume, commodity prices, producer selling patterns, transportation availability, and the relationship between cash and futures prices in the grain commodities markets. Agribusiness loan volume generally reaches a seasonal low in late summer or early fall. Harvest financing demands result in loan volume increases beginning in the late fall of each year. Peak loan volume

typically occurs early in the year when our cooperative customers pay producers' deferred grain payables.

Our Agribusiness customers face challenges including widely fluctuating supplies of commodities in global markets and the attendant price volatility, changing domestic and global market demand, increasing regulation and the impact of currency fluctuations. These trends, along with the need to attract top leadership, are leading some of our cooperative customers to consolidate and merge, while others are entering into joint ventures, or forming alliances to develop new markets. This consolidation trend has, in some cases, resulted in larger individual and attributed credit commitments, consistent with our mission. We meet our customers' financing needs by maintaining appropriate credit exposure to individual customers and partnering with System entities and commercial banks in loan syndications and participations. We also focus on serving start-up cooperatives to ensure fulfillment of our mission.

The Agribusiness segment includes our Agricultural Export Finance Division (AEFD), which provides trade finance to support U.S. exporters of agricultural products. Obligors consist primarily of financial institutions in foreign countries (primarily emerging markets) who support our exporting customers in selling and shipping agricultural products to international markets. In financing the export of U.S. agricultural products, the AEFD utilizes the U.S. government-sponsored export loan guarantee General Sales Manager (GSM) program. As of December 31, 2015, the AEFD had $4.5 billion in loans outstanding, 37 percent of which were guaranteed by the U.S. government under the GSM program, compared to $4.2 billion in loans outstanding as of December 31, 2014, 44 percent of which were guaranteed under the GSM program. The shift in mix toward a higher level of non-guaranteed volume reflects a decline in the competitiveness of the GSM program coupled with our ability to support an increasing level of non-guaranteed export transactions. Expanding the export of U.S. agricultural products is an important component of supporting the U.S. economy and balance of trade.

The Agribusiness segment also includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary which provides leases and lease-related products and financial services to agribusinesses, agricultural producers, Association partners, and rural infrastructure companies. As of December 31, 2015, FCL had $3.0 billion in leases outstanding compared to $2.7 billion in leases outstanding as of December 31, 2014.

2015 Performance

Agribusiness loans outstanding totaled $26.1 billion at December 31, 2015, compared to $24.4 billion at December 31, 2014. Average loan volume increased 6 percent to $24.9 billion in 2015 from $23.6 billion in 2014. The increase in outstanding and average Agribusiness volume primarily stems from increased lending to food and agribusiness companies due to new customer growth, increased leasing activity and increased agribusiness export finance lending. These factors were somewhat offset by lower levels of seasonal inventory financing at many grain cooperatives as a result of declining grain prices.

As previously mentioned, the level of seasonal lending within our Agribusiness operating segment can fluctuate significantly from period to period and is impacted by numerous factors, including commodity prices and inventory levels. The following table shows five-year price trends for certain grain commodities. Prices represent the yearly high and low "nearby" futures price per bushel for corn, soybeans and wheat. Nearby futures contracts represent those contracts with the nearest settlement date.

Year Ended December 31,	2015	2014	2013	2012	2011
Commodity					
Corn:					
High	**$ 4.43**	$ 5.23	$ 7.41	$ 8.44	$ 8.00
Low	**3.47**	3.18	4.12	5.51	5.95
Soybeans:					
High	**10.62**	15.37	16.13	17.89	14.56
Low	**8.44**	9.04	12.59	11.50	12.70
Wheat:					
High	**6.15**	7.44	7.91	9.47	8.93
Low	**4.59**	4.66	6.00	5.90	5.80

Our Agribusiness segment generated $448.9 million in net income for 2015, a 16 percent increase from the $385.5 million in net income for 2014. The increase in earnings was primarily due to a loan loss reversal recorded in 2015, and higher levels of noninterest income and net interest income, partially offset by a higher level of operating expenses.

The increase in net interest income was due to higher average loan volume, somewhat offset by spread compression in Agribusiness loans and investment securities.

We recorded a $30.8 million loan loss reversal in our Agribusiness operating segment in 2015, compared to a $37.0 million provision for loan losses recorded in 2014. The 2015 loan loss reversal includes the impact of further enhancements made to our methodology for estimating credit losses inherent in our loan portfolio, which more than offset an increase in lending activity to food and agribusiness companies, increased leasing activity and slight deterioration in credit quality impacting a small number of agricultural customers. The 2014 provision for loan losses was primarily driven by the impact of previous changes to our methodology for estimating credit losses and, to a lesser extent, modest deterioration in credit quality and growth in loan volume in that period. The changes in methodology for estimating credit losses are discussed further on page 60.

While overall Agribusiness credit quality remains strong, nonaccrual loans increased to $88.0 million at December 31, 2015 from $48.9 million at December 31, 2014 primarily due to credit quality deterioration impacting a small number of agricultural customers. Loan charge-offs, net of recoveries, were $0.7 million in 2015 compared to $0.4 million in loan recoveries, net of charge-offs, for 2014. Charge-offs in both periods related to a limited number of customers and were not

reflective of any significant trend within the Agribusiness operating segment.

Noninterest income in our Agribusiness segment increased by $28.5 million in 2015 primarily due to the impact of gains recognized from the sale of investment securities, which are allocated to the operating segments, as well as an increased level of patronage income received from other System institutions on loan participations we sold to them. These items were partially offset by impairments recognized on investment securities which are also allocated to the operating segments.

Operating expenses in our Agribusiness segment increased by $10.0 million in 2015 primarily due to the increase in Insurance Fund premiums and the increases in other operating expenses described previously. Income tax expense in the Agribusiness operating segment increased $27.3 million in 2015 primarily due to the increase in pre-tax earnings driven by the significant change in loan loss reversal/provision for loan losses.

Strategic Relationships

Overview

The Strategic Relationships operating segment includes wholesale loans from the direct funding relationships we have with our affiliated Association customer-owners and our funding relationships with other System institutions. Our affiliates include Associations operating in 23 states serving the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

Developing and maintaining strong relationships with Farm Credit Associations and other System institutions is an important strategic focus for the Bank. By working together, the Bank and Associations collectively provide credit and non-credit services to a more diverse set of customers. We maximize the value of these strategic relationships by combining the Associations' strong market presence and local relationship management with our complementary product suite and lending capacity. Our relationships with Associations provide an important competitive advantage in attracting and retaining customers and in fulfilling our collective mission to support agriculture, rural infrastructure and rural communities.

We have seen a number of mergers among affiliated Associations in recent years and expect this activity to continue as Associations look for ways to better fulfill their mission in a safe and sound manner, while more efficiently providing value-added products and services to their member owners.

2015 Performance

As of December 31, 2015, loans in the Strategic Relationships operating segment totaled $43.4 billion, compared to $39.9 billion at December 31, 2014. At year-end 2015 and 2014, these loans included $39.1 billion and $36.0 billion, respectively, in wholesale loans to our affiliated Associations and $4.3 billion and $3.9 billion, respectively, of participations in wholesale loans made by other System banks to certain of their affiliated Associations. These participations included $3.9 billion and $3.7 billion as of December 31, 2015 and 2014, respectively, in loans made by the Farm Credit Bank of Texas. Strategic Relationships average loan volume increased 7 percent to $40.4 billion in 2015 compared to $37.8 billion in 2014. The increases in outstanding and average loan volume resulted primarily from new customer growth at the Associations and higher seasonal demand in Association lending to agricultural producers and processors. An increase in participations in wholesale loans made by two other System banks also contributed to the increase in Strategic Relationships outstanding loan volume.

Strategic Relationships net income totaled $242.0 million in 2015, compared to $243.5 million for 2014. The slight decrease resulted from an increase in operating expenses and higher noninterest expense, somewhat offset by higher net interest income.

Strategic Relationships net interest income increased to $283.9 million for 2015, from $280.0 million for 2014. The increase in net interest income was due to growth in average loan volume, partially offset by spread compression in our investment portfolio.

Overall loan quality in Strategic Relationships continues to be very strong. As a wholesale lender to Associations, we benefit from the diversification of the Association loan portfolios and a strong collateral position. In addition, the earnings, capital and loan loss reserves of the Associations provide an additional layer of protection against losses in their respective loan portfolios. Lower spreads in the Strategic Relationships operating segment are commensurate with the lower risk profile and lower regulatory capital requirements. No provisions for loan losses or allowance for credit losses have been recorded related to any of our Association wholesale loans.

Strategic Relationships recorded $3.8 million in net noninterest expense in 2015 compared to $2.8 million in 2014 primarily due to the impairments recognized on investment securities during 2015, which were partially offset by gains on the sale of investment securities. The 2014 net noninterest expense includes the impact of a write-down in the carrying value of an office building located in Wichita, Kansas.

Operating expenses increased to $38.1 million in 2015 from $33.7 million in 2014 due to the impact of increased Insurance Fund premiums on investment securities and the increases in other operating expenses described previously. Strategic Relationships has no income tax expense as the earnings on its business activities are statutorily tax-exempt.

Rural Infrastructure

Overview

The Rural Infrastructure operating segment includes loans and other financial services provided to cooperatives and other companies in the power and energy, communications, water and waste water industries and community facilities in rural America. Primary products and services provided include term loans, revolving lines of credit, project financing, capital markets services and cash management and investment products.

There are significant needs for investment in infrastructure to support businesses and residents in rural communities. Traditional sources of investment capital, including public sector financing, may not be available or sufficient to meet those needs. As a part of our congressionally mandated mission, CoBank provides support for rural infrastructure needs, in partnership with other System entities, commercial banks and government entities. In addition, CoBank is the anchor investor in the Rural Infrastructure Opportunity Fund in partnering with the U.S. Department of Agriculture on meeting the financing needs for rural infrastructure. As anchor investor, CoBank lends alongside Rural Infrastructure Opportunity Fund investments, subject to CoBank lending authorities and underwriting requirements. CoBank will continue to pursue additional opportunities to invest in rural infrastructure to allow rural businesses to compete in a global marketplace and to improve the quality of life in rural communities.

Power and energy industry customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, regulated utilities, and pipeline and local distribution companies. While demand for electricity has grown at relatively low levels in recent years, customers are making infrastructure enhancements to meet long-term system requirements or to comply with environmental mandates and thus continue to need access to debt capital. Growth in renewable energy projects and environmental mandates also contribute to loan demand from project finance customers. Loan growth has also resulted from opportunities to refinance borrowings from other lenders, particularly in the rural electric distribution cooperative sector.

Communications industry customers include rural local exchange carriers, wireless providers, data transport networks, cable television systems and data centers. Telecommunications networks are, by their nature, globally interconnected. As a result, many of the larger communications providers are vitally important to bringing necessary products and services to rural America through their networks and partnerships with many of our rural customers. We focus on communications companies of varying sizes that are collectively positioned to provide the necessary range of services, including voice (both wireline and wireless), broadband and video, vital for rural industries and communities. Growth opportunities may also arise from merger and acquisition activity, as consolidation often results from carriers seeking to improve operating efficiencies and gain market share in this highly competitive industry. Capital spending may provide additional growth opportunities as wireline carriers enhance their networks with fiber optics and wireless carriers continue to upgrade to fourth generation (4G) data technology.

Water industry customers include rural water and waste water companies. Capital expenditure growth in this industry continues primarily as a result of the need to replace aging infrastructure and to meet higher standards for water quality. While government programs have traditionally provided grants and financing, private lending opportunities for construction or interim financing have also emerged, often as a bridge to government grants or loans. With the continuing need for plant upgrades and expected limitations on the availability of government funds, we expect private lending to this industry to continue to grow.

In partnership with other System entities and community banks, we provide funding to rural community facilities including rural health care facilities.

2015 Performance

Rural Infrastructure loans outstanding totaled $19.6 billion at December 31, 2015 compared to $16.1 billion at December 31, 2014. Average loan volume increased 17 percent to $17.8 billion in 2015 compared to $15.2 billion in 2014. Growth in Rural Infrastructure outstanding and average loan volume resulted primarily from increased lending to electric distribution, communications and power supply customers.

Rural Infrastructure net income decreased 9 percent to $255.3 million for 2015 from $280.0 million for 2014. The decrease was primarily the result of a provision for loan losses recorded in 2015 as well as higher operating expenses, somewhat offset by an increase in net interest income and higher noninterest income.

Net interest income increased $33.4 million in 2015 as compared to 2014, driven by the growth in average loan volume described above. The impact of loan growth on net interest income was partially offset by spread compression in Rural Infrastructure loans and investment securities.

Rural Infrastructure recorded a $40.8 million provision for loan losses in 2015, compared to a $52.0 million loan loss reversal in 2014. The 2015 provision for loan losses was primarily the result of further enhancements made to our methodology for estimating credit losses inherent in our loan portfolio. Excluding the impact of those changes, a lower level of specific reserves largely offset the impact of loan growth in our Rural Infrastructure operating segment during 2015. The 2014 loan loss reversal resulted from previous changes to our methodology for estimating credit losses, as well as a lower level of specific reserves due to improved performance and favorable resolution of a small number of communications and energy loans during 2014. The changes in methodology for estimating credit losses are discussed further on page 60.

Overall credit quality in our Rural Infrastructure operating segment remains strong. Nonaccrual loans in the Rural Infrastructure segment decreased to $68.8 million at December 31, 2015 from $81.4 million at December 31, 2014 primarily due to the sale of an energy loan and payoff of a communications loan. Rural Infrastructure recorded loan charge-offs, net of recoveries, of $4.6 million in 2015 as compared to $3.3 million in 2014.

Noninterest income increased by $20.9 million due to the impact of gains on the sale of investment securities, lower losses on early extinguishments of debt, net of prepayment income, and a higher level of fee income.

Rural Infrastructure operating expenses increased by $6.2 million in 2015 due to the increase in Insurance Fund premiums and the increases in other operating expenses described previously. Income tax expense in the Rural Infrastructure operating segment decreased $20.0 million

primarily due to the impact of lower pre-tax earnings resulting from the provision for loan losses.

Corporate Risk Profile

Managing and optimizing risk to our current and anticipated earnings, capital and enterprise value, within our Board approved risk appetite, are essential components of successfully operating our Bank. Our primary risk exposures are: credit, market, liquidity, operational, strategic, and reputation. Credit risk is the risk arising from changes in a customer's or a counterparty's ability or willingness to repay funds borrowed, or otherwise meet agreed-upon obligations. Market risk is the risk arising from movements in interest rates, equity positioning, differences between the timing of contractual maturities, re-pricing characteristics, and prepayments on assets and their related liabilities. Liquidity risk is the risk arising from the Bank's inability to repay its obligations, or issue new obligations to fund borrowers. Operational risk is the risk arising from inadequate or failed internal processes, technology, human errors or misconduct; failure to comply with laws, rules or regulations; or other adverse external events. Strategic risk is the risk arising from adverse business decisions or lack of responsiveness to changes in the banking/operating environment. Reputation risk is the risk arising from negative external perception and loss of public confidence.

Business segments and support units have the responsibility of identifying, monitoring and managing these risks. Our Risk Management Group provides oversight through measurement, monitoring and assessment processes addressing the Bank's primary risk exposures. The following is a discussion of these risks, and our approach to managing them.

Credit Risk Management

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

We actively manage credit risk through a well-defined, Board-approved loan portfolio strategy, a structured and centralized credit approval process, a disciplined risk management process, and a sound credit administration program, while considering our responsibility to fulfill our mission of service to rural America. We have established comprehensive credit guidelines and procedures to ensure consistency and integrity of information related to the credit risk in our loan, lease, investment and derivatives portfolios.

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

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

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

The Risk Management Group is led by the Chief Risk Officer, who reports to the CEO. The Risk Management group includes the head of Internal Audit and the head of Asset Review, both of whom have a direct reporting responsibility to the Audit Committee of the Board of Directors. The Risk Management Group oversees the establishment of concentration and portfolio limits, the development of the portfolio strategy, the analysis of the allowance for credit losses and other risk-based modeling and metrics. It provides independent reporting to the Board of Directors on the quality of the Bank's assets, the Bank's system of internal controls, and material findings of the Asset Review and Internal Audit Divisions. In addition, the Risk Management Group provides quarterly reporting on the Bank's risk appetite and exposures, as well as an annual risk assessment.

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

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

Credit Risk Related to Loans

The key elements of our credit risk management related to lending include our portfolio strategy, the credit approval process, and the use of exposure and concentration limits, each of which is explained below.

Portfolio Strategy

The portfolio strategy provides overall guidance on lending activities and strategies over the next three years, consistent with our strategic business objectives, Board-approved risk appetite and overall risk profile. The primary objective of our portfolio strategy is to fulfill our congressionally-mandated mission in a safe and sound manner by complying with the Board-established financial baselines, optimizing the allocation of our risk appetite and providing an appropriate risk adjusted return on our shareholders' equity. Our mission includes supporting our Associations' young, beginning and small farmers; small rural infrastructure entities; start-up cooperatives; local food programs; rural community development; and renewable energy projects. The portfolio strategy helps ensure that CoBank is inclusive in its outreach to all marketplace segments whether it be through lending or investment activities or our corporate social responsibility program.

As part of the annual business and financial planning process, the Board of Directors reviews and approves the Bank's portfolio strategy. Management analyzes performance with respect to the portfolio strategy quarterly and reports the results to the Board of Directors.

Credit Approval

The most critical element in managing and controlling credit risk is the initial decision to make a loan and the resulting structure and terms of the relationship with the borrower.

We place significant emphasis on the evaluation and understanding of a borrower's business and management in the initial credit analysis and the approval process. We emphasize cash flow and repayment capacity as primary sources for repayment of loans, including cash generated from the sale of agricultural commodities as it relates to seasonal lending. Collateral is normally considered a secondary source of repayment. In circumstances where the credit decision places substantial reliance on collateral to repay the loans, independent appraisals may be used to assist in the collateral valuation. Such appraisals are conducted in accordance with FCA regulations and professional appraisal standards.

For wholesale lending within our Strategic Relationships operating segment, the earnings, capital and loan loss reserves of Associations provide an additional layer of protection against losses in their respective loan portfolios. Loans to our affiliated Associations are governed by a General Financing Agreement, as described on page 115.

With the exception of certain small-dollar lease transactions, no individual has sole credit approval authority within CoBank. All approvals or credit actions are required to be formally documented.

Management assigns a risk rating to each borrower based on two measurements: probability of default (PD) risk rating and loss given default (LGD) risk rating. The PD rating system uses a 14-point scale of 1 (highest quality) to 14 (lowest quality). The PD rating is primarily determined by the financial characteristics of the borrower and reflects the probability of default driven by several factors, including business risk, industry risk, management capability and financial condition. The LGD rating is intended to approximate the degree of potential loss in the event the borrower defaults.

Exposure and Concentration Limits

We use exposure and concentration limits to manage risk and volatility in the loan portfolio. Exposure to individual borrowers and related entities is managed through a risk matrix that considers the dollar exposure, type of exposure and risk rating of the borrower. Individual borrower exposures are typically established at the time of loan origination or renewal, with risk ratings formally reviewed at least annually. The dollar exposure, risk rating and type of credit extended further determine the delegated level of authority required to approve the credit. These individual borrower exposures are then further subject to total portfolio limits on exposure to different industries and/or countries. Exposure limits for different industries are reviewed quarterly while exposure limits for different countries are reviewed annually. We allow for more frequent evaluation when appropriate. Exceptions to these exposure limits may be granted by the CLC or the CRC if conditions warrant.

We also manage credit exposures and concentrations in our loan portfolio by syndicating loans and by selling and purchasing loan participations. Our capabilities in syndicating loans and in selling and purchasing loan participations are critical to dynamically managing the portfolio, maintaining market discipline, meeting our customers' needs and fulfilling our mission.

While we believe these standards, processes and tools are appropriate to manage our credit risk, there is no assurance that significant deterioration in loan quality will not occur, which could reduce our future earnings.

We are limited to making loans and providing related financial services to eligible borrowers in certain specified industries, as mandated by the Farm Credit Act. As a result, we have a concentration of loans to the agricultural and rural infrastructure industries. The significant risk factors affecting credit conditions in these industries within each of our operating segments are described below.

Agribusiness

The relationship of demand for and supply of U.S. agricultural products in the global marketplace can significantly impact the volume, earnings and loan quality of our Agribusiness operating segment.

Volatility in the prices and supplies of agricultural commodities can impact the profitability and loan quality of our Agribusiness customers. Such volatility results from, among other factors, seasonal and cyclical weather conditions; domestic and global economic growth expectations; the availability of transportation; global production and supply levels; financial investment in the commodity futures markets by non-agricultural interests; and changing export markets and

currency exchange rates. Market prices for food products also have a significant effect on a number of customers within our Agribusiness operating segment.

Extreme weather conditions, including the drought conditions currently affecting portions of the United States, can substantially impact harvests and prices of agricultural products and, ultimately, impact the credit quality of some of our agribusiness borrowers and our Associations' borrowers as their earnings are reduced. Although certain crop losses resulting from weather conditions are mitigated for producers by multi-peril crop insurance, not all crops are covered by insurance. To the extent weather adversely impacts the agricultural sector, the risk of loss in our loan portfolio may increase, which could reduce our earnings.

Major international events, including military conflicts; terrorism; political, geopolitical, currency and global economic disruptions; and trade agreements can affect, among other things, the price of commodities or products used or sold by our borrowers or their access to markets. In addition, biological or disease risk in human, livestock or crop populations can impact the supply of and demand for agricultural products. Certain customers also have exposure to counterparties in the commodities exchange markets.

U.S. agriculture has historically received financial support from the U.S. government through direct payments, crop insurance and other benefits. However, congressional efforts to decrease the U.S. budget deficit resulted in reduced federal support for certain agricultural programs. The Agricultural Act of 2014 (the Farm Bill), which established the U.S. government's agricultural, rural development and nutrition policy over a five-year period, was signed into law in February 2014 and eliminated direct payments but expanded certain forms of crop insurance. Although most of our direct customers do not generally receive support payments from federal programs, a significant reduction or elimination of support in the future could have a negative impact on the loan quality of certain borrowers, including Associations, who derive a significant share of their earnings from farmers and other producers who could be affected by such a reduction. Other political, legislative and regulatory activities may also impact the level or existence of certain government programs that support agriculture.

Strategic Relationships

The risk factors previously discussed in the "Agribusiness" section can also affect loan quality at Associations; however, the impact of such factors on farmers and other producers served by Associations may not be the same as the impact on cooperatives and other customers served by our Agribusiness operating segment. The loan quality within our Strategic Relationships operating segment is enhanced by our strong collateral position and the earnings, capital and loan loss reserves of the Associations, which provide an additional layer of protection against losses they may have in their loan portfolios.

Rural Infrastructure

Weakness in the general economy, and the rural economy in particular, can reduce commercial and residential demand for services and negatively affect customers in our Rural Infrastructure operating segment.

Fluctuating weather conditions, energy efficiency initiatives, the relative cost and price volatility of various fuel sources, the advent of distributed generation sources, the growth and integration of renewable power sources and protracted low levels of electricity demand can adversely affect our customers in the energy industry. The pace and degree of the restructuring and optimization of the electric energy industry in the United States may also impact future loan quality. Constraints on carbon emissions and other environmental standards could also adversely impact energy customers.

The communications industry is affected by significant competition and changing customer demands. Regulatory, legislative and technological changes may impact the future competitive position and markets for the communications industry. These factors may place downward pressure on the loan quality of certain sectors of the communications industry. In addition, decreased cash flows and the resultant impact on asset valuation, the inability to successfully integrate merged or acquired companies, or the lack of availability of debt and equity capital could adversely affect certain communications customers.

The water industry faces high capital expenditure requirements due to environmental regulation, aging infrastructure and reduced levels of government support. Top-line revenue growth is also a concern for the water industry given the decline in per capita residential water usage resulting from conservation measures and increased use of water efficient appliances. The inability to adjust rate structures and address the misalignment of rising fixed costs and flat to declining variable revenues, without sacrificing affordability, could adversely affect certain water customers.

Credit Quality Conditions and Measurements in Our Loan Portfolio

The following table presents loans and related accrued interest receivable classified by management pursuant to our regulator's Uniform Loan Classification System, as a percent of total loans and related accrued interest.

Loan Quality Ratios

	December 31, 2015			December 31, 2014		
	Wholesale Loans [1]	Commercial Loans [2]	Total Bank	Wholesale Loans [1]	Commercial Loans [2]	Total Bank
Acceptable	**100.00 %**	**96.49 %**	**98.18 %**	97.76 %	96.62 %	97.20 %
Special Mention	**-**	**2.16**	**1.12**	-	1.92	0.96
Substandard	**-**	**1.35**	**0.70**	2.24	1.38	1.80
Doubtful	**-**	**-**	**-**	-	0.08	0.04
Loss	**-**	**-**	**-**	-	-	-
Total	**100.00 %**	**100.00 %**	**100.00 %**	100.00 %	100.00 %	100.00 %

[1] Represents loans in our Strategic Relationships operating segment

[2] Represents loans in our Agribusiness and Rural Infrastructure operating segments

Our overall loan quality measures improved in 2015. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") decreased from 1.84 percent of total loans and related accrued interest at December 31, 2014 to 0.70 percent at December 31, 2015. The Substandard wholesale loans at December 31, 2014 in the table above related to one affiliated Association loan which totaled $891.3 million at December 31, 2014. Pursuant to our regulatory requirements, we classify our wholesale loans using the same credit rating methodology as is used with our commercial loans. Our loans to affiliated Associations are collateralized by substantially all of the Association assets, and the earnings, capital and loan loss reserves of the Associations provide an additional layer of protection against losses in their retail loan portfolios. While the 'Substandard' classification resulted from events described on page 116, we did not incur any losses on that wholesale loan to this affiliated Association, which merged with another of our affiliated Associations in 2015, and the wholesale loan of the merged entity is rated in the Acceptable credit quality classification at December 31, 2015. As of December 31, 2015, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any of our wholesale loans.

Excluding the impact of the aforementioned Association loan, adversely classified loans and related accrued interest represented 0.73 percent of total loans and accrued interest at December 31, 2014.

Summary of High-Risk Assets ($ in Thousands)

December 31,	2015	2014	2013	2012	2011
Nonaccrual Loans	**$ 156,805**	$ 130,340	$ 147,849	$ 170,207	$ 134,862
Accruing Loans 90 Days or More Past Due	**754**	239	972	2,513	114
Restructured Loans	**-**	-	-	-	-
Total Impaired Loans	**157,559**	130,579	148,821	172,720	134,976
Other Property Owned	**-**	230	2,246	5	469
Total High-Risk Assets	**$ 157,559**	$ 130,809	$ 151,067	$ 172,725	$ 135,445

Total nonaccrual loans were $156.8 million at December 31, 2015 compared to $130.3 million at December 31, 2014. The increase in 2015 was primarily due to the credit quality deterioration impacting a small number of agricultural customers and a communications company, somewhat offset by the sale of a nonaccrual energy loan. Our nonaccrual loans are typically composed of a relatively small number of customers, and as such, the balances can fluctuate period to period based on a similarly small number of transactions. Nonaccrual loans as a percent of our total loan portfolio were 0.18 percent as of December 31, 2015 compared to 0.16 percent at December 31, 2014. Over the past 10 years, nonaccrual loans have averaged 0.32 percent of the total loan portfolio.

Total loan charge-offs, net of recoveries, were $5.2 million in 2015 compared to $2.9 million in 2014. Gross charge-offs in 2015 were $8.3 million compared to $6.2 million in 2014, and were primarily associated with a small number of communications customers. Charge-offs have historically resulted from a relatively small number of customers. Accordingly, charge-offs can fluctuate period to period based on a small number of transactions.

Our allowance for credit losses totaled $601.6 million and represented 0.68 percent of total outstanding loans at the end

of 2015, compared to 0.74 percent at December 31, 2014. At December 31, 2015, our allowance for credit losses represented 1.36 percent of non-guaranteed loans outstanding, excluding wholesale loans to Associations, compared to 1.54 percent at December 31, 2014.

As part of our overall assessment of risk in the loan portfolio and the allowance for credit losses as of December 31, 2015, we have considered a wide variety of factors, including volatile commodity prices and supplies; global economic uncertainty; drought conditions currently affecting portions of the United States; a significant level of industry, borrower and attributed concentration risk resulting from our defined mission of service to rural communities and agriculture; and the imprecision inherent in estimating losses within our loan portfolio.

See "Critical Accounting Estimates – Allowance for Credit Losses" on page 60 for a more complete description of our process to determine the adequacy of our allowance for credit losses.

Credit Risk Related to Investments and Derivatives

We minimize credit risk in our investment portfolio by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies. At year-end 2015, 44 percent of our $24.5 billion investment portfolio consisted of securities that carry a full faith and credit guarantee of the U.S. government. Such securities include MBS issued by the Government National Mortgage Association (Ginnie Mae), Export-Import Bank of the United States securities and U.S. Treasury and other debt securities, including loans backed by the Small Business Administration. Approximately 53 percent of our investment portfolio consisted of securities issued by government agencies that carry the implicit backing of the U.S. government, including MBS issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and Farmer Mac.

Included within our U.S. agency MBS portfolio are FHA/VA wrapped "reperformer" MBS where residential mortgage loans serving as collateral were cured after a default. The underlying loans supporting the FHA/VA wrapped reperformer MBS are approximately 90 percent government guaranteed or insured, and are further supported by guarantees from either Fannie Mae or Freddie Mac. The Bank's investment portfolio also consisted of non-wrapped reperformer MBS where the underlying loans are also approximately 90 percent government guaranteed or insured but have no guarantees from Fannie Mae or Freddie Mac.

Credit risk in our investment portfolio primarily relates to the 3 percent of the portfolio composed of FHA/VA non-wrapped reperformer MBS, non-agency MBS, asset-backed securities (ABS) and corporate bonds. The portfolio of FHA/VA non-wrapped reperformer MBS carry unique credit risks, which stem from any potential deficiencies in documentation or lack of compliance with servicing requirements on underlying loans that could make such loans ineligible for guarantees or insurance.

Credit risk in our investment portfolio could also arise from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to us.

We recorded $11.1 million of other-than-temporary impairment losses on investment securities in 2015, compared to no impairment losses in 2014 and $2.5 million in 2013. The credit quality of our investment portfolio as of December 31, 2015 and impairment losses on investment securities are more fully discussed in "Liquidity and Capital Resources" beginning on page 56.

Our counterparty credit risk arising from derivative transactions is managed within credit methodologies and limits approved by the CLC. Managing counterparty exposure is more fully discussed in "Counterparty Exposure" beginning on page 50.

Market Risk Management

We are subject to market risk, defined as the risk to current or anticipated earnings or capital arising from movements in interest rates. This risk primarily arises from our equity positioning and differences in the timing between the contractual maturities, repricing characteristics, and prepayments of our assets and the liabilities funding these assets. This risk can also arise from embedded caps in certain of our investments and differences between the interest rate indices used to price and fund our assets. Our asset/liability management objective is to manage the mix of interest-earning assets and interest-bearing liabilities to reduce interest rate risk and stabilize our net interest income while optimizing profitability and insulating shareholders' equity from significant adverse fluctuations in market interest rates. While we actively manage our interest rate risk position within policy limits approved by the Board of Directors using strategies established by our ALCO, and within our risk appetite, there can be no assurance that changes in interest rates will not adversely impact our earnings and capital.

The following is a more detailed description of our primary interest rate risks and strategies used to mitigate those risks.

Equity Positioning Risk

Shareholders' equity serves as an interest-free source of funding for the balance sheet and thus requires that we make decisions about the maturity mix of the assets funded by it. Using equity to fund short-term assets results in increased volatility of net interest income, whereas using equity to fund long-term assets results in increased volatility in the market value of our equity. During 2014 and 2013, we chose to use this equity to fund intermediate-term assets (generally, maturing equally over the next five to seven years) to balance the risks to net interest income and market value of equity. In February 2015, the ALCO approved a strategy to change the positioning of equity from equally over seven years to equally over the period of two to seven years as a result of changes in interest rates and expectations thereof.

Repricing Risk

Mismatches in interest rate repricing and maturities of assets and liabilities arise from the interaction of customer business needs, our investment portfolio composition and the

mix of liabilities funding these assets. Modeling and measurement imprecision also contribute to repricing risk. In addition, we may also undertake funding strategies designed to maximize earnings on our asset/liability position in certain interest rate environments, including using short-term liabilities to fund longer-term assets. However, funding longer-term assets with shorter-term liabilities exposes the Bank to changes in interest rates and spreads to market indices for debt issuances. If interest rates increase or spreads widen, income would be negatively impacted as higher cost funding is required to continue to fund the longer-term assets. Any such strategies are managed within the established sensitivity limits discussed on page 48.

Exposure to changes in the level and direction of interest rates is managed by adjusting the Bank's mix of interest-sensitive assets and liabilities through various strategies and through the utilization of interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). We do not use derivatives for speculative or trading purposes. Refer to page 49 for additional information related to derivatives.

Prepayment/Extension Risk

Prepayment risk in our loan portfolio exists in loans that are considered fully prepayable, which represents approximately 25 percent of total fixed-rate loans. Prepayment risk in this portfolio results when intermediate and longer-term fixed interest rates fall and prepayments increase as borrowers refinance to a lower rate. Prepayments can adversely impact loan portfolio income to the extent prepayments exceed the level of fixed-rate callable debt in the portfolio. This funding can be called in lower-rate environments, thus allowing liabilities to reprice to a lower rate. Approximately 69 percent of our fully prepayable loan portfolio is funded with callable debt, which lowers prepayment risk.

The remaining 75 percent of fixed-rate loans contain, at a minimum, make-whole prepayment penalties. These provisions require a borrower to compensate us for the cost we incur in retiring debt funding associated with loan prepayments. This allows us generally to fund our loan assets with debt of similar maturities to manage the risk of prepayments in the loan portfolio.

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

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

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

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

Cap Risk

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

Basis Risk

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

Measurement and Monitoring of Market Risk

The Risk Management Group is responsible for independently measuring and monitoring market risk. We utilize several key risk measurement and monitoring tools to assist in the management of market risk. These include interest rate gap analysis, duration gap analysis, sensitivity analysis of net interest income and market value of equity, and net interest income forecasting, each of which is described in further detail in the following pages.

Interest Rate Gap Analysis

The interest rate gap analysis shown in the following table presents a comparison of interest-earning assets and interest-bearing liabilities in defined repricing timeframes as of December 31, 2015. The interest rate gap analysis is a static indicator that does not reflect future changes in repricing characteristics and may not necessarily indicate the sensitivity of net interest income in a changing interest rate environment.

Interest Rate Sensitivity Analysis at December 31, 2015 ($ in Millions)

	One Month or Less	Over One Month Through Six Months	Over Six Months Through One Year	Over One Year Through Five Years	Over Five Years and Not Rate Sensitive	Total
Interest-earning Assets:						
Floating-rate Loans:						
Adjustable-rate/Indexed-rate Loans	$ 28,021	$ 5,073	$ 124	$ 79	$ -	$ 33,297
Administered-rate Loans	17,862	-	-	-	-	17,862
Fixed-rate Loans:						
Fixed-rate Loans [1]	1,806	3,507	2,754	8,758	12,218	29,043
Fixed-rate Loans, Prepayable [2]	501	582	787	4,411	2,401	8,682
Nonaccrual Loans	-	-	-	-	157	157
Total Loans	48,190	9,162	3,665	13,248	14,776	89,041
Investment Securities	6,114	1,397	1,341	11,341	4,311	24,504
Total Interest-earning Assets [3]	$ 54,304	$ 10,559	$ 5,006	$ 24,589	$ 19,087	$ 113,545
Interest-bearing Liabilities:						
Callable Bonds and Notes	$ -	$ 20	$ 204	$ 4,073	$ 2,996	$ 7,293
Noncallable Bonds and Notes [4]	41,096	13,223	10,750	21,285	12,070	98,424
Bonds, Medium Term Notes and Discount Notes [4]	41,096	13,243	10,954	25,358	15,066	105,717
Effect of Interest Rate Swaps, Forwards, Futures, etc.	8,874	(257)	(1,311)	(7,181)	(125)	-
Cash Investment Services Payable and Other Interest-bearing Liabilities	1,948	3	-	-	205	2,156
Total Interest-bearing Liabilities	$ 51,918	$ 12,989	$ 9,643	$ 18,177	$ 15,146	$ 107,873
Interest Rate Sensitivity Gap (Total Interest-earning Assets less Total Interest-bearing Liabilities)	$ 2,386	$ (2,430)	$ (4,637)	$ 6,412	$ 3,941	$ 5,672
Cumulative Gap	$ 2,386	$ (44)	$ (4,681)	$ 1,731	$ 5,672	
Cumulative Gap/Total Interest-earning Assets	2.10 %	(0.04) %	(4.12) %	1.52 %	5.00 %	

[1] Prepayment penalties apply that compensate CoBank for economic losses

[2] Freely prepayable or only minimal prepayment penalties apply

[3] Does not include $3.1 billion in cash and cash equivalents as of December 31, 2015

[4] Includes subordinated debt and certain other bonds and notes

The preceding table excludes $3.1 billion of cash and cash equivalents as of December 31, 2015. While cash is not considered an interest-earning asset, we include our cash balance in the sensitivity analysis discussed below, as we would invest such funds in overnight or other highly-liquid investments if market rates increased. Our interest rate sensitivity position at December 31, 2015 may be characterized as “asset sensitive” to net interest income risk. Our net interest income will generally be favorably impacted in the near term in rising interest rate environments.

We continually monitor interest rates and have the ability to reposition our balance sheet as a result of anticipated interest rate changes. If we expected a meaningful change to interest rates, we could shift our position in short order.

Duration Gap Analysis

The duration gap is the difference between the estimated durations of assets and liabilities, which is calculated using an asset/liability model. The duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time. A positive duration gap

means there is increased market value exposure to rising interest rates over the long-term because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap indicates increased exposure to declining interest rates over the long-term because the duration of our assets is less than the duration of our liabilities. We apply the same interest rate process, prepayment models, and volatility assumptions to generate the portfolio duration gap that we use in our sensitivity analysis, which is discussed below. The duration gap provides a relatively concise and simple measure of the interest rate risk inherent in our balance sheet, but it is not directly linked to expected future earnings performance. Our aggregate positive duration gap was 2.8 months at December 31, 2015 and 2.2 months at December 31, 2014.

Sensitivity Analysis

We use asset/liability models to evaluate the dynamics of our balance sheet and to estimate earnings volatility under different interest rate scenarios. Our analysis includes calculating the impact of significant increases or decreases in interest rates on net interest income, over a 12 month period, and the estimated market value of equity. Our modeling practices have been consistently applied in each of the three years presented in this report.

Our analysis estimates the effect of immediate and sustained parallel shifts in the yield curve (called “shocks”) of 100, 200 and 300 basis points. Pursuant to regulation and our Board policy, when the three-month Treasury rate is below 4 percent, as it was for each of the periods presented, we perform a shock equal to one-half the three-month Treasury rate. This resulted in downward shocks of -8 basis points, -2 basis points, and -4 basis points at December 31, 2015, 2014 and 2013, respectively. Due to extremely low short-term interest rates, these downward shock scenarios, while required by policy, are not considered meaningful. When analyzing net interest income at risk, we also estimate the effect of gradual upward or downward changes in market rates (called “ramps”) over a one-year period of 100, 200 and 300 basis points, where possible.

The following tables summarize the impact of interest rate changes on net interest income and the market value of equity. Market value of equity is the net present value of all future cash flows discounted to a valuation date, using discounting factors derived from observed market rates on the same valuation date. In all cases, the underlying assumptions and hedging strategies are held constant so that results are comparable from scenario to scenario. However, actual results would differ to the extent changes in strategy were undertaken to mitigate the unfavorable impact of interest rate changes.

Net Interest Income at Risk

December 31,	2015	2014	2013
Scenario:			
- 300 bp shock	n/a	n/a	n/a
- 200 bp shock	n/a	n/a	n/a
- 100 bp shock	n/a	n/a	n/a
- 8 bp shock	(0.5) %	n/a	n/a
- 4 bp shock	n/a	n/a	(0.1) %
- 2 bp shock	n/a	(0.1) %	n/a
+ 100 bp shock	3.4	3.0	0.3
+ 200 bp shock	6.1	4.5	0.1
+ 300 bp shock	8.4	5.9	(0.1)
- 300 bp ramp	n/a	n/a	n/a
- 200 bp ramp	n/a	n/a	n/a
- 100 bp ramp	n/a	n/a	n/a
+ 100 bp ramp	1.6	1.7	0.3
+ 200 bp ramp	2.4	2.1	0.2
+ 300 bp ramp	3.2	2.5	-

Market Value of Equity at Risk

December 31,	2015	2014	2013
Scenario:			
- 300 bp shock	n/a	n/a	n/a
- 200 bp shock	n/a	n/a	n/a
- 100 bp shock	n/a	n/a	n/a
- 8 bp shock	0.4 %	n/a	n/a
- 4 bp shock	n/a	n/a	0.1 %
- 2 bp shock	n/a	0.1 %	n/a
+ 100 bp shock	(4.7)	(3.9)	(3.0)
+ 200 bp shock	(9.3)	(7.9)	(6.0)
+ 300 bp shock	(13.6)	(11.7)	(9.0)

Our net interest income is impacted favorably in the rising interest rate scenarios due to an asset sensitive balance sheet position over the next 12 months. The adverse impact of lower interest rate scenarios is limited by the current low level of rates and the low probability that rates could decline further. Our Board limits the amount of adverse change to net interest income and market value of equity under a 200 basis point rate shock. The limit for market value of equity was 15 percent and the limit for net interest income was 10 percent for all three years presented. At December 31, 2015, 2014 and 2013, we were within our policy limits as detailed in the preceding tables.

Forecasting

We update our asset/liability model monthly with information on loans, investment securities, borrowings and derivatives. This "current position" is the starting point for all analysis. The current position data is then combined with assumptions and independent, interest rate forecasts to derive our estimates of future net interest income. Generally, we set assumptions on pricing, maturity characteristics and funding mix using trend analysis of actual asset and liability data.

Net interest income projections are derived utilizing different interest rate scenarios to assess the sensitivity of net interest income to changing interest rates. We obtain independent interest rate projections designed around economic forecasts that estimate the most likely path of interest rates for the planning horizon and alternate views of an expanding economy and a slowing economy. In addition, we review scenarios based on the market's implied forward rates and unchanged rates as of the period of analysis. We also review the impact on net interest income of parallel and nonparallel shifts in the yield curve over different time horizons.

Use of Derivatives

We use derivatives as an integral part of our market risk management activities. To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the market risk arising from maturity and repricing mismatches between assets and liabilities. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on our relatively nominal amount of loans denominated in foreign currencies. The notional amounts of derivatives, weighted average interest rates to be received and paid, and fair values at December 31, 2015, are shown in the following table. We also discuss derivatives in Note 11 to the accompanying consolidated financial statements.

Derivative Financial Instruments at December 31, 2015 ($ in Millions)

Derivative Product	Notional Amount	Weighted Average Receive Rate	Weighted Average Pay Rate	Fair Value
Receive Fixed Swaps	$ 12,234	2.31 %	0.42 %	$ 143
Receive Fixed Amortizing Swaps	2,870	2.34	0.46	97
Pay Fixed Swaps	2,843	0.46	1.54	(31)
Pay Fixed Amortizing Swaps	2,870	0.46	2.11	(63)
Interest Rate Options	2,816	-	-	36
Foreign Currency Spots and Forwards	267	-	-	1
Total	$ 23,900	1.80 %	0.81 %	$ 183

The following section includes a summary of our derivatives portfolio by strategy and further explanation of each strategy.

Notional Amounts of Derivative Financial Instruments by Strategy ($ in Millions)

December 31,	2015	2014	2013
Liquidity Management	**$ 6,999**	$ 7,750	$ 10,800
Equity Positioning	**2,551**	2,216	2,545
Options Risk Management [1]	**2,392**	2,427	2,423
Customer Transactions	**11,753**	10,351	8,945
Foreign Currency Risk Management [2]	**205**	180	232
Total	**$ 23,900**	$ 22,924	$ 24,945

[1] Excludes $424 million, $534 million and $261 million of interest rate options at December 31, 2015, 2014 and 2013, respectively, which are classified as customer transactions.

[2] Excludes $62 million, $28 million and $47 million of foreign currency spot and forward contracts at December 31, 2015, 2014 and 2013, respectively, which are classified as customer transactions.

Liquidity Management

Interest rate swaps are executed to improve liquidity, primarily by effectively converting specific longer-term fixed-rate bonds and notes into floating-rate debt indexed to LIBOR or similar short-term rates. The fixed rate received on the swap largely offsets the fixed rate paid on the associated debt leaving a net floating rate payment on the swap. This allows us to issue longer-term fixed-rate debt and still match fund the predominantly short-term repricing nature of our interest-sensitive asset portfolio. Liquidity risk management is discussed further beginning on page 51.

Equity Positioning

We also use interest rate swaps to manage market risk as it relates to investment of our equity. If the cash flows of loans and investments on the balance sheet do not create the targeted maturity for the investment of our equity, we enter into receive-fixed interest rate swaps to produce the desired equity investment maturity profile.

Options Risk Management

In the course of managing risk in our investment portfolio, and to a lesser extent our loan portfolio, we periodically hedge cap risk embedded within our floating-rate investments and loans by entering into derivative transactions.

Customer Transactions

Derivatives are offered to customers as a service to enable them to modify or reduce their interest rate and foreign exchange risk by transferring such risk to us. We offset this risk transference by concurrently entering into offsetting agreements with counterparties.

Foreign Currency Risk Management

We enter into foreign exchange spot and forward contracts to manage currency risk on our relatively nominal amount of loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon the repricing or maturity date of the loan.

Counterparty Exposure

The use of derivative instruments exposes us to customer and counterparty credit risk. Credit risk associated with derivatives is measured based on the replacement cost that would be incurred should customers or counterparties with contracts in a net gain position with respect to CoBank fail to perform. Customer derivative transactions are typically secured through our loan agreements. For non-customer derivatives, we minimize this risk by diversifying our derivative positions among various counterparties, using master netting agreements, and requiring collateral with zero thresholds and daily posting to support credit exposures with active counterparties. We evaluate the creditworthiness of each counterparty, establishing individual credit exposure limits, and deal exclusively with derivative counterparties that have an investment grade credit rating from a major credit rating agency. In addition, we monitor counterparty credit default swap spreads and other market-related information which may indicate reduced creditworthiness of a counterparty. Credit default swap spreads are taken into account in establishing counterparty limits.

We estimate that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was $3.9 million, $3.6 million and $6.7 million at December 31, 2015, 2014 and 2013, respectively.

We measure counterparty credit risk daily based on the current fair market values of our derivative positions. Employees who are independent of the derivative portfolio management function monitor the derivative exposures against approved limits. Exceptions to approved limits, along with a plan detailing actions to address limit overages, are reported to the CLC. Changes to the counterparty limits must be approved by the CLC.

We also perform stress tests on the derivative portfolio using asset/liability pricing models to analyze the potential effects of market rate changes on fair value, including extreme rate changes. The forward interest rate curves used to project the future expected cash flows for the derivative positions are modeled under potential scenarios which increase and decrease interest rates within a 99 percent confidence interval. These extreme rate scenarios are then used to further evaluate potential counterparty credit risk and to establish placement limits.

Notwithstanding our credit evaluation process and the maintenance of collateral agreements with our derivative counterparties, the failure of a counterparty to perform on its obligations could negatively impact our earnings. Furthermore, although our credit evaluations consider the possibility of default by a counterparty, our ultimate exposure to default by a counterparty could be greater than expected.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires certain derivative transactions to be cleared through a central clearinghouse and traded on regulated exchanges. The U.S. Commodity Futures Trading Commission has exempted certain qualifying swaps entered into by financial cooperatives from these new requirements. The exemption does not cover all swaps executed by CoBank and is generally limited to swaps entered into in connection with loans to members. As a result, certain of our derivative transactions are cleared through a futures commission merchant (FCM) with a clearinghouse or central counterparty (CCP). When these swaps are cleared, a single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including initial and variation margin that is required to be posted by participants. FCMs prequalify counterparties to all cleared swaps, and also set limits for each counterparty and collect initial and variation margin daily for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. Initial and variation margin requirements are set by and held for the benefit of the CCP and additional initial margin may be required and held by the FCM.

The following table details the notional amount of our derivatives and related exposure to dealer counterparties, which excludes $2.7 billion of derivatives cleared through a central clearinghouse, classified by their Standard & Poor's Rating Services (S&P) credit rating as of December 31, 2015.

Derivative Counterparty Exposure ($ in Millions)

	AAA	AA	A	Below A
Exposure to Counterparties in Net Gain Position	$ -	$ 54	$ 94	$ -
Collateral Held	-	51	93	-
Exposure, Net of Collateral	$ -	$ 3	$ 1	$ -
Total Notional Amount	$ -	$ 8,130	$ 7,034	$ 203
Total Number of Counterparties	-	4	10	3

The notional amount of our derivatives and related exposure to customer counterparties were $5.8 billion and $140.7 million, respectively, at December 31, 2015 compared to $5.2 billion and $133.9 million, respectively, at December 31, 2014. At December 31, 2015, the notional amount of our cleared derivatives was $2.7 billion.

In October 2015, the FCA and various other federal agencies jointly adopted final rules which will subject many non-cleared swaps to minimum initial and variation margin requirements. Such requirements become effective over the next two to five years. The group of federal agencies also issued an interim final rule excluding swaps that qualify for certain exemptions from the scope of the final margin rules. CoBank is eligible for certain regulatory exemptions related to, among other things, transactions with end users and with members of cooperatives. Accordingly, we do not currently anticipate that adoption of these rules will have a material impact on our use of derivatives or our overall financial position.

Liquidity Risk Management

Liquidity risk is the risk arising from an inability to repay or issue obligations to fund borrowers and operations on a timely basis. We must continually raise funds to provide credit and related services to customers, repay maturing debt obligations and meet other obligations. Our primary sources of liquidity are the ability to issue Systemwide Debt Securities and the use of available cash. Additionally, if necessary, we could convert high credit quality liquid investments to cash.

We monitor our liquidity position by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and eligible investments. System banks are required by regulation to maintain a minimum of 90 days of liquidity (cash and readily marketable investments generally discounted by 5 to 10 percent of market value) on a continuous basis and to establish an incremental liquidity reserve. At December 31, 2015, our liquidity was 199 days, compared to 172 days at December 31, 2014. During 2015, we averaged 181 days of liquidity compared to an average of 169 days in 2014.

FCA regulations require each System bank to maintain a three-tiered liquidity reserve. The first tier consists of a sufficient amount of cash and cash-like instruments to cover each bank's maturing debt for 15 days. The second and third tiers contain highly liquid instruments sufficient to cover each bank's maturing debt for the next 15 and subsequent 60 days, respectively. In addition, the banks are required to establish an incremental liquidity reserve comprised of eligible investments, which can be drawn upon during an emergency and which is sufficient to cover each bank's liquidity needs beyond 90 days. CoBank has established a minimum liquidity standard of 150 days, which is 60 days greater than the 90 days resulting from the tier one through tier three regulatory standards.

As a result of the System's credit quality and standing in the capital markets as a GSE, we have traditionally maintained ready access to debt-funding, notwithstanding volatility in the credit markets and credit rating actions by rating agencies relative to the long-term U.S. sovereign credit rating and the System's long-term debt rating.

Our liquidity management objectives are to provide a reliable source of funding to borrowers, meet maturing debt obligations, provide additional liquidity if market conditions deteriorate and to fund operations on a cost-effective basis. Approximately 62 percent of our interest-earning assets mature or reprice in one year or less with 48 percent maturing or repricing in one month or less. Match-funding these assets from a maturity perspective would create an unacceptable concentration of short-term liabilities. Instead, we manage this risk by issuing longer-term fixed-rate debt and swapping this debt from a fixed to floating rate using derivative transactions, as previously described, or by issuing term floating-rate debt. By so doing, we reduce the need to fund maturing liabilities on any given business day to a more manageable level. While we believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, holdings of liquid assets and access to the capital markets via the Funding Corporation, the volatility of our loan volume and the cash flow requirements from our cash management program causes our liquidity needs to vary significantly from day to day.

The amounts and maturities of our debt obligations are set forth in the table below.

Debt Maturities as of December 31, 2015 ($ in Millions)

	Book	Par
1 Day [1]	$ 1,951	$ 1,951
2-7 Days	365	365
8-30 Days	3,063	3,064
31-90 Days	7,630	7,630
91-180 Days	10,612	10,615
181-365 Days	22,284	22,266
1-5 Years	46,188	46,063
Over 5 Years	15,780	15,721
Total	$ 107,873	$ 107,675

[1] Includes $115.2 million of cash collateral payable to derivative counterparties that does not have a stated maturity date.

See Notes 5 and 15 to the accompanying consolidated financial statements for information regarding interest rates and maturities of Systemwide Debt Securities, and contingencies.

Due to the often volatile funding needs of certain customers, in particular Agribusiness customers impacted by seasonal borrowing requirements and changing commodity prices and supplies, we provide a significant amount of revolving loan commitments. At December 31, 2015, commitments to extend credit and commercial letters of credit were $31.1 billion and $257.2 million, respectively. In addition, we provide standby letters of credit, which guarantee payment or performance of an obligation. As of December 31, 2015, the maximum amount of future payments that could potentially be required under standby letters of credit was $1.6 billion. Since many of these commitments may expire without being drawn, the total commitments do not necessarily represent future cash requirements. Our exposure to many of these commitments is mitigated by borrowing base requirements contained in loan agreements. See Note 10 to the accompanying consolidated financial statements for a full discussion of financial instruments with off-balance sheet risk.

Our liquidity plan covers certain contingencies in the event our access to normal funding sources is disrupted. We

purchase only high credit quality investments to ensure our investment portfolio is readily marketable and available to serve as a source of contingent funding. Our investment portfolio may also be used as collateral to borrow funds to cover maturing liabilities. Pursuant to FCA regulations, non-agency MBS and ABS, which include our FHA/VA non-wrapped reperformer MBS, that are no longer rated triple-A by at least one major rating agency, corporate bonds that no longer carry one of the two highest ratings by at least one major rating agency or any investment whose market value is less than 80 percent of book value must be excluded from our liquidity reserve. As a result, as of December 31, 2015, $510.4 million of securities were not included in our liquidity reserve. Another $155.5 million of investment securities, primarily representing Farmer Mac MBS, are not included in our liquidity reserve as of December 31, 2015, pursuant to regulation.

We have identified certain portions of our loan portfolio that we believe could be sold or participated out in the event our access to normal funding mechanisms is disrupted. These loans serve as an additional source of contingent funding. We also maintain uncommitted lines of credit with various financial institutions that could provide liquidity during unanticipated short-term disruptions in funding. However, it is uncertain whether we would be able to sell or participate loans or fully utilize uncommitted lines of credit in the event of a systemic funding disruption.

An additional source of liquidity is cash provided by our operating activities (primarily generated from net interest income in excess of operating expenses), which totaled $971.9 million, $911.0 million and $903.1 million in 2015, 2014 and 2013, respectively.

The assets of the Insurance Fund would be used to repay maturing Systemwide Debt Securities, to the extent available, if no other sources existed to repay such debt. The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2016, unless otherwise extended. The decision whether to seek funds from the Federal Financing Bank is in the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

Operational Risk Management

Operational risk is the risk arising from inadequate or failed internal processes, technology, human errors or misconduct; failure to comply with laws, rules or regulations; or adverse external events. We utilize a risk management framework, business policies and processes, and employee training and disclosures to manage operational risk. Under this framework, business segments and support units have direct and primary responsibility and accountability for identifying, controlling and monitoring operational risk. Managers maintain controls with the objective of providing proper transaction authorization and execution, proper system operations, safeguarding of assets from misuse or theft, fraud monitoring and ensuring the reliability of financial and other data. Employees receive regular training on business ethics, fraud identification and prevention, compliance with laws and regulations, and information security. Employees are also subject to standards of conduct requirements in the performance of their job responsibilities, including the periodic disclosure of potential conflicts of interest. We also mitigate operational risk through the use of insurance coverages.

Information security risk at financial institutions has increased in recent years as a result of the proliferation of new technologies and the increased activities of organized crime, hackers and other external parties. CoBank and its customers, like many other financial institutions and their customers, have been the target of cyber-attacks aimed at committing fraud. Various retail companies and financial institutions have reported being victims of cyber-attacks, resulting in, among other things, customer data being compromised, confidential material being disclosed and website service being disrupted. Cybersecurity and the continued development and enhancement of our controls, processes and systems to protect our information systems and data remain a priority for CoBank. To date, we have not experienced any material losses relating to cyber-attacks. Although we believe we have robust information security procedures and controls, our information systems, as well as those our customers use to access our services, may become the target of further cyber-attacks, which could result in material losses. Our risk and exposure to cyber-attacks remain heightened, in part due to the evolving nature of such attacks.

Business continuity and disaster recovery planning are important mitigants to potential operational risks. Critical business units, including our Information Technology Division, are required to develop, maintain and test such plans at least annually to ensure that continuity and recovery activities, if needed, could sustain critical functions including systems and information supporting customers and business operations. While we believe that we have designed effective business continuity policies and procedures, there is no absolute assurance that business disruption or operational losses would not occur in the event of a disaster.

Our Risk Management Group is responsible for coordinating the completion of ongoing risk assessments and ensuring that operational risk management is integrated into business decision-making activities. In addition, this group, in coordination with the Audit Committee of the Board of Directors, determines the scope and level of review performed by the internal audit and asset review functions. Our internal audit function validates the system of internal controls through risk-based, regular and ongoing audit procedures, and reports on the effectiveness of internal controls to executive management and the Audit Committee of the Board of Directors. In addition, the CEO reports annually to the Audit

Committee of the Board of Directors on the current state of the Bank's risks and controls. The asset review function evaluates the adequacy and effectiveness of the Bank's internal control processes related to loan quality, credit administration and risk identification.

To enhance our governance and internal controls, we apply policies and procedures that mirror the material provisions of the Sarbanes-Oxley Act of 2002, including section 404, *Management Assessment of Internal Controls Over Financial Reporting.*

Strategic and Reputation Risk Management

Strategic risk is the risk to current or anticipated earnings, capital, or enterprise value arising from adverse business decisions or lack of responsiveness to changes in the banking/operating environment and is a function of the Bank's strategic goals and business strategies. Reputation risk is the risk arising from negative external perception and is inherent in all business activities. Like all businesses, the Bank is subject to a wide variety of reputation risks both within and outside its control, including credit difficulties with individual customers or industries, business disputes, lawsuits, credit market disruptions, regulatory events, spurious criticism by competitors, public allegations of misconduct and misunderstanding of our lending authorities or congressionally-mandated mission. As a member of the System, the Bank could be indirectly impacted by events that damage the reputation of another System entity. Competitors could engage in public criticism of the Bank and the System in an attempt to limit our market activities and lending authorities.

Effective Board governance, strong management, solid business plan execution and business practices ensuring conformity with laws and regulations and consistency with CoBank's mission are key controls in ensuring strategic alignment and managing and mitigating the Bank's reputation risk.

The Board has adopted leading industry practices in its governance of CoBank. Consistent with these practices, CoBank directors are required to meet established qualifications standards prior to standing for election. Directors are required to complete initial training upon election and subsequent training during their tenure. To maintain strong governance, the Board conducts an annual self-evaluation and a periodic peer evaluation. As part of its ongoing processes, the Board convenes a restructuring committee at least once every five years to review current governance practices and make recommendations for changes to those practices to ensure a strong and equitable governance structure is maintained. In 2014, a Board restructuring committee was convened to examine key aspects of governance at CoBank, including board size, director terms, voting methods, the number and geography of voting regions, and eligibility requirements for director candidates. In 2015, CoBank shareholders approved bylaw amendments implementing a plan to reduce the size of the Board of Directors. Pursuant to the plan, beginning in 2016 a total of 10 Board seats will be eliminated over the next four years, reducing the number of elected directors on the Board from 24 to 14. The Board will also have up to four appointed directors and will continue to have two outside directors with no customer or Farm Credit System affiliations.

CoBank's executive management team possesses the requisite banking skills and experience, financial expertise and sophistication to run the Bank. CoBank identifies and develops leaders from within the organization through talent management and development processes, and attracts high-quality talent from external sources.

The Bank has a variety of initiatives in place to ensure that customer-owners are communicated with openly and have access to the information they need to accurately evaluate the Bank's overall business and financial performance. Furthermore, customers, Farm Credit partners and others have regular access to members of the Board of Directors and management through numerous customer and industry meetings and events held by the Bank throughout the year, which helps to ensure the Bank is aligned with the interests of its members.

The controls and processes surrounding credit risk, market risk, liquidity risk and operational risk mitigate reputation risk by lowering the likelihood of significant problems in each of those areas. In addition, the Bank has a formal crisis communications plan in place in order to help it manage communications with stakeholders if an unplanned, reputation-impacting event occurs.

We place considerable emphasis on ethical behavior and ensure that our directors and employees receive regular training related to business ethics, fraud identification and prevention, compliance with laws and regulations, and information security. In addition, as discussed on page 151, each year all employees certify their compliance with our Associate Responsibilities and Conduct Policy. Senior officers and other senior professionals with financial reporting or critical decision making responsibilities also annually certify compliance with the Bank's code of ethics.

As a mission-based lender, CoBank is committed to mission objectives that expand market penetration into an increasingly diverse customer base. Our Board-directed activities include supporting causes and programs that support people and communities in need as well as the industries we serve across rural America. By further strengthening relationships with key stakeholders and enriching service to agriculture, rural infrastructure and rural communities, CoBank's corporate social responsibility program contributes to maintaining a positive reputation in the marketplace.

Finally, the Bank actively supports and participates in various committees which manage the System's reputation and business practices. These committees, which consist of representatives from Farm Credit banks and Associations, coordinate business and operational issues across System institutions.

Other Risk Factors

Joint and Several Liability for the Debt of the Farm Credit System

Farm Credit System banks and Associations are not authorized to accept deposits and therefore cannot use deposits as a funding source. Instead, banks raise funds for their operations primarily through Systemwide Debt Securities issued on the banks' behalf by the Funding Corporation. Systemwide Debt Securities are the joint and several liabilities of the System banks and are not obligations of, nor are they guaranteed by, the U.S. government or any agency or instrumentality thereof, other than the System banks. Under the Farm Credit Act, each System bank is primarily liable for the portion of the Systemwide Debt Securities issued on its behalf. At December 31, 2015, we were primarily liable for $104.8 billion of Systemwide Debt Securities. Additionally, each System bank is contingently liable for Systemwide Debt Securities of the other System banks. At December 31, 2015, the total aggregate principal amount of the outstanding Systemwide Debt Securities was $243.3 billion.

Although the System banks have established mutual covenants and measures, which are monitored on a quarterly basis, there is no assurance that these would be sufficient to protect a System bank from liability should another System bank default and the Insurance Fund be insufficient to cure the default. See Note 5 to the accompanying consolidated financial statements for a more complete description of the interbank agreements among the System banks.

The Insurance Fund, which totaled $4.0 billion as of December 31, 2015, is available from the Insurance Corporation to ensure the timely payment by each System bank of its primary obligations on Systemwide Debt Securities and can also be used by the Insurance Corporation for its operating expenses and for other mandatory and permitted purposes. Under the Farm Credit Act, before joint and several liability can be invoked, available amounts in the Insurance Fund would first be exhausted. There is no assurance, however, that the Insurance Fund would have sufficient resources to fund a System bank's defaulted obligations. If the Insurance Fund was insufficient, then the remaining System banks would be required to pay the default amount in proportion to their respective available collateral positions. Available collateral approximates the amount of total shareholders' equity of the System banks. The Insurance Corporation does not insure any payments on our subordinated debt, preferred stock or common stock. See Note 5 to the accompanying consolidated financial statements for more information about the Insurance Fund.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2016, unless otherwise extended. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

To the extent we must fund our allocated portion of another System bank's portion of the Systemwide Debt Securities due to a default, our earnings and total shareholders' equity would be reduced, possibly materially.

Reforms Impacting Government Sponsored Enterprises or Tax-Exempt Business Activities Could Have an Adverse Impact on our Business

The System is a GSE and, as a member of the System, CoBank benefits from ready access to debt funding and favorable debt-funding costs. Our individual credit ratings are also positively impacted by the GSE status of the System. In addition, as provided in our charter, portions of our business activities, including lending to Associations, are exempt from many forms of taxation, including federal income taxes.

As a direct result of the financial difficulties experienced by the housing-related GSEs, with both Fannie Mae and Freddie Mac having been placed into conservatorship by the U.S. government, GSE status has been and will continue to be a topic of debate and concern to various stakeholders, including the public and Congress. Congressional deliberations over structural reform of the housing-related GSEs began in 2011 and are likely to continue for a number of years. The Bank and the System are under the jurisdiction of the U.S. Senate and House of Representatives Committees on Agriculture and thus have not been the subject of this specific congressional scrutiny. However, there could be some risk that further efforts to reform GSEs would impact the System's status or erode some of the GSE-related benefits that it currently enjoys, including favorable funding costs and funding flexibility.

Finally, ongoing debate over federal income tax reform could ultimately lead to the elimination of the tax-exempt status of certain of our business activities, which would increase the amount of income tax we are required to pay.

Our Funding Costs Could Be Negatively Impacted by Downgrades of the Long-Term U.S. Sovereign Credit Rating and the System's Long-Term Debt Rating

As a member of the System, we have historically benefited from the favorable funding costs and funding flexibility associated with the debt securities issued through the Funding Corporation. The credit ratings of GSEs, including the System, are influenced by the sovereign credit rating of the United States. S&P currently maintains the long-term sovereign credit rating of the United States of AA+, which continues to drive the AA+ long-term debt rating of the System. Both Moody's Investors Service (Moody's) and Fitch Ratings Inc. (Fitch) currently maintain the long-term sovereign credit rating for the United States and its agency

securities of AAA, which continues to drive the AAA long-term debt rating of the System. Any future downgrades could negatively impact funding costs, earnings and funding flexibility for CoBank and other System institutions.

Our Funding is Dependent Upon the System's Ability to Access the Capital Markets

The primary source of liquidity for CoBank and the other System institutions is the ability to issue Systemwide Debt Securities. This access has provided the System with a dependable source of funding. The System's ability to continue to issue Systemwide Debt Securities depends, in part, on the conditions in the capital markets, which are outside the System's control. As a result, the System cannot make any assurances that it will be able to fund itself by issuing Systemwide Debt Securities. If the System cannot issue Systemwide Debt Securities or cannot access the capital markets, CoBank's funding would be negatively impacted, which would have a negative effect on our financial condition and results of operations, which could be material.

We are Subject to Liquidity Risk with Respect to Certain Investments and Derivatives

We are subject to liquidity risk in the course of our investing activities, particularly with respect to our investments in non-agency MBS and ABS, FHA/VA non-wrapped reperformer MBS and corporate bonds, which together represent approximately 3 percent of our investment securities held for liquidity. In volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value would likely be significant. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments.

Our derivative contracts require the Bank or its counterparties to post cash or securities as collateral when the fair values of the derivatives change based on changes in interest rates. The collateral exchanged between parties occurs daily with zero posting thresholds for all counterparties. Likewise, the Bank is required to pledge initial and variation margin related to our cleared derivative transactions. As a result of these derivative contracts, we are exposed to liquidity risk when changes in interest rates require us to post collateral to our counterparties, or pledge additional margin for changes in the fair value of cleared derivatives. As of December 31, 2015, our counterparties had posted $115.2 million in cash and $34.7 million in securities as collateral with us. Additionally, initial and variation margin totaling $23.7 million and $34.1 million, respectively, was pledged for our cleared derivatives as of December 31, 2015.

CoBank and Our Affiliated Associations Face Intense Competition

CoBank and our affiliated Associations face intense competition from commercial banks, thrift institutions, insurance companies, finance companies, mortgage banking companies, other GSEs, U.S. government agencies and the U.S. government. Future results may become increasingly sensitive to fluctuations in the volume and cost of lending activities. There can be no assurance that CoBank and our affiliated Associations will be able to continue to compete successfully in the markets we serve.

We are Subject to Legal Proceedings and Legal Compliance Risks

We are subject to a variety of legal proceedings and legal compliance risks. We are at times being reviewed by the FCA and other governmental authorities, which could lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages. While we believe that we have adopted appropriate risk management and compliance programs, legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time.

The FCA Has Proposed Changes to the System's Capitalization Regulations

Under the Dodd-Frank Act, which was signed into law in 2010, the federal banking agencies, the U.S. Securities and Exchange Commission, the Commodity Futures Trading Commission and a variety of other regulatory agencies are required to adopt a broad range of new rules and regulations that will significantly reform the supervision and regulation of the financial services industry. These federal agencies have been given significant discretion in drafting and implementing rules and regulations, and consequently, much of the impact of the Dodd-Frank Act may not be known for many more months or years. The Dodd-Frank Act largely preserves the authority of the FCA as the System's regulator by excluding System institutions from certain of the law's provisions.

Additionally, the Basel Committee on Banking Supervision (the Basel Committee) released consultative proposals in 2009 aimed at strengthening global capital and liquidity regulations. The Basel Committee adopted revised versions of the consultative proposals as definitive frameworks in 2010, and made further revisions in 2011. This framework is often referred to as "Basel III." In 2013, the U.S. banking agencies approved final changes that substantially amended their regulatory capital requirements to, among other things, implement Basel III in the United States effective January 1, 2014, with mandatory compliance deferred until January 1, 2015 for banks that are not "advanced approach" banks.

On May 8, 2014, the FCA approved a proposed rule to modify the regulatory capital requirements for System banks, including CoBank, and Associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as members of a government-sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking

regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Act.

As currently drafted, the proposed rule would, among other things, eliminate the core surplus and total surplus requirements and introduce common equity tier 1, tier 1 and total capital (tier 1 + tier 2) risk-based capital ratio requirements. The proposal would add a minimum tier 1 leverage ratio for all System institutions, which would replace the existing net collateral ratio for System banks. In addition, the proposal would establish a capital conservation buffer, modify and expand risk weightings and, for System banks only, require additional public disclosures. The revisions to the risk weightings of exposures would include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The initial public comment period for the proposed capital rule ended on February 16, 2015. The FCA reopened the comment period from June 26, 2015 to July 10, 2015. While uncertainty exists as to the final form of the proposed rule, based on our preliminary assessment, we do not believe the new rule will impose any significant constraints on our business strategies or growth prospects.

Relationship with the Federal Agricultural Mortgage Corporation

Farmer Mac is a federally chartered corporation that was established to create a secondary market for agricultural mortgages and other loans. Since its formation, Farmer Mac's business model has evolved such that it now retains on its balance sheet agricultural mortgages, rural electric loans and other loans similar to those made by System entities. Although Farmer Mac is statutorily defined as an institution of the Farm Credit System and is examined and regulated by the FCA, it is financially and operationally separate and distinct from the System, and any reference to "the System" herein does not include Farmer Mac. Neither CoBank nor any other System entity is liable for any debt or obligation of Farmer Mac. Further, the assets of the Insurance Fund do not support any debt or obligation of Farmer Mac nor do the System's independent credit ratings apply to Farmer Mac, which has not been rated by any NRSRO. Except for contractual obligations arising from business transactions between Farmer Mac and certain System institutions, Farmer Mac is not liable for any debt or obligation of any System entity, including Systemwide Debt Securities, either directly or on a joint and several basis.

We believe that if Farmer Mac, as an institution of the Farm Credit System, were to experience financial difficulty, it could create financial, reputational, political and regulatory risk to the System.

Our Ability to Attract and Retain Qualified Board Members, Senior Officers and Employees is Critical to Successfully Fulfilling Our Mission

The success of CoBank is dependent on the talents and efforts of our Board members, senior officers and employees, and the competition for individuals who possess the requisite knowledge of the banking, agricultural, finance and other relevant industries is intense. The failure to attract and retain qualified Board members, senior officers and employees could adversely affect our business performance, competitive position and the ability to fulfill our mission.

Liquidity and Capital Resources

Funding

We use our capital in addition to short-term and long-term debt to fund our assets. Our debt consists primarily of Systemwide Debt Securities issued on CoBank's behalf by the Funding Corporation. Refer to Notes 5 and 6 to the accompanying consolidated financial statements for additional information regarding our debt obligations.

As a member of the System, CoBank has traditionally maintained ready access to debt funding. As of December 31, 2015, Systemwide Debt Securities were rated AAA by Moody's and Fitch, and AA+ by S&P.

Investment Securities and Cash

Investment securities and cash are primarily held for the purposes of maintaining a liquidity reserve. In accordance with Board-approved policies, we purchase high credit quality investment securities with the aim of ensuring that the investment portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to our normal funding sources.

Investment securities totaled $24.5 billion at December 31, 2015, an increase of $0.2 billion from December 31, 2014. Our cash balance was $3.1 billion at December 31, 2015 compared to $1.9 billion at December 31, 2014.

The following table summarizes our investment securities and related unrealized gains/losses by asset class.

Investment Securities ($ in Millions)

December 31, 2015	Amortized Cost	Fair Value	Unrealized Gains (Losses)
U.S. Treasury Debt	$ 7,174	$ 7,188	$ 14
U.S. Agency Debt	5,842	5,857	15
Residential Mortgage-Backed:			
Ginnie Mae	901	906	5
U.S. Agency	7,762	7,763	1
FHA/VA Non-Wrapped Reperformer	336	342	6
Non-Agency	118	129	11
Commercial Mortgage-Backed:			
U.S. Agency	1,986	1,982	(4)
Agricultural Mortgage-Backed:			
Farmer Mac	126	124	(2)
Asset-Backed	36	47	11
Corporate Bonds	166	166	-
Total	**$ 24,447**	**$ 24,504**	**$ 57**
December 31, 2014			
U.S. Treasury Debt	$ 7,587	$ 7,625	$ 38
U.S. Agency Debt	5,649	5,680	31
Residential Mortgage-Backed:			
Ginnie Mae	1,460	1,472	12
U.S. Agency	7,581	7,587	6
FHA/VA Non-Wrapped Reperformer	403	391	(12)
Non-Agency	149	166	17
Commercial Mortgage-Backed:			
U.S. Agency	1,007	1,007	-
Agricultural Mortgage-Backed:			
Farmer Mac	153	150	(3)
Asset-Backed	71	96	25
Corporate Bonds	145	146	1
Total	$ 24,205	$ 24,320	$ 115

At each reporting period, we perform impairment assessments of our investment securities based on evaluations of both current and future market and credit conditions and expected cash flows of these securities. Subsequent changes in market and credit conditions or expected cash flows could change these evaluations.

As all of our investment securities are classified as "available for sale", we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders' equity, unless losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded unrealized gains on our investment securities of $57.4 million in 2015 compared to $115.4 million in 2014, respectively. The unrealized gains and losses recorded in both periods primarily related to the impact of changes in market interest rates on the valuations of fixed-rate securities.

Credit risk in our investment portfolio primarily relates to our securities that do not carry an explicit or implied government guarantee, which are FHA/VA non-wrapped reperformer MBS (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency MBS, ABS and corporate bonds. These securities collectively total $685.4 million (fair value) or 3 percent of our total investment securities as of December 31, 2015. Credit risks associated with the portfolio of FHA/VA non-wrapped reperformer MBS and certain other investment securities are discussed on page 45. Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements to meet their contractual obligations to us.

In 2015, we recorded $11.1 million in impairment losses related to two FHA/VA non-wrapped reperformer MBS securities due to lower projected cash flows resulting from loan modification activity in the underlying collateral. One of these securities was subsequently sold during 2015 for total proceeds of $21.3 million, which resulted in a gain of $0.8 million. We recorded no impairment losses on investment securities in 2014 compared to $2.5 million in 2013. The 2013 impairment losses related to one FHA/VA non-wrapped reperformer MBS and three non-agency MBS.

We also sold three non-agency ABS and one agency debt security with a combined book value of $127.8 million for total proceeds of $149.6 million during 2015. The three non-agency ABS securities had been previously impaired and were excluded from our liquidity reserve, and were sold due to favorable market conditions. For income tax purposes, the sale of these previously-impaired securities generated a capital loss. The sale of the agency debt security was consummated in order to generate capital gains and thereby utilize the substantial majority of this capital loss. In 2014, we sold one ABS and two non-agency MBS with a combined book value of $23.1 million for total proceeds of $28.0 million.

Derivatives

As described previously, we use derivatives in part to manage our liquidity position. Derivatives are recorded at fair value as assets or liabilities in the accompanying consolidated balance sheets. Changes in the fair value of these derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Net changes in the fair value of derivatives and hedged items recorded in the accompanying consolidated statements of income totaled gains of $3.4 million and $6.5 million for 2015 and 2014, respectively. Changes in the fair value of derivatives recorded as other comprehensive income (loss) totaled losses of $9.7 million in 2015 and losses of $38.5 million in 2014.

Capital

We believe that a sound capital position is critical to our long-term financial success and future growth. Our shareholders' equity is primarily composed of common and preferred stock and retained earnings, and totaled $7.8 billion

and $7.4 billion at December 31, 2015 and 2014, respectively. The increase in 2015 was primarily due to our earnings of $936.7 million, partially offset by $416.0 million in cash patronage, $59.2 million in preferred stock dividends and $53.7 million in other comprehensive loss. Other comprehensive loss for 2015 was driven by changes in the fair values of fixed-rate investment securities due to changes in market interest rates.

Our shareholders have approved measures allowing CoBank to have up to $1.5 billion outstanding of preferred stock, subject to FCA approval, at any time through September 2018. These measures allow us to access outside capital more quickly and efficiently in response to dynamic market conditions, without the necessity of obtaining shareholder approval for each issuance. As of December 31, 2015, we had $1.125 billion of preferred stock outstanding.

On April 19, 2013, we issued $200 million of Series G non-cumulative perpetual preferred stock. We used the net proceeds from the Series G preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on the Series G preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.125 percent.

On July 1, 2013, we redeemed all of our outstanding Series C non-cumulative perpetual preferred stock totaling $200 million. We used available cash to effectuate this redemption. The dividend rate for our Series C preferred stock was 11.0 percent through the date of redemption.

On October 1, 2014, we redeemed all of our outstanding Series D non-cumulative perpetual preferred stock totaling $136.8 million. We used available cash to effectuate this redemption. The dividend rate for our Series D preferred stock was 11.0 percent through the date of redemption.

On November 26, 2014, we issued $300 million of Series H non-cumulative perpetual preferred stock. We used the proceeds from the Series H preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on Series H preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.20 percent from the date of issuance up to, but excluding, January 1, 2025. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 3.744 percent.

All of our outstanding preferred stock is included in permanent capital, total surplus, and core surplus for regulatory capital purposes. In addition, all of our outstanding preferred stock ranks equally, both as to dividends and upon liquidation, and senior to all of our outstanding common stock.

For regulatory capital purposes, subject to certain limitations, subordinated debt is included in permanent capital and total surplus and excluded from liabilities in the net collateral ratio. We had $904.7 million of subordinated debt outstanding at December 31, 2015, 2014 and 2013, respectively. Of the $904.7 million of subordinated debt outstanding at December 31, 2015, $661.9 million was eligible to be included in regulatory capital. Our subordinated debt is discussed in Note 6 to the accompanying consolidated financial statements.

We may from time to time seek to retire our outstanding debt or equity securities through calls, cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such calls, repurchases or exchanges, if any, will depend on prevailing market conditions, the Bank's capital position and liquidity requirements, contractual restrictions, changes to capital regulations and other factors.

FCA regulations include requirements to maintain regulatory capital at or above minimum levels for our permanent capital ratio, total surplus ratio, core surplus ratio, and net collateral ratio. The calculation of these ratios is summarized in Note 7 to the accompanying consolidated financial statements. If these standards are not met, the FCA could impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends. As displayed in the following table, at December 31, 2015, 2014 and 2013, we exceeded the minimum regulatory requirements, which are noted parenthetically.

Selected Capital Information ($ in Millions)

December 31,	2015	2014	2013
Total Shareholders' Equity	**$ 7,810**	$ 7,370	$ 6,705
Total Shareholders' Equity/Total Assets	**6.65 %**	6.86 %	6.87 %
Permanent Capital Ratio (7.0%)	**14.95**	15.70	16.72
Total Surplus Ratio (7.0%)	**14.07**	14.81	15.74
Core Surplus Ratio (5.59%)[1]	**10.29**	10.47	10.82
Net Collateral Ratio (104.0%)[2]	**106.82**	107.22	107.57

[1] The regulatory mnimum core surplus ratio is 3.5 percent, but the FCA requires the higher 5.59 percent during a period in which we include a portion of our common stock as core surplus.

[2] The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during a period in which we have subordinated debt outstanding.

Pursuant to FCA guidance, a portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until December 31, 2017 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of December 31, 2015, our core surplus ratio excluding common stock was 8.81 percent.

In accordance with the Farm Credit Act, cooperatives and other eligible borrowers are required to purchase equity in CoBank as a condition of borrowing. Eligible borrowers that borrow on a patronage basis have voting rights while they are active borrowers. Generally, for borrowers other than affiliated Associations, the minimum initial borrower investment is equal to the lesser of one thousand dollars or 2 percent of the amount of the loan. The minimum initial investment is generally received by CoBank in cash at the time the borrower receives the loan proceeds. Affiliated Associations provide an initial and ongoing voting stock investment of 4 percent of their average outstanding loan balance. Collectively, the customer-owners that hold voting stock elect our Board of Directors. We operate on a cooperative basis and return a significant portion of our earnings to our customer-owners in the form of patronage distributions.

In conjunction with the annual business and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes target levels for capital and capital ratio baselines. When reviewing the capital adequacy plan and setting an appropriate target equity level, the Board considers the following: the Bank's overall risk profile; capital composition; loan volume projections; anticipated future capital needs; and the Bank's capital levels in comparison to commercial banks and regulatory minimum capital standards. As of December 31, 2015, the Board-established capital ratio baselines were 11 percent for the permanent capital and total surplus ratios, 7 percent for the core surplus ratio, and 6 percent for the core surplus ratio excluding common stock. The Board also balances the amount required to properly capitalize the Bank with the desire to distribute a level of patronage that provides appropriate returns to our customer-owners. The Board may increase or decrease these patronage levels (provided we remain within the regulatory capital minimums) based on its ongoing evaluation of the Bank's business. As a result, there is no assurance that patronage will remain at current levels.

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

Capital Plans

We have five capital plans that govern the level of capital investment required by customer-owners. These include a plan for cooperative customers, a plan for affiliated Associations, a plan for nonaffiliated entities, a plan for loan participations purchased from System entities and a plan for financial service members.

The targeted equity level for the cooperative capital plan is 8 percent of the 10-year historical average loan volume. Additionally, when a borrower's loans are paid in full, stock is retired over a 10-year loan base period beginning in the year following loan payoff, subject to Board approval and compliance with minimum regulatory capital requirements. The targeted patronage rate for the cooperative capital plan is 100 basis points of the current year average loan volume. The cash portion of patronage is 75 percent for all cooperative capital plan members with the remaining portion paid in common stock.

The capital plan for loan participations purchased from System entities is similar to the cooperative capital plan described above.

The targeted equity level for the affiliated Association capital plan is 4 percent of the one-year historical average loan volume. There is no stock retirement feature for this capital plan. The targeted patronage rate for the affiliated Association capital plan is 45 basis points of the current year average loan volume, with all patronage being paid in cash.

The targeted equity level for the nonaffiliated entities capital plan is 4 percent of the five-year historical average loan volume. Additionally, when these borrowers' loans are paid in full, stock is retired over a five-year loan base period beginning in the year following loan payoff, subject to Board approval and compliance with minimum regulatory capital requirements. The targeted patronage rate for the nonaffiliated entity capital plan is 45 basis points of the current year average loan volume. The cash portion of patronage is 20 percent for all nonaffiliated entity capital plan members, with the remaining portion paid in common stock.

In 2015, CoBank shareholders approved bylaw amendments recommended by the Board to authorize the issuance of a single share of $100 dollars par value Class A common stock to eligible customers receiving certain financial services from the Bank who are not otherwise shareholders. These members are not entitled to vote or receive patronage. When a financial service member's activity concludes, the stock requirement may be retired, subject to Board approval and compliance with minimum regulatory capital requirements. This new capital plan is effective January 1, 2016.

All patronage payments and retirements of equity require the prior approval of our Board of Directors, which may increase or decrease such payments based upon the Bank's current or projected business performance and capital levels. In addition, patronage payments can only be made if the Bank is in compliance with minimum regulatory capital requirements and preferred stock dividends for the immediately preceding period have been paid in full.

Patronage distributions are made in the form of cash and common stock, as shown in the following table. Eligible shareholders will receive patronage distributions from CoBank for 2015 in the first quarter of 2016. Patronage distributions for 2015 were higher than 2014 primarily as a result of loan growth in each of our operating segments.

Patronage Distributions ($ in Thousands)

Year Ended December 31,	2015	2014	2013
Common Stock	**$ 98,117**	$ 88,745	$ 76,527
Cash	**415,982**	378,735	338,001
Total Patronage Distributions	**$ 514,099**	$ 467,480	$ 414,528
Patronage Distributions/ Total Average Common Stock Owned by Active Borrowers	**19.76 %**	18.59 %	17.53 %

Critical Accounting Estimates

Management's discussion and analysis of the financial condition and results of operations are based on the Bank's consolidated financial statements, which we prepare in accordance with accounting principles generally accepted in the United States of America (GAAP). In preparing these financial statements, we make estimates and assumptions. Our financial position and results of operations are affected by these estimates and assumptions, which are integral to understanding reported results.

Note 1 to the accompanying consolidated financial statements contains a summary of our significant accounting policies. We consider certain of these policies to be critical to the presentation of our financial condition, as they require us to make complex or subjective judgments that affect the value of certain assets and liabilities. Some of these estimates relate to matters that are inherently uncertain. Most accounting policies are not, however, considered critical. Our critical accounting policies relate to determining the level of our allowance for credit losses and the valuation of financial instruments with no ready markets (primarily derivatives and certain investment securities). Management has reviewed these critical accounting policies with the Audit Committee of the Board of Directors.

Certain of the statements below contain forward-looking statements, which are more fully discussed on page 63.

Allowance for Credit Losses

Our allowance for loan losses is an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses related to outstanding balances. We provide line of credit financing to customers to cover short-term and variable needs, the usage of which, particularly for farm supply and grain marketing customers, is influenced by a number of factors, including changing commodity prices and supplies. As a result, we have significant unfunded commitments for which we maintain a separate reserve. This reserve is reported as a liability on the Bank's consolidated balance sheet. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the "allowance for credit losses."

Our allowance for credit losses reflects our assessment of the risk of probable and estimable loss related to outstanding balances and unfunded commitments in our loan and finance lease portfolio. The allowance for credit losses is maintained at a level consistent with this assessment, considering such factors as loss experience, portfolio quality, portfolio concentrations, production conditions, modeling imprecision, our mission, and economic and environmental factors specific to our business segments.

The allowance for credit losses is based on our regular evaluation of our loan and finance lease portfolio. We establish the allowance for credit losses via a process that begins with estimates of probable loss within the portfolio. Our methodology consists of analysis of specific individual credits and evaluation of the remaining portfolio. We evaluate significant individual credit exposures, including adversely classified loans, based upon the borrower's overall financial condition, resources, payment record and projected viability. We also evaluate the prospects for support from any financially viable guarantors and the estimated net realizable value of any collateral. Senior-level committees approve specific credit and reserve-related activities. The Audit and Risk Committees of the Board of Directors review the allowance for credit losses on a quarterly basis, and the Board of Directors approves the year-end allowance for credit losses.

In 2014, we enhanced our process for estimating the allowance for credit losses. These enhancements included updating the probability of default and loss given default factors applied to non-impaired commercial loans; using a statistical model to estimate losses related to concentration risk by comparing CoBank's portfolio characteristics to a more typical commercial loan portfolio; and adjusting certain factors used in estimating losses related to unfunded lending commitments to better reflect industry-specific risks. We made further modifications to our methodology related to non-impaired commercial loans in 2015. These enhancements included incorporating a view of probability of default over a longer period; aligning certain loss given default assumptions more closely with internal guidance; and modifying the loss emergence period assumption. While the changes in both 2014 and 2015 did not materially impact the overall level of the allowance for credit losses, they did impact the distribution of the allowance for credit losses between our Agribusiness and Rural Infrastructure operating segments.

Our determination of the allowance for credit losses for commercial loans is sensitive to the assigned risk ratings and probabilities of default, assumptions surrounding loss given default and loss emergence timing and the overall level of exposure within our loan portfolio. Changes in these components underlying this critical accounting estimate could increase or decrease our provision for loan losses. Such a change would increase or decrease net income and the related allowance for loan losses and reserve for unfunded commitments, which could have a material effect on the Bank's financial position and results of operations.

To analyze the impact of assumptions on our provision for loan losses and the related allowance for credit losses, we

changed a critical assumption to reflect the impact of deterioration or improvement in loan quality. In the event that 10 percent of loans (calculated on a pro-rata basis across all risk ratings), excluding wholesale loans to Associations and guaranteed loans, experienced downgrades or upgrades of one risk rating category, the provision for loan losses and related allowance for credit losses would have increased or decreased by $31.1 million at December 31, 2015.

Valuation of Financial Instruments with No Ready Markets and Other-Than-Temporary Impairment Analyses

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. All of our investment securities and derivative instruments are reported at their estimated fair value on the accompanying consolidated balance sheets. We also estimate the amount of other-than-temporary impairment for certain investment securities.

As discussed in Note 12 to the accompanying consolidated financial statements, we maximize the use of observable inputs when measuring fair value. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs primarily reflect our estimates about market data.

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair value is determined through internal market valuation models. These models use an income approach and incorporate benchmark interest rate curves, volatilities, counterparty credit quality, and other inputs that are observable directly or indirectly in the marketplace. For derivative transactions with dealers, we compare internally calculated derivative valuations to counterparty results. The fair value of collateral assets and liabilities related to derivative contracts is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

The fair value of 99 percent of our investment securities is determined by a third-party pricing service that uses valuation models to estimate current market prices. For the remainder of our investment securities, market value is calculated internally using third-party models. Inputs and assumptions related to all of these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Credit risk in our portfolio of investment securities is primarily limited to the 3 percent of securities that do not carry an explicit or implied government guarantee. In instances where the fair value of investment securities is less than the carrying value, we estimate the component of unrealized losses attributable to credit losses. In 2015, we enhanced our process for estimating such losses. These enhancements primarily included using third-party credit and cash flow models which utilize loan level data to project future performance. These improvements did not materially impact the overall level of expected losses. Model projections are influenced by such factors as interest rates, economic conditions, including housing prices, and the performance, type and age of collateral. The model considers projected prepayment rates, current and historical loan level performance information and loss severity estimates. Loss severity results are derived using model-estimated home price assumptions at the time of default.

All models used for these financial statement estimates or for independent risk monitoring purposes are periodically reviewed and validated in accordance with our policies.

The degree of management judgment involved in determining the fair value and impairment of a financial instrument is dependent upon the availability of observable market inputs. For financial instruments that trade actively and have observable market prices and inputs, there is minimal subjectivity involved. When observable market prices and inputs are not fully available, management judgment is necessary to estimate fair value and impairment. Changes in market conditions may reduce the availability of market prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. When market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement and level of impairment, if any. Changes in assumptions could affect these estimates.

At December 31, 2015, approximately 21 percent of total assets, or $24.9 billion, consisted of financial instruments recorded at fair value. Approximately 98 percent of these financial instruments used valuation methodologies involving market-based or market-derived information to measure fair value. The remaining 2 percent of these financial instruments were measured using model-based techniques, consisting of our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS. At December 31, 2015, less than 1 percent of total liabilities, or $238.0 million, consisted of financial instruments recorded at fair value, the substantial majority of which are valued using methodologies involving market-based or market-derived information. The fair value of investment securities with other-than-temporary impairment losses was $104.0 million at December 31, 2015.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), “Leases.” This guidance is intended to improve financial reporting about leasing transactions and affects all organizations that lease assets. The ASU will require organizations that lease assets, referred to as lessees, to

recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The accounting for organizations that own the assets leased by the lessee, also known as lessor accounting, will remain largely unchanged from current GAAP. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, and early application is permitted. We are reviewing the guidance to determine the effect on our consolidated financial position and results of operations.

In January 2016, the FASB issued ASU, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the ASU eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2017. Early adoption is permitted. We do not anticipate this guidance to have a significant effect, if any, on our consolidated financial position, results of operations or cash flows.

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

In May 2014, the FASB issued guidance entitled "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. As such, a substantial majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2017. We are reviewing the guidance to determine the effect, if any, on our consolidated financial position, results of operations or cash flows.

Business Outlook

Notwithstanding our strong business and financial performance in 2015, we continue to face market conditions that could make the business and earnings environment less favorable for CoBank in the future. Growth in the U.S. economy remains modest. Growth in global markets has slowed and economic conditions are volatile, particularly given heightened geopolitical risks and weakening markets outside the United States. Notwithstanding the recent increase in the federal funds rate, interest rates remain low by historical standards and continue to negatively impact the returns on capital and investment securities. Monetary policy as established by the Federal Reserve and the policies of other central banks around the world create further uncertainty regarding interest rates and asset valuations. Competition across most of the industries we serve has intensified. Grain commodity prices have moved significantly lower than they have been in previous years and are subject to volatility driven by weather conditions and many other factors. Customers in many of the industries we serve are impacted by unpredictable commodity prices and agricultural yields, fluctuations in the value of the U.S. dollar, weather and ongoing political and regulatory uncertainty. Many of our energy customers are impacted by energy efficiency initiatives, price volatility of various fuel sources including oil, emerging regulation of carbon dioxide emissions, renewable energy standards and customer demand for distributed generation from solar energy. Rapidly changing technology and customer demands create uncertainty in the communications industry. The sharp decline in oil prices could have a negative impact on rural communities and the broader economy. These challenges could reduce the credit quality and/or influence the level of loan demand in certain sectors of our loan portfolio.

We continue to focus on delivering the credit and financial service products our customers need to thrive and grow, enhancing our enterprise risk management capabilities and maintaining our financial strength. We believe that our strong earnings, liquidity and capital will continue to provide the capacity to support customers in all market conditions and to effectively lower the net cost of borrowing for our customers-owners through consistent and reliable patronage payments. We continue our disciplined approach to managing risk and closely monitoring asset quality. We also continue to maintain prudent discipline over expenses. Nevertheless, we will make investments in our people, processes, data infrastructure and technology, including our digital banking capabilities, to strengthen the value and improve the experience we provide to our customers, as we strive to better fulfill our mission in rural America in a safe and sound manner.

Under the guidance of our Board of Directors and through the focus of an experienced executive management team, we expect to achieve continued success through execution of our business strategies and by creating mutually beneficial partnerships with other System institutions, increasing market share, maintaining effective access to the agency debt capital markets, educating policy makers and other key stakeholders of the critical mission of CoBank and the System and prudently optimizing current lending authorities. We continue to explore strategic alliances and other opportunities with other System institutions, financial service providers and other entities, including a branch of U.S. government under our public/private partnership initiative.

Forward Looking Statements

Certain of the statements contained in this annual report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from those included in the forward-looking statements that relate to our plans, projections, expectations and intentions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "may," "will," "should," "would," "could" or similar expressions. Although we believe that the information expressed or implied in such forward-looking statements is reasonable, we can give no assurance that such projections and expectations will be realized or the extent to which a particular plan, projection or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to:

- Changes that negatively impact the agricultural, energy, communications, water and leasing industries;
- The level of interest rates and relationships between various interest rate indices and actions taken by the Federal Reserve to manage the monetary policy of the United States;
- Currency fluctuations that impact the value of the U.S. dollar in global markets;
- Adverse food safety and weather events, disease, and other unfavorable conditions that periodically occur and impact agricultural productivity and income;
- Changes in levels of global crop production, exports, usage and inventories;
- Credit performance of the loan portfolio;
- Performance of underlying collateral, including farmland values;
- Loan portfolio growth and seasonal factors;
- Weak U.S. economic conditions;
- Weaknesses in other developed and emerging economies;
- Government policies and political developments in the United States and other countries in which we do business;
- Geopolitical uncertainties throughout the world that may impact the industries we lend to, or, economic, fiscal or monetary conditions;
- Changes in the U.S. government's support of the Farm Credit System, the agricultural industry, agricultural exports and rural economies;
- Legislative or regulatory actions that affect current and ongoing operations of the Farm Credit System or the banking, financial services, agricultural, energy, communications, water and leasing industries;
- Legislative or regulatory actions that affect our relationships with our employees;
- Regulatory actions, including amendments to, and interpretations of, risk-based capital guidelines;
- Actions taken by the U.S. Congress relative to other Government Sponsored Enterprises, including the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks and the Federal Agricultural Mortgage Corporation (Farmer Mac);
- Actions taken by the U.S. government to manage U.S. fiscal policy, including tax reform;
- A decrease in the credit outlook or ratings of U.S. government debt and agency debt, including Systemwide Debt Securities;
- Cybersecurity risks, including a failure or breach of our operational or security systems or infrastructure, that could adversely affect our business, financial performance and reputation;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the allowance for credit losses;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments;
- The resolution of legal proceedings and related matters;
- Environmental-related conditions or laws impacting our lending activities;
- Nonperformance by counterparties under our derivative contracts; and
- Our ability to continue to partner with various System and other entities in light of ongoing consolidation within the System and the industries we serve.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Consolidated Statements of Income

CoBank, ACB

($ in Thousands)

Year Ended December 31,	2015	2014	2013
Interest Income			
Loans	**$ 1,849,946**	$ 1,724,406	$ 1,651,245
Investment Securities	**359,834**	350,205	311,943
Total Interest Income	**2,209,780**	2,074,611	1,963,188
Interest Expense	**936,445**	842,844	799,755
Net Interest Income	**1,273,335**	1,231,767	1,163,433
Provision for Loan Losses/(Loan Loss Reversal)	**10,000**	(15,000)	-
Net Interest Income After Provision for Loan Losses/Loan Loss Reversal	**1,263,335**	1,246,767	1,163,433
Noninterest Income			
Net Fee Income	**104,441**	108,584	118,737
Prepayment Income	**31,946**	25,079	78,217
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	**59,338**	44,618	34,470
Total Noninterest Income	**169,773**	124,171	132,085
Operating Expenses			
Employee Compensation	**150,585**	145,803	148,024
General and Administrative	**24,167**	24,183	21,517
Information Technology	**28,231**	25,558	27,020
Insurance Fund Premium	**59,919**	50,613	36,974
Travel and Entertainment	**18,425**	18,297	16,019
Farm Credit System Related	**12,215**	13,935	12,817
Occupancy and Equipment	**16,220**	8,847	8,330
Purchased Services	**15,553**	16,564	9,393
Total Operating Expenses	**325,315**	303,800	280,094
Income Before Income Taxes	**1,107,793**	1,067,138	1,015,424
Provision for Income Taxes	**171,120**	162,868	158,969
Net Income	**$ 936,673**	$ 904,270	$ 856,455

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

Consolidated Statements of Comprehensive Income

CoBank, ACB

($ in Thousands)

Year Ended December 31,	2015	2014	2013
Net Income	**$ 936,673**	$ 904,270	$ 856,455
Other Comprehensive (Loss) Income, Net of Tax (Note 2):			
Net Change in Unrealized (Losses) Gains on Investment Securities Not Other-Than-Temporarily Impaired	**(34,271)**	44,975	(160,740)
Net Change in Unrealized (Losses) Gains on Other-Than-Temporarily Impaired Investment Securities	**(10,176)**	49,695	(50,861)
Net Change in Unrealized (Losses) Gains on Interest Rate Swaps and Other Financial Instruments	**(6,697)**	(31,214)	9,015
Net Pension Adjustment	**(2,581)**	(31,173)	19,611
Other Comprehensive (Loss) Income	**(53,725)**	32,283	(182,975)
Comprehensive Income	**$ 882,948**	$ 936,553	$ 673,480

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

Consolidated Balance Sheets

CoBank, ACB

($ in Thousands)

As of December 31,	2015	2014	2013
Assets			
Total Loans	**$ 89,040,580**	$ 80,382,497	$ 73,603,375
Less: Allowance for Loan Losses	**486,144**	481,156	447,126
Net Loans	**88,554,436**	79,901,341	73,156,249
Cash and Cash Equivalents	**3,113,101**	1,855,634	1,335,024
Investment Securities	**24,504,448**	24,319,943	21,688,489
Accrued Interest Receivable	**331,448**	348,405	369,021
Interest Rate Swaps and Other Financial Instruments	**295,989**	455,656	674,022
Other Assets	**671,144**	500,110	373,652
Total Assets	**$ 117,470,566**	$ 107,381,089	$ 97,596,457
Liabilities			
Bonds and Notes	**$ 106,970,066**	$ 97,535,474	$ 88,412,776
Subordinated Debt	**902,685**	902,205	901,726
Accrued Interest Payable	**289,718**	271,070	290,903
Interest Rate Swaps and Other Financial Instruments	**113,397**	111,620	121,307
Reserve for Unfunded Commitments	**115,444**	115,680	167,592
Other Liabilities	**1,268,787**	1,075,377	997,537
Total Liabilities	**109,660,097**	100,011,426	90,891,841
Commitments and Contingent Liabilities (Note 15)			
Shareholders' Equity			
Preferred Stock	**1,125,000**	1,125,000	961,750
Common Stock	**2,899,728**	2,768,546	2,677,485
Unallocated Retained Earnings	**3,845,728**	3,482,379	3,103,926
Accumulated Other Comprehensive Loss	**(59,987)**	(6,262)	(38,545)
Total Shareholders' Equity	**7,810,469**	7,369,663	6,704,616
Total Liabilities and Shareholders' Equity	**$ 117,470,566**	$ 107,381,089	$ 97,596,457

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

Consolidated Statements of Cash Flows
CoBank, ACB

($ in Thousands)

Year Ended December 31,	2015	2014	2013
Cash Flows Provided by Operating Activities			
Net Income	**$ 936,673**	$ 904,270	$ 856,455
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Loan Losses (Loan Loss Reversal)	**10,000**	(15,000)	-
Deferred Income Taxes	**63,443**	63,363	56,917
Depreciation and Amortization/Accretion, Net	**54,563**	89,974	63,900
Net Gains on Sale of Investment Securities	**(22,603)**	(4,206)	-
Losses on Impairment of Available-for-Sale Investments	**11,100**	-	2,500
Decrease (Increase) in Accrued Interest Receivable	**16,957**	20,616	(8,182)
Increase in Other Assets	**(131,608)**	(83,607)	(87,526)
Increase (Decrease) in Accrued Interest Payable	**18,648**	(19,833)	(4,873)
Increase (Decrease) in Other Liabilities	**21,643**	(7,536)	52,158
Net Gains on Interest Rate Swaps and Other Financial Instruments	**(2,890)**	(7,193)	(3,777)
Proceeds from Termination of Interest Rate Swaps	**6,909**	1,518	-
Purchase of Interest Rate Caps	**(9,636)**	(28,486)	(22,375)
Other	**(1,273)**	(2,893)	(2,125)
Net Cash Provided by Operating Activities	**971,926**	910,987	903,072
Cash Flows Used in Investing Activities			
Net Increase in Loans	**(8,709,222)**	(6,852,202)	(1,696,797)
Investment Securities:			
Purchases	**(9,346,942)**	(8,861,038)	(11,899,833)
Proceeds from Maturities and Prepayments	**8,928,325**	6,209,275	7,930,676
Proceeds from Sales	**167,831**	27,293	-
Construction of Corporate Headquarters	**(48,163)**	(27,900)	-
Net Cash Used in Investing Activities	**(9,008,171)**	(9,504,572)	(5,665,954)
Cash Flows Provided by Financing Activities			
Bonds and Notes Proceeds	**63,856,174**	72,019,124	109,082,008
Bonds and Notes Retired	**(53,460,058)**	(62,750,106)	(104,483,913)
Net (Decrease) Increase in Notes Payable and Other Interest-bearing Liabilities	**(786,131)**	86,099	659,527
Proceeds from Corporate Headquarters Transaction	**83,417**	-	-
Preferred Stock Issued, Net	**-**	295,214	195,555
Preferred Stock Redemptions	**-**	(136,750)	(200,000)
Preferred Stock Dividends Paid	**(56,291)**	(55,523)	(65,245)
Common Stock Issued	**65,615**	35,755	26,639
Common Stock Retired	**(32,550)**	(33,426)	(31,221)
Cash Patronage Distribution Paid	**(376,464)**	(346,192)	(338,953)
Net Cash Provided by Financing Activities	**9,293,712**	9,114,195	4,844,397
Net Increase in Cash and Cash Equivalents	**1,257,467**	520,610	81,515
Cash and Cash Equivalents at Beginning of Year	**1,855,634**	1,335,024	1,253,509
Cash and Cash Equivalents at End of Year	**$ 3,113,101**	$ 1,855,634	$ 1,335,024

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

Supplemental Consolidated Statements of Cash Flows Information

CoBank, ACB

($ in Thousands)

Year Ended December 31,	2015	2014	2013
Supplemental Noncash Investing and Financing Activities			
Net Change in Accrued Purchases of Securities	**$ -**	$ 48,595	$ (48,595)
Change in Unrealized (Losses) Gains on Investment Securities, Before Taxes	**(57,903)**	109,870	(261,244)
Patronage in Common Stock	**98,117**	88,745	76,527
Supplemental Noncash Fair Value Changes Related to Hedging Activities			
Decrease in Interest Rate Swaps and Other Financial Instrument Assets	**$ 159,667**	$ 218,366	$ 331,093
Decrease in Bonds and Notes Related to Hedging Activities	**(162,016)**	(209,211)	(331,676)
Increase (Decrease) in Interest Rate Swaps and Other Financial Instrument Liabilities	**1,777**	(9,687)	(36,573)
Supplemental Disclosure of Cash Flow Information			
Interest Paid	**$ 885,197**	$ 857,828	$ 802,315
Income Taxes Paid	**137,436**	134,133	178,429

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

Consolidated Statements of Changes in Shareholders' Equity

CoBank, ACB

($ in Thousands)

	Preferred Stock	Common Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2012	$ 961,750	$ 2,605,933	$ 2,729,031	$ 144,430	$ 6,441,144
Comprehensive Income (Loss)			856,455	(182,975)	673,480
Preferred Stock:					
Dividends			(62,980)		(62,980)
Issuance	200,000		(4,445)		195,555
Redemption	(200,000)				(200,000)
Common Stock:					
Issuances		26,639			26,639
Redemptions		(31,221)			(31,221)
Patronage Distribution:					
Cash			(338,001)		(338,001)
Common Stock		76,527	(76,527)		-
Other		(393)	393		-
Balance at December 31, 2013	$ 961,750	$ 2,677,485	$ 3,103,926	$ (38,545)	$ 6,704,616
Comprehensive Income			904,270	32,283	936,553
Preferred Stock:					
Dividends			(53,564)		(53,564)
Issuance	300,000		(4,786)		295,214
Redemption	(136,750)				(136,750)
Common Stock:					
Issuances		35,755			35,755
Redemptions		(33,426)			(33,426)
Patronage Distribution:					
Cash			(378,735)		(378,735)
Common Stock		88,745	(88,745)		-
Other		(13)	13		-
Balance at December 31, 2014	$ 1,125,000	$ 2,768,546	$ 3,482,379	$ (6,262)	$ 7,369,663
Comprehensive Income (Loss)			**936,673**	**(53,725)**	**882,948**
Preferred Stock Dividends			**(59,179)**		**(59,179)**
Common Stock:					
Issuances		**65,615**			**65,615**
Redemptions		**(32,550)**			**(32,550)**
Patronage Distribution:					
Cash			**(415,982)**		**(415,982)**
Common Stock		**98,117**	**(98,117)**		**-**
Other			**(46)**		**(46)**
Balance at December 31, 2015	**$ 1,125,000**	**$ 2,899,728**	**$ 3,845,728**	**$ (59,987)**	**$ 7,810,469**

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

Note 1 – Description of Business and Summary of Significant Accounting Policies

Description of Business

CoBank, ACB (CoBank or the Bank) is one of the four banks of the Farm Credit System (System). CoBank 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 (GSE). We are federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and are 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. We are the primary funding source for certain Associations serving specified geographic regions in the United States (which are regulated financial institutions and members of the System). We collectively refer to these entities as our affiliated Associations.

Our wholly-owned leasing subsidiary, Farm Credit Leasing Services Corporation (FCL), specializes in lease financing and related services for a broad range of equipment, machinery, vehicles and facilities.

In conjunction with other System entities, the Bank jointly owns three service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association and the Farm Credit Association Captive Insurance Corporation. The Funding Corporation issues, markets and processes Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities) and also provides financial management and reporting services for the combined entities of the System. The FCS Building Association leases premises and equipment to the FCA as required by the Farm Credit Act. The Farm Credit Association Captive Insurance Company is a reciprocal insurer that provides insurance services such as directors and officers liability, fiduciary liability and a bankers bond to System organizations.

We have a minority ownership interest in AgVantis, Inc., which is chartered under the Farm Credit Act as a service organization to provide a range of support and technology services to certain Associations. We also have small equity interests in certain other System banks and Associations as required in connection with the purchase and sale of participation loans.

Copies of CoBank's financial reports are available on request by calling or visiting one of our banking center locations and through our website at www.cobank.com. Copies of financial reports of our affiliated Associations and the System are available on their respective websites.

Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of CoBank, CoBank, FCB and FCL. All significant intercompany accounts and transactions have been eliminated.

The accompanying consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." We separately publish certain unaudited combined financial information of the CoBank District, including a condensed statement of condition and statement of income, which can be found on our website at www.cobank.com. Such information is not incorporated by reference into, and should not be considered part of, this annual report.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry. These principles require us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates. Significant estimates are discussed in these notes to the consolidated financial statements, as applicable. Certain reclassifications have been made to amounts reported in previous years to conform to the 2015 presentation.

Loans

We report loans, excluding leases, at their principal amount outstanding and accrue interest income based upon the daily principal amount outstanding. For loans purchased at a discount, we amortize unearned income using the straight-line method, which approximates the interest method. We defer loan origination fees and costs, and amortize them over the life of the related loan as an adjustment to yield.

Except as otherwise noted, leases are included with loans in the consolidated financial statements and related notes. We record leases as either direct financing or operating leases. Under direct financing leases, unearned finance income from lease contracts represents the excess of gross lease receivables

over the cost of leased equipment, net of estimated residual values. Residual values, which are reviewed at least annually, represent the estimated amount to be received at lease termination from the disposition of leased assets. We amortize net unearned finance income to interest income using the interest method. Under operating leases, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual or salvage value. We recognize revenue as earned ratably over the term of the operating lease.

In the normal course of business, we manage lending credit exposures by selling or syndicating loans to System entities and other financial institutions. Such transactions include the transfer of participating interests, as defined pursuant to GAAP. We account for these transactions as sales and, accordingly, the assets transferred are not recognized in our consolidated balance sheets.

Impaired Loans

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

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

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

Accruing restructured loans are those for which the contractual terms and conditions have been amended or otherwise revised to incorporate certain monetary concessions because the borrower is experiencing financial difficulty. We place the loan in nonaccrual status if the borrower's ability to meet the revised contractual terms is uncertain.

We establish an impairment reserve if the fair value of assets held for operating leases decreases to below book value and such difference is not recoverable.

Allowance for Loan Losses and Reserve for Unfunded Commitments

Our allowance for loan losses is an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses related to outstanding balances. We also maintain a separate reserve for unfunded commitments which is reported as a liability on the Bank's consolidated balance sheet. The reserve for unfunded commitments represents an additional reserve for binding commitments to extend credit and for commercial letters of credit. We had $31.1 billion and $257.2 million of commitments to extend credit and commercial letters of credit, respectively, at December 31, 2015. The amount of our allowance for loan losses and reserve for unfunded commitments can fluctuate based on the seasonal nature of borrowings in the agriculture industry, which is impacted by various factors including changing commodity prices and supplies. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the "allowance for credit losses." At December 31, 2015, our allowance for credit losses totaled $601.6 million, of which $486.1 million related to the allowance for loan losses and $115.5 million related to the reserve for unfunded commitments.

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

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

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

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

commitment. Newly-executed loan commitments will also increase this liability.

We also assess the credit risk associated with off-balance sheet loan commitments and letters of credit and determine the appropriate level of reserve for unfunded commitments that should be recorded.

In 2014, we enhanced our process for estimating the allowance for credit losses. These enhancements included updating the probability of default and loss given default factors applied to non-impaired commercial loans; using a statistical model to estimate losses related to concentration risk by comparing CoBank's portfolio characteristics to a more typical commercial loan portfolio; and adjusting certain factors used in estimating losses related to unfunded lending commitments to better reflect industry specific risks. We made further modifications to our methodology related to non-impaired commercial loans in 2015. These enhancements included incorporating a view of probability of default over a longer period; aligning certain loss given default assumptions more closely with internal guidance; and modifying the loss emergence period assumption. While the changes in both 2014 and 2015 did not materially impact the overall level of the allowance for credit losses, they did impact the distribution of the allowance for credit losses between our Agribusiness and Rural Infrastructure operating segments.

Cash and Cash Equivalents

For purposes of these financial statements, cash represents deposits at banks and deposits in the process of clearing, which are used for operating or liquidity purposes.

Investment Securities

We classify investment securities as available-for-sale and report them at their estimated fair value. We have no trading or held-to-maturity securities. We amortize or accrete purchased premiums and discounts using the constant yield method, which approximates the interest method, over the terms of the respective securities. We report unrealized gains and losses, net of applicable income taxes and credit losses, in the accumulated other comprehensive income (loss) component of shareholders' equity on the consolidated balance sheets. We use the specific identification method for determining cost in computing realized gains and losses on sales of investment securities.

We evaluate investments in a loss position to determine if such a loss is other-than-temporary. If losses are deemed to be other-than-temporary, we record the portion related to credit losses in earnings and the portion related to all other factors in other comprehensive income (loss). For additional information, refer to Note 4.

Premises and Equipment

We carry premises and equipment at cost less accumulated depreciation and amortization. We provide for depreciation and amortization on the straight-line method over the estimated useful lives of the assets. We record gains and losses on dispositions in current operating results. We record maintenance and repairs to operating expenses when incurred and capitalize improvements.

We capitalize leased property and equipment meeting certain criteria and depreciate such assets using the straight-line method over the terms of the respective leases.

During 2014, CoBank entered into a build-to-suit arrangement for the construction of a new corporate headquarters in Greenwood Village, Colorado. CoBank moved into the new headquarters building in late 2015 and commenced a lease agreement at that time. Rental payments associated with the lease total approximately $103.0 million over a 15-year term. The lease also contains three 5-year options to extend.

In December 2015, the building and lease were sold to an investor. However, for accounting purposes, the sale transaction will not be recognized until all construction contingencies are finalized, which is anticipated in 2016. As a result, as of December 31, 2015, the $76.1 million in funding provided for the construction of the building is classified as an 'Other Asset' and the $83.4 million in proceeds received to date for the sale of the building are classified as an 'Other Liability' in the accompanying consolidated balance sheet. Once all construction contingencies are finalized, the building asset will be removed from the balance sheet and sale-leaseback accounting treatment will be applied to this transaction.

Mineral Rights

As a result of our 2012 merger with U.S. AgBank, FCB (AgBank), we own mineral rights in Arizona, California, Colorado, Kansas, Nevada, New Mexico, Oklahoma and Utah. As required by the merger agreement, the net earnings from these mineral rights are passed on directly to certain Associations. Mineral income is primarily generated from royalties on natural gas and crude oil production, leasing bonuses and rental payments. This income may vary from year to year based on fluctuations in energy demand, prices and production. In 2015, net mineral income passed directly to these Associations totaled $13.9 million compared to $17.2 million in 2014 and $15.5 million in 2013. As a result of the agreement to pass the net earnings from mineral rights to certain Associations, these mineral rights have no carrying value in our consolidated balance sheet.

Derivative Financial Instruments and Hedging Activities

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income (loss), depending on the use of the derivative and whether it qualifies for fair value or cash flow hedge accounting. For derivatives not designated as hedging instruments, we record the related change in fair value in current period earnings.

We formally document all relationships between derivatives and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to assets and liabilities on the consolidated balance sheet or to forecasted transactions.

We also formally assess (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been effective in offsetting

changes in the fair value or cash flows of hedged items and whether those derivatives are expected to remain effective in future periods. We typically use regression analyses or other statistical analyses to assess the effectiveness of hedges. Hedge accounting is discontinued prospectively if: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; or (iii) management determines that the fair value or cash flow hedge designation is no longer appropriate.

If we determine that a derivative no longer qualifies as an effective fair value or cash flow hedge, or if management removes the hedge designation, we continue to carry the derivative on the balance sheet at fair value, with changes in fair value recognized in current period earnings as part of noninterest income. For discontinued cash flow hedges, we amortize the component of other comprehensive income (loss) to net interest income over the original term of the hedge contract. For additional information, refer to Note 11.

Fair Value Measurements

Our fair value measurements represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of assets and liabilities measured at fair value within the disclosure hierarchy is based on three levels of inputs to the fair value measurement process, which are described in Note 12.

Fair Value of Guarantor's Obligations

We provide standby letters of credit, which are irrevocable undertakings to guarantee payment of a specified financial obligation. As a guarantor, we recognize a liability for the fair value of the obligation undertaken in issuing the guarantee. Our liability for the fair value of these obligations is determined by applying a risk-adjusted spread percentage to those obligations.

Employee Benefit Plans

Our employee benefit plans are described in Note 8. The net expense for employee benefit plans is recorded as employee compensation expense. For defined benefit pension plans, we use the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

The anticipated costs of benefits related to postretirement health care and life insurance are accrued during the period of the employees' active service and are classified as employee compensation expense.

Income Taxes

CoBank operates as a non-exempt cooperative, which qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, amounts distributed as qualified patronage distributions to borrowers in the form of cash or stock may be deducted from taxable income and are generally included in the recipients' taxable income. We base provisions for income taxes for financial reporting purposes only on those taxable earnings that will not be distributed as qualified patronage distributions. Substantially all of the Bank's statutorily tax-exempt activities reside in CoBank, FCB, a wholly-owned subsidiary of CoBank.

We record deferred tax assets and liabilities for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases except for our nontaxable entity. We measure these deferred amounts using the current marginal statutory tax rate on the taxable portion of our business activities. Calculating deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. We expect to fully realize deferred tax assets based on the projected level of future taxable income and other factors.

See Note 9 for further information regarding income taxes.

Subsequent Events

We have evaluated subsequent events through March 7, 2016, which is the date the financial statements were issued.

Note 2 – Recently Issued or Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Presentation of Debt Issuance Costs." The guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. We adopted this standard in the fourth quarter of 2015. The adoption of this guidance resulted in the presentation of $53.9 million, $47.3 million and $47.9 million of debt issuance costs, previously recorded as Other Assets, as a direct deduction from the carrying value of the associated Bonds, Notes and Subordinated Debt balances at December 31, 2015, 2014 and 2013, respectively. The adoption did not impact our results of operations or overall financial condition.

In February 2013, the FASB issued guidance requiring an entity to measure obligations resulting from joint and several liability arrangements as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations.

As described in Note 5 to the consolidated financial statements, all Systemwide Debt Securities are the joint and several liabilities of the System banks. CoBank adopted the new standard in 2014 and accounts for its joint and several liabilities for all Systemwide Debt Securities as a contingent liability. We do not record a liability unless it is probable that we will be required to pay an amount and that amount can be reasonably estimated. Given the current financial condition of System banks, the adoption of this new guidance did not have an effect on our consolidated financial position, results of operations or cash flows.

In December 2011 and in January 2013, the FASB issued guidance creating new disclosure requirements about the nature of an entity's rights of setoff and related arrangements

associated with its financial instruments and derivative instruments. We adopted the new requirements in the first quarter of 2013. The adoption did not impact our consolidated financial position, results of operations or cash flows. We disclose the gross amounts of our derivative exposures and related cash collateral balances in our consolidated balance sheet. Adoption of this guidance had a minimal impact on our disclosures, which are contained in Note 11.

In February 2013, the FASB finalized guidance requiring entities to disclose certain information about changes in accumulated other comprehensive income. The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. We adopted these provisions in 2013. Refer to Note 7 for disclosure of amounts reclassified out of accumulated other comprehensive income and the effects of any reclassifications on net income. The adoption of these provisions did not impact our consolidated financial position, results of operations or cash flows.

Note 3 – Loans, Loan Quality and Allowance for Credit Losses

Loans Outstanding

Loans outstanding by operating segment are shown below.

($ in Millions)

December 31,	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
Agribusiness	$ 26,131	29 %	$ 24,359	30 %	$ 21,182	29 %
Strategic Relationships	43,358	49	39,919	50	37,897	51
Rural Infrastructure	19,552	22	16,104	20	14,524	20
Total	**$ 89,041**	**100 %**	$ 80,382	100 %	$ 73,603	100 %
Loans Purchased	$ 14,614		$ 13,493		$ 11,113	
Loans Sold	16,928		14,274		11,791	

We have loans outstanding in all 50 states as well as 30 foreign countries and a limited number of U.S. territories. Our agricultural export finance loan portfolio, which is part of our Agribusiness operating segment, includes U.S. government-sponsored trade financing programs which guarantee payment in the event of default by the borrower of generally 98 percent of loan principal outstanding and varying percentages of interest due. Of the $4.5 billion in agricultural export finance loans outstanding as of December 31, 2015, 37 percent were guaranteed by the U.S. government under one of these trade financing programs, primarily the General Sales Manager program of the U.S. Department of Agriculture's Commodity Credit Corporation.

We make loans to customers in various industries. For the years ended December 31, 2015, 2014 and 2013, total loans outstanding (excluding wholesale loans to Associations) did not exceed 10% for any specific industry.

Wholesale loans to our affiliated Associations represented 44 percent, 45 percent and 46 percent of total loans outstanding at December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, our affiliated Associations provided financing and other financial services to farmer-owners for rural real estate, equipment, working capital, agricultural production and operating purposes in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains and Northeast regions of the United States. Participations in loans made by other System banks to their affiliated Associations represented 5 percent of our total loans outstanding at December 31, 2015, 2014 and 2013.

Unamortized loan premiums and discounts, and unamortized deferred loan fees and costs totaled $66.1 million, $55.8 million and $57.3 million as of December 31, 2015, 2014 and 2013, respectively.

Allowance for Credit Losses

The following tables present the changes in the components of our allowance for credit losses and the details of the ending balances. The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commitments. The elements of our allowance for credit losses are presented by operating segment.

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
December 31, 2015				
Allowance for Loan Losses				
Beginning Balance	$ 329,633	$ -	$ 151,523	$ 481,156
Charge-offs	(2,668)	-	(5,597)	(8,265)
Recoveries	1,977	-	1,040	3,017
Provision for Loan Losses/(Loan Loss Reversal)	(30,800)	-	40,800	10,000
Transfers (to) from Reserve for Unfunded Commitments[2]	15,062	-	(14,826)	236
Ending Balance	313,204	-	172,940	486,144
Reserve for Unfunded Commitments				
Beginning Balance	104,672	-	11,008	115,680
Transfers (to) from Allowance for Loan Losses[2]	(15,062)	-	14,826	(236)
Ending Balance	89,610	-	25,834	115,444
Allowance for Credit Losses	$ 402,814	$ -	$ 198,774	$ 601,588
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 15,085	$ -	$ 3,930	$ 19,015
Collectively Evaluated for Impairment	387,729	-	194,844	582,573
Total	$ 402,814	$ -	$ 198,774	$ 601,588
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 87,998	$ 43,421,344	$ 68,807	$ 43,578,149
Collectively Evaluated for Impairment	26,107,889	-	19,562,084	45,669,973
Total	$ 26,195,887	$ 43,421,344	$ 19,630,891	$ 89,248,122

[1] As a result of our strong collateral position with respect to loans to Associations, along with the earnings, capital and loss reserves of Associations that serve as an additional layer of protection against losses, no allowance for credit losses is recorded in our Strategic Relationships operating segment.

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

	Agribusiness	Strategic Relationships[1]	Rural Infrastructure	Total
December 31, 2014				
Allowance for Loan Losses				
Beginning Balance	$ 284,967	$ -	$ 162,159	$ 447,126
Charge-offs	(1,599)	-	(4,618)	(6,217)
Recoveries	2,040	-	1,295	3,335
Provision for Loan Losses/(Loan Loss Reversal)	37,000	-	(52,000)	(15,000)
Transfers (to) from Reserve for Unfunded Commitments[2]	7,225	-	44,687	51,912
Ending Balance	329,633	-	151,523	481,156
Reserve for Unfunded Commitments				
Beginning Balance	111,897	-	55,695	167,592
Transfers (to) from Allowance for Loan Losses[2]	(7,225)	-	(44,687)	(51,912)
Ending Balance	104,672	-	11,008	115,680
Allowance for Credit Losses	$ 434,305	$ -	$ 162,531	$ 596,836
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 13,100	$ -	$ 18,462	$ 31,562
Collectively Evaluated for Impairment	421,205	-	144,069	565,274
Total	$ 434,305	$ -	$ 162,531	$ 596,836
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 48,905	$ 40,014,387	$ 81,436	$ 40,144,728
Collectively Evaluated for Impairment	24,367,561	-	16,088,110	40,455,671
Total	$ 24,416,466	$ 40,014,387	$ 16,169,546	$ 80,600,399
December 31, 2013				
Beginning Balance	$ 277,595	$ -	$ 159,781	$ 437,376
Charge-offs	(1,622)	-	(26)	(1,648)
Recoveries	20,199	-	1,088	21,287
Provision for Loan Losses/(Loan Loss Reversal)	(6,000)	-	6,000	-
Transfers (to) from Reserve for Unfunded Commitments[2]	(5,205)	-	(4,684)	(9,889)
Ending Balance	284,967	-	162,159	447,126
Reserve for Unfunded Commitments				
Beginning Balance	106,692	-	51,011	157,703
Transfers (to) from Allowance for Loan Losses[2]	5,205	-	4,684	9,889
Ending Balance	111,897	-	55,695	167,592
Allowance for Credit Losses	$ 396,864	$ -	$ 217,854	$ 614,718
Allowance for Credit Losses				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	$ 8,550	$ -	$ 46,500	$ 55,050
Collectively Evaluated for Impairment	388,314	-	171,354	559,668
Total	$ 396,864	$ -	$ 217,854	$ 614,718
Loans				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	$ 53,249	$ 38,015,890	$ 94,600	$ 38,163,739
Collectively Evaluated for Impairment	21,178,897	-	14,492,660	35,671,557
Total	$ 21,232,146	$ 38,015,890	$ 14,587,260	$ 73,835,296

[1] As a result of our strong collateral position with respect to loans to Associations, along with the earnings, capital and loss reserves of Associations that serve as an additional layer of protection against losses, no allowance for credit losses is recorded in our Strategic Relationships operating segment.

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

The information in the tables under the Credit Quality, Aging Analysis and Impaired Loans captions is presented by operating segment, with guaranteed and non-guaranteed loans in our Agribusiness segment separately identified.

Credit Quality

The following table presents our loans and related accrued interest classified, by management, pursuant to our regulator's Uniform Loan Classification System.

December 31, 2015	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
Acceptable	$ 23,311,424	$ 1,689,855	$ 43,421,344	$ 19,195,561	$ 87,618,184
Special Mention	748,701	19	-	252,984	1,001,704
Substandard	445,300	-	-	181,489	626,789
Doubtful	588	-	-	857	1,445
Loss	-	-	-	-	-
Total	$ 24,506,013	$ 1,689,874	$ 43,421,344	$ 19,630,891	$ 89,248,122
December 31, 2014					
Acceptable	$ 21,593,972	$ 1,827,260	$ 39,123,062	$ 15,796,112	$ 78,340,406
Special Mention	614,017	-	-	163,413	777,430
Substandard	379,622	-	891,325 [1]	180,848	1,451,795
Doubtful	1,595	-	-	29,173	30,768
Loss	-	-	-	-	-
Total	$ 22,589,206	$ 1,827,260	$ 40,014,387	$ 16,169,546	$ 80,600,399
December 31, 2013					
Acceptable	$ 17,789,946	$ 2,604,643	$ 38,015,890	$ 14,267,187	$ 72,677,666
Special Mention	508,526	-	-	121,695	630,221
Substandard	318,719	-	-	169,286	488,005
Doubtful	10,312	-	-	29,092	39,404
Loss	-	-	-	-	-
Total	$ 18,627,503	$ 2,604,643	$ 38,015,890	$ 14,587,260	$ 73,835,296

[1] Represents the total wholesale loan balance to one of our affiliated Associations, as discussed in Note 17.

Aging Analysis

The following tables present an aging of past due loans and related accrued interest.

December 31, 2015	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 10,644	$ -	$ -	$ -	$ 10,644
90 Days Past Due	2,977	-	-	24,914	27,891
Total Past Due	$ 13,621	$ -	$ -	$ 24,914	$ 38,535
Current	24,492,392	1,689,874	43,421,344	19,605,977	89,209,587
Total	$ 24,506,013	$ 1,689,874	$ 43,421,344	$ 19,630,891	$ 89,248,122
Accruing Loans 90 Days or More Past Due	$ 754	$ -	$ -	$ -	$ 754
December 31, 2014					
30-89 Days Past Due	$ 14,459	$ -	$ -	$ -	$ 14,459
90 Days Past Due	3,016	-	-	22,176	25,192
Total Past Due	$ 17,475	$ -	$ -	$ 22,176	$ 39,651
Current	22,571,731	1,827,260	40,014,387	16,147,370	80,560,748
Total	$ 22,589,206	$ 1,827,260	$ 40,014,387	$ 16,169,546	$ 80,600,399
Accruing Loans 90 Days or More Past Due	$ 239	$ -	$ -	$ -	$ 239

December 31, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	$ 12,276	$ -	$ -	$ -	$ 12,276
90 Days Past Due	22,757	-	-	53,425	76,182
Total Past Due	$ 35,033	$ -	$ -	$ 53,425	$ 88,458
Current	18,592,470	2,604,643	38,015,890	14,533,835	73,746,838
Total	$ 18,627,503	$ 2,604,643	$ 38,015,890	$ 14,587,260	$ 73,835,296
Accruing Loans 90 Days or More Past Due	$ 972	$ -	$ -	$ -	$ 972

Impaired Loans

Impaired loan information is shown in the following table. Loans past due 90 days or more and still accruing interest are adequately secured and in the process of collection.

December 31, 2015	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[1]	Strategic Relationships[1]	Rural Infrastructure	Total
Nonaccrual Loans[2]	**$ 87,998**	**$ -**	**$ -**	**$ 68,807**	**$ 156,805**
Accruing Loans 90 Days or More Past Due	**754**	**-**	**-**	**-**	**754**
Accruing Restructured Loans	**-**	**-**	**-**	**-**	**-**
Total Impaired Loans	**$ 88,752**	**$ -**	**$ -**	**$ 68,807**	**$ 157,559**
December 31, 2014					
Nonaccrual Loans[2]	$ 48,904	$ -	$ -	$ 81,436	$ 130,340
Accruing Loans 90 Days or More Past Due	239	-	-	-	239
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 49,143	$ -	$ -	$ 81,436	$ 130,579
December 31, 2013					
Nonaccrual Loans[2]	$ 53,249	$ -	$ -	$ 94,600	$ 147,849
Accruing Loans 90 Days or More Past Due	972	-	-	-	972
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	$ 54,221	$ -	$ -	$ 94,600	$ 148,821

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

[2] Included in nonaccrual loans at December 31, 2015, 2014 and 2013 are $58.3 million, $61.9 million and $66.3 million, respectively, of loans that qualify as troubled debt restructurings.

The following tables present information on impaired loans and related amounts in the allowance for loan losses.

December 31, 2015	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[1]	Strategic Relationships[1]	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 20,739	$ -	$ -	$ 43,893	$ 64,632
Unpaid Principal	29,757	-	-	56,131	85,888
Average Balance	18,062	-	-	55,351	73,413
Interest Income Recognized	2,142	-	-	1,285	3,427
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	68,013	-	-	24,914	92,927
Unpaid Principal	76,594	-	-	28,810	105,404
Allowance for Loan Losses	15,085	-	-	3,930	19,015
Average Balance	51,656	-	-	15,896	67,552
Interest Income Recognized	12	-	-	-	12
Total Impaired Loans					
Carrying Amount	88,752	-	-	68,807	157,559
Unpaid Principal	106,351	-	-	84,941	191,292
Allowance for Loan Losses	15,085	-	-	3,930	19,015
Average Balance	69,718	-	-	71,247	140,965
Interest Income Recognized	2,154	-	-	1,285	3,439
December 31, 2014					
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 14,080	$ -	$ -	$ 47,064	$ 61,144
Unpaid Principal	21,267	-	-	54,397	75,664
Average Balance	16,019	-	-	48,725	64,744
Interest Income Recognized	3,956	-	-	2,317	6,273
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	35,063	-	-	34,372	69,435
Unpaid Principal	41,704	-	-	40,740	82,444
Allowance for Loan Losses	13,100	-	-	18,462	31,562
Average Balance	25,976	-	-	24,703	50,679
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	49,143	-	-	81,436	130,579
Unpaid Principal	62,971	-	-	95,137	158,108
Allowance for Loan Losses	13,100	-	-	18,462	31,562
Average Balance	41,995	-	-	73,428	115,423
Interest Income Recognized	3,956	-	-	2,317	6,273

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

December 31, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed[1]	Strategic Relationships[1]	Rural Infrastructure	Total
Impaired Loans With No Related Allowance for Loan Losses					
Carrying Amount	$ 33,173	$ -	$ -	$ 9,427	$ 42,600
Unpaid Principal	44,670	-	-	10,889	55,559
Average Balance	50,530	-	-	10,832	61,362
Interest Income Recognized	2,236	-	-	2,477	4,713
Impaired Loans With Related Allowance for Loan Losses					
Carrying Amount	21,048	-	-	85,173	106,221
Unpaid Principal	24,891	-	-	90,858	115,749
Allowance for Loan Losses	8,550	-	-	28,700	37,250
Average Balance	20,143	-	-	77,457	97,600
Interest Income Recognized	-	-	-	-	-
Total Impaired Loans					
Carrying Amount	54,221	-	-	94,600	148,821
Unpaid Principal	69,561	-	-	101,747	171,308
Allowance for Loan Losses	8,550	-	-	28,700	37,250
Average Balance	70,673	-	-	88,289	158,962
Interest Income Recognized	2,236	-	-	2,477	4,713

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

Interest income forgone on nonaccrual and accruing restructured loans is as follows:

Year Ended December 31, 2015	
Interest Income Which Would Have Been Recognized Per Original Terms	$ 11,285
Less: Interest Income Recognized	(3,429)
Forgone Interest Income	$ 7,856

Commitments on Impaired Loans

There were $17.6 million in commitments available to be drawn by borrowers whose loans were classified as impaired at December 31, 2015.

Troubled Debt Restructurings

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions and/or interest rate reductions. As of December 31, 2015, all TDRs are classified as nonaccrual loans. TDRs classified as nonaccrual loans, along with other impaired loans, may be returned to accruing status upon meeting specific criteria, as more fully described in Note 1. A summary of the number of modifications that qualified as TDRs and the dollar amounts before and after modification is as follows:

December 31,	2015	2014	2013
Number of Loan Modifications that Qualified as a TDR	-	-	1
Total Loan Amount Before Modification	$ -	$ -	$ 52,566
Total Loan Amount After Modification	-	-	52,566

Subsequent to their restructuring, there have been no payment defaults on our TDR-classified loans.

Leases Outstanding

A summary of the components of FCL's net investment in direct financing leases and property on operating leases is as follows:

($ in Millions)

December 31,	2015	2014	2013
Net Investment in Direct Financing Leases:			
Minimum Lease Payments to be Received, Net of Participation Interests	**$ 2,038**	$ 1,744	$ 1,549
Estimated Residual Values of Leased Property (Unguaranteed)	**783**	641	489
Initial Direct Costs	**25**	21	16
Less: Unearned Finance Income	**(286)**	(251)	(211)
Net Investment in Direct Financing Leases	**$ 2,560**	$ 2,155	$ 1,843
Property on Operating Leases:			
Vehicles and Other Equipment	**$ 852**	$ 854	$ 812
Initial Direct Costs	**5**	5	3
Total	**857**	859	815
Less: Accumulated Depreciation	**(374)**	(362)	(343)
Net Property on Operating Leases	**$ 483**	$ 497	$ 472
Year Ended December 31,	**2015**	**2014**	**2013**
Depreciation Expense	**$ 157**	$ 158	$ 147

At December 31, 2015, gross minimum lease payments to be received for direct financing leases and minimum future rental revenue for noncancelable operating leases are as follows:

($ in Millions)

Year	Minimum Lease Payments	Minimum Future Rental Revenue
2016	$ 574	$ 92
2017	515	56
2018	391	33
2019	229	14
2020	124	6
Subsequent Years	205	12

Note 4 – Investment Securities

A summary of investment securities available-for-sale follows. See Note 12 for disclosures about estimated fair values of financial instruments, including investments.

($ in Millions)

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	**$ 7,174**	**$ 36**	**$ (22)**	**$ 7,188**
U.S. Agency Debt	**5,842**	**41**	**(26)**	**5,857**
Residential Mortgage-Backed Securities (MBS):				
Ginnie Mae	**901**	**5**	**-**	**906**
U.S. Agency	**7,762**	**55**	**(54)**	**7,763**
FHA/VA Non-Wrapped Reperformer	**336**	**9**	**(3)**	**342**
Non-Agency	**118**	**12**	**(1)**	**129**
Commercial MBS:				
U.S. Agency	**1,986**	**1**	**(5)**	**1,982**
Agricultural MBS:				
Farmer Mac	**126**	**-**	**(2)**	**124**
Asset-Backed	**36**	**12**	**(1)**	**47**
Corporate Bonds	**166**	**-**	**-**	**166**
Total	**$ 24,447**	**$ 171**	**$ (114)**	**$ 24,504**

($ in Millions)

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	$ 7,587	$ 39	$ (1)	$ 7,625
U.S. Agency Debt	5,649	61	(30)	5,680
Residential MBS:				
Ginnie Mae	1,460	12	-	1,472
U.S. Agency	7,581	67	(61)	7,587
FHA/VA Non-Wrapped Reperformer	403	2	(14)	391
Non-Agency	149	18	(1)	166
Commercial MBS:				
U.S. Agency	1,007	1	(1)	1,007
Agricultural MBS:				
Farmer Mac	153	-	(3)	150
Asset-Backed	71	26	(1)	96
Corporate Bonds	145	1	-	146
Total	$ 24,205	$ 227	$ (112)	$ 24,320

($ in Millions)

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Debt	$ 5,501	$ 3	$ -	$ 5,504
U.S. Agency Debt	4,458	55	(54)	4,459
Residential MBS:				
Ginnie Mae	2,101	22	-	2,123
U.S. Agency	8,554	72	(131)	8,495
FHA/VA Non-Wrapped Reperformer	443	6	(9)	440
Non-Agency	201	21	(1)	221
Agricultural MBS:				
Farmer Mac	182	-	(3)	179
Asset-Backed	127	27	(2)	152
Corporate Bonds	116	-	(1)	115
Total	$ 21,683	$ 206	$ (201)	$ 21,688

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at December 31, 2015 is as follows:

U.S. Treasury Debt Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ 1,022	$ 1,021	0.47 %
One to Five Years	4,195	4,207	1.36
Five to Ten Years	1,957	1,960	2.01
After Ten Years	-	-	-
Total	$ 7,174	$ 7,188	1.41

U.S. Agency Debt Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ 100	$ 100	1.36 %
One to Five Years	3,532	3,565	1.55
Five to Ten Years	2,210	2,192	1.33
After Ten Years	-	-	-
Total	$ 5,842	$ 5,857	1.47

Ginnie Mae Residential MBS

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	22	22	2.46
After Ten Years	879	884	1.29
Total	$ 901	$ 906	1.32

U.S. Agency Residential MBS

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	36	36	1.65
Five to Ten Years	58	58	0.83
After Ten Years	7,668	7,669	2.00
Total	$ 7,762	$ 7,763	1.99

FHA/VA Non-Wrapped Reperformer Residential MBS

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	336	342	5.12
Total	$ 336	$ 342	5.12

Non-Agency Residential MBS

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	3	3	0.68
Five to Ten Years	1	1	0.93
After Ten Years	114	125	7.81
Total	$ 118	$ 129	7.62

U.S. Agency Commercial MBS

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	574	573	0.74
Five to Ten Years	1,412	1,409	0.58
After Ten Years	-	-	-
Total	$ 1,986	$ 1,982	0.63

Farmer Mac Agricultural MBS

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	126	124	2.55
Total	$ 126	$ 124	2.55

Asset-Backed Securities

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ -	$ -	- %
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	36	47	13.32
Total	$ 36	$ 47	13.32

Corporate Bonds

($ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	$ 50	$ 50	0.92 %
One to Five Years	116	116	1.84
Five to Ten Years	-	-	-
After Ten Years	-	-	-
Total	$ 166	$ 166	1.56

While the substantial majority of our mortgage-backed securities (MBS) and most of our asset-backed securities (ABS) have contractual maturities in excess of 10 years, expected maturities for these securities are shorter than contractual maturities because of structured cash flow features and because borrowers have the right to call or prepay obligations.

The following tables shows the fair value and gross unrealized losses for investments in a loss position aggregated by security type, and the length of time the securities have been in a continuous unrealized loss position at December 31, 2015, 2014 and 2013, respectively. The continuous loss position is based on the date the impairment first occurred.

($ in Millions)	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015				
U.S. Treasury Debt	**$ 4,429**	**$ (22)**	**$ -**	**$ -**
U.S. Agency Debt	**2,200**	**(12)**	**826**	**(14)**
Residential MBS:				
Ginnie Mae	**23**	**-**	**12**	**-**
U.S. Agency	**739**	**(5)**	**1,866**	**(49)**
FHA/VA Non-Wrapped Reperformer	**65**	**-**	**62**	**(3)**
Non-Agency	**24**	**-**	**16**	**(1)**
Commercial MBS:				
U.S. Agency	**1,368**	**(5)**	**179**	**-**
Agricultural MBS:				
Farmer Mac	**-**	**-**	**124**	**(2)**
Asset-Backed	**-**	**-**	**7**	**(1)**
Corporate Bonds	**106**	**-**	**-**	**-**
Total	**$ 8,954**	**$ (44)**	**$ 3,092**	**$ (70)**
December 31, 2014				
U.S. Treasury Debt	$ 495	$ (1)	$ -	$ -
U.S. Agency Debt	1,753	(4)	1,334	(26)
Residential MBS:				
Ginnie Mae	16	-	84	-
U.S. Agency	541	(2)	2,428	(60)
FHA/VA Non-Wrapped Reperformer	-	-	223	(14)
Non-Agency	7	-	18	(1)
Commercial MBS:				
U.S. Agency	640	(1)	-	-
Agricultural MBS:				
Farmer Mac	-	-	150	(3)
Asset-Backed	1	-	9	(1)
Corporate Bonds	10	-	20	-
Total	$ 3,463	$ (8)	$ 4,266	$ (105)

($ in Millions)	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013				
U.S. Treasury Debt	$ 516	$ -	$ -	$ -
U.S. Agency Debt	3,236	(54)	-	-
Residential MBS:				
Ginnie Mae	215	-	19	-
U.S. Agency	3,277	(93)	660	(38)
FHA/VA Non-Wrapped Reperformer	106	(2)	144	(7)
Non-Agency	32	(1)	18	-
Agricultural MBS:				
Farmer Mac	55	(1)	124	(2)
Asset-Backed	50	(1)	5	(1)
Corporate Bonds	70	(1)	-	-
Total	$ 7,557	$ (153)	$ 970	$ (48)

As of December 31, 2015, with the exception of the securities in the following table, we expect to collect all principal and interest payments on our investment securities. We do not intend to sell the securities in unrealized loss positions, and it is not likely that we will be required to sell such securities, for regulatory, liquidity or other purposes before an anticipated recovery of our cost basis occurs.

The following table summarizes other-than-temporary impairment (OTTI) losses recorded in earnings by security type for the periods presented.

($ in Millions)	Number of Securities	OTTI
Year Ended December 31, 2015		
FHA/VA Non-Wrapped Reperformer Residential MBS	**2**	**$ 11**
Total	**2**	**$ 11**
Year Ended December 31, 2014		
Investment Securities Available-for-Sale	-	$ -
Total	-	$ -
Year Ended December 31, 2013		
Non-Agency Residential MBS	4	$ 3
Total	4	$ 3

The fair value of our securities with OTTI losses was $104.0 million, $175.0 million and $217.9 million at December 31, 2015, 2014 and 2013, respectively.

The following table details the activity related to the credit loss component of investment securities that have been written down for OTTI.

Credit Losses on Impaired Investments ($ in Millions)

	2015	2014	2013
Beginning of Year	**$ 57**	$ 65	$ 64
Additional Credit Impairments Related to Securities Previously Impaired	**10**	-	-
Initial Credit Impairments Related to Securities Not Previously Impaired	**1**	-	3
Sales of Investments with Credit Impairments	**(37)**	(7)	-
Subsequent Accretion for Increases in Cash Flows Expected to be Collected	**(2)**	(1)	(2)
End of Year	**$ 29**	$ 57	$ 65

In 2015, we enhanced our process for estimating the component of unrealized losses attributable to credit losses for impaired investment securities. These enhancements primarily included using third-party credit and cash flow models which utilize loan level data to project future performance of MBS and ABS. These improvements did not materially impact the overall level of expected losses. Model projections are influenced by factors such as interest rates, economic conditions, including housing prices, and the performance, type and age of collateral. Projected prepayment rates ranged from 4 percent to 36 percent (conditional prepayment rate) for impaired investment securities at December 31, 2015. The model considers current and historical loan level performance information and the factors listed above to estimate future defaults. Default rates ranged from 8 percent to 22 percent for impaired investment securities at December 31, 2015. Loss severity results are derived using model estimated home price assumptions at the time of default and ranged from 12 percent to 73 percent for impaired investment securities at December 31, 2015.

Acquired Investments

Included in our investment portfolio are certain credit-impaired investment securities acquired in our 2012 merger with AgBank. The carrying amount of these investment securities was $439.7 million, $509.9 million and $585.9 million at December 31, 2015, 2014 and 2013, respectively. These investments are subject to the provisions of Accounting Standards Codification (ASC) 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, pursuant to which the difference between contractually required payments and the cash flows expected to be collected at acquisition is considered a "non-accretable" amount. This difference is neither accreted into income nor recorded on our consolidated balance sheets.

At the end of each reporting period, we evaluate estimated cash flows expected to be collected from acquired credit-impaired investment securities. Increases in expected cash flows will generally result in an increase in interest income over the remaining life of the investment. Decreases in expected cash flows due to credit deterioration will generally result in other-than-temporary impairment charges recognized against earnings. During 2015, we recorded $11.1 million in impairment losses related to two of our acquired credit-impaired FHA/VA non-wrapped reperformer residential MBS due to lower repayment cash flows resulting from loan modification activity in the underlying collateral. One of these securities was subsequently sold in 2015 for total proceeds of $21.3 million, which resulted in a gain of $0.8 million. We recorded no impairment losses on investment securities in 2014 and $2.5 million in impairment losses in 2013. A portion of the securities impaired in 2013 were credit-impaired non-agency residential MBS also acquired in the merger.

Any excess of cash flows expected to be collected over fair value is referred to as an "accretable amount" and is recognized in interest income over the remaining life of the investment using the effective yield method.

($ in Millions)

Changes in Accretable Amounts of Acquired Credit-Impaired Investment Securities

	2015	2014	2013
Balance at January 1	**$ (133)**	$ (165)	$ (210)
Interest Recognized in Earnings	**26**	32	43
Reclassifications from Nonaccretable Amount for Investments with Improvements in Expected Cash Flows	**-**	-	-
Total Other-Than-Temporary Impairment Losses Included in Earnings	**11**	-	2
Balance at December 31	**$ (96)**	$ (133)	$ (165)

Sale of Investment Securities

During 2015, in addition to the sale of the credit-impaired security discussed above, we also sold three non-agency ABS and one agency debt security with a combined book value of $127.8 million for total proceeds of $149.6 million. The three non-agency ABS had been previously impaired and were excluded from our liquidity reserve, and were sold due to favorable market conditions. For income tax purposes, the sale of these previously-impaired securities generated a capital loss. The sale of the agency debt security was consummated in order to generate capital gains and thereby utilize the substantial majority of this capital loss. In 2014, we sold one ABS and two non-agency MBS with a combined book value of $23.1 million for total proceeds of $28.0 million. No sales of investment securities occurred in 2013.

Note 5 – Bonds and Notes

We are primarily liable for the following bonds and notes:

($ in Millions)

December 31,	2015	2014	2013
Bonds	**$ 89,677**	$ 79,530	$ 73,122
Medium-term Notes	**118**	135	150
Discount Notes	**15,019**	15,075	12,394
Total Systemwide Debt Securities	**104,814**	94,740	85,666
Cash Investment Services Payable	**1,833**	2,526	2,309
Other	**323**	269	438
Total Bonds and Notes	**$ 106,970**	$ 97,535	$ 88,413

Systemwide Debt Securities

We, along with the other System banks, obtain funds for lending activities and operations primarily from the sale of debt securities issued by System banks through the Funding Corporation. These debt securities are composed of bonds, medium-term notes and discount notes and are collectively referred to as Systemwide Debt Securities. Pursuant to the Farm Credit Act, Systemwide Debt Securities are the general unsecured joint and several obligations of the System banks. Systemwide Debt Securities are not obligations of, and are not guaranteed by, the U.S. government or any agency or instrumentality thereof, other than the System banks. Bonds and medium-term notes are issued at fixed or floating interest rates. Bonds have original maturities of three months to 30 years, while medium-term notes have original maturities ranging from one to 30 years. Discount notes are issued with maturities ranging from one to 365 days. The weighted average remaining maturity of CoBank's discount notes outstanding at December 31, 2015 was 167 days.

Other Bonds and Notes

Cash investment services payable mature within one year. Other bonds and notes include cash collateral payable to derivative counterparties that have posted collateral to us.

At December 31, 2015 and 2014, other bonds and notes also includes $205.0 million and $20.0 million, respectively, in funding pursuant to a bond guarantee program offered by the Rural Utilities Service (RUS) agency of the United States Department of Agriculture. In 2014, CoBank was approved to participate in the program and can borrow up to $250.0 million through October 2017 to fund rural electric and telecommunications infrastructure loans. This funding is provided under a bond purchase agreement with the Federal Financing Bank (FFB) and a bond guarantee agreement with RUS, which provides guarantees to the FFB. As part of the bond guarantee agreement with RUS, we are required to pledge collateral in an amount at least equal to the principal balance of the notes outstanding. These bonds mature in 8-10 years.

Maturities and Rates

The aggregate maturities and the weighted average interest rates of CoBank's Systemwide Debt Securities at December 31, 2015 are shown in the accompanying table. Weighted average interest rates include the effect of related derivative financial instruments.

($ in Millions)

Maturities and Rates of Systemwide Debt Securities

	Bonds		Medium-term Notes		Discount Notes		Total	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2016	$ 28,919	0.46 %	$ 16	6.30 %	$ 15,019	0.35 %	$ 43,954	0.43 %
2017	28,642	0.59	-	-	-	-	28,642	0.59
2018	9,494	0.90	-	-	-	-	9,494	0.90
2019	4,374	1.57	1	6.67	-	-	4,375	1.57
2020	3,278	1.97	-	-	-	-	3,278	1.97
2021 and thereafter	14,970	3.05	101	5.83	-	-	15,071	3.07
Total	$ 89,677	1.09	$ 118	5.90	$ 15,019	0.35	$ 104,814	0.99

Certain Systemwide Debt Securities include debt which may be called on the first call date and, subsequently, called daily or on each interest payment date thereafter. At December 31, 2015, callable debt was $7.3 billion, with the range of first call dates being from January 2016 through November 2018.

Conditions for Issuing Systemwide Debt

Certain conditions must be met before we can participate in the issuance of Systemwide Debt Securities. One such condition of participation, required by the Farm Credit Act and FCA regulations, is that we must maintain specified, eligible, unencumbered assets at least equal in value to the total amount of debt obligations outstanding for which we are primarily liable. Such assets exceeded applicable debt by $8.7 billion at December 31, 2015. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any of our assets.

In addition, because System banks are contingently liable for Systemwide Debt Securities of the other System banks, the

banks have entered into agreements to provide for mutual protection. The System banks and the Funding Corporation operate under a Second Amended and Restated Market Access Agreement (MAA) designed to address certain Funding Corporation statutory responsibilities. The MAA financial conditions establish mechanisms for monitoring, limiting and ultimately denying a troubled System bank's access to and participation in Systemwide debt issuances, thereby limiting other System banks' exposure to statutory joint and several liabilities. The MAA promotes the identification and resolution of financial problems of individual System banks in a timely manner. As required by the MAA, the System banks and the Funding Corporation undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. Such review was conducted during 2014 and no adjustments to the MAA criteria were warranted.

The System banks and the Funding Corporation have also entered into an Amended and Restated Contractual Interbank Performance Agreement (CIPA). The CIPA establishes an agreed-upon standard of financial condition and performance for the System banks and their affiliated Associations (the Districts). The CIPA measures various ratios taking into account the capital, asset quality, earnings, interest rate risk and liquidity of the Districts and System banks. At December 31, 2015, 2014 and 2013, all System banks, including CoBank, were in compliance with all of the conditions of participation for the issuance of Systemwide Debt Securities. Periodically, the ratios in the CIPA model are reviewed to take into consideration current performance standards in the financial services industry. A review was conducted during 2014 and no adjustments to the CIPA model were warranted.

Insurance Fund

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Corporation insures the timely payment of principal and interest on Systemwide Debt Securities and carries out various other responsibilities.

The primary sources of funds for the Insurance Fund are premiums paid by the System banks and earnings on the Insurance Corporation assets. Premiums are determined and assessed to System banks semi-annually by the Insurance Corporation.

Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund reach the "secure base amount" (SBA), which is defined in the Farm Credit Act as 2 percent of the aggregate outstanding insured Systemwide Debt Securities (adjusted to reflect the reduced risk on loans or investments guaranteed by the U.S. or state governments) or such other percentage of the aggregate outstanding insured Systemwide Debt Securities as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the SBA, the Insurance Corporation is required to reduce premiums, and, in some instances, may refund excess amounts, but must still ensure that premiums are sufficient to maintain the level of the Insurance Fund at the SBA. There were no premium refunds from the Insurance Corporation in the years ended December 31, 2015, 2014 and 2013.

The Insurance Corporation premium rates were 13 basis points, 12 basis points, and 10 basis points of adjusted insured debt obligations for the years ended December 31, 2015, 2014 and 2013, respectively.

The Insurance Fund is available to assist with the timely payment of principal and interest on Systemwide Debt Securities, in the event of a default by a System bank, to the extent that net assets are available in the Insurance Fund. No other liabilities reflected in our financial statements are insured by the Insurance Corporation.

In addition, the Insurance Fund could be used to ensure the retirement of System entities' protected borrower equity at par or stated value and for other specified purposes. The Insurance Fund is also available for discretionary uses of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. The Insurance Fund does not insure the obligations of Farmer Mac.

At December 31, 2015, the assets of the Insurance Fund aggregated $4.0 billion. However, due to the other authorized uses of the Insurance Fund, there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on Systemwide Debt Securities in the event of a default by any System bank having primary liability thereon.

The Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2016 unless otherwise extended. The decision whether to seek funds from the Federal Financing Bank is in the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

Early Extinguishment of Debt

During 2015, we recorded losses of $37.5 million on the early extinguishment of $5.8 billion of Systemwide Debt Securities, which included $5.4 billion in Systemwide Debt Securities sold at market value to other Farm Credit Banks. During 2014 and 2013, we recorded losses of $58.3 million and $96.8 million, respectively, on the early extinguishment of $615.1 million and $797.1 million of Systemwide Debt Securities, respectively. All losses on early extinguishment of debt are reported as a component of noninterest income.

Note 6 – Subordinated Debt

We had subordinated debt outstanding of $904.7 million at December 31, 2015, 2014 and 2013. Our subordinated debt was issued in April 2008 and June 2007, and is summarized in the table below.

Subordinated Debt as of December 31, 2015

	Series 2008A	Series 2007A
Type	Unsecured subordinated notes	Unsecured subordinated notes
Issue Date	April 2008	June 2007
Maturity Date	April 2018	June 2022
Amount Outstanding (000)	$404,685	$500,000
Interest Rate (%)	7.875%	3-month USD LIBOR + 0.60% (1.112% at December 31, 2015)
Interest Payment Date	Semi-annually in cash on 15th day of April and October	Quarterly in cash on 15th day of March, June, September and December

The 2007 issuance of subordinated debt may be redeemed, in whole or in part, at our option, on June 15, 2017 and any interest payment date thereafter. Both issuances of subordinated debt may be redeemed, in whole, at our option at any time upon the occurrence of a regulatory event, whereby through a change in law or regulation the subordinated debt is no longer eligible for (i) inclusion in our permanent capital or total surplus or any comparable regulatory capital requirements under any successor regulations or (ii) exclusion from total liabilities for purposes of calculating our net collateral ratio or any comparable regulatory capital requirements under any successor regulations. Any redemption of subordinated debt will be at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided we have made payment in full of all amounts then due in respect of our senior indebtedness.

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

Our subordinated debt is not considered Systemwide debt and is not an obligation of, or guaranteed by, the Farm Credit System or any banks in the System, other than CoBank. Payments on our subordinated debt are not insured by the Insurance Corporation.

Note 7 – Shareholders' Equity

Description of Equities

As of December 31, 2015, we had $1.1 billion of preferred stock and $2.9 billion in common stock outstanding, as summarized in the table below.

Preferred and Common Stock

	Stock		
	Preferred	Class A	Class A
Shares Authorized (000)	n/a [1]	Unlimited	Unlimited
Shares Outstanding (000)	9,225	1,295	27,702
Voting or Nonvoting	Nonvoting	Nonvoting	Voting
Par / Face Value (per share)	n/a [1]	$ 100	$ 100

[1] Shares authorized and par/face value varies by issuance. Refer to the table on the following page.

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

The changes in the number of shares of common stock outstanding during 2015, 2014 and 2013 are summarized in the following table.

Shares of Common Stock (in Thousands)

	2015	2014	2013
Beginning of the Year	**27,685**	26,775	26,060
Issuances	**1,638**	1,245	1,031
Retirements	**(326)**	(335)	(316)
End of the Year	**28,997**	27,685	26,775

Our shareholders have approved measures allowing CoBank to have up to $1.5 billion outstanding of preferred stock, subject to FCA approval, at any time through September 2018. These measures allow us to access third party capital more quickly and efficiently in response to dynamic market conditions, without the necessity of obtaining shareholder approval for each issuance.

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

In case of liquidation or dissolution, preferred stock, common stock and unallocated retained earnings would be distributed to shareholders, after the payment of all liabilities pursuant to FCA regulations, in the following order: (1) retirement of all Series E, Series F, Series G and Series H preferred stock at par plus all accrued but unpaid dividends for the then current dividend period; (2) retirement of all common stock at par; (3) retirement of all patronage surplus (a component of unallocated retained earnings) in amounts equal

to the face amount of the applicable nonqualified written notices of allocation or such other notice; and (4) remaining unallocated retained earnings and reserves shall be paid to the holders of common stock in proportion to patronage to the extent possible.

Preferred Stock

The following table summarizes our outstanding preferred stock as of December 31, 2015.

Preferred Stock as of December 31, 2015

	Series E	Series F	Series G	Series H
Type	Non-Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual
Issue Date	January 2012	October 2012	April 2013	November 2014
Shares Outstanding (000)	225	4,000	2,000	3,000
Amount Outstanding (000)	$225,000	$400,000	$200,000	$300,000
Par Value (per share)	$1,000	$100	$100	$100
Current Dividend Rate (%)	3-month USD LIBOR + 1.18% (1.50% at December 31, 2015)	6.25%	6.125%	6.20%
Next Change in Dividend Rate (% and dates)	n/a	3-month USD LIBOR + 4.557% beginning on October 1, 2022	n/a	3-month USD LIBOR + 3.744% beginning on January 1, 2025
Dividend Frequency	Quarterly	Quarterly	Quarterly	Quarterly
Optional Redemption Begins (date)	July 2012 and each five year anniversary thereafter at par plus accrued dividends	Quarterly calls on or after October 1, 2022 at par plus accrued dividends	Quarterly calls on or after July 1, 2018 at par plus accrued dividends	Quarterly calls on or after January 1, 2025 at par plus accrued dividends

On April 19, 2013, we issued $200 million of Series G non-cumulative perpetual preferred stock. We used the net proceeds from the Series G preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on the Series G preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.125 percent.

On July 1, 2013, we redeemed all of our outstanding Series C non-cumulative perpetual preferred stock totaling $200 million. We used available cash to effectuate this redemption. The dividend rate for our Series C preferred stock was 11.0 percent through the date of redemption.

On October 1, 2014, we redeemed all of our outstanding Series D non-cumulative perpetual preferred stock totaling $136.8 million. We used available cash to effectuate this redemption. The dividend rate for our Series D preferred stock was 11.0 percent through the date of redemption.

On November 26, 2014, we issued $300 million of Series H non-cumulative perpetual preferred stock. We used the proceeds from the Series H preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on Series H preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.20 percent from the date of issuance up to, but excluding, January 1, 2025. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 3.744 percent.

All of our outstanding preferred stock is included in permanent capital, total surplus, and core surplus for regulatory capital purposes. In addition, all of our outstanding preferred stock ranks equally, both as to dividends and upon liquidation, and senior to all of our outstanding common stock.

If preferred stock dividends are not paid for 18 consecutive months on any of our preferred stock, holders of all outstanding preferred stock, voting as a single class, will have the right to appoint two non-voting observers to attend our Board of Directors meetings until full dividends for a one-year period are paid. In addition, other than pursuant to an order issued by our regulator, we may not enter into agreements restricting our ability to declare or pay preferred stock dividends.

All stock retirements, including preferred stock redemptions, require the approval of our Board of Directors. Payments of preferred stock dividends also require the approval of our Board of Directors.

Capitalization Requirements

In accordance with the Farm Credit Act, eligible commercial borrowers are required to purchase common stock in CoBank as a condition of borrowing. The minimum initial borrower investment is equal to the lesser of one thousand dollars or 2 percent of the amount of the loan. The minimum initial investment is generally received in cash at the time the borrower receives the loan proceeds.

Association customers are also required to invest in our common stock, as discussed on page 115. Additionally, effective January 1, 2016, eligible financial service members who are not otherwise shareholders have a one hundred dollar capitalization requirement and do not participate in patronage distributions.

Most agricultural export finance customers, customers of FCL and certain other borrowers are not required to purchase, nor do they own, common stock in CoBank. Likewise, they do not participate in patronage distributions.

Retirements of common stock, if any, are determined annually after the Board of Directors sets the target equity level. Net cash retirements are made at the sole discretion of the Board of Directors and are at book value not to exceed par or face value.

Patronage

As a cooperative bank, we return a portion of our earnings to eligible common shareholders in the form of patronage distributions. Eligible common shareholders will receive total patronage for 2015 of $514.1 million, of which $416.0 million will be paid in cash in 2016 and the balance will be paid in common stock. For 2014 and 2013, total patronage was $467.5 million and $414.5 million, respectively, of which $378.7 million and $338.0 million, respectively, was paid in cash in the subsequent year. All patronage distributions require the approval of our Board of Directors.

Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require us to maintain certain minimum capital requirements and collateral standards.

We are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. All such minimum regulatory capital requirements and collateral standards were met as of December 31, 2015.

At December 31, 2015, our permanent capital, total surplus, core surplus and net collateral ratios exceeded the regulatory minimums as noted in the following table.

Capital Ratios as of December 31,

	Regulatory Minimums	2015	2014	2013
Permanent Capital Ratio	7.0 %	**14.95 %**	15.70 %	16.72 %
Total Surplus Ratio	7.0	**14.07**	14.81	15.74
Core Surplus Ratio	5.59 (1)	**10.29**	10.47	10.82
Net Collateral Ratio	104.0 (2)	**106.82**	107.22	107.57

(1) The regulatory minimum core surplus ratio is 3.5 percent, but the FCA requires the higher 5.59 percent during a period in which we include a portion of our common stock as core surplus.

(2) The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during a period in which we have subordinated debt outstanding.

Our capital and collateral ratios are calculated in accordance with FCA regulations, as summarized below.

- The permanent capital ratio is quarterly average permanent capital (generally shareholders' equity and subordinated debt subject to certain limitations, excluding accumulated other comprehensive income (loss) and other deductions) as a percentage of quarterly average risk-adjusted assets.
- The total surplus ratio is quarterly average total surplus (quarterly average permanent capital, net of purchased stock) as a percentage of quarterly average risk-adjusted assets.
- The core surplus ratio is quarterly average core surplus (generally unallocated retained earnings, non-cumulative preferred stock and a portion of common stock) as a percentage of quarterly average risk-adjusted assets.
- The net collateral ratio is net collateral (generally net loans, cash and investments) divided by total liabilities, as adjusted to exclude subordinated debt (subject to certain limitations) and the fair value of certain derivatives.

Pursuant to FCA guidance, a portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until December 31, 2017 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of December 31, 2015, our core surplus ratio excluding common stock was 8.81 percent.

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for 2015, 2014 and 2013 are presented in the following table.

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

	Unrealized Gains/(Losses) On Investment Securities		Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total
	Non-OTTI	OTTI			
Balance at December 31, 2014	**$ 72,859**	**$ 18,049**	**$ (33,460)**	**$ (63,710)**	**$ (6,262)**
Other comprehensive income (loss) before reclassifications	**(29,176)**	**(9,959)**	**(10,062)**	**(7,197)**	**(56,394)**
Amounts reclassified from accumulated other comprehensive income (loss)	**(5,095)**	**(217)**	**3,365**	**4,616**	**2,669**
Net current-period other comprehensive income (loss)	**(34,271)**	**(10,176)**	**(6,697)**	**(2,581)**	**(53,725)**
Balance at December 31, 2015	**$ 38,588**	**$ 7,873**	**$ (40,157)**	**$ (66,291)**	**$ (59,987)**
Balance at December 31, 2013	$ 27,884	$ (31,646)	$ (2,246)	$ (32,537)	$ (38,545)
Other comprehensive income (loss) before reclassifications	44,375	53,900	(30,122)	(32,649)	35,504
Amounts reclassified from accumulated other comprehensive income (loss)	600	(4,205)	(1,092)	1,476	(3,221)
Net current-period other comprehensive income (loss)	44,975	49,695	(31,214)	(31,173)	32,283
Balance at December 31, 2014	$ 72,859	$ 18,049	$ (33,460)	$ (63,710)	$ (6,262)
Balance at December 31, 2012	$ 188,624	$ 19,215	$ (11,261)	$ (52,148)	$ 144,430
Other comprehensive income (loss) before reclassifications	(160,740)	(53,135)	9,201	16,264	(188,410)
Amounts reclassified from accumulated other comprehensive income (loss)	-	2,274	(186)	3,347	5,435
Net current-period other comprehensive income (loss)	(160,740)	(50,861)	9,015	19,611	(182,975)
Balance at December 31, 2013	$ 27,884	$ (31,646)	$ (2,246)	$ (32,537)	$ (38,545)

[1] Amounts are presented net of tax. Amounts reclassified shown in parentheses indicate a decrease in accumulated other comprehensive income or an increase in accumulated other comprehensive (loss).

The following tables present the effect of reclassifications out of accumulated other comprehensive income (loss) on net income for the years ended December 31, 2015, 2014 and 2013.

Reclassifications from Accumulated Other Comprehensive Income (Loss)

Year Ended December 31, 2015	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain/Loss Recognized in Income Statement
Unrealized gains (losses) on available-for-sale investment securities:		
Sales gains and losses	$ 8,217	Noninterest Income - Other, Net
Holding gains and losses	-	Noninterest Income - Other, Net
Tax effect	(3,122)	Provision for Income Taxes
Unrealized gains (losses) on OTTI investment securities:		
Sales gains and losses	14,386	Noninterest Income - Other, Net
Holding gains and losses	(11,100)	Noninterest Income - Net OTTI Losses Included in Earnings
Tax effect	(3,069)	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:		
Interest rate contracts	(2,393)	Interest Expense
Foreign exchange contracts	(2,280)	Interest Income
Tax effect	1,308	Provision for Income Taxes
Pension and other benefit plans:		
Net actuarial gain/loss	(6,850)	Operating Expenses - Employee Compensation
Prior service cost/credit	(595)	Operating Expenses - Employee Compensation
Tax effect	2,829	Provision for Income Taxes
Total reclassifications	$ (2,669)	
Year Ended December 31, 2014		
Unrealized gains (losses) on available-for-sale investment securities:		
Sales gains and losses	$ (707)	Noninterest Income - Other, Net
Holding gains and losses	-	Noninterest Income - Other, Net
Tax effect	107	Provision for Income Taxes
Unrealized gains (losses) on OTTI investment securities:		
Sales gains and losses	4,906	Noninterest Income - Other, Net
Holding gains and losses	-	Noninterest Income - Net OTTI Losses Included in Earnings
Tax effect	(701)	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:		
Interest rate contracts	(1,215)	Interest Expense
Foreign exchange contracts	3,302	Interest Income
Tax effect	(995)	Provision for Income Taxes
Pension and other benefit plans:		
Net actuarial gain/loss	(1,798)	Operating Expenses - Employee Compensation
Prior service cost/credit	(583)	Operating Expenses - Employee Compensation
Tax effect	905	Provision for Income Taxes
Total reclassifications	$ 3,221	

Reclassifications from Accumulated Other Comprehensive Income (Loss)

Year Ended December 31, 2013	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain/Loss Recognized in Income Statement
Unrealized gains (losses) on OTTI investment securities:		
Sales gains and losses	$ -	
Holding gains and losses	(2,500)	Noninterest Income - Net OTTI Losses Included in Earnings
Tax effect	226	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:		
Interest rate contracts	(1,191)	Interest Expense
Foreign exchange contracts	1,802	Interest Income
Tax effect	(425)	Provision for Income Taxes
Pension and other benefit plans:		
Net actuarial gain/loss	(5,269)	Operating Expenses - Employee Compensation
Prior service cost/credit	(129)	Operating Expenses - Employee Compensation
Tax effect	2,051	Provision for Income Taxes
Total reclassifications	$ (5,435)	

Note 8 – Employee Benefit Plans and Incentive Compensation Plans

Employee Benefit Plans

We have employer-funded, qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. Depending on the date of hire, benefits are determined either by a formula based on years of service and final average pay, or by the accumulation of a cash balance with interest credits and contribution credits based on years of service and eligible compensation. Effective January 1, 2007, the Bank closed the remaining qualified defined benefit pension plan to new participants.

We also have noncontributory, unfunded nonqualified supplemental executive retirement plans (SERPs) covering certain senior officers and specified other senior managers. In addition, we have a noncontributory, unfunded nonqualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to senior officers employed pursuant to employment agreements. At December 31, 2015, 2014 and 2013, two senior officers participated in the ERP. The defined benefit pension plans, SERPs and ERP are collectively referred to as Retirement Plans. We hold assets in a trust fund related to our SERPs and ERP; however, such funds remain Bank assets and are not included as plan assets in the accompanying disclosures.

We have a 401(k) retirement savings plan pursuant to which we match a certain percentage of employees' elective contributions. In addition, under this plan, employees hired on or after January 1, 2007 receive additional, non-elective employer defined contributions. Our contributions to the 401(k) retirement savings plan, which are recorded as employee compensation expense, were $7.0 million, $6.7 million and $6.0 million for 2015, 2014 and 2013, respectively. For eligible senior managers, including our senior officers, we also have a nonqualified deferred compensation plan, which includes benefits not provided under the employee savings plan due to certain Internal Revenue Code limitations.

All retirement-eligible employees are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums associated with these postretirement health care benefits. Participant contributions are adjusted annually.

The following table provides a summary of the changes in the plans' benefit obligations and fair values of assets over the three-year period ended December 31, 2015, as well as a statement of funded status as of December 31 of each year.

	Retirement Plans			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
Change in Benefit Obligation:						
Benefit Obligation at Beginning of Year	**$ 349,798**	$ 295,493	$ 297,948	**$ 4,962**	$ 4,470	$ 5,970
Service Cost	**7,461**	6,891	7,243	**175**	181	307
Interest Cost on Benefit Obligation	**13,942**	13,902	11,735	**194**	207	233
Plan Participant Contributions	**-**	-	-	**417**	386	357
Plan Amendments	**5,483**	-	1,040	**-**	-	-
Actuarial Loss (Gain)	**(12,544)**	54,363	(8,516)	**(223)**	476	(1,451)
Benefits Paid	**(16,578)**	(20,851)	(13,957)	**(1,514)**	(758)	(946)
Benefit Obligation at End of Year	**347,562**	349,798	295,493	**4,011**	4,962	4,470
Change in Plan Assets:						
Fair Value of Plan Assets at Beginning of Year	**290,247**	282,700	256,173	**-**	-	-
Actual Return on Plan Assets	**625**	22,491	34,786	**-**	-	-
Employer Contributions	**5,189**	5,907	5,698	**1,097**	372	589
Benefits Paid	**(16,578)**	(20,851)	(13,957)	**(1,514)**	(758)	(946)
Plan Participant Contributions	**-**	-	-	**417**	386	357
Fair Value of Plan Assets at End of Year	**279,483**	290,247	282,700	**-**	-	-
Funded Status – Fair Value of Plan Assets Less Than Benefit Obligation	**(68,079)**	(59,551)	(12,793)	**(4,011)**	(4,962)	(4,470)
Net Amount Recognized - December 31	**$ (68,079)**	$ (59,551)	$ (12,793)	**$ (4,011)**	$ (4,962)	$ (4,470)

The projected benefit obligation and the accumulated benefit obligation for the Retirement Plans as of December 31 of each year are as follows.

	2015	2014	2013
Projected Benefit Obligation:			
Funded Qualified Plans	**$ 308,763**	$ 310,155	$ 262,050
SERP/ERP	**38,799**	39,643	33,443
Total	**$ 347,562**	$ 349,798	$ 295,493
Accumulated Benefit Obligation:			
Funded Qualified Plans	**$ 287,046**	$ 282,134	$ 236,555
SERP/ERP	**33,696**	33,520	26,465
Total	**$ 320,742**	$ 315,654	$ 263,020

The $279.5 million in fair value of plan assets shown in the table on page 94 relates only to the qualified retirement plans. As depicted in the preceding table, such plans had a projected benefit obligation and an accumulated benefit obligation of $308.8 million and $287.0 million, respectively, as of December 31, 2015.

We hold assets in trust accounts related to our SERPs and ERP. Such assets had a fair value of $28.5 million as of December 31, 2015, which is included in "Other Assets" in the consolidated balance sheet. Unlike the assets related to the qualified plans, those funds remain Bank assets and would be subject to general creditors in a bankruptcy or liquidation. Accordingly, they are not included as part of the assets in the table on page 94. As depicted in the preceding table, our SERPs and ERP had a projected benefit obligation and an accumulated benefit obligation of $38.8 million and $33.7 million, respectively, as of December 31, 2015.

The following table provides the amounts recognized in the consolidated balance sheets as of December 31 of each year.

	Retirement Plans			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
Prepaid Pension Assets	**$ -**	$ -	$ 20,650	**$ -**	$ -	$ -
Accrued Benefit Liabilities	**(68,079)**	(59,551)	(33,443)	**(4,011)**	(4,962)	(4,470)
Net Amounts Recognized	**$ (68,079)**	$ (59,551)	$ (12,793)	**$ (4,011)**	$ (4,962)	$ (4,470)

The following table presents the components of net periodic benefit cost for the plans.

	Retirement Plans			Other Postretirement Benefits		
	2015	2014	2013	2015	2014	2013
Service Cost	**$ 7,461**	$ 6,891	$ 7,243	**$ 175**	$ 181	$ 307
Interest Cost on Benefit Obligation	**13,942**	13,902	11,735	**194**	207	233
Expected Return on Plan Assets	**(19,517)**	(18,850)	(17,479)	**-**	-	-
Amortization of Prior Service Cost	**595**	583	219	**(157)**	-	-
Recognized Actuarial Loss (Gain)	**7,006**	1,992	5,269	**-**	(194)	(90)
Net Periodic Benefit Cost	**$ 9,487**	$ 4,518	$ 6,987	**$ 212**	$ 194	$ 450

We anticipate that our total pension expense for the Retirement Plans will be approximately $9.1 million in 2016, as compared to $9.5 million in 2015.

The following table displays the amounts included in accumulated other comprehensive income (loss), a component of shareholders' equity, related to our pension and other postretirement benefit plans.

Amounts Included in Accumulated Other Comprehensive (Income) Loss (Pre-Tax) at December 31, 2015	Qualified Retirement Plans	Nonqualified Retirement Plans	Other Postretirement Benefits	Total
Net Actuarial Loss (Gain)	$ 87,545	$ 12,573	$ (2,673)	$ 97,445
Prior Service Cost	7,143	870	-	8,013
Amount Recognized in Accumulated Other Comprehensive Loss (Income) [1]	$ 94,688	$ 13,443	$ (2,673)	$ 105,458

[1] Amount recognized in accumulated other comprehensive (income) loss, net of tax, is a loss of $66.3 million as of December 31, 2015. Approximately $3.3 million, net of tax, will be amortized from accumulated other comprehensive (income) loss into net periodic benefit cost in 2016.

Assumptions

We measure plan obligations and annual expense using assumptions designed to reflect future economic conditions. As the bulk of pension benefits will not be paid for many years, the computations of pension expenses and benefits are based on assumptions about discount rates, estimates of annual increases in compensation levels, mortality rates and expected rates of return on plan assets.

The weighted average rate assumptions used in the measurement of our benefit obligations are as follows:

	2015	2014	2013
Discount Rate	**4.55 %**	4.10 %	4.85 %
Rate of Compensation Increase	**4.75**	4.75	4.75

The weighted average rate assumptions used in the measurement of our net periodic benefit cost are as follows:

	2015	2014	2013
Discount Rate	**4.10 %**	4.85 %	4.05 %
Expected Rate of Return on Plan Assets (Qualified Plans Only)	**7.25**	7.25	7.25
Rate of Compensation Increase	**4.75**	4.75	4.75

The discount rates are calculated using a spot yield curve method developed by an independent actuary. The approach maps a high-quality bond yield curve to the duration of the plans' liabilities, thus approximating each cash flow of the liability stream to be discounted at an interest rate specifically applicable to its respective period in time.

We establish the expected rate of return on plan assets based on a review of past and anticipated future returns on plan assets. The expected rate of return on plan assets assumption also matches the pension plans' long-term interest rate assumption used for funding purposes.

In October 2014, the Society of Actuaries issued revised mortality tables and a mortality improvement scale for use by actuaries, benefit plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000. The Society of Actuaries further revised the mortality improvement scale in 2015. The adoption of these new tables resulted in a decrease of $3.4 million and an increase of $20.9 million to our pension plans' projected benefit obligations as of December 31, 2015 and 2014, respectively, and a decrease of $0.1 million and an increase of $0.2 million to our retiree welfare plans' projected benefit obligations as of December 31, 2015 and 2014, respectively.

Assumed health care cost trend rates have an effect on the amounts reported for other postretirement benefits. For measurement purposes, a 7.0 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015. The rate was assumed to decrease gradually to 4.5 percent through 2026 and remain at that level thereafter. A 1-percentage-point increase in the assumed health care cost trend rate would increase total annual service and interest cost by $46 and total other postretirement benefit obligations by $265 as of December 31, 2015. Conversely, a 1-percentage-point decrease in the assumed health care cost trend rate would decrease total annual service and interest cost by $39 and total other postretirement benefit obligations by $229.

Plan Assets

The asset allocation target ranges for the pension plans follow the investment policy adopted by our retirement trust committee. This policy provides for a certain level of trustee flexibility in selecting target allocation percentages. The actual asset allocations at December 31, 2015, 2014 and 2013 are shown in the following table, along with the adopted range for target allocation percentages by asset class. The actual allocation percentages reflect the market values at year-end and may vary during the course of the year. Plan assets are generally rebalanced to a level within the target range each year at the direction of the trustees.

Retirement Plan Assets

	Target Allocation Range	Percentage of Plan Assets at December 31, 2015	2014	2013
Asset Category				
Domestic Equity	40-50 %	**45 %**	48 %	48 %
Domestic Fixed Income	30-50	**36**	33	29
International Equity	0-10	**9**	10	10
Emerging Markets Equity and Fixed Income	0-10	**5**	4	5
Real Assets	0-5	**-**	-	3
Hedge Funds	0-10	**5**	5	5
Total	100 %	**100 %**	100 %	100 %

The assets of the pension plans consist primarily of investments in various domestic equity, international equity and bond funds. These funds do not contain any significant investments in a single entity, industry, country or commodity, thereby mitigating concentration risk. No CoBank stock or debt is included in these investments.

The following table presents major categories of plan assets that are measured at fair value at December 31, 2015 for each of the fair value hierarchy levels as defined in Note 12.

Fair Value Measurements

December 31, 2015

	Level 1	Level 2	Level 3	Total
Asset Category				
Cash	$ 379	$ -	$ -	$ 379
Domestic Equity:				
Large-cap Growth Funds [1]	61,647	50,591	-	112,238
Small-cap Growth Fund [1]	-	13,112	-	13,112
International Equity:				
International Fund [2]	26,353	-	-	26,353
Fixed Income:				
Total Return Funds [3]	66,650	-	-	66,650
Bond Fund [4]	-	34,289	-	34,289
Emerging Markets:				
Equity and Fixed Income Fund [5]	-	13,108	-	13,108
Hedge Funds [6]	-	-	13,354	13,354
Total	$ 155,029	$ 111,100	$ 13,354	$ 279,483

[1] Funds invest primarily in diversified portfolios of common stocks of U.S. companies in various industries, including consumer goods and services, information technology, healthcare, industrial materials, financial services and energy.

[2] Fund invests primarily in a diversified portfolio of equities of non-U.S. companies in various industries, including information technology, financial services, healthcare, consumer goods and services, energy and telecommunications.

[3] Funds invest primarily in a diversified portfolio of investment grade debt securities and cash instruments.

[4] Fund invests primarily in U.S. Treasury debt securities and corporate bonds of U.S. companies primarily in the financial services industry.

[5] Fund invests in equities and corporate debt securities of companies located in emerging international markets. Industries include energy, consumer goods and services, industrial materials, financial services and information technology. Fund also invests in the sovereign debt of various countries.

[6] Funds invest in diversified portfolios of stocks, bonds and various other financial instruments in a variety of industries including financial services, telecommunications, information technology, consumer goods and services, and healthcare.

Level 1 plan assets are funds with quoted daily net asset values that are directly observable by market participants. The fair value of these funds is the net asset value at close of business on the reporting date. Level 2 plan assets are funds with quoted net asset values that are not directly observable by market participants. A significant portion of the underlying investments in these funds have individually observable market prices, which are utilized by the plan's trustee to determine a net asset value at close of business on the reporting date. Level 3 plan assets are funds with unobservable net asset values and supported by limited or no market activity. There were no purchases or sales of Level 3 plan assets in the current year. No transfers into or out of the three levels of assets occurred in the current year.

Investment strategy and objectives are described in the pension plans' formal investment policy document. The basic strategy and objectives are to manage portfolio assets with a long-term time horizon appropriate for the participant demographics and cash flow requirements; to optimize long-term funding requirements by generating rates of return sufficient to fund liabilities and exceed the long-term rate of inflation; and to provide competitive investment returns as measured against appropriate benchmarks.

Expected Contributions

We expect to contribute approximately $3.7 million to our funded, qualified defined benefit pension plans in 2016 and a net $0.5 million, after reflecting collected retiree premiums, to our other postretirement benefit plans in 2016. We also expect to contribute approximately $2.8 million to our trust fund related to our SERPs and ERP in 2016. Our actual 2016 contributions could differ from the estimates noted above.

Estimated Future Benefit Payments

We expect to make the following benefit payments, which reflect expected future service, as appropriate.

Estimated Benefit Payments

Year:	Retirement Benefits	Other Postretirement Benefits
2016	$ 19,304	$ 362
2017	19,706	350
2018	19,919	346
2019	22,000	312
2020	22,005	316
2021 to 2025	113,203	1,582

Incentive Compensation Plans

We have a broad-based, Board-approved short-term incentive compensation plan covering substantially all employees pursuant to which annual cash awards may be earned. Criteria used to determine amounts payable include the achievement of specified financial measures and strategic business objectives, which are approved annually by the Compensation Committee of the Board of Directors. Individual performance is also considered in the determination of the amounts payable.

We also have a Board-approved long-term incentive compensation plan, pursuant to which cash awards may be earned by senior officers and specified other senior managers who have a significant impact on long-term financial performance. Criteria used to determine amounts payable include achievement of certain Bank financial targets and strategic business objectives over a three-year performance period. Cash awards are to be paid subsequent to completion of each three-year period, subject to approval by the Compensation Committee of the Board of Directors.

Under the terms of the short-term incentive compensation plan, a minimum return on active patron stock investment must be achieved in order for a payout to be approved. Likewise, a minimum return on active patron stock investment must be achieved in each year within the three-year performance period for a full payout under the long-term incentive plan. The required minimum return on active patron stock investment was 11 percent for all performance periods disclosed herein.

Note 9 – Income Taxes

The components of the provision for income taxes are as follows:

Year Ended December 31,	2015	2014	2013
Current:			
Federal	**$ 95,673**	$ 84,556	$ 93,236
State	**12,004**	14,949	8,816
Total Current	**107,677**	99,505	102,052
Deferred:			
Federal	**56,438**	57,535	47,953
State	**7,005**	5,828	8,964
Total Deferred	**63,443**	63,363	56,917
Total	**$ 171,120**	$ 162,868	$ 158,969
Comprehensive Tax Provision			
Allocable to:			
Pre-Tax Income	**$ 171,120**	$ 162,868	$ 158,969
Shareholders' Equity -			
Amounts Allocated to:			
Investment Securities	**(15,263)**	15,971	(49,642)
Derivatives	**(2,978)**	(7,235)	186
Pension Liability	**(1,582)**	(17,643)	12,020
Total	**$ 151,297**	$ 153,961	$ 121,533

The components of deferred tax assets and liabilities are shown below.

December 31,	2015	2014	2013
Allowance for Credit Losses	**$ 206,062**	$ 201,758	$ 208,594
Employee Benefits	**53,290**	49,830	32,738
Loan Origination Fees	**9,102**	9,092	11,066
Other Deferred Tax Assets	**43,815**	40,849	37,180
Gross Deferred Tax Assets	**312,269**	301,529	289,578
Leasing	**644,589**	585,470	524,673
Unrealized Net Gains on Investment Securities and Derivatives	**3,232**	21,473	12,737
Other Deferred Tax Liabilities	**26,837**	13,355	16,481
Gross Deferred Tax Liabilities	**674,658**	620,298	553,891
Net Deferred Tax Liabilities	**$ (362,389)**	$ (318,769)	$ (264,313)

Deferred income taxes are provided for the change in temporary differences between the basis of certain assets and liabilities for financial reporting and income tax reporting purposes except for our nontaxable entity. The expected future tax rates are based upon enacted tax laws.

We have concluded that it is more likely than not that the deferred tax assets will be realized based on our history of earnings, sources of taxable income in carry back periods, and our ability to implement tax planning strategies.

The effective tax rates for the years ended December 31, 2015, 2014 and 2013 of 15.4 percent, 15.3 percent and 15.7 percent, respectively, were less than the statutory income tax rate primarily due to $514.1 million, $467.5 million and $414.5 million, respectively, of patronage distributions which are tax deductible, if made by our taxable entity, as permitted by Subchapter T of the Internal Revenue Code. The nontaxable activities conducted in the FCB subsidiary also contributed to a lower effective tax rate.

Year Ended December 31,	2015	2014	2013
Federal Tax at Statutory Rate	**$ 387,727**	$ 373,498	$ 355,398
State Tax, Net	**12,063**	13,594	11,256
Patronage Distributions			
Allocated by:			
Taxable Entity	**(84,373)**	(78,113)	(74,398)
Nontaxable Entity	**(95,128)**	(83,989)	(72,986)
Effect of Nontaxable Entity	**(38,353)**	(56,141)	(57,023)
Tax-Exempt Activities	**(103)**	(65)	(58)
Other	**(10,713)**	(5,916)	(3,220)
Provision for Income Taxes	**$ 171,120**	$ 162,868	$ 158,969

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

Year Ended December 31, 2015		
Balance at Beginning of Year	**$**	**5,487**
Additions Based on Tax Positions Related to the Current Year		**757**
Additions for Tax Positions of Prior Years		**150**
Reductions for Tax Positions of Prior Years		**(100)**
Settlements		**(585)**
Lapse of Applicable Statute of Limitations		**(1,673)**
Balance at End of Year	**$**	**4,036**
Year Ended December 31, 2014		
Balance at Beginning of Year	$	5,164
Additions Based on Tax Positions Related to the Current Year		903
Additions for Tax Positions of Prior Years		100
Reductions for Tax Positions of Prior Years		(150)
Lapse of Applicable Statute of Limitations		(530)
Balance at End of Year	$	5,487
Year Ended December 31, 2013		
Balance at Beginning of Year	$	6,647
Additions Based on Tax Positions Related to the Current Year		1,045
Additions for Tax Positions of Prior Years		735
Reductions for Tax Positions of Prior Years		(2,612)
Lapse of Applicable Statute of Limitations		(651)
Balance at End of Year	$	5,164

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is $3.4 million. We do not currently believe that the unrecognized tax benefits will change significantly within the next 12 months.

CoBank is no longer subject to federal tax examination for periods before 2012.

CoBank files tax returns in most states each year and is under continuous examination by various state taxing authorities. With few exceptions, we are no longer subject to state and local income tax examinations by taxing authorities for periods before 2012. For all open audits, any potential adjustments have been considered in establishing our reserve for uncertain tax positions as of December 31, 2015.

We recognize interest and penalties accrued related to unrecognized tax benefits as a component of the provision for income taxes. During the year ended December 31, 2015, we recognized a decrease of approximately $0.8 million in interest and penalties. We had approximately $1.2 million and $2.0 million of interest and penalties accrued at December 31, 2015 and 2014, respectively.

Note 10 – Financial Instruments With Off-Balance Sheet Risk

We utilize various financial instruments with off-balance sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. Such financial instruments include commitments to extend credit and commercial letters of credit. Commitments to extend credit are agreements to lend to a borrower provided that certain contractual conditions are met. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2015, outstanding commitments to extend credit and commercial letters of credit were $31.1 billion and $257.2 million, respectively.

Since many of these commitments may expire without being drawn, the total commitments do not necessarily represent future cash requirements. Our exposure to many of these commitments is mitigated by borrowing base requirements contained in loan agreements. However, these credit-related financial instruments have off-balance sheet credit risk because their amounts are not reflected on the consolidated balance sheets until funded or drawn upon. The credit risk associated with issuing commitments and commercial letters of credit is substantially the same as that involved in extending loans to borrowers. Therefore, management applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. As discussed in Note 1, we maintain a reserve for unfunded commitments.

For a fee, we provide financial standby letters of credit for borrowers, which are irrevocable commitments to guarantee payment of a specified financial obligation. We also provide performance standby letters of credit which are irrevocable agreements by us, as a guarantor, to make payments to the guaranteed party in the event a specified third-party fails to perform under a nonfinancial contractual obligation, such as a third-party failing to timely deliver certain commodities at a specified time and place. We also issue indemnification agreements that function like guarantees. These indemnification agreements contingently require us, as the indemnifying party guarantor, to make payments to an indemnified party under certain specified circumstances. Certain recourse provisions would enable us, as a guarantor, to recover from third parties any of the amounts paid under guarantees, thereby limiting our maximum potential exposure.

As of December 31, 2015, the maximum potential amount of future payments that we may be required to make under our outstanding standby letters of credit was $1.6 billion, with a fair value of $10.4 million, which is included in other liabilities in the consolidated balance sheet. Payment/performance risk of the standby letters of credit guarantee is assessed using the same internal customer credit ratings that we use to manage credit risk in our loan portfolio. These outstanding standby letters of credit have expiration dates ranging from January 2016 to February 2030.

Note 11 – Derivative Financial Instruments and Hedging Activities

Risk Management Objectives and Strategies

We maintain an overall interest rate risk management strategy that incorporates the use of derivative financial instruments to manage liquidity and to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. Our goal is to manage interest rate sensitivity by modifying the repricing frequency or effective maturity of certain balance sheet assets and liabilities. We also maintain a foreign exchange risk management strategy to reduce the impact of currency fluctuations on our relatively nominal amount of foreign currency-denominated loans. As a result of interest rate and foreign exchange rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities. Interest rate and foreign exchange fluctuations also cause interest income and interest expense of variable-rate assets and liabilities to increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities.

Uses of Derivatives

To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, we agree with a counterparty to exchange, at specified intervals, payment streams calculated on a specified notional amount, with at least one payment stream based on a specified floating-rate index. We use a variety of interest rate swaps including the exchange of floating-rate for fixed-rate swaps and fixed-rate for floating-rate swaps with payment obligations tied to specific indices. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. We also enter into derivatives for our customers as a service to enable them to transfer, modify or reduce their interest rate risk and foreign exchange risk by transferring such risk to us. We substantially offset this risk transference by concurrently entering into offsetting agreements with counterparties.

The notional amounts and related activity of derivatives at December 31, 2015, 2014 and 2013 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

($ in Millions)	Swaps	Caps	Spots and Forwards	Total
December 31, 2014	**$ 19,755**	**$ 2,961**	**$ 208**	**$ 22,924**
Additions /Accretion	**8,388**	**200**	**2,233**	**10,821**
Maturities /Amortization	**(5,906)**	**(345)**	**(2,174)**	**(8,425)**
Terminations	**(1,420)**	**-**	**-**	**(1,420)**
December 31, 2015	**$ 20,817**	**$ 2,816**	**$ 267**	**$ 23,900**
December 31, 2013	$ 21,982	$ 2,684	$ 279	$ 24,945
Additions /Accretion	3,880	566	3,353	7,799
Maturities /Amortization	(5,756)	(289)	(3,424)	(9,469)
Terminations	(351)	-	-	(351)
December 31, 2014	$ 19,755	$ 2,961	$ 208	$ 22,924
December 31, 2012	$ 23,020	$ 3,049	$ 292	$ 26,361
Additions /Accretion	4,005	205	3,274	7,484
Maturities /Amortization	(4,884)	(570)	(3,287)	(8,741)
Terminations	(159)	-	-	(159)
December 31, 2013	$ 21,982	$ 2,684	$ 279	$ 24,945

Accounting for Derivative Instruments and Hedging Activities

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income (loss), depending on the use of the derivative and whether it qualifies for hedge accounting. For fair value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset in the statement of income by changes in the hedged item's fair value attributable to the risk being hedged. For cash flow hedge transactions, in which we hedge the variability of future cash flows related to a variable-rate or foreign currency denominated asset or liability, changes in the fair value of the derivative are reported in accumulated other comprehensive income (loss). The gains and losses on the derivatives that we report in accumulated other comprehensive income (loss) will be reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. We record the ineffective portion of all hedges in current period earnings.

For our customer transactions, which are not designated as hedging instruments, we record the related changes in fair value in current period earnings. We substantially offset this risk transference by concurrently entering into offsetting agreements with counterparties, with the changes in fair value of these transactions also recorded in current period earnings.

Fair Value Hedges

The majority of the fair value hedging activity relates to entering into interest rate swaps primarily to convert our non-prepayable fixed-rate debt to floating-rate debt to achieve our liquidity management strategy. The amount converted depends on contractual interest rates and maturities. For the remaining fair value hedges, we enter into receive-fixed, pay-floating swaps to align our equity positioning strategy with our risk management strategy. For fair value hedges, the amount of hedge ineffectiveness is recognized as net interest income in current period earnings.

Cash Flow Hedges

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At December 31, 2015, we expect that $4.5 million of expense will be reclassified from accumulated other comprehensive income (loss) into earnings in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately 19 years.

Derivatives Not Designated As Hedges

Derivative agreements with our customers and the related offsetting derivative agreements with counterparties are not designated as hedging instruments and do not receive hedge accounting treatment. Accordingly, any changes in the fair value of these derivatives are recognized immediately as noninterest income/expense in current period earnings.

Counterparty Credit Risk

The use of derivatives for risk management introduces credit risk related to customers and counterparties. Generally, when the fair value of a derivative contract is positive, we are exposed to counterparty credit risk.

Derivative transactions with our customers are typically secured through our loan agreements. As of December 31, 2015, the notional amount of derivatives with our customers totaled $5.8 billion.

Non-customer derivatives are transacted with derivative counterparties and governed by master swap agreements, which include bilateral collateral arrangements, requiring the Bank or our counterparties to post collateral on a daily basis with thresholds set at zero for all active counterparties. The master swap agreements also include netting agreements requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. Notwithstanding these protections, we are exposed to intra-day credit risk with these counterparties. As of December 31, 2015, the notional amount of derivatives with our counterparties totaled $15.4 billion, which excludes the $2.7 billion of cleared derivatives discussed below.

We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. Pursuant to our master swap agreements, as of December 31, 2015, our counterparties had posted $115.2 million in cash and $34.7 million in securities as collateral with us. We estimate that the amount of losses related to derivatives we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was $3.9 million, $3.6 million and $6.7 million at December 31, 2015, 2014 and 2013.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires certain derivative transactions to be cleared through a central clearinghouse and traded on regulated exchanges. The U.S. Commodity Futures Trading Commission has exempted certain qualifying swaps entered into by financial cooperatives from these new requirements. The exemption does not cover all swaps executed by CoBank and is generally limited to swaps entered into in connection with loans to members. As a result of this mandate, or when economical to do so, certain of our derivative transactions are cleared through a futures commission merchant (FCM) with a clearinghouse or central counterparty (CCP). When these swaps are cleared, a single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including initial and variation margin that is required to be posted by participants. FCMs prequalify counterparties to all cleared swaps, and also set limits for each counterparty and collect initial and variation margin daily for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. Initial and variation margin requirements are set by and held for the benefit of the CCP and additional initial margin may be required and held by the FCM. At December 31, 2015, the notional amount of our cleared derivatives was $2.7 billion. Initial and variation margin totaling $23.7 million and $34.1 million, respectively, was pledged for our cleared derivatives as of December 31, 2015.

Hedge Terminations

During 2015, 2014 and 2013, we terminated approximately $820.2 million, $130.8 million and $0.5 million, respectively, in notional value of interest rate swaps for asset-liability management purposes. These swaps were accounted for as fair value hedges.

We terminated interest rate swaps with customers and offsetting dealer counterparties totaling $599.9 million, $220.6 million, and $158.5 million of notional value in 2015, 2014 and 2013, respectively. Proceeds from the customer terminations were offset by proceeds from the offsetting dealer terminations.

A summary of the impact of derivative financial instruments on our consolidated balance sheets as of December 31, 2015, 2014 and 2013 is shown below.

Fair Value of Derivative Financial Instruments

As of December 31, 2015	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 141,499	$ 2,912
Foreign Exchange Contracts	2,286	1,010
Total Derivatives Designated as Hedging Instruments	$ 143,785	$ 3,922
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 149,753	$ 106,770
Foreign Exchange Contracts	2,451	2,705
Total Derivatives Not Designated as Hedging Instruments	$ 152,204	$ 109,475
Total Derivatives	$ 295,989	$ 113,397

(1) These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2015.

(2) These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2015.

Fair Value of Derivative Financial Instruments

As of December 31, 2014	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 303,669	$ 3,538
Foreign Exchange Contracts	3,692	9
Total Derivatives Designated as Hedging Instruments	$ 307,361	$ 3,547
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 146,589	$ 106,281
Foreign Exchange Contracts	1,706	1,792
Total Derivatives Not Designated as Hedging Instruments	$ 148,295	$ 108,073
Total Derivatives	$ 455,656	$ 111,620

(1) These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2014.

(2) These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2014.

Fair Value of Derivative Financial Instruments

As of December 31, 2013	Fair Value of Derivative Assets[1]	Fair Value of Derivative Liabilities[2]
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	$ 527,375	$ 12,118
Foreign Exchange Contracts	595	1,828
Total Derivatives Designated as Hedging Instruments	$ 527,970	$ 13,946
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	$ 144,774	$ 106,247
Foreign Exchange Contracts	1,278	1,114
Total Derivatives Not Designated as Hedging Instruments	$ 146,052	$ 107,361
Total Derivatives	$ 674,022	$ 121,307

(1) These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2013.

(2) These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2013.

A summary of the impact of derivative financial instruments on our consolidated statements of income and comprehensive income for the years ended December 31, 2015, 2014 and 2013 is shown in the following tables.

Derivative Financial Instruments in Fair Value Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income on Derivative and Hedged Item [1]		
Year Ended December 31,	**2015**	**2014**	**2013**
Interest Rate Contracts	**$ 2,777**	$ 6,872	$ 5,008
Total	**$ 2,777**	$ 6,872	$ 5,008

[1] Located in Interest Expense in the consolidated statements of income for the years ended December 31, 2015, 2014 and 2013. For all three years, amounts predominantly consist of the accretion of fair value adjustments resulting from the AgBank merger.

Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended December 31, 2015	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	**$ (11,941)**	**$ (2,393)** [3]	**$ -**
Foreign Exchange Contracts	**(2,407)**	**(2,280)** [4] [5]	**193** [4]
Total	**$ (14,348)**	**$ (4,673)**	**$ 193**

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the consolidated statement of income for the year ended December 31, 2015

[4] Located in Interest Income – Loans in the consolidated statement of income for the year ended December 31, 2015

[5] Fully offset by a $2,280 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated statement of income for the year ended December 31, 2015

Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended December 31, 2014	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ (41,277)	$ (1,215) [3]	$ -
Foreign Exchange Contracts	4,915	3,302 [4] [5]	(536) [4]
Total	$ (36,362)	$ 2,087	$ (536)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the consolidated statement of income for the year ended December 31, 2014

[4] Located in Interest Income – Loans in the consolidated statement of income for the year ended December 31, 2014

[5] Fully offset by a ($3,302) loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated statement of income for the year ended December 31, 2014

Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended December 31, 2013	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative[1]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivative[1]	Amount of Gain or (Loss) Recognized in Income on Derivative[2]
Interest Rate Contracts	$ 9,256	$ (1,191) [3]	$ -
Foreign Exchange Contracts	556	1,802 [4] [5]	(353) [4]
Total	$ 9,812	$ 611	$ (353)

[1] Effective portion

[2] Ineffective portion and amount excluded from effectiveness assessment

[3] Located in Interest Expense in the consolidated statement of income for the year ended December 31, 2013

[4] Located in Interest Income – Loans in the consolidated statement of income for the year ended December 31, 2013

[5] Fully offset by a ($1,802) loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated statement of income for the year ended December 31, 2013

Derivative Financial Instruments not Designated as Hedging Relationships			
	Net Amount of Gain or (Loss) Recognized in Income On Derivative[1]		
Year Ended December 31,	**2015**	**2014**	**2013**
Interest Rate Contracts	**$ 812**	$ (228)	$ (76)
Foreign Exchange Contracts	**(169)**	(196)	37
Total	**$ 643**	$ (424)	$ (39)

[1] Located in Other Noninterest Income/Expense in the consolidated statements of income for the years ended December 31, 2015, 2014 and 2013

Asset/Liability Offsetting

As noted previously, derivative transactions with swap dealers include bilateral collateral and netting agreements that require the net settlement of covered contracts. Derivative transactions with customers and counterparties are collateralized through loan agreements. Notwithstanding collateral and netting provisions, our derivative assets and liabilities are not offset in the accompanying consolidated balance sheets. The amount of collateral received or pledged is calculated on a net basis, by counterparty.

The following tables summarize derivative assets and liabilities, related accrued interest and amounts of collateral exchanged pursuant to our agreements.

Offsetting of Financial and Derivative Instruments				
	Gross Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets	Amounts Not Offset In the Consolidated Balance Sheets		Net Amount
		Cash Collateral Received/ Pledged[1]	Investment Securities Received/Pledged as Collateral[1]	
As of December 31, 2015				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**$ 152,222**	**$ (115,191)**	**$ (34,665)**	**$ 2,366**
Customer	**137,132**	**-**	**-**	**137,132**
Clearinghouse	**6,635**	**-**	**-**	**6,635**
Accrued Interest Receivable on Derivative Contracts	**67,228**	**-**	**-**	**67,228**
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	**63,904**	**(1,570)**	**-**	**62,334**
Customer	**6,574**	**-**	**-**	**6,574**
Clearinghouse	**42,919**	**(34,103)**	**(23,747)**	**-** [2]
Accrued Interest Payable on Derivative Contracts	**5,278**	**-**	**-**	**5,278**

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

[2] Cash and investment securities pledged as collateral fully offset the related gross liability on the consolidated balance sheet.

Offsetting of Financial and Derivative Instruments

	Gross Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets	Amounts Not Offset In the Consolidated Balance Sheets		Net Amount
		Cash Collateral Received/ Pledged[1]	Investment Securities Received/Pledged as Collateral[1]	
As of December 31, 2014				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 324,808	$ (238,560)	$ (60,094)	$ 26,154
Customer	130,848	-	-	130,848
Accrued Interest Receivable on Derivative Contracts	68,411	-	-	68,411
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	102,288	(15,290)	-	86,998
Customer	9,332	-	-	9,332
Accrued Interest Payable on Derivative Contracts	4,920	-	-	4,920
As of December 31, 2013				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	$ 585,687	$ (424,570)	$ (132,510)	$ 28,607
Customer	88,335	-	-	88,335
Accrued Interest Receivable on Derivative Contracts	83,452	-	-	83,452
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	83,921	(10,130)	-	73,791
Customer	37,386	-	-	37,386
Accrued Interest Payable on Derivative Contracts	3,952	-	-	3,952

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

Note 12 – Disclosure About Estimated Fair Value of Financial Instruments

The fair value of financial instruments represents the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. The FASB has established a three-level fair value hierarchy aimed at maximizing the use of observable inputs – that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability. Observable inputs are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are supported by limited or no market activity and require significant management judgment or estimation.

Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction.

A description of the methods, assumptions and inputs to the valuation process used to determine or estimate the fair value of each class of financial instruments within the three-level hierarchy follows.

Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at December 31, 2015 consist of assets held in a trust fund related to deferred compensation and our SERPs and ERP. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities at December 31, 2015 include our derivative contracts, collateral balances related to derivative contracts, U.S. Treasury and agency debt investment securities, Ginnie Mae MBS, non-agency MBS, corporate bonds and the substantial majority of agency MBS.

The fair value of our derivative financial instruments is estimated using internal market valuation models. These models use an income approach and incorporate benchmark interest rate curves (primarily the USD LIBOR/swap curve), volatilities, counterparty credit quality and other inputs that are observable directly or indirectly in the marketplace. We compare internally calculated derivative valuations to broker/dealer quotes to substantiate the results. The fair value of collateral assets and liabilities related to derivative contracts is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

The fair value of our investment securities classified as Level 2 is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. The estimated fair values of investment securities also appear in Note 4.

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

Information About Valuation Techniques and Inputs to Level 2 Fair Value Measurements

	Valuation Technique	Inputs
Investment Securities	Third-Party Pricing Service	Prepayment Rate Lifetime Default Rate Loss Severity Benchmark Yield Curve Quoted Prices
Interest Rate Swaps and Other Financial Instruments	Discounted Cash Flow	Benchmark Yield Curve Counterparty Credit Risk Volatility
Collateral Assets and Collateral Liabilities	Carrying Value	Par/Principal Plus Accrued Interest

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at December 31, 2015 include our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, ABS and a small portion of agency MBS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Fair value for all Farmer Mac MBS and a small portion of our ABS is calculated internally using third-party models. Fair value for FHA/VA non-wrapped reperformer MBS, the substantial majority of our asset-backed securities and a Level 3 agency MBS is estimated through a third-party pricing service that uses valuation models to estimate current market prices. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to market inputs where information is available.

Level 3 assets at December 31, 2015 also include $53.4 million of loans originally measured at cost, which were written down to fair value as a result of impairment. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use

of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the tables on pages 108 and 109 because they are not measured on a recurring basis.

Our Level 3 liabilities at December 31, 2015 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

No transfers into or out of the three levels of assets or liabilities occurred in the current year.

The following table presents quantitative information about Level 3 fair value measurements as of December 31, 2015.

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

($ in Millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Assets				
Investment Securities:				
U.S. Agency MBS	$ 52	Third-Party Pricing Service	Prepayment Rate	*
FHA/VA Non-Wrapped Reperformer MBS	342	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Farmer Mac MBS	124	Discounted Cash Flow	Prepayment Rate	7-12 percent
			Mark-to-Market Spread	1 percent
Asset-Backed	40	Third-Party Pricing Service	Prepayment Rate	*
			Lifetime Default Rate	*
			Loss Severity	*
Asset-Backed	7	Discounted Cash Flow	Prepayment Rate	0-20 percent
Impaired Loans	53	Appraisal	Income/Expense Data	**
			Comparable Sales	**
			Replacement Cost	**
Liabilities				
Standby Letters of Credit	$ 10	Discounted Cash Flow	Mark-to-Market Spread	0.2-2 percent

* Excludes ranges which are determined by a third-party pricing service

** Range of inputs are unique to each collateral property

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2015, 2014 and 2013 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2015

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 7,188	$ -	$ 7,188
U.S. Agency Debt	-	5,857	-	5,857
Residential MBS:				
Ginnie Mae	-	906	-	906
U.S. Agency	-	7,711	52	7,763
FHA/VA Non-Wrapped Reperformer	-	-	342	342
Non-Agency	-	129	-	129
Commercial MBS:				
U.S. Agency	-	1,982	-	1,982
Agricultural MBS:				
Farmer Mac	-	-	124	124
Asset-Backed	-	-	47	47
Corporate Bonds	-	166	-	166
Interest Rate Swaps and Other Financial Instruments	-	296	-	296
Assets Held in Trust (included in Other Assets)	63	-	-	63
Collateral Assets (included in Other Assets)	-	36	-	36
Total Assets	$ 63	$ 24,271	$ 565	$ 24,899
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 113	$ -	$ 113
Collateral Liabilities (included in Bonds and Notes)	-	115	-	115
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 228	$ 10	$ 238

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2014

($ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 7,625	$ -	$ 7,625
U.S. Agency Debt	-	5,680	-	5,680
Residential MBS:				
Ginnie Mae	-	1,472	-	1,472
U.S. Agency	-	7,530	57	7,587
FHA/VA Non-Wrapped Reperformer	-	-	391	391
Non-Agency	-	166	-	166
Commercial MBS:				
U.S. Agency	-	1,007	-	1,007
Agricultural MBS:				
Farmer Mac	-	-	150	150
Asset-Backed	-	3	93	96
Corporate Bonds	-	146	-	146
Interest Rate Swaps and Other Financial Instruments	-	456	-	456
Assets Held in Trust (included in Other Assets)	61	-	-	61
Collateral Assets (included in Other Assets)	-	15	-	15
Total Assets	$ 61	$ 24,100	$ 691	$ 24,852
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 112	$ -	$ 112
Collateral Liabilities (included in Bonds and Notes)	-	239	-	239
Standby Letters of Credit (included in Other Liabilities)	-	-	9	9
Total Liabilities	$ -	$ 351	$ 9	$ 360

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
December 31, 2013				
($ in Millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investment Securities:				
U.S. Treasury Debt	$ -	$ 5,504	$ -	$ 5,504
U.S. Agency Debt	-	4,459	-	4,459
Residential MBS:				
Ginnie Mae	-	2,123	-	2,123
U.S. Agency	-	8,440	55	8,495
FHA/VA Non-Wrapped Reperformer	-	-	440	440
Non-Agency	-	221	-	221
Agricultural MBS:				
Farmer Mac	-	-	179	179
Asset-Backed	-	46	106	152
Corporate Bonds	-	115	-	115
Interest Rate Swaps and Other Financial Instruments	-	674	-	674
Assets Held in Trust (included in Other Assets)	58	-	-	58
Collateral Assets (included in Other Assets)	-	10	-	10
Total Assets	$ 58	$ 21,592	$ 780	$ 22,430
Liabilities				
Interest Rate Swaps and Other Financial Instruments	$ -	$ 121	$ -	$ 121
Collateral Liabilities (included in Bonds and Notes)	-	425	-	425
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	$ -	$ 546	$ 10	$ 556

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

($ in Millions)	U.S. Agency Residential MBS	Farmer Mac Agricultural MBS	FHA/VA Non-Wrapped Reperformer Residential MBS	Asset-Backed Securities	Standby Letters of Credit
Balance at December 31, 2014	**$ 57**	**$ 150**	**$ 391**	**$ 93**	**$ 9**
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Income	**-**	**-**	**(10)**	**14**	**-**
Included in Other Comprehensive Income	**2**	**-**	**18**	**(13)**	**-**
Purchases	**-**	**-**	**-**	**4**	**-**
Sales	**-**	**-**	**(21)**	**(44)**	**-**
Issuances	**-**	**-**	**-**	**-**	**6**
Settlements	**(8)**	**(25)**	**(51)**	**(10)**	**(5)**
Accretion	**1**	**(1)**	**15**	**3**	**-**
Balance at December 31, 2015	**$ 52**	**$ 124**	**$ 342**	**$ 47**	**$ 10**
Balance at December 31, 2013	$ 55	$ 179	$ 440	$ 106	$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Income	-	-	-	2	-
Included in Other Comprehensive Income	11	-	(9)	-	-
Sales	-	-	-	(7)	-
Issuances	-	-	-	-	4
Settlements	(10)	(28)	(60)	(12)	(5)
Accretion	1	(1)	20	4	-
Balance at December 31, 2014	$ 57	$ 150	$ 391	$ 93	$ 9
Balance at December 31, 2012	$ 78	$ 215	$ 506	$ 121	$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Income	-	-	(1)	-	-
Included in Other Comprehensive Income	(11)	(1)	(2)	1	-
Issuances	-	-	-	-	7
Settlements	(14)	(34)	(85)	(21)	(7)
Accretion	2	(1)	22	5	-
Balance at December 31, 2013	$ 55	$ 179	$ 440	$ 106	$ 10

Estimated Fair Value of Certain Other Financial Instruments

The following table presents the estimated fair values of financial instruments that are recorded in the consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of December 31, 2015, 2014 and 2013.

($ in Millions)

	December 31, 2015			December 31, 2014			December 31, 2013		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial Assets:									
Net Loans	**$ 88,554**	**$ 89,501**	**Level 3**	$ 79,901	$ 81,416	Level 3	$ 73,156	$ 73,941	Level 3
Financial Liabilities:									
Bonds and Notes	**$ 106,970** [1]	**$ 107,537** [1]	**Level 3**	$ 97,535 [2]	$ 98,322 [2]	Level 3	$ 88,413 [3]	$ 88,252 [3]	Level 3
Subordinated Debt	**903**	**926**	**Level 3**	903	927	Level 3	902	906	Level 3
Off-Balance Sheet Financial Instruments:									
Commitments to Extend Credit	**$ -**	**$ (106)**	**Level 3**	$ -	$ (114)	Level 3	$ -	$ (105)	Level 3

[1] Includes $115 million in collateral liabilities carried at fair value as of December 31, 2015.
[2] Includes $239 million in collateral liabilities carried at fair value as of December 31, 2014.
[3] Includes $425 million in collateral liabilities carried at fair value as of December 31, 2013.

Net Loans

Our loan portfolio includes fixed- and floating-rate loans. Since no active trading market exists for most of our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit risk.

Bonds and Notes

Bonds and notes are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the U.S. Treasury yield curve and an estimated yield-spread relationship between Farm Credit debt securities and U.S. Treasury securities. We estimate an appropriate yield-spread taking into consideration bank and security dealer yield indications, observed new Government Sponsored Enterprise debt security pricing, and pricing levels in the related USD interest rate swap market.

Subordinated Debt

The fair value of subordinated debt is estimated based upon quotes obtained from a broker/dealer.

Commitments to Extend Credit

The fair value of commitments to extend credit is estimated by applying a risk-adjusted spread percentage to these obligations.

The following table presents information about valuation techniques and inputs to other fair value measurements.

Information About Valuation Techniques and Inputs to Other Fair Value Measurements

	Valuation Technique	Input
Net Loans	Discounted Cash Flow	Prepayment Rate
		Mark-to-Market Spread
		Benchmark Yield Curve
		Probability of Default
		Loss Given Default
Bonds and Notes	Discounted Cash Flow	Benchmark Yield Curve
		Farm Credit Spread
Subordinated Debt	Non-binding Broker/Dealer Quote	Price for Similar Security
Commitments to Extend Credit	Discounted Cash Flow	Mark-to-Market Spread

Note 13 – Related Party Transactions

In the ordinary course of business, we enter into loan transactions with customers, the officers or directors of which may also serve on our Board of Directors. Such loans are subject to special review and reporting requirements contained in the FCA regulations, are reviewed and approved only at the most senior loan committee level within the Bank and are regularly reported to the Board of Directors. Except as noted below, all related party loans are made in accordance with established policies on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unrelated borrowers.

During 2010, we made a $4.0 million loan to Dixie Electric Membership Corporation (DEMCO), with which Richard W. Sitman, a member of our Board of Directors, is affiliated. The loan was made to refinance a portion of DEMCO's existing long-term indebtedness. CoBank's pricing policy was unintentionally misapplied to this loan and the loan was closed with an interest rate of 3.25 percent, which is lower than rates on similar loans to unrelated borrowers. As of December 31, 2015, there was $2.0 million outstanding on this loan, which is 6 percent of the Bank's total exposure to DEMCO.

Total loans outstanding to customers whose officers or directors serve on our Board of Directors amounted to $9.1 billion at December 31, 2015. During 2015, $28.3 billion of advances on loans were made and repayments totaled $28.1 billion. None of these loans outstanding at December 31, 2015 were delinquent, in nonaccrual or accruing restructured status or, in the opinion of management, involved more than a normal risk of collectability.

Note 14 – Segment Financial Information

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

The following table presents condensed disaggregated information for the segments. Allocations of resources and corporate items, as well as measurement of financial performance, are made at these operating segment levels. We also allocate to our segments net interest income on investment securities as well as gains and losses on investment securities, whereas the underlying investment assets are not allocated to the operating segments. Information to reconcile the total reportable segments to the total CoBank financial statements is shown as "other." Intersegment transactions are insignificant.

We do not hold significant assets in any foreign country. Substantially all of our agricultural export finance loans are U.S. dollar-denominated and 37 percent of these loans are guaranteed by a U.S. government-sponsored loan guarantee program. For the three years ended December 31, 2015, 2014 and 2013, no customer made up 10 percent or more of our gross or net interest income.

Segment Financial Information

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
2015 Results of Operations ($ in Thousands):						
Net Interest Income	$ 604,182	$ 283,889	$ 393,744	$ 1,281,815	$ (8,480)	$ 1,273,335
(Loan Loss Reversal) Provision for Loan Losses	(30,800)	-	40,800	10,000	-	10,000
Noninterest Income (Expense)	118,075	(3,811)	57,752	172,016	(2,243)	169,773
Operating Expenses	193,849	38,091	94,335	326,275	(960)	325,315
Provision for Income Taxes	110,277	-	61,090	171,367	(247)	171,120
Net Income	$ 448,931	$ 241,987	$ 255,271	$ 946,189	$ (9,516)	$ 936,673
Selected Financial Information at December 31, 2015 ($ in Millions):						
Loans	$ 26,131	$ 43,358	$ 19,552	$ 89,041	$ -	$ 89,041
Less: Allowance for Loan Losses	(313)	-	(173)	(486)	-	(486)
Net Loans	$ 25,818	$ 43,358	$ 19,379	$ 88,555	$ -	$ 88,555
Total Assets	$ 26,127	$ 43,467	$ 19,457	$ 89,051	$ 28,420 *	$ 117,471
*Other assets are comprised of:						
Investment Securities						$ 24,504
Other Assets						3,916
2014 Results of Operations ($ in Thousands):						
Net Interest Income	$ 599,825	$ 279,989	$ 360,316	$ 1,240,130	$ (8,363)	$ 1,231,767
Provision for Loan Losses (Loan Loss Reversal)	37,000	-	(52,000)	(15,000)	-	(15,000)
Noninterest Income (Expense)	89,539	(2,750)	36,855	123,644	527	124,171
Operating Expenses	183,883	33,707	88,158	305,748	(1,948)	303,800
Provision for Income Taxes	82,952	-	81,047	163,999	(1,131)	162,868
Net Income	$ 385,529	$ 243,532	$ 279,966	$ 909,027	$ (4,757)	$ 904,270
Selected Financial Information at December 31, 2014 ($ in Millions):						
Loans	$ 24,359	$ 39,919	$ 16,104	$ 80,382	$ -	$ 80,382
Less: Allowance for Loan Losses	(330)	-	(151)	(481)	-	(481)
Net Loans	$ 24,029	$ 39,919	$ 15,953	$ 79,901	$ -	$ 79,901
Total Assets	$ 24,323	$ 40,050	$ 16,017	$ 80,390	$ 26,991 *	$ 107,381
*Other assets are comprised of:						
Investment Securities						$ 24,320
Other Assets						2,671
2013 Results of Operations ($ in Thousands):						
Net Interest Income	$ 543,013	$ 287,407	$ 341,055	$ 1,171,475	$ (8,042)	$ 1,163,433
(Loan Loss Reversal) Provision for Loan Losses	(6,000)	-	6,000	-	-	-
Noninterest Income	92,740	1,560	40,683	134,983	(2,898)	132,085
Operating Expenses	164,181	34,218	83,749	282,148	(2,054)	280,094
Provision for Income Taxes	97,942	-	62,357	160,299	(1,330)	158,969
Net Income	$ 379,630	$ 254,749	$ 229,632	$ 864,011	$ (7,556)	$ 856,455
Selected Financial Information at December 31, 2013 ($ in Millions):						
Loans	$ 21,182	$ 37,897	$ 14,524	$ 73,603	$ -	$ 73,603
Less: Allowance for Loan Losses	(285)	-	(162)	(447)	-	(447)
Net Loans	$ 20,897	$ 37,897	$ 14,362	$ 73,156	$ -	$ 73,156
Total Assets	$ 21,189	$ 38,049	$ 14,423	$ 73,661	$ 23,935 *	$ 97,596
*Other assets are comprised of:						
Investment Securities						$ 21,688
Other Assets						2,247

Note 15 – Commitments and Contingent Liabilities

Under the Farm Credit Act of 1971, as amended, we are primarily liable for the portion of outstanding Systemwide Debt Securities issued by CoBank. We are also contingently liable, as defined in statutory joint and several liability provisions, for the outstanding Systemwide Debt Securities issued by the other System banks. Total Systemwide Debt Securities of the System were $243.3 billion at December 31, 2015.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable. In addition, in the event of a default by a System bank, the Insurance Fund would be required to make timely payment of principal and interest on Systemwide Debt Securities, to the extent that net assets are available in the Insurance Fund, before the joint and several liability of the System banks would be triggered. At December 31, 2015, the aggregated assets of the Insurance Fund totaled $4.0 billion. Finally, System banks must maintain certain financial criteria in order to participate in Systemwide debt issuances. If these criteria are not met, a troubled System bank's access to and participation in Systemwide debt issuances could be limited or denied.

At December 31, 2015, two of our senior officers were employed pursuant to employment agreements that provide for specified payments, as well as certain enhanced retirement benefits, in the event of a termination, except in the case of a termination for cause. One of these employment agreements also provides for enhanced payments in the event of a change in control, as further discussed on page 144.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that we will incur a loss, and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. For other matters, where a loss is not probable or the amount of the loss is not estimable, we will not accrue a liability. While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of legal counsel and available insurance coverage, we believe that our established legal reserves are adequate as of December 31, 2015 and the liabilities arising from our legal proceedings will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Bank's consolidated financial position, results of operations or cash flows.

We have various other commitments outstanding and contingent liabilities as discussed elsewhere in these notes to consolidated financial statements, including commitments to extend credit as discussed in Note 10.

Note 16 – Quarterly Financial Information

Unaudited quarterly results of operations for the years ended December 31, 2015, 2014 and 2013, are shown in the table below.

Quarterly Financial Information (Unaudited)

2015	First	Second	Third	Fourth	Total
Net Interest Income	$ 315,285	$ 309,362	$ 315,201	$ 333,487	$ 1,273,335
Provision for Loan Losses	10,000	-	-	-	10,000
Noninterest Income and Expenses, Net	27,725	28,562	38,217	61,038	155,542
Provision for Income Taxes	45,334	48,471	41,161	36,154	171,120
Net Income	$ 232,226	$ 232,329	$ 235,823	$ 236,295	$ 936,673
2014	**First**	**Second**	**Third**	**Fourth**	**Total**
Net Interest Income	$ 308,966	$ 311,351	$ 299,213	$ 312,237	$ 1,231,767
(Loan Loss Reversal) Provision for Loan Losses	-	(25,000)	-	10,000	(15,000)
Noninterest Income and Expenses, Net	31,428	55,869	38,308	54,024	179,629
Provision for Income Taxes	46,267	47,552	36,209	32,840	162,868
Net Income	$ 231,271	$ 232,930	$ 224,696	$ 215,373	$ 904,270
2013	**First**	**Second**	**Third**	**Fourth**	**Total**
Net Interest Income	$ 302,427	$ 296,650	$ 276,376	$ 287,980	$ 1,163,433
Provision for Loan Losses (Loan Loss Reversal)	15,000	5,000	-	(20,000)	-
Noninterest Income and Expenses, Net	40,470	39,192	28,869	39,478	148,009
Provision for Income Taxes	38,156	40,422	39,441	40,950	158,969
Net Income	$ 208,801	$ 212,036	$ 208,066	$ 227,552	$ 856,455

Note 17 – Affiliated Associations and District Financial Information

CoBank is chartered by the FCA to serve the Associations that provide credit and related financial services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. The Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide Debt Securities. Therefore, we are the primary funding source for our affiliated Associations. As of January 1, 2016, we have 24 affiliated Associations serving 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

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 may serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

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

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. The total wholesale loans outstanding to our affiliated Associations were $39.1 billion at December 31, 2015. During 2015, $90.5 billion of advances on wholesale loans were made to our affiliated Associations and repayments totaled $87.5 billion.

Our bylaws permit our Board of Directors to set the required level of 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.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. Accordingly, the financial information of affiliated Associations is not included in our condensed consolidated financial statements.

Effective January 1, 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.

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

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.

As a result of these events, our wholesale loan to FCSSW, which totaled $891.3 million at December 31, 2014, was downgraded to the 'Substandard' credit quality classification. Pursuant to our regulatory requirements, we classify our wholesale loans using the same credit rating methodology as is used with our commercial loans. Our loans to affiliated Associations are collateralized by substantially all of the Association assets, and the earnings, capital and loan loss reserves of the Associations provide an additional layer of protection against losses in their retail loan portfolios. While the 'Substandard' classification resulted from events during 2014 described above, we did not incur any losses on FCSSW's wholesale loan. Effective November 1, 2015, FCSSW became a wholly-owned subsidiary of Farm Credit West, ACA, another of our affiliated Associations. The wholesale loan to Farm Credit West, ACA, which now includes the amounts previously associated with FCSSW, is rated in the 'Acceptable' credit quality classification.

Report of Management

CoBank, ACB

March 7, 2016

To our Shareholders:

The consolidated financial statements of CoBank, ACB (CoBank) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as appropriate in the circumstances. The consolidated financial statements, in the opinion of management, fairly present, in all material respects, the consolidated financial position of CoBank. Other consolidated financial information included in the Annual Report to Shareholders is consistent with that in the financial statements.

To meet its responsibility for reliable consolidated financial information, management depends on accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, CoBank's internal audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as deemed appropriate. CoBank's 2015, 2014 and 2013 consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent auditors. In addition, our independent auditors have audited our internal control over financial reporting as of December 31, 2015, 2014 and 2013. CoBank is also examined by the Farm Credit Administration.

The chief executive officer, as delegated by the Board of Directors, has overall responsibility for CoBank's system of internal controls and financial reporting, subject to the review of the audit committee of the Board of Directors. The chief executive officer reports periodically on those matters to the audit committee. The audit committee consults regularly with management and meets periodically with the independent auditors and internal auditors to review the scope and results of their work. The audit committee reports regularly to the Board of Directors. Both the independent auditors and the internal auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of CoBank.

The undersigned certify that this CoBank Annual Report to Shareholders has been reviewed by the undersigned and has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of their knowledge.

Everett M. Dobrinski
Chair of the Board

Robert B. Engel
Chief Executive Officer

David P. Burlage
Chief Financial Officer

Independent Auditor's Report

CoBank, ACB

To the Board of Directors of CoBank, ACB:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholder's equity present fairly, in all material respects, the financial position of CoBank, ACB and its subsidiaries (the Company) at December 31, 2015, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 119 of the CoBank 2015 Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with the auditing and attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Denver, Colorado
March 7, 2016

Management's Report on Internal Control Over Financial Reporting

CoBank, ACB

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. CoBank's internal control over financial reporting is a process designed under the supervision of our chief executive officer and our chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bank's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. As of the end of the Bank's 2015 fiscal year, management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that the Bank's internal control over financial reporting is effective as of December 31, 2015.

Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of CoBank; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on our financial statements.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing on page 118, which expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2015. There have been no changes in the Bank's internal control over financial reporting that occurred during our most recent fiscal quarter (i.e., the fourth quarter of 2015) that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

Controls and Procedures

CoBank, ACB

We maintain a system of disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information disclosed by us in our quarterly and annual reports is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. The chief executive officer and the chief financial officer have evaluated our disclosure controls and procedures as of the end of the period covered by this annual report and have concluded that our disclosure controls and procedures are effective as of that date.

We also maintain a system of internal controls. The term “internal controls,” as defined by the American Institute of Certified Public Accountants’ Codification of Statement on Auditing Standards, AU-C Section 315, means a process effected by those charged with governance, management and other personnel that is designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We continually assess the adequacy of our internal controls over financial reporting and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There have been no significant changes in our internal controls or in other factors that could significantly affect such controls subsequent to the date we carried out our evaluations. In accordance with our internal control procedures, these financial statements were prepared under the oversight of the audit committee of our Board of Directors.

Annual Report to Shareholders Disclosure Information Required by Farm Credit Administration Regulations

CoBank, ACB

In accordance with Farm Credit Administration (FCA) regulations, CoBank has prepared this Annual Report to Shareholders for the year ended December 31, 2015, in accordance with all applicable statutory or regulatory requirements.

	Section	Location
Description of Business		
Territory served, eligible borrowers, types of lending activities engaged in, financial services offered, and related Farm Credit organizations.	Notes to Financial Statements.....	Note 1 Note 17
Significant developments within the last 5 years that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting business, seasonal characteristics, concentration of assets, and dependence, if any, upon a single customer or a few customers.	Notes to Financial Statements.....	Note 1 Note 3 Note 4 Note 5 Note 6 Note 7 Note 13 Note 14 Note 15 Note 16 Note 17
	Management's Discussion and Analysis.....	Pages 29 to 63
Description of Property		
Location of Property CoBank leases its national office building which is located in Greenwood Village, Colorado. As described on page 72, CoBank moved into the new corporate headquarters in late 2015 and commenced a lease agreement at that time. CoBank also leases various facilities which are described on the inside back cover of this Annual Report to Shareholders. CoBank leases banking center offices in Ames, IA; Atlanta, GA; Austin, TX; Enfield, CT; Fargo, ND; Louisville, KY; Lubbock, TX; Minneapolis, MN; Omaha, NE; Roseville, CA; Spokane, WA; Sterling, CO; and St. Louis, MO. CoBank leases office space in Washington D.C. and Singapore. CoBank owns its Wichita Banking Center facilities in Wichita, KS. CoBank leases the majority of this building to various unrelated tenants. Farm Credit Leasing Services Corporation leases its headquarters office in Minneapolis, MN, as well as outside sales offices in Atlanta, GA; Celina, OH; Enfield, CT; Louisville, KY; Lubbock, TX; New Smyrna Beach, FL; Omaha, NE; Roseville, CA; St. Louis, MO and Wichita, KS, some of which are located in CoBank banking centers. CoBank has a national charter and, as a result, serves customers across rural America. Travel to customer locations may be difficult due to the rural nature of many of our customers' operations. In order to provide the appropriate level of customer contact and to optimize the efficiency of management travel, CoBank utilizes a variety of transportation to serve its customers, including aircraft (both commercial and fractional interest). The use of fractional interest aircraft is strictly limited to business use.	Office Locations	Inside Back Cover
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Annual Report to Shareholders Disclosure Information Required by Farm Credit Administration Regulations

CoBank, ACB

	Section	Location
Involvement in Certain Legal Proceedings There were no matters that came to the attention of the Board of Directors or management regarding the involvement of current directors or senior officers in specified legal proceedings which are required to be disclosed.		
Relationship with Independent Auditors There has been no change in independent auditors or no disagreements on any matters of accounting principle or financial statement disclosure during the period.		
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Credit and Services to Young, Beginning and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products	Young, Beginning and Small Farmers	Page 152
Unincorporated Business Entities	Unincorporated Business Entities	Page 153

Board of Directors Disclosure as of December 31, 2015

CoBank, ACB

Directors

At year-end 2015, CoBank was governed by a 28-member Board of Directors including 24 directors elected by customers from six different geographic regions. The Board has elected two outside directors (independent of any customer or Farm Credit System affiliation) and two appointed directors (customer affiliation permitted) to complement the expertise of the customer-elected Board members.

Director terms run for four years. Employees of Farm Credit System institutions, including CoBank, cannot serve on CoBank's Board of Directors within one year of employment.

In 2015, shareholders approved bylaw amendments implementing a plan to reduce the size of the Board of Directors. Pursuant to the plan, beginning in 2016 a total of 10 Board seats will be eliminated over the next four years, reducing the number of elected directors on the Board from 24 to 14. The Board will also have up to four appointed directors and will continue to have two outside directors with no customer or Farm Credit System affiliations.

Director Independence

The Board must be composed at all times of at least 75 percent of directors who are deemed to be independent. The Board has adopted standards to assist it in making the annual affirmative determination of each director's independence status. A director will be considered "independent" if he or she meets the 14 criteria for independence set forth by the Board, which were established based upon leading industry practice and, in part, the listing standards of the New York Stock Exchange. For example, the loans from CoBank to an affiliated Association or Title III customer, as defined by the Farm Credit Act, where a CoBank director is also a director must not comprise more than 15 percent of the total loans of CoBank. In addition, the Board has made a determination as to each independent director that no relationship exists which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the director's responsibilities. In making these determinations, the Board reviewed and discussed information provided by the directors and by CoBank with regard to each director's business and personal activities as they may relate to CoBank and CoBank's management. As of December 31, 2015, 27 directors were considered to be independent.

Information About Committees of the Board of Directors

The standing Board committees consist of the following: an Audit Committee, a Compensation Committee, an Executive Committee, a Governance Committee and a Risk Committee. The Board has adopted written charters for each of these committees. The full text of each charter is available on our website at www.cobank.com.

All standing Board committees report on their meetings at the regular meeting of the full Board. Minutes of each committee meeting are signed by the committee chair and secretary, or another individual acting in their place at the meeting.

In 2015, the Board of Directors held a total of eight meetings and standing committees of the Board of Directors held a total of 32 meetings. The primary responsibilities of each committee are described on the following pages.

Standing Committees

Audit Committee

The Audit Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The Audit Committee is governed by a formal charter and chaired by one of the Board's outside directors. All members of the Audit Committee are independent of management of the Bank and any other System entity. During 2015, the Audit Committee met a total of five times, including regular meetings in executive session with the Chief Risk Officer, the head of the Internal Audit Division, the head of the Asset Review Division, and the Bank's independent auditors. The Audit Committee reviews and approves the quarterly and annual financial statements.

Barry M. Sabloff serves as Chair of the Audit Committee. The Board of Directors has determined that Mr. Sabloff has the qualifications and experience necessary to serve as the "Audit Committee financial expert," as defined by the rules of the Securities and Exchange Commission and the FCA, and he was so designated. The Board has also designated Gary A. Miller as an "Audit Committee financial expert."

The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by carrying out the following responsibilities:

(1) Overseeing management's conduct of the Bank's financial reporting process and systems of internal accounting and financial controls;

(2) Monitoring the independence and performance of the Bank's internal audit and asset review functions, the risk assessment process, and the independent auditors;

(3) Ensuring the Bank's compliance with legal and regulatory requirements; and

(4) Providing an avenue of communication among the independent auditors, management and the Board.

Management has the primary responsibility for the consolidated financial statements and the financial reporting process, including the system of internal controls. The Audit Committee oversees the Bank's independent auditors, systems of internal accounting and financial controls, and financial reporting process on behalf of the Board of Directors. In this regard, the Audit Committee helps to ensure independence of the Bank's independent auditors, the integrity of management and the adequacy of disclosure to shareholders. The Audit Committee has unrestricted access to representatives of the Internal Audit Division, independent auditors and financial management.

The Audit Committee preapproves all audit and audit-related services and permitted nonaudit services (including the fees and terms thereof) to be performed for the Bank by its independent auditors, as negotiated by management.

The Audit Committee reviewed the audited consolidated financial statements in the Annual Report for the year ended December 31, 2015 with management and the Bank's independent auditors. The independent auditors are responsible for expressing an opinion on the conformity of the Bank's audited consolidated financial statements with accounting principles generally accepted in the United States of America, including a discussion of the quality of the Bank's accounting principles, the reasonableness of significant judgments, the clarity of disclosures in the consolidated financial statements and the adequacy of internal controls. The Audit Committee discussed with the independent auditors the results of the 2015 audit and all other matters required to be discussed by Statements on Auditing Standards. In addition, the Audit Committee received, reviewed and discussed the written disclosures from the independent auditors required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees." Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Bank's Annual Report for the year ended December 31, 2015 and for filing with the FCA.

Aggregate fees incurred by the Bank for services rendered by its independent auditors, PricewaterhouseCoopers LLP, for the years ended December 31, 2015 and 2014 were as follows:

Year Ended December 31,	2015	2014
Audit	**$ 627,500**	$ 671,600
Audit-related	**25,000**	180,000
All Other	**4,050**	1,872
Total	**$ 656,550**	$ 853,472

Audit fees were for the annual audit of the consolidated financial statements for 2015 and 2014.

Audit-related fees for 2015 were for assurance and related services associated with certain compliance procedures. 2014 fees are primarily in connection with preferred stock offerings and, to a lesser extent, certain compliance procedures.

All Other fees for 2014 and 2015 represent our annual subscription to accounting research tools as well as costs related to continuing education.

Compensation Committee

The Compensation Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. All members of the Compensation Committee are independent of management. The committee is primarily responsible for representing the Board in matters related to compensation programs for the Bank, including salary, incentive and benefits programs, and in facilitating the terms of employment, compensation and evaluation of the Chief Executive Officer. Currently, a Succession Committee has responsibility for leading the succession process for the Chief Executive Officer, and the Compensation Committee supports that effort as well as monitors succession planning for other senior leaders. The Compensation Committee also reviews the results of the Bank's affirmative action program and human equity initiatives.

Executive Committee

The Executive Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for developing for Board consideration recommendations surrounding the design and implementation of the Bank's strategic plan. It acts on behalf of the Board between Board meetings when necessary. The Executive Committee is responsible for reviewing the Bank's budget and reports of operations, and for reviewing the capital adequacy plan and portfolio strategy. The committee reviews the Bank's annual business and financial plan and recommends such plan for approval by the Board. The committee also provides advice and counsel to the Board and management on policy matters related to capital and finance.

Governance Committee

The Governance Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for monitoring and recommending for Board consideration corporate governance processes and structures that are consistent with leading practices for boards and board committees. The committee coordinates the annual Board self-evaluation and a periodic director peer evaluation. The committee also oversees the Bank's director nomination process, which is conducted by an independent Nominating Committee (see page 126), and director election process. In addition, the committee annually assesses the needs of the Board – taking into account the experience and background of current directors – and also recommends prospective outside and appointed directors to the full Board.

Risk Committee

The Risk Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for overseeing the enterprise risk management practices of the Bank, including management's ability to assess and manage the Bank's credit, market, liquidity, legal and compliance, reputational, technology and operational risks. The committee also provides an open avenue of communication between management and the Board in order to effectively manage risks.

Other Committees

Nominating Committee

The Nominating Committee for 2015 consisted of 12 customer-owner representatives and one retired CoBank director, all of whom were elected by the Bank's stockholders. No member of the Board or management served on the Nominating Committee. The Bank uses an independent nominating committee which is charged with the responsibility to identify qualified candidates for Board membership and to review director nominations, helping to ensure that the Bank continues to attract a highly qualified and diverse Board. The Nominating Committee seeks candidates who are recognized leaders and who fulfill specific needs for skill set, industry knowledge, and geographic and other forms of diversity on the Board. Customers are encouraged to submit resumes of candidates for elected positions. The Nominating Committee makes a best effort to recommend at least two candidates for each position up for election. Shareholders and interested candidates may gather signatures for petitions to run for the Board following the conclusion of the Nominating Committee's work. A nominee must not have reached age 70 on or prior to the date the term of office is to begin and must meet other eligibility requirements established by Bank bylaws and federal regulations.

Succession Committee

The Succession Committee was appointed in June 2013 by the Board of Directors to lead an effective CEO succession process. The Succession Committee will identify candidates with the skill set and competencies necessary to lead CoBank in the future and to address the challenges that CoBank will face to continue as a dependable provider of credit and value-added financial services to support agriculture, rural infrastructure and rural communities. The Succession Committee consists of all continuing directors who were members of the Compensation Committee, Board officers and all other members who were Board committee chairs during 2013. In 2015, due to the retirement of the previous Succession Committee Chair, a new Chair was appointed. Additionally, two new members of the Compensation Committee were named to the Succession Committee. The Succession Committee met ten times in 2015.

Board of Directors Disclosure as of December 31, 2015

CoBank, ACB

The following represents certain information regarding the directors as of December 31, 2015, including business experience during the past five years. The terms of directors are scheduled to expire as of December 31 of the years indicated.

1 - Audit Committee
2 - Compensation Committee
3 - Executive Committee
4 - Governance Committee
5 - Risk Committee
6 - Audit Committee Chair
7 - Compensation Committee Chair
8 - Executive Committee Chair
9 - Governance Committee Chair
10 - Risk Committee Chair
11 - Succession Committee
12 - Succession Committee Chair

Name	Term Expires	Principal Occupation and Other Affiliations
Robert M. Behr [1] Age: 61 Year Service Began: 2013	2016	**Principal Occupation:** Chief Executive Officer: Citrus World, Inc., producing and marketing Florida's Natural brand citrus juices, Lake Wales, FL (since September 2015); Former Chief Operating Officer: Citrus World, Inc. (December 2009 through August 2015).
M. Dan Childs [1] Age: 65 Year Service Began: 2015	2018	**Principal Occupation:** Owner/Operator: wheat and stocker cattle operation, Johnston County, OK; Senior Agricultural Consultant: Noble Foundation, a nonprofit institution assisting farmers and ranchers, and conducting plant science research and agricultural programs, Ardmore, OK. **Other Affiliations:** Director: The Farm Credit Council, a trade organization, Washington, DC; Director: Farm Credit Council Services, a Farm Credit System service provider, Greenwood Village, CO; Director: Farm Credit Services of East Central Oklahoma (predecessor to Oklahoma AgCredit, ACA), agricultural lending association, Broken Arrow, OK; Director: Johnston County Industrial Authority, an economic development association, Tishomingo, OK.
Everett M. Dobrinski [3, 8, 11] Chair Age: 69 Year Service Began: 1999	2019	**Principal Occupation:** Owner/Operator: Dobrinski Farm, a cereal grain and oilseed farm, Makoti, ND. **Other Affiliations:** Director: The Farm Credit Council, a trade organization, Washington, DC; Director: North Dakota Coordinating Council for Cooperatives, a trade association, Jamestown, ND.
William M. Farrow [5] Age: 60 Year Service Began: 2007	2018	**Principal Occupation:** Director, President and CEO: Urban Partnership Bank, a commercial bank, Chicago, IL; Owner: Winston and Wolfe LLC, a technology development company, Chicago, IL. **Other Affiliations:** Director: Federal Reserve Bank of Chicago, a federal depository bank, Chicago, IL; Director: NorthShore University Health System, a hospital system, Evanston, IL.

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CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
Benjamin J. Freund [3] Age: 60 Year Service Began: 2014	2017	**Principal Occupation:** Owner/Operator: Freund's Farm, Inc., a cow dairy, East Canaan, CT; Owner: CowPots, LLC, manufacturing plantable pots, East Canaan, CT. **Other Affiliations:** Officer: Canaan Valley Agricultural Cooperative, Inc., East Canaan, CT.
Mary E. Fritz [4, 9, 11] Age: 66 Year Service Began: 2003	2015	**Principal Occupation:** Owner/Operator: Quarter Circle JF Ranch, Inc., a dry land grain and cow/calf operation, Chester, MT. **Other Affiliations:** Director: The Farm Credit Council, a trade organization, Washington, DC.
John L. Guthrie [3] Age: 71 Year Service Began: 2012	2016	**Principal Occupation:** Owner/Operator: cow/calf and stocker cattle ranch and diversified farming operation, Porterville, CA; Partner: McGruder Partners, a farming operation, Porterville, CA; Director: Guthrie Investment Co., managing farming and investments, Porterville, CA. **Other Affiliations:** Chair: Federal Farm Credit Banks Funding Corporation, the issuer of Systemwide debt, Jersey City, NJ; Chair: Pan American Bank, a financial institution for consumer loans and debt collections, Los Angeles, CA; Director: California Cattlemen's Association, a trade association, Sacramento, CA.
William H. Harris [4] Age: 66 Year Service Began: 2001	2015	**Principal Occupation:** Owner/Operator: Harris Farms, a cash crop farming operation, LeRoy, NY; President: Eatwell Farms, Inc., a custom field work operation, LeRoy, NY. **Other Affiliations:** Director: ACDI/VOCA, international agricultural development, Washington, DC.
Daniel T. Kelley [2, 7, 11] First Vice Chair Age: 67 Year Service Began: 2004	2017	**Principal Occupation:** Owner/Operator: Kelley Farms, a diversified corn and soybean operation, Normal, IL. **Other Affiliations:** Chairman: Illinois Agricultural Leadership Foundation, agricultural leadership development, Macomb, IL; Director: Midwest Grain, LLC, grain merchandising, Bloomington, IL; Director: Nationwide Mutual Insurance Company, an insurance company, Columbus, OH; Director: Nationwide Bank, a federal savings bank, Columbus, OH; Director: Global Farmer Network, a not-for-profit company, Des Moines, IA.

Board of Directors Disclosure as of December 31, 2015

CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
James A. Kinsey [3] Age: 66 Year Service Began: 2001	2016	**Principal Occupation:** Owner/Operator: Kinsey's Oak Front Farms, a purebred Angus seed-stock producer, Flemington, WV.
David J. Kragnes [4] Age: 63 Year Service Began: 2009	2016	**Principal Occupation:** Owner/Operator: soybean and corn farm, Felton, MN; Partner: Kragnes Family Farm, an organic vegetable farm, Felton, MN. **Other Affiliations:** Director: Quentin Burdick Center for Cooperatives, a cooperative education center, Fargo, ND.
James R. Magnuson [4] Age: 62 Year Service Began: 2013	2018	**Principal Occupation:** General Manager and Chief Executive Officer: Key Cooperative, an agricultural grain marketing and farm supply cooperative, Roland, IA. **Other Affiliations:** Chairman: United Suppliers, Inc., wholesale agricultural input supplier, Eldora, IA; Director: Roland Transport, Inc., a trucking company, Roland, IA; Director: Agricultural Cooperative Employment Services, an employment service, Manhattan, KS.
Jon E. Marthedal [4] Age: 59 Year Service Began: 2013	2017	**Principal Occupation:** Owner/Operator: Marthedal Farms, producing grapes, raisins and blueberries, Fresno, CA; Owner/Operator: Keystone Blue Farms, LLC, producing blueberries, Fresno, CA. **Other Affiliations:** Director: Sun-Maid Growers of California, marketing, receiving and processing raisins, Kingsburg, CA; Director: California Blueberry Commission, a state commission, Fresno, CA; Director: Agricultural Council of California, Sacramento, CA; Vice Chairman: California Raisin Marketing Board, a state marketing board, Fresno, CA; Vice Chairman: Raisin Administrative Committee, a federal marketing order, Fresno, CA; President: California Blueberry Association, a voluntary state organization, Fresno, CA.
Gary A. Miller [1] Age: 55 Year Service Began: 2006	2017	**Principal Occupation:** President and Chief Executive Officer: GreyStone Power Corporation, an electric membership cooperative, Douglasville, GA. **Other Affiliations:** Chair: Wellstar Health System, healthcare provider, Marietta, GA; Director: GRESCO Utility Supply, Inc., electric material supplier, Smarr, GA; Treasurer: Douglas County Development Authority, an economic development agency, Douglasville, GA.

Board of Directors Disclosure as of December 31, 2015

CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
Catherine Moyer [2, 11] Age: 40 Year Service Began: 2010	2018	**Principal Occupation:** Chief Executive Officer and General Manager: Pioneer Communications, a rural telephone and communications company, Ulysses, KS. **Other Affiliations:** Chair: Kansas Lottery Commission, Topeka, KS; Chair: Telcom Insurance Group, provider of property and casualty coverage to small telecommunications providers, Greenbelt, MD; Director: Kansas Rural Independent Telecommunications Coalition, a coalition of telephone companies promoting service in rural areas of Kansas, Topeka, KS; Director: State Independent Telephone Association of Kansas, an association promoting the partnership relationship of rural telecommunications, Topeka, KS.
Alarik Myrin [1] Age: 69 Year Service Began: 2012	2018	**Principal Occupation:** President: Myrin Ranch, a ranching and farming operation, Altamont, UT; Managing Member: Myrin Livestock Co., LLC, a family cattle ranch, Altamont, UT; General Partner: Myrin Investment Co., LLC., real estate rental management, Altamont, UT; Managing Member: Canyon Meadows Ranch, LLC, retail and wholesale grass fed beef, Altamont, UT. **Other Affiliations:** Director: Lake Fork Irrigation Co., a water irrigation company, Altamont, UT; Director: Western Agrihaul, LLC, a trucking operation, Altamont, UT; Director: Uintah Basin Medical Center, a hospital, rehab center and nursing home facility, Roosevelt, UT.
David S. Phippen [2, 11] Age: 65 Year Service Began: 2012	2015	**Principal Occupation:** Partner: Travaille & Phippen, Inc., an almond grower and processing company, and additional partnerships related to almonds and farm management, Manteca, CA. **Other Affiliations:** Director: Almond Board of California, a trade organization, Modesto, CA; Director: San Joaquin County Farm Bureau, a trade organization, Stockton, CA.
Ronald J. Rahjes [3] Age: 64 Year Service Began: 2012	2019	**Principal Occupation:** Officer: Wesley J. Rahjes and Sons, Inc., a diversified family farming corporation producing wheat, corn, soybeans and grain sorghum, Kensington, KS; Partner: R&D Farms, a farming partnership, Kensington, KS; Owner: R&C Tax Service, an accounting and tax firm, Kensington, KS. **Other Affiliations:** Director: Rural Telephone/Nextech, Inc., a telecommunications company, Lenora, KS.

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CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
David L. Reinders [2, 11, 12] Age: 59 Year Service Began: 2011	2018	**Principal Occupation:** Chief Executive Officer: Ag Producers Co-op, a diversified farmer-owned grain cooperative, Sunray, TX. **Other Affiliations:** Director: Texas Agricultural Cooperative Council, a statewide industry association for cooperatives, Austin, TX.
Kevin G. Riel [2, 11] Age: 50 Year Service Began: 2014	2017	**Principal Occupation:** President and Chief Executive Officer: Double 'R' Hop Ranches, Inc., a diversified farm primarily growing hops, Harrah, WA; President and Chief Executive Officer: Tri-Gen Enterprises, Inc., an agricultural marketing, management and financial operation, Harrah, WA; Managing Partner: WLJ Investments, LLC, a land holding and management company, Harrah, WA. **Other Affiliations:** Director: Northwest Farm Credit Services, an agricultural credit association, Spokane, WA; Director: Hop Growers of America, a trade organization, Moxee, WA.
Clint E. Roush [5] Age: 68 Year Service Began: 2012	2018	**Principal Occupation:** President: Clint Roush Farms, Inc., a family farming operation producing wheat, alfalfa and feeder cattle, Arapaho, OK. **Other Affiliations:** Chair: Farmers Cooperative Association of Clinton, OK, a grain and fertilizer cooperative, Clinton, OK; Director: Custer County Cattlemen's Association, a trade organization, Arapaho, OK; Director: Custer County Rural Water District, a water distribution organization, Custer City, OK.

Board of Directors Disclosure as of December 31, 2015

CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
Barry M. Sabloff [1, 6, 11] Age: 69 Year Service Began: 2005	2016	**Principal Occupation:** General Partner: Sabloff Family Limited Partnership, L.P., a partnership managing investments in Marquette National Corporation common stock, Chicago, IL; Former Executive Vice President, Bank One, N.A. (now merged with JPMorgan Chase & Co.), Chicago, IL (retired in 2001). **Other Affiliations:** Vice Chairman/Director: Marquette National Corporation, a bank holding company, Chicago, IL; Vice Chairman/Director: Marquette Bank, a community bank, Chicago, IL; Director: Calypso Technology, Inc., a provider of trading systems to financial institutions, San Francisco, CA; Vice Chair/Treasurer: Columbia College Chicago, a private arts and media college Chicago, IL; Vice President/Director: The American School in London Foundation, an educational foundation, Princeton, NJ; Director: Marquette Bank Affordable Housing Foundation, a charitable foundation focused on affordable housing in Chicago and surrounding area, Orland Park, IL; Director: Marquette Bank Education Foundation, a charitable foundation focused on education in Chicago and surrounding area, Orland Park, IL.
Stephanie Herseth Sandlin [5] Age: 45 Year Service Began: 2014	2017	**Principal Occupation:** General Counsel and Vice President Corporate Development: Raven Industries, Inc., a technology and manufacturing company, Sioux Falls, SD.
Richard W. Sitman [4] Age: 62 Year Service Began: 1999 Also Served: 1995-1996	2019	**Principal Occupation:** Retired Owner/Operator: Jos. M. Sitman, Inc., a retail rental and storage company, Greensburg, LA (retired in July 2013). **Other Affiliations:** Chairman: Dixie Electric Membership Corporation, an electric distribution cooperative, Baton Rouge, LA; Chairman: DEMCO Energy Services, LLC, an electric service supplier, Baton Rouge, LA; Chairman: Dixie Business Center, a business incubator, Denham Springs, LA; Director: The Farm Credit Council, a trade organization, Washington, DC; Director: First Guaranty Bank, a commercial bank, Hammond, LA; Director: Louisiana Council of Farmer Coops, a trade organization, Port Allen, LA; Director: Zachary Taylor Parkway Association, an economic development association, Baton Rouge, LA.

Board of Directors Disclosure as of December 31, 2015

CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
Kenneth W. Shaw [3] Age: 65 Year Service Began: 2015 Also Served: 2012	2017	**Principal Occupation:** Owner/Operator: cow/calf/yearling stocker operation, Mountainair, NM. **Other Affiliations:** Director: Central New Mexico Electric Co-op, an electric distribution co-op, Moriarty, NM.
William A. Squires [5] Age: 53 Year Service Began: 2015	2018	**Principal Occupation:** Chief Executive Officer: Blackfoot Telephone Cooperative, Inc., a telecommunications/broadband cooperative, Missoula, MT. **Other Affiliations:** Director: Vision Net, Inc., a telecommunications services company, Great Falls, MT; Director: Syringa Networks, Inc., a telecommunications services company, Boise, ID; Director: Missoula Economic Partnership, an economic development organization, Missoula, MT; Outside Director: Alaska Power & Telephone Company, a telecommunications and energy company, Port Townsend, WA.
Kevin A. Still [5, 10, 11] Second Vice Chair Age: 58 Year Service Began: 2002	2018	**Principal Occupation:** President and Chief Executive Officer: Co-Alliance, LLP, a partnership of five cooperatives supplying energy, agronomy and animal nutrition, producing swine and marketing grain, Avon, IN; Chief Executive Officer and Treasurer: Midland Co-op, Inc., IMPACT Co-op, Inc., LaPorte County Farm Bureau Cooperative Association, Frontier Co-op, Inc., and Excel Co-op, Inc., agricultural retail cooperatives, Avon, IN. President: Northwind Pork, LLC, a pork producing operation, Kewanna, Indiana. **Other Affiliations:** Vice President/Director: Connexities, LLC, a technology provider, Danville, IN; President and Owner: Still Farms, LLC, a grain farm, Galesburg, IL.
Scott H. Whittington [5] Age: 63 Year Service Began: 2013	2016	**Principal Occupation:** General Manager: Lyon-Coffey Electric Cooperative, an electric distribution cooperative, Burlington, KS. **Other Affiliations:** Director: The Farm Credit Council, a trade organization, Washington, DC; Board President: Kansas Electric Power Cooperative, a generation and transmission cooperative, Topeka, KS; Director: First National Bank of Kansas, commercial bank, Burlington, KS; Alternate Trustee: Kansas Electric Cooperatives, a statewide organization for electric cooperatives, Topeka, KS.

Compensation of Directors

For 2015, directors were compensated in cash at an annual rate of $57,323, paid in quarterly installments, which was the maximum amount permitted by the FCA for CoBank directors. Directors may elect to defer payment of all or part of their director compensation in accordance with agreements and applicable law. Compensation is for attendance at Board meetings, certain other meetings preapproved by the Board, and special duties as assigned. Directors' compensation is reduced by $2,500 for an unexcused absence at any regular Board meeting. FCA regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In 2015, the Board approved additional compensation in excess of $57,323 to the Board chair and the Audit Committee chair, and to other directors in recognition of greater than normal involvement in connection with special assignments and attendance at special Board and committee meetings, including a one-time stipend to the Succession and Compensation Committee chairs for CEO succession matters. Additional information for each director who served during 2015 is provided in the following table. Current CoBank policy regarding reimbursements for travel, subsistence and other related expenses states that for meetings designated by the Board and approved special assignments, Board members shall be reimbursed for reasonable travel and related expenses that are necessary and that support CoBank's business interests. As may be appropriate, CoBank may share in the reimbursement of expenses with other organizations. A copy of CoBank's policy is available to shareholders upon request to the Bank's Office of General Counsel. The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $667,174, $619,417 and $741,050 for the years ended December 31, 2015, 2014 and 2013, respectively.

Board of Directors Disclosure as of December 31, 2015

CoBank, ACB

The following table presents the number of days served at Board meetings and other official CoBank activities, and compensation paid to each director for the year ended December 31, 2015.

Name of Director	Number of Days Served at Board Meetings	Number of Days Served in Other Official CoBank Activities	Total Compensation Paid During 2015
Robert M. Behr	18	26	$ 58,323
M. Dan Childs	18	35	59,823
Everett M. Dobrinski [(1) (2)]	18	72	74,520
William M. Farrow III	18	14	60,323
Benjamin J. Freund	18	39	61,323
Mary E. Fritz [(1)]	18	47	68,323
John L. Guthrie [(1)]	18	20	62,323
William H. Harris	18	38	59,823
Daniel T. Kelley [(3)]	18	47	74,520
James A. Kinsey	15	12	60,823
David J. Kragnes	18	22	59,823
James R. Magnuson	18	11	58,323
Jon E. Marthedal	18	42	62,323
Gary A. Miller	18	26	58,323
Catherine Moyer	18	38	63,823
Alarik Myrin	18	35	59,823
David S. Phippen	15	24	63,823
Ronald J. Rahjes	18	48	61,323
David L. Reinders [(4)]	18	30	68,323
Kevin G. Riel	18	31	63,823
Clint E. Roush	18	25	60,323
Barry M. Sabloff [(5)]	18	33	74,520
Stephanie Herseth Sandlin	18	19	60,323
Kenneth W. Shaw	18	19	60,823
Richard W. Sitman[(1)]	18	47	59,823
William A. Squires	18	18	59,823
Kevin A. Still	18	38	68,323
Scott H. Whittington[(1)]	18	35	60,323
Total	498	891	$ 1,764,135

(1) In 2015, these directors represented CoBank's interests by serving on the boards of various trade groups and other organizations important to the Bank. Days of service related to these activities and compensation received (if any) are not included in this report.

(2) Mr. Dobrinski received an additional 30% in compensation ($17,197), the statutory maximum, for service as the Chair of the Board.

(3) Mr. Kelley, the Chair of the Compensation Committee, received $5,000 in additional compensation for service related to CEO succession matters.

(4) Mr. Reinders received $5,000 in additional compensation for service as the Chair of the Succession Committee.

(5) Mr. Sabloff received an additional 30% in compensation ($17,197), the statutory maximum, for service as the Chair of the Audit Committee.

Senior Officers

CoBank, ACB

Robert B. Engel,
Chief Executive Officer

Mr. Engel, 62, was appointed president and chief executive officer effective July 1, 2006. Mr. Engel remained chief executive officer with the appointment of Mary McBride as president effective July 1, 2013. Mr. Engel is responsible for implementing the Bank's strategic and business direction as set by the Board of Directors. Prior to joining CoBank in 2000 as president and chief operating officer, he was chief banking officer at HSBC Bank USA. During his 14-year tenure at HSBC, Mr. Engel served in a variety of management positions, including chief credit officer and chief banking officer. Mr. Engel has 30 years of banking experience, and eight years of accounting experience with KPMG and Deloitte & Touche. Mr. Engel serves as a member of the Board of Directors of the Federal Farm Credit Banks Funding Corporation. He serves on the Boards of Trustees of Niagara University and Regis University. He also serves as chairman of the Graduate Institute of Cooperative Leadership and on the executive council of the National Council of Farmer Cooperatives.

Mary E. McBride,
President

Ms. McBride, 60, was appointed president effective July 1, 2013. Ms. McBride is responsible for the Electric Distribution, Water and Community Facilities banking division as well as the Finance, Credit, Banking Services, Corporate Communications, Legislative, Regulatory and Compliance divisions. She serves as the chair of the Board of Directors of Farm Credit Leasing Services Corporation (FCL). Prior to her current position, Ms. McBride was CoBank's chief banking officer. Ms. McBride also has served as chief operating officer and as executive vice president for the Bank's Rural Infrastructure Banking Group (formerly known as the Communications and Energy Banking Group). Before joining CoBank in 1993, Ms. McBride worked as senior vice president of Wells Fargo/First Interstate Bank of Denver, N.A. Prior to that, she was assistant vice president at Bank of Boston. In total, Ms. McBride has more than 30 years of financial services experience. She serves on the Board of Trustees of Mile High United Way.

Thomas E. Halverson,
Chief Banking Officer

Mr. Halverson, 51, was appointed chief banking officer effective July 1, 2013. Mr. Halverson is responsible for CoBank's Regional Agribusiness, Corporate Agribusiness, Communications, Project Finance and Power, Energy & Utilities banking groups/divisions. He serves on the Board of Directors of FCL. Prior to joining CoBank, Mr. Halverson spent more than 15 years with Goldman Sachs, most recently as managing director and chief of staff for Goldman Sachs Bank USA. Prior to that he served in a variety of executive positions at the firm, including head of credit risk management for Goldman Sachs in Asia ex-Japan. Before joining Goldman Sachs, Mr. Halverson served as principal credit officer for country risk at the European Bank for Reconstruction and Development.

Ann E. Trakimas,
Chief Operating Officer

Ms. Trakimas, 59, was appointed chief operating officer effective January 3, 2011. Ms. Trakimas oversees CoBank's Corporate Services Group, which includes the Bank's Operations, Loan Processing, Information Technology and Legal divisions. Before joining CoBank, Ms. Trakimas served as a director on the board of the Federal Farm Credit Banks Funding Corporation for six years. There she chaired the Audit Committee and was a member of the System Audit Committee. Prior to that, Ms. Trakimas worked for Goldman Sachs where she held numerous executive positions including heading the firm's Financial Institutions Credit Risk Management and Advisory team. Ms. Trakimas has more than 35 years of experience in the financial services industry. She currently serves as a director and Treasurer of Komen Colorado, the Denver based affiliate of the Susan G. Komen Breast Cancer Foundation. She also serves on the Denver Metro Chamber of Commerce.

David P. Burlage,
Chief Financial Officer

Mr. Burlage, 52, was appointed chief financial officer effective November 16, 2009. Mr. Burlage oversees the Controller and Treasury areas of the Bank, which include the funding, asset/liability management, financial planning, capital, accounting, tax and reporting functions of the Bank. Prior to his current position, Mr. Burlage served as senior vice president of the Finance Division. Mr. Burlage began his career as an auditor with Arthur Andersen & Co. Mr. Burlage has over 30 years of financial experience. He serves on the Board of Governors of the Farm Credit System Association Captive Insurance Company, the Board of Advisors of University of Colorado Denver Business School and as chairman of the Young Americans Center for Financial Education. He is a CPA and member of the American Institute of Certified Public Accountants.

Senior Officers (Continued)

CoBank, ACB

Lori L. O'Flaherty,
Chief Risk Officer

Ms. O'Flaherty, 56, was appointed chief risk officer effective July 2, 2013. Ms. O'Flaherty provides leadership and guidance on all key risk areas of the Bank, including credit risk, operational risk, market risk, and reputational risk. Prior to her current position, Ms. O'Flaherty served as the Bank's chief credit officer and was responsible for all of CoBank's credit approval and administrative functions, including loan approval, credit support and analysis, credit guidelines and training, loan compliance and monitoring, collateral audit and special assets. Ms. O'Flaherty also served as division manager for Corporate Agribusiness. Before joining CoBank in 1997, Ms. O'Flaherty was vice president of Wells Fargo/First Interstate Bank, N.A. Ms. O'Flaherty has more than 30 years of experience in commercial banking. She serves on the Board of Directors of the Mile High Chapter of the American Red Cross.

John Svisco,
Chief Business Services Officer

Mr. Svisco, 57, was appointed chief business services officer effective July 2, 2013. Mr. Svisco works to ensure that the Bank's organizational structures, business processes and systems are aligned and delivering optimal levels of operative efficiency. In addition, he has responsibility for CoBank's Digital Business Solutions, Administrative Services, and Enterprise Solutions and Services functions. Mr. Svisco, who joined CoBank in 2002, managed loan and lease operations during his first seven years at the Bank as senior vice president of the operations division, and was most recently chief administrative officer. He has extensive experience in operations and finance in the financial services industry, including 20 years with HSBC Bank USA, where his last position was senior vice president of operations services. He serves on the Boards of Directors of AgVantis, Inc. and Mount Saint Vincent Home.

Andrew D. Jacob,
Chief Regulatory, Legislative and Compliance Officer

Mr. Jacob, 55, was appointed chief regulatory, legislative and compliance officer effective February 1, 2015. He is responsible for regulatory matters, government relations, compliance and corporate communications, as well as the Bank's security program. Mr. Jacob also serves as CoBank's Ethics, Compliance, and Standards of Conduct Officer and is responsible for directing the administration of the director and associate standards of conduct programs under the oversight of the Board of Directors. Before joining CoBank in January 2011, Mr. Jacob spent nearly 25 years with the Farm Credit Administration, where he served in a variety of leadership roles within the agency's Office of Examination, Office of Policy and Analysis, and Office of Secondary Market Oversight. He serves as Chair on the Board of Directors for the National Cooperative Business Association CLUSA International. Mr. Jacob is a Chartered Financial Analyst.

Robert L. O'Toole,
Chief Human Resources Officer

Mr. O'Toole, 53, was appointed chief human resources officer effective February 1, 2015. He is responsible for the Bank's talent acquisition and retention strategies, compensation and payroll, employee benefits, and learning, leadership and organizational development initiatives including human equity and engagement. Mr. O'Toole has more than 25 years of experience in human resources. Prior to joining CoBank in 2001, he was with ING Group. Mr. O'Toole is certified as a Senior Professional in Human Resources (SPHR) by the Human Resource Certification Institute. Mr. O'Toole serves on the Board of Directors and is the Compensation Committee chair for the Denver Young Artists Orchestra.

Daniel L. Key,
Chief Credit Officer

Mr. Key, 59, was appointed chief credit officer effective July 2, 2013. Mr. Key is responsible for all of CoBank's credit approval and administrative functions, which include loan approval, credit support and analysis, credit guidelines and training, loan compliance and monitoring, collateral audit and special assets. Prior to his current position, Mr. Key was senior vice president for credit approval. Mr. Key began work with the Farm Credit System in 1978 and joined CoBank in 1993, where he has served in both relationship management and credit roles in a wide variety of industries and lending environments.

M. Mashenka Lundberg,
General Counsel

Ms. Lundberg, 48, was appointed general counsel effective February 18, 2014 and is responsible for providing legal counsel to all areas of CoBank's business operations. Prior to joining CoBank, Ms. Lundberg was a partner with the law firm of Bryan Cave from 2012 to 2014. Prior to that time, Ms. Lundberg was a partner with the law firm of Holme Roberts & Owen and served as the firm's General Counsel and also on the firm's Executive Committee. She has extensive experience in the field of corporate law and represented a wide range of corporate clients in a variety of transactions during her career in private practice.

Senior Officers Compensation Discussion and Analysis

CoBank, ACB

Overview

This section describes the compensation programs for CoBank's Chief Executive Officer (CEO) and other senior officers, as defined by FCA regulations (collectively, senior officers), as well as those programs for any highly compensated employees as defined by FCA regulations. This section also presents the compensation earned by our CEO, as well as aggregate compensation earned by our other senior officers and any highly compensated employees, for the years ended December 31, 2015, 2014 and 2013.

The Board of Directors, through its Compensation Committee (Committee), has adopted a total compensation philosophy for the Bank. Our total compensation philosophy is intended to align the interests of our senior officers with those of our shareholders and is more fully described below. We accomplish this by providing incentive compensation that rewards performance in relation to the business and financial plan established by our Board of Directors.

Our compensation programs contain a number of elements that are aligned with "best practices" for executive compensation, including:

- The majority of total compensation for senior officers is delivered through performance-based, variable incentive programs – for 2015 the CEO's target total direct compensation mix was 30% base salary and 70% performance-based, variable incentives;
- We have an incentive compensation recovery ("clawback") provision for all members of the Bank's Management Executive Committee, including the CEO;
- Award levels for the annual and long-term incentive plans are "capped";
- The individual maximum payout for the annual short-term incentive plan is 225% of target, and the maximum payout is 150% of target for the 2013 through 2015, 2014 through 2016, and 2015 through 2017 long-term incentive plans;
- The short-term and long-term incentive programs have a minimum return on active patron stock investment that must be achieved before any incentives can be earned;
- Employment agreements contain employment terms and, where provided, severance benefits and terms that are aligned with market practices and do not provide for excise tax gross-ups;
- The Committee commissions an annual assessment of compensation related risks; and
- The Committee engages an independent executive compensation consultant to ensure conflict free advice.

We believe these elements balance our risk profile with total compensation while aligning our compensation program with our shareholders' long-term interests and best practices in governance of executive compensation.

As described in the "Financial Condition and Results of Operations" section of Management's Discussion and Analysis on page 30 of this Annual Report, in 2015 CoBank reported record financial performance while fulfilling its mission in a safe and sound manner. As a result of our performance, our short-term incentive plan for 2015 was funded between the target and maximum award levels. In addition, based on strong performance in the 2013 through 2015 period, our long-term incentive plan was also funded between the target and maximum award levels. These and other elements of our senior officers' compensation are explained below.

Compensation Philosophy and Objectives

The Bank's total compensation philosophy is designed to maintain a compensation program that will:

- Attract, retain and reward employees with the skills required to accomplish the Bank's strategic business objectives;
- Provide accountability and incentives for achievement of those objectives;
- Link compensation to Bank performance and increased shareholder value;
- Properly balance the risk profile of the Bank with both short- and long-term incentives;
- Be designed within a consistent philosophy and framework;
- Create a culture of adherence to core values and strong ethical behavior;
- Be integrated with the Bank's business processes, including business planning, performance management and succession planning; and
- Enhance management of risk and accountability.

The total compensation philosophy seeks to achieve the appropriate balance among market-based salaries, benefits and variable incentive compensation designed to incent and reward both the current and long-term achievement of our strategic business objectives, business and financial plans and mission fulfillment. It also seeks to incent prudent risk taking within Board-established parameters with the proper balance and accountabilities between short- and long-term business performances. For senior officers, CoBank strives to deliver a significant portion of total target compensation through performance-based pay, with the actual proportion of total compensation provided through both short- and long-term incentives varying with actual financial performance, the achievement of Board-approved strategic business objectives and each senior officer's individual performance. We believe this philosophy fosters a performance-oriented, results-based culture wherein compensation varies from one year to the next on the basis of actual results achieved. We also find that this variable performance-based compensation approach is properly aligned with an acceptable risk profile and shareholder returns.

Process for Compensation Decisions

The Board of Directors has established the Committee to oversee the design, implementation and administration of compensation and benefits programs for CoBank. The Committee meets regularly to execute the responsibilities of its charter. The Committee reviews the performance of the Bank's CEO semi-annually, and the Board of Directors annually approves the compensation level of the CEO, comprised of salary, benefits and supplemental compensation, including short- and long-term incentive compensation. The CEO is responsible for setting the compensation levels of the Bank's Management Executive Committee, who, in turn, are responsible for the compensation of all other employees. In addition, the Committee reviews the compensation of the members of the Management Executive Committee.

The Committee generally makes a final decision regarding the CEO's incentive compensation in its February meeting to fully take into consideration the prior year's Bank and individual performance. Decisions about salary and performance also occur at other meetings in the year, as considered appropriate. The Committee utilizes an independent advisor, to annually compare the CEO's compensation level to a select peer group of financial institutions. This evaluation helps ensure that such compensation is appropriate for the CEO's experience and competencies and is competitive with positions of similar scope and complexity at relevant financial institutions. The comparative peer group is composed of companies with significant corporate and commercial lending activities, and which have other similar characteristics such as asset size, net income or significant customer relationships.

For 2013, 2014 and 2015, the Committee engaged Pay Governance LLC (Consultant) directly to serve as its independent advisor. In 2013, the Committee conducted an evaluation process, whereby it considered proposals from four independent advisor candidates, resulting in the affirmative reselection of Pay Governance as its independent advisor. On an annual basis, the Committee assures the qualifications of the Consultant as an independent and objective advisor. In 2013, 2014 and 2015, Pay Governance did not provide any other services to CoBank that were not approved in advance by the Committee.

Components of CoBank Total Compensation Program

Given the cooperative ownership structure of CoBank, no equity or stock-based plans are used to compensate any employee, including senior officers. Senior officers' compensation primarily consists of four components – salary, short-term incentive plan, long-term incentive plan and retirement benefits – as described below. All employees participate in salary, the short-term incentive plan and retirement benefits, while senior officers and specified other senior leaders are also eligible to participate in the long-term incentive plan. All senior officers can elect to defer certain incentive payments through a nonqualified deferred compensation plan. In addition, senior officers are eligible for supplemental retirement benefits, as discussed beginning on page 145.

Overview of Senior Officers' Compensation		
Component	**CoBank Philosophy**	**Design Characteristics**
Salary	• Market-based compensation • Provides a foundation for other components • Competitive relative to positions of similar scope and complexity at a select peer group of financial institutions • Reflects individual performance, competencies and responsibilities	• Traditional salary structure with salary ranges for each position • Structure reviewed annually • Salaries based on market and individual performance

Overview of Senior Officers' Compensation (continued)		
Component	**CoBank Philosophy**	**Design Characteristics**
Short-Term Incentive Plan	• Links rewards to achievement of annual goals • Recognizes corporate and individual performance • Aligns the interests of shareholders and senior officers through bankwide financial and strategic business objectives • Balances short-term results with the risk profile of the Bank • Establishes competitive incentive opportunities relative to peers	• Multiple corporate financial and non-financial goals • Awards are capped • Minimum performance for each goal required • Minimum return on active patron stock investment of 11% must be achieved in plan year in order for any payout to be made • Individual and corporate performance weighted equally, and a minimum level of individual performance must be achieved • Clawback provision for the Bank's Management Executive Committee, including the CEO
Long-Term Incentive Plan	• Provides opportunities for compensation tied to CoBank's sustained performance • Reinforces accountability and balance for the annual outcomes embodied in the short-term incentive plan • Provides balance through emphasis on long-term results, relative to short-term orientation of annual short-term incentive plan • Encourages longer-term retention of plan participants • Promotes the creation of profitable growth in shareholder and customer value, and enhances the sustainability of CoBank to serve its customers while providing proper balance to the risk profile of the Bank • Aligns the interests of shareholders and senior officers through bankwide financial and strategic business objectives • Establishes competitive incentive opportunities relative to peers	• Multiple corporate financial and non-financial goals • Awards are capped • Three-year performance periods • New plan starts each year (plans overlap) • Minimum performance for each goal required • Minimum return on active patron stock investment of 11% must be achieved in each year of the plan for a full payout • No individual performance factor although a minimum level of individual performance must be achieved; corporate performance determines level of payout • Clawback provision for the Bank's Management Executive Committee, including the CEO
Retirement Benefits	• Provides for a source of income subsequent to retirement • Encourages longer-term retention of employees • Provides for competitive total compensation opportunities over the employee's career	• Benefits vary based on date of hire • Senior officers hired prior to January 1, 2007 participate in a defined benefit plan and supplemental retirement plan • Senior officers hired on or after January 1, 2007 do not participate in a defined benefit plan but receive additional, non-elective employer contributions to the 401(k) retirement savings plan • Other retirement benefits include a 401(k) retirement savings plan and access to health care benefits. Substantially all participants pay the full premiums associated with postretirement health care benefits • Executive Retirement Plan (ERP) for CEO and one other senior officer provides enhanced retirement benefits • Clawback provision for the Bank's Management Executive Committee, including the CEO

Salary

Overview

Salary Considerations

- Individual performance, competencies and experience
- Maintenance or expansion of responsibilities and scope of position
- Peer group data and internal equity
- Overall CoBank merit increase budget

Salaries represent a foundational component of CoBank's total compensation program as the value of other components is determined in relation to base salary. Senior officer salaries are market-based and established taking into consideration individual performance, the specific competencies and experience the senior officer brings to CoBank, the responsibilities and scope of the position, peer group data and internal equity. Salaries for senior officers are reviewed annually, and adjusted if necessary.

Short-Term Incentives

Overview

Short-Term Incentive Plan (STIP)

- Corporate and individual performance weighted equally
- Corporate financial performance measures are balanced: profitability, loan quality and operating efficiency
- Board of Directors also provides subjective evaluation related to achievement of corporate strategic business objectives
- All employees are eligible to participate
- For 2015, CoBank performed at or above maximum award levels on one corporate performance goal and between the target and maximum award levels on the other four corporate performance goals

Annual short-term incentive payments are based on a combination of annual corporate and individual performance. The short-term incentive plan, which has the same design for all employees, including the CEO and other senior officers, aligns the interests of shareholders and employees through the establishment of a balanced scorecard of bankwide financial and strategic business objectives. Under the terms of the plan, a minimum return on active patron stock investment must be achieved for the plan year in order for a payout to be approved, ensuring that shareholders are rewarded first. The return minimum was 11 percent for the years ended December 31, 2015, 2014 and 2013.

The actual short-term incentive award is determined as follows:

Salary × Individual Annual Short-Term Incentive Target × Corporate Performance Factor × Individual Performance Factor

Based on corporate and individual performance factors, participants can earn from zero to 225 percent of their individual annual short-term incentive target. Payments are typically made during March, but always following the end of the year to which the award is applicable. Participants are not eligible to receive a short-term payout if they are no longer employed by CoBank at the time of the scheduled payout, unless otherwise provided for as a part of a normal retirement or in an employment agreement. The key elements of the actual payout are described below.

- *Individual Annual Short-Term Incentive Target* — Annual short-term incentive targets are set for all employees at the beginning of the year. For the 2015 performance period, the target short-term incentive level for the CEO was 75 percent of salary. For the other senior officers, the targets ranged from 40 to 70 percent.

- *Corporate Performance Factor* — Corporate performance is determined at the end of the year based on annual actual business results relative to a balanced scorecard of bankwide financial and strategic business objectives, as established at the beginning of each year by the Board of Directors, and is the same for all employees, including the CEO and other senior officers. The Board of Directors retains the right to make adjustments to the corporate performance factor, where appropriate, in addition to providing a subjective performance result for the achievement of strategic business objectives.

  CoBank utilizes a balanced scorecard for measuring short-term corporate performance to emphasize overall success in executing our strategy and managing risks. The short-term corporate scorecard establishes certain key performance indicators, of which 80 percent focus on the achievement of specified financial measures related to profitability, loan quality and operating efficiency, and 20 percent focus on the achievement of the strategic business objectives that are established at the beginning of each year by the Board of Directors. The final performance result, or corporate performance factor, is determined by comparing the actual performance of each measure to the targets established at the beginning of the year. Each scorecard performance measure is weighted separately, and the factor is set such that if performance of each measure exactly meets the established target, the result is a performance factor of 100 percent. The corporate performance factor can vary from zero to 150 percent, depending on performance against the targets. The Committee approves the overall corporate performance factor and funding of the STIP for actual performance relative to target. The 2015 Short-Term Corporate Scorecard is as follows:

2015 Short-Term Corporate Scorecard

Performance Measure	Weight
Net Income	25 %
Return on Common Equity	20 %
Strategic Business Objectives	20 %
Loan Quality (Adverse Loans to Risk Funds)	20 %
Operating Expense Ratio	15 %

- *Individual Performance Factor* — At the beginning of each year, all CoBank employees, including the CEO and other senior officers, establish individual goals they seek to achieve that year in support of the business. These individual goals are anchored to the Bank's business and financial plan, as well as the Bank's strategic business objectives and also include key behavioral competencies appropriate for that employee. The CEO is responsible for administering the short-term incentive plan and approves the individual performance factors of the other senior officers. The Board of Directors approves the goals and individual performance factor of the CEO. The assessment of an individual's actual performance with respect to his or her annual goals is reflected as an individual performance factor and ranges from zero to 150 percent.

The actual short-term incentive awards for 2015, 2014 and 2013 for the CEO, other senior officers and any highly compensated employees are presented in the Summary Compensation Table on page 148.

Long-Term Incentives

Overview

Long-Term Incentive Plan (LTIP)

- Awards based upon corporate performance for overlapping three-year periods
- Corporate financial performance measures are balanced: profitability, loan quality and capital adequacy
- Board of Directors also provides subjective evaluation related to the achievement of corporate strategic business objectives
- For the 2013 through 2015 performance period, CoBank performed at or above maximum award levels on three corporate performance goals, between the target and maximum award levels on one corporate performance goal, and between the threshold and the target on one corporate performance goal.

CoBank utilizes a long-term incentive compensation plan that provides senior officers and specified other senior leaders with the opportunity for compensation tied to CoBank's sustained success. The long-term incentive plan provides the accountability and balance for the annual outcomes embodied in the short-term plan. Participants in the long-term plan directly influence the longer-term outcomes of actions and risks taken during each performance period, which provides the proper balance between short-term results and long-term value creation. Eligibility for participation is limited to those individuals who clearly have the ability to drive the success of strategies critical to long-term value creation for shareholders. The purpose of this plan is to encourage longer-term retention of plan participants, to promote the creation of profitable growth in shareholder and customer value, and to enhance the sustainability of CoBank to serve its customers while providing proper balance to the risk profile of the Bank. The long-term incentive plan aligns the interests of shareholders and senior officers through the establishment of bankwide financial and strategic business objectives, and reinforces a long-term focus on financial performance, strategic positioning and risk management.

Long-term incentive plan payouts are based on corporate performance in the achievement of key financial metrics and strategic business objectives over a three-year performance period, as defined by CoBank's long-term corporate scorecard. These three-year performance metrics and objectives are established at the beginning of each three-year performance period by the Board of Directors in connection with the annual business and financial plan. A minimum return on active patron stock investment must be achieved in each year of the three-year performance period for a full payout to be approved, ensuring that shareholders are rewarded first. The return minimum is 11 percent for the 2013 through 2015, 2014 through 2016 and 2015 through 2017 performance periods.

The actual long-term incentive award is determined as follows:

Salary × Individual Long-Term Incentive Target × Corporate Performance Factor

Based on the corporate performance factor, participants can earn from zero to 150 percent of their individual long-term incentive target. Payments are typically made during March of each year following the end of the three-year performance period to which the award is applicable. Participants are eligible to receive a prorated award at the time of the scheduled payout if they are no longer employed at CoBank at the time of payment and their termination meets plan eligibility requirements for reasons related to retirement, death or disability, or if otherwise provided for in an employment agreement. Participants are not eligible to receive any payment at the time of the scheduled payout if they are no longer employed by CoBank and do not otherwise meet the eligibility requirements for payment. The key elements of the actual payout are described below.

- *Individual Long-Term Incentive Target* — For the 2013 through 2015 performance period, the long-term incentive target for the CEO was 160 percent of salary. For the remaining senior officers, the targets ranged from 30 to 90 percent.

- *Corporate Performance Factor* — Corporate performance is determined at the end of a designated three-year period based on actual business results relative to a balanced scorecard of bankwide financial and strategic business objectives, as established at the beginning of the three-year performance period by the Board of Directors. The Board of Directors retains the right to make adjustments to the corporate performance factor, where appropriate, in addition to providing a subjective performance result for the achievement of strategic business objectives.

CoBank utilizes a balanced scorecard for measuring long-term corporate performance to emphasize overall success in executing our strategy and managing risks. The long-term corporate scorecard establishes certain key performance indicators, of which 80 percent focus on the achievement of specified financial measures related to profitability, loan quality and capital adequacy, and 20 percent focus on the achievement of the strategic business objectives that are established at the beginning of each three-year performance period by the Board of Directors. The final performance result, or corporate performance factor, is determined by comparing the actual performance of each measure to the targets established at the beginning of each three-year performance period. Each scorecard performance measure is weighted separately, and the factor is set such that if performance of each measure exactly meets the established target, the result is a performance factor of 100 percent. The corporate performance factor can vary from zero to a maximum of 150 percent depending on performance against the targets. The Committee approves the corporate performance factor based on actual performance in comparison to target. The Long-Term Corporate Scorecards for the three-year performance periods 2013 through 2015, 2014 through 2016 and 2015 through 2017 are as follows:

Long-Term Corporate Scorecards:
2013 – 2015, 2014 – 2016 and 2015 – 2017 Periods

Performance Measure	Weight
Net Income	20 %
Permanent Capital Ratio	20 %
Return on Common Equity	20 %
Strategic Business Objectives	20 %
Loan Quality (Adverse Loans to Risk Funds)	20 %

The actual long-term incentive awards for 2015, 2014 and 2013 for the CEO and other senior officers are presented in the Summary Compensation Table on page 148.

Terms of Senior Officers' Employment Agreements

As of December 31, 2015, the CEO and one other senior officer, are employed pursuant to employment agreements, which provide specified compensation and related benefits to these senior officers in the event their employment is terminated, except for termination for cause. In early 2015, the employment agreement for the senior officer other than the CEO was amended and restated to include a specified term. In the event of termination in 2016 except for cause, the employment agreement for the senior officer other than the CEO provides for (a) payment of the officer's prorated salary and incentives through the date of the termination, (b) semi-monthly payments two times the officer's base compensation and short-term incentives at target, (c) enhanced retirement benefits if the termination results from a change in control, (d) continued participation in the Bank's health and welfare benefits over a two-year period, and (e) certain other benefits over a two-year period to the same extent as such benefits were being provided on the date of termination. The employment agreement also provides certain limited payments upon death or disability of the officer. The agreement also provides for non-competition and non-solicitation by the officer over the term of the payments, and the payments are considered taxable income, without any consideration or provision for "gross-up" for tax purposes.

In 2013, the Board revised the CEO employment agreement to allow for an effective and flexible CEO retention and succession process. The restated and amended CEO employment agreement provides for (a) a fixed term with an option for renewal at the sole discretion of the Board of Directors, (b) a reduction in the amount and term of severance payments and benefits at the end of each completed service year during the term of the agreement, resulting in no eligibility for severance during the last year of the original and extended term, (c) an indexed increase in the annual retirement benefit cap, reaching a maximum of $900,000 in the last year of the agreement, for each completed service year over the term of the agreement to retain the present value of the total lump sum calculation at each year end, and (d) eligibility for incentive payments totaling $2,000,000 paid in installments over the term of the agreement based on the achievement of certain additional performance and retention objectives as established and measured by the Board of Directors. In 2015, the Board of Directors exercised its option to extend the fixed term of the CEO's employment agreement.

To receive payments and other benefits under the employment agreements, the officers must sign a release agreeing to give up any claims, actions or lawsuits against the Bank that relate to his or her employment with the Bank.

Retirement Benefits

Overview

We have employer-funded qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. Depending on the date of hire, benefits are determined either by a formula based on years of service and final average pay, or by the accumulation of a cash balance with interest credits and contribution credits based on years of service and eligible compensation. We also have noncontributory, unfunded, nonqualified supplemental executive retirement plans (SERPs) covering all but three senior officers employed at December 31, 2015, as well as specified other senior managers. In addition, as more fully discussed below, we have a noncontributory, unfunded nonqualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to the CEO and one other senior officer employed pursuant to employment agreements. All employees are also eligible to participate in a 401(k) retirement savings plan, which includes employer matching contributions. Employees hired on or after January 1, 2007, receive additional, non-elective employer contributions to the 401(k) retirement savings plan. All retirement-eligible employees, including senior officers, are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums associated with the postretirement health care benefits.

Defined Benefit Pension Plans

Senior officers hired prior to January 1, 2007 are participants in the defined benefit pension plans. Pursuant to these plans, the benefits, including those of the CEO, are determined based on years of service and final average pay. Eligible compensation for senior officers, as defined under the final average pay formula, is the highest 60 consecutive-month average, which includes salary and incentive compensation measured over a period of one year or less, and excludes long-term incentive awards, expense reimbursements, taxable fringe benefits, relocation allowance, short- and long-term disability payments, nonqualified deferred compensation distributions, lump sum vacation payouts and all severance payments. Retirement benefits for senior officers are calculated assuming payment in the form of a single life annuity with five years certain and retirement at age 65. However, the actual form and timing of retirement benefit payments are based on participant elections. The plans require five years of service to become vested. All senior officers participating in the defined benefit pension plans have been employed for more than five years and, as such, are fully vested in the plans. The benefit formula is the sum of 1.5 percent of eligible compensation up to Social Security covered compensation plus 1.75 percent of eligible compensation in excess of Social Security covered compensation, multiplied by the years of eligible benefit service. Social Security covered compensation is the 35 year average of the Social Security taxable wage bases up to the participant's Social Security retirement age.

Federal laws limit the amount of compensation we may consider when determining benefits payable under the qualified defined benefit pension plans. We maintain SERPs that pay the excess pension benefits that would have been payable under our qualified defined benefit pension plans.

Executive Retirement Plan

As noted previously, an ERP has been adopted for the CEO and one of the other senior officers subject to their respective employment agreements. The CEO's agreement provides for a retirement benefit of 55.0 percent of eligible compensation as of December 31, 2015, with no reduction for early retirement, but subject to a maximum benefit amount. The ERP is limited such that benefits provided under that plan are payable only if retirement benefits payable per year from the defined benefit and SERP retirement plans are less than the indexed retirement benefit cap, expressed as a single life annuity with five years certain. The ERP is integrated with the existing final average pay defined benefit retirement plan and the existing SERP. It provides the required additional retirement benefits to the extent such benefits are not covered by the other two plans, but only up to the maximum total retirement benefits noted above. If benefits from the defined benefit retirement plan and the SERP exceed this maximum, no benefits are payable from the ERP. In the event of the death of the CEO during the term of his employment with the Bank, the plan provides a death benefit to a surviving spouse. The benefits provided to the other senior officer under the ERP are the same as those provided to the CEO, but at reduced levels.

Nonqualified Deferred Compensation Plan

We have a nonqualified deferred compensation plan that allows senior officers and other eligible senior managers to defer all or a portion of their incentive compensation. Additionally, the Bank makes contributions to this plan on behalf of participants whose benefits under the 401(k) retirement savings plan are limited due to federal tax laws. Contributions are made at the same percentages as available under the 401(k) retirement savings plan. The compensation that is deferred is invested in any number of investment options selected by the participants. These investment options are either identical or substantially similar to those available to all participants in the Bank's 401(k) retirement savings plan. The participant is subject to all risks and returns of amounts invested. The election to defer is irrevocable and the deferred amounts cannot be paid except in accordance with specified elections as permitted by law. At that time, the participant will receive payment of the amounts credited to his or her account under the plan in a manner that has been specified by the participant. If a participant dies before the entire amount has been distributed, the undistributed portion will be paid to the participant's beneficiary.

Compensation Risk Management

The Committee considers potential risks when reviewing and approving compensation programs. The Board of Directors approves the total compensation philosophy and programs to ensure there is a proper balance and alignment between the overall acceptable risk profile of the Bank and the manner in which prudent risk taking is reflected in the design of the underlying program. We have designed our compensation programs, including our incentive compensation plans, with specific features to address potential risks while rewarding employees for achieving short-term and long-term financial and strategic objectives through prudent business judgment and appropriate risk taking. The objective is to motivate employees to take prudent risk within Board-approved parameters while ensuring employees are also accountable for the long-term outcomes of their actions. The following elements have been incorporated in our compensation programs available for our senior officers:

- *A Balanced Mix of Compensation Components* – The target compensation mix for our senior officers is composed of salary, short-term incentive, long-term incentive and retirement benefits, representing a mix that is weighted toward long-term performance and service with CoBank.

- *Multiple Performance Factors* – Our incentive compensation plans include balanced scorecards of organization-wide financial performance and integration with individual performance assessments through our performance management system.
  - Incentive plans include a Board-determined subjective evaluation of our achievement of strategic objectives
  - The short-term incentive is dependent on multiple performance metrics, including a subjective measure of performance against strategic business objectives and an assessment of individual performance
  - The long-term incentives are cash-based, with three-year performance metrics to complement our annual short-term incentives
  - Board of Directors retains the right to adjust performance factors
  - Targets and ranges of performance for each metric are approved by the Board of Directors prior to the beginning of the performance period

- *Multiple Year Performance Measurement* – Our long-term incentives include a three-year performance measurement period that requires sustained corporate performance complemented by a required minimum level of shareholder return in order for the plan to be fully funded.

- *Caps on Incentive Payments* – Our incentive compensation plan payments are subject to caps that limit the maximum award that may be paid.

- *Threshold Performance Requirements for Each Metric* – Our incentive compensation plan payments are contingent upon achieving minimum performance levels for each financial performance goal.

- *Threshold Individual Performance Requirements* – Our incentive compensation plans require a minimum individual performance level before a payment may be made for any given performance year.

- *Compensation Committee Discretion* – The Committee subjectively evaluates the Bank's achievement of strategic business objectives and approves all incentive plan funding following a review of the Bank's performance against plan performance criteria established and approved prior to the beginning of the incentive plan performance period.

- S*hareholder Return* – A minimum return on active patron stock investment must be achieved for incentive compensation payments to be approved.

Effective January 1, 2013, the Board of Directors approved an incentive compensation recovery ("clawback") policy to encourage the highest ethical standards, to further ensure incentive plans do not encourage excessive risk-taking and to ensure the alignment of compensation with accurate financial data. The policy provides that in the event of a restatement of the financial statements, the Bank may seek recovery from members of the Bank's Management Executive Committee of incentive compensation and non-qualified retirement benefits that would not otherwise have been paid if the correct financial information had been used to determine the amount payable. The Board of Directors may only seek recovery or reduction of compensation under this policy within the three-year period following the date the Bank filed the incorrect report.

Additionally, the Compensation Committee annually considers an assessment of compensation-related risks for all of our employees. The assessment includes a review of multiple facets of our compensation program including governance practices, program documentation, incentive plan design, processes, employment practices, benefits program, and cultural considerations. Reviews of various aspects of our programs are also conducted by independent auditors, whose reports are provided to our Board of Directors. Based on this assessment, the Compensation Committee concluded that our compensation plans do not create risks that are reasonably likely to have a material adverse effect on CoBank. In making this conclusion, the Compensation Committee reviewed the key design elements of our compensation programs in relation to industry "best practices" as presented by the Consultant, as well as the design features and administrative processes that mitigate any potential risks, such as through our internal controls and oversight by management and the Board of Directors.

At the request of the Board of Directors, the CEO elected to receive retirement benefits payable from the SERP and ERP in the form of an annuity, as opposed to a lump sum. The Committee believes this arrangement enhances the focus on overall risk management and the long-term success of the Bank.

Summary Compensation Table

The following table summarizes compensation earned by our CEO and aggregate compensation of other senior officers for the years ended December 31, 2015, 2014 and 2013. Our current Board policy regarding reimbursements for travel, subsistence and other related expenses states that all employees, including senior officers, shall be reimbursed for actual reasonable travel and related expenses that are necessary and that support our business interests. A copy of our policy is available to shareholders of CoBank and of our affiliated Farm Credit Associations upon request.

Summary Compensation Table[1] ($ in Thousands)

		Annual						
Name of Individual or Number in Group[2]	Year	Salary	Short-Term Incentive Compensation[3]	Long-Term Incentive Compensation[3]	Change in Pension Value	Deferred/ Perquisites[4]	Other[5]	Total
CEO:								
Robert B. Engel	2015	**$ 895**	**$ 1,299**	**$ 1,901**	**$ 695**	**$ 169**	**$ 333**	**$ 5,292**
Robert B. Engel	2014	880	1,386	2,182	109	180	333	5,070
Robert B. Engel	2013	859	1,435	1,843	(89)	149	333	4,530
Aggregate Number of Senior Officers (excluding the CEO):								
10	2015	**$ 3,681**	**$ 4,019**	**$ 2,806**	**$ 1,874**	**$ 682**	**$ 50**	**$ 13,112**
10	2014	3,494	3,975	3,167	2,030	592	250	13,508
9	2013	2,828	3,123	2,012	1,037	1,231	1,354	11,585

(1) Disclosure of the total compensation paid during 2015 to any designated senior officer is available to shareholders of CoBank and of our affiliated Farm Credit Associations upon request. Compensation amounts do not include earnings or losses on nonqualified deferred compensation, as such earnings or losses are not considered above-market or preferential.

(2) The senior officers are those officers defined by FCA regulation §619.9310.

(3) Incentive compensation amounts represent amounts earned in the reported fiscal year, which are paid in March of the subsequent year to persons who continue to be employed by CoBank or unless otherwise provided for as part of normal retirement or in an employment agreement. The short-term incentive compensation amounts are calculated based on relevant performance factors for the reported fiscal year, while the long-term incentive compensation amounts are calculated based on the relevant performance factors for the three-year performance period ended in the reported fiscal year.

(4) Represents company contributions to a qualified retirement savings plan and nonqualified deferred compensation plan, as well as payment of tax return preparation and financial planning expenses, relocation, certain travel-related costs, wellness benefits, life insurance benefits, long-term disability benefits, and associated income tax impact. For 2013, also includes the Board-approved payout of vacation over a certain threshold that was earned but not used due to exceptional work demands.

(5) For 2015, 2014 and 2013, $333 represents amount paid to the CEO for achievement of certain additional performance objectives as established and measured by the Board of Directors. Also, for 2015, $50 represents a sign-on payment for a senior officer who joined the Bank in 2014. Also for 2014, $250 includes $175 for sign-on payments for two senior officers who joined the Bank in 2013 and 2014, and $75 for a Board-approved project bonus. Also, for 2013, $1,354 includes $185 for sign-on payments for two senior officers who joined the Bank in 2012 and 2013; $185 for payments that were awarded by U.S. AgBank and assumed by CoBank as a result of the merger; and $984 that represents amounts paid to two senior officers (who left the Bank in 2013) for separation pay and certain other benefits.

Pension Benefits

The following table presents certain pension benefit information by plan for the CEO and the senior officer group as of December 31, 2015.

Pension Benefits Table ($ in Thousands)

Name of Individual or Number in Group[1]	Plan Name	Number of Years of Credited Service[2]	Actuarial Present Value of Accumulated Benefits	Payments During Last Fiscal Year
CEO:				
Robert B. Engel	CoBank, ACB Retirement Plan	15.58	$ 661	$ -
	Supplemental Executive Retirement Plan	15.58	5,269	-
	Executive Retirement Plan	15.58	4,135	-
Total			$ 10,065	$ -
Aggregate Number of Senior Officers (excluding the CEO):				
6	CoBank, ACB Retirement Plan	17.54	$ 4,374	$ -
	Supplemental Executive Retirement Plan	17.54	6,109	-
	Executive Retirement Plan	22.67	1,110	-
Total			$ 11,593	$ -

[1] The senior officers included in the pension benefits disclosure are those defined by FCA regulations §619.9310 and §620.6.

[2] For the Retirement Plan and the Supplemental Executive Retirement Plan, represents an average for the aggregate senior officer group.

Report on Compensation

CoBank, ACB

Members of the Compensation Committee of the Board of Directors are appointed by the Board chair in consultation with the Board officers and committee chairs. All members of the Compensation Committee qualify as independent directors as defined by Board policy.

The Compensation Committee (Committee) approves the overall compensation philosophy at the Bank utilizing an independent, Committee-appointed, executive compensation consultant, which includes establishing the compensation philosophy which guides program design including pay mix comprised of base pay, short- and long-term incentive compensation plans and employee benefits. In so doing, the Committee has developed and implemented compensation policies and programs that support the Bank's core values and links compensation to overall Bank and individual performance, ensuring a proper balance with the risk profile of the Bank, thereby contributing to the value of the shareholders' investment in the Bank.

The Committee is responsible for establishing the performance standards for the Chief Executive Officer and the compensation structure for other Bank employees. The Committee reviews the Board's performance evaluation of the Chief Executive Officer, approves an overall performance rating, and recommends for full Board approval all aspects of compensation (base salary, performance-based compensation including all incentives, benefits, and perquisites) for the Chief Executive Officer, consistent with the business and financial objectives of the Bank, the results achieved by the executive, Board directed performance objectives, and competitive compensation practices. The Committee carefully evaluates incentive-based compensation programs and payments thereunder to ensure they are reasonable and appropriate to the services performed by senior officers. The Committee monitors the terms and provisions of the incentive-based compensation programs for senior officers and assesses the balance of financial rewards to senior officers against the risks to the institution. The Committee carefully evaluates whether senior officer compensation, incentive, and benefit programs are designed to support the Bank's long-term business strategy and mission as well as promote safe and sound business practices. The Committee reviews the institution's projected long-term obligations for compensation and retirement benefits. The Committee operates under a written charter, adopted by the Committee and the Board of Directors, which more fully describes the Committee's responsibilities.

The Committee has reviewed and discussed the Senior Officers Compensation Discussion and Analysis with management. Based on this review and discussion, the Committee recommended to the Board of Directors, and the Board approved, that the Senior Officers Compensation Discussion and Analysis be included in the Annual Report for the year ended December 31, 2015.

Members of the 2016 Compensation Committee:

Daniel T. Kelley, Chair
Catherine Moyer
David L. Reinders
Kevin G. Riel
Scott H. Whittington

March 7, 2016

Code of Ethics

CoBank, ACB

CoBank sets high standards for honesty, ethics, integrity, impartiality and conduct. Each year, every associate certifies compliance with the letter, intent and spirit of our Associate Responsibilities and Conduct Policy, which establishes the ethical standards of our organization, and each senior officer is required to disclose additional information. Additionally, our chief executive officer, president, chief operating officer, chief risk officer, chief credit officer, general counsel, chief financial officer and other senior financial professionals certify compliance with the letter, intent and spirit of our Code of Ethics. Our Code of Ethics supplements our Associate Responsibilities and Conduct Policy and establishes additional responsibilities specifically related to the preparation and distribution of our financial statements and related disclosures. Details about our Code of Ethics are available at www.cobank.com. At your request, we will provide you with a copy of our Code of Ethics, free of charge. Please contact:

Corporate Communications Division
P. O. Box 5110
Denver, CO 80217
(303) 740-4061

The Bank also maintains a whistleblower hotline and a special website through which complaints about business ethics or standards of conduct, financial reporting irregularities, internal controls or violations of law can be reported anonymously by directors, officers, employees, customer-owners and external parties. The whistleblower hotline can be reached by calling 1-888-525-5391 and the online reporting site is found at www.reportlineweb.com/cobank.

Young, Beginning, and Small Farmers

CoBank, ACB

Under the Farm Credit Act, CoBank does not have authority to lend directly to young, beginning, and small farmers. Rather, we recognize that Associations serve young, beginning, and small farmers, which we support through wholesale funding, partnering on Association programs as they deem appropriate, and completing reporting required by regulations. We believe the future of agriculture and rural America is well served when loan programs are developed by Associations to aid ambitious and capable young, beginning, and small farmers. Therefore, we have adopted a written policy that encourages the board of directors at each of our affiliated Associations to establish a program to provide sound and constructive credit and other services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products (YBS farmers and ranchers). Each affiliated Association provides us annually with a report measuring achievement with respect to these programs for YBS farmers and ranchers. A summary of the combined reports for our affiliated Associations and certain participations CoBank purchased from Associations follows.

YBS Farmers and Ranchers ($ in Thousands)

	Loan Numbers		Loan Volume	
	Number	Percent of Portfolio	Dollars	Percent of Portfolio
Loans and Commitments Outstanding at December 31, 2015:				
Young	22,064	15.59 %	$ 6,033,078	8.40 %
Beginning	30,194	21.34	8,284,123	11.53
Small	50,690	35.83	6,436,545	8.96
Gross New Loans and Commitments Made During 2015:				
Young	6,544	15.93 %	$ 1,938,606	8.13 %
Beginning	7,964	19.38	2,361,201	9.90
Small	12,826	31.22	1,277,675	5.36

Small Farmers and Ranchers

Number / Volume of Loans Outstanding by Loan Size at December 31, 2015

Number / Volume	$0 – $50,000	$50,001 – $100,000	$100,001 – $250,000	$250,001 and greater
Total Number of Loans to Small Farmers and Ranchers	22,064	10,532	11,904	6,190
Total Loan Volume to Small Farmers and Ranchers ($ in Thousands)	$ 421,851	$ 790,492	$ 1,906,515	$ 3,317,687

Key definitions are as follows:

Young Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.

Beginning Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.

Small Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The Young, Beginning, and Small farmer and rancher categories are not mutually exclusive, therefore, certain farmers and ranchers may be classified in more than one category in the tables above.

Beyond providing appropriate wholesale lending for Association YBS farmers and ranchers programs and submitting reports to our regulator, CoBank has partnered with Associations on successful financing programs designed to attract quality farm operations, meeting the intended purpose of providing vital capital to start-up farming operations and promoting the flow of capital into rural areas. CoBank also has its own programs to serve the credit needs of agribusiness cooperatives and rural infrastructure providers of all sizes as well as rural communities using our mission-related investments authorities. CoBank has also reached out to non-traditional forms of agricultural production, such as local foods, community supported agriculture, and urban agriculture, to better understand their financing needs and provide support within the legal constraints of CoBank lending authorities.

Unincorporated Business Entities

CoBank, ACB

CoBank holds investments in various unincorporated business entities (UBEs), as defined by FCA regulation. We hold these investments for two primary purposes: to acquire and manage unusual or complex collateral associated with loan workouts and to make mission-related investments.

Our UBEs are displayed in the table below.

Unincorporated Business Entities

Name	Entity Type	Level of Ownership	Scope of Activities
CoBank - Farm Credit Holdings, LLC	Limited Liability Company	100 %	Holds acquired property
Farm Credit FCB Holdings, LLC	Limited Liability Company	100	Holds acquired property
FarmStart, LLP	Limited Liability Partnership	45	Provides needed funding to operations with farm resources, farm-related expertise and good business plans, but limited access to capital in the Northeast.
Midwest Growth Partners, LLLP	Limited Liability Limited Partnership	49	Invests in entities with operations located in rural areas in the upper Midwest that are seeking to either launch a new business, grow an existing business or recapitalize an existing business.
Ponderosa Holdings, LLC	Limited Liability Company	12	Holds acquired property
Growing Rural America Investments, LLLP	Limited Liability Limited Partnership	100	Holds allowable FCS investments. Currently holds the Bank's investment in FarmStart, LLP.

CERTIFICATION

I, Robert B. Engel, Chief Executive Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

(1) I have reviewed this annual report of CoBank;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;

(4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

(5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's Board of Directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Robert B. Engel

Robert B. Engel
Chief Executive Officer

Dated: March 7, 2016

CERTIFICATION

I, David P. Burlage, Chief Financial Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

(1) I have reviewed this annual report of CoBank;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;

(4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

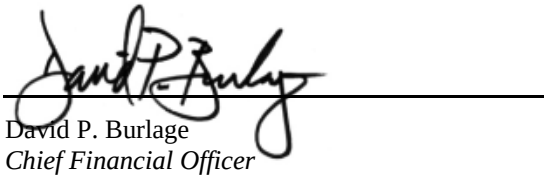
c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

(5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's Board of Directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.



David P. Burlage
Chief Financial Officer

Dated: March 7, 2016

Senior Management
CoBank, ACB

Robert B. Engel, Chief Executive Officer

Mary E. McBride, President
Antony M. Bahr, Banking Services Group [1]
Michael A. Romanowski, Farm Credit Leasing Services Corporation [2]
Leonard G. Sahling, Knowledge Exchange Division

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

Nivin A. Elgohary, Electric Distribution, Water and Community Facilities Banking Division [3]
William D. LaDuca, Electric Distribution Division
Christopher M. Shaffner, Water and Community Facilities Division

Andrew D. Jacob, Chief Regulatory, Legislative and Compliance Officer
Brian Cavey, Government Affairs
Arthur C. Hodges, Jr., Corporate Communications Division

Daniel L. Key, Chief Credit Officer
S. Richard Dill, Special Assets Division

Thomas E. Halverson, Chief Banking Officer

Agribusiness
Amy H. Gales, Regional Agribusiness Banking Group [4]
Leili Ghazi, Agribusiness Division – West
Michael W. Hechtner, Agribusiness Division – Central
Lynn M. Scherler, Agribusiness Division – South [5]
G. David Sparks, Agribusiness Division – East
Jonathan B. Logan, Corporate Agribusiness Banking Group
Karen S. Lowe, Agricultural Export Finance Division

Rural Infrastructure
Brian A. Goldstein, Project Finance Banking Division
Todd E. Telesz, Power, Energy and Utilities Banking Division
Robert F. West, Communications Banking Division

Lori L. O'Flaherty, Chief Risk Officer
Timothy A. Green, Asset Review Division
Katia V. Hoffer, Enterprise Risk Management Division
Steven W. Wittbecker, Internal Audit Division

Robert L. O'Toole, Chief Human Resources Officer

John Svisco, Chief Business Services Officer
Matthew H. Cammer, Digital Business Solutions Division
Todd E. Wilson, Enterprise Solutions and Services Division

Ann E. Trakimas, Chief Operating Officer
James R. Bernsten, Information Technology Division
Christian J. Clayton, Legal and Loan Processing
M. Mashenka Lundberg, General Counsel
Stephen B. Secor, Operations Division

[1] The Banking Services Group also includes the Bank's Capital Markets Division.
[2] Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.
[3] The Electric Distribution, Water and Community Facilities Banking Division is included in our Rural Infrastructure operating segment.
[4] The Strategic Relationships operating segment is included in the Regional Agribusiness Banking Group.
[5] Currently acting as interim CEO of Farm Credit of Southwest Kansas, ACA, one of our affiliated Associations.

Customer Privacy

Your financial privacy and the security of your other non-public information are important to us. We, therefore, hold your financial and other non-public information in strictest confidence. Federal regulations allow disclosure of such information by us only in certain situations. Examples of these situations include law enforcement or legal proceedings or when such information is requested by a Farm Credit System institution with which you do business. In addition, as required by Federal laws targeting terrorism funding and money laundering activities, we collect information and take actions necessary to verify your identity.

CoBank's 2016 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 9, 2016, August 8, 2016, November 7, 2016, and March 3, 2017 (Annual Report).

Office Locations

COBANK NATIONAL OFFICE

NEW HEADQUARTERS LOCATION

6340 S. Fiddlers Green Circle
Greenwood Village, CO 80111
(303) 740-4000
(800) 542-8072

FARM CREDIT LEASING SERVICES CORPORATION

600 Highway 169 South, Suite 300
Minneapolis, MN 55426
(952) 417-7800
(800) 444-2929

WASHINGTON, D.C. OFFICE

50 F Street, N.W., Suite 900
Washington, DC 20001
(202) 650-5860

U.S. REGIONAL OFFICES

Ames Banking Center

2515 University Boulevard
Suite 104
Ames, IA 50010
(515) 292-8828

Atlanta Banking Center*

2300 Windy Ridge Parkway
Suite 3705
Atlanta, GA 30339
(770) 618-3200
(800) 255-7429
FCL: (770) 618-3226

Austin Banking Center

4801 Plaza on the Lake Drive
Austin, TX 78746
(855) 738-6606

Enfield Banking Center*

240B South Road
Enfield, CT 06082-4451
(860) 814-4043
(800) 876-3227
FCL: (860) 814-4049

Fargo Banking Center

4143 26th Avenue South
Suite 101
Fargo, ND 58104
(701) 277-5007
(866) 280-2892

Florida Farm Credit Leasing Office**

3594 Maribella Dr.
New Smyrna Beach, FL 32168
(678) 592-5394

Louisville Banking Center*

1601 UPS Drive
Suite 102
Louisville, KY 40223
(502) 423-5650
(800) 262-6599
FCL: (800) 942-3309

Lubbock Banking Center*

5715 West 50th
Lubbock, TX 79414
(806) 788-3700
FCL: (806) 788-3705

Minneapolis Banking Center*

600 Highway 169 South
Suite 300
Minneapolis, MN 55426
(952) 417-7900
(800) 282-4150
FCL: (800) 444-2929

Ohio Farm Credit Leasing Office**

1220 Irmscher Blvd.
Celina, OH 45822
(855) 838-9961 ext. 23969

Omaha Banking Center*

13810 FNB Parkway
Suite 301
Omaha, NE 68154
(402) 492-2000
(800) 346-5717

Sacramento Banking Center*

1478 Stone Point Drive
Suite 450
Roseville, CA 95661
(916) 380-3524
(800) 457-0942
FCL: (800) 289-7080

Spokane Banking Center

1700 South Assembly Street
Suite 103
Spokane, WA 99224-2121
(509) 363-8700
(800) 378-5577

Sterling Banking Center

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

St. Louis Banking Center*

1650 Des Peres Road
Suite 120
St. Louis, MO 63131
(314) 835-4200
(800) 806-4144
FCL: (800) 853-5480

Wichita Banking Center*

245 North Waco
Suite 130
Wichita, KS 67202
(316) 290-2000
(800) 322-3654
FCL: (800) 322-6558

* Farm Credit Leasing office within this CoBank location
** Farm Credit Leasing office only

INTERNATIONAL REPRESENTATIVE OFFICE

10 Hoe Chiang Road
#05-01 Keppel Towers
Singapore 089315
(65) 6534-5261

DESIGN: Watermark (www.watermark.agency)

CoBANK

COOPERATIVE. CONNECTED. COMMITTED.

6340 S. FIDDLERS GREEN CIRCLE
GREENWOOD VILLAGE, CO 80111

800-542-8072