# 2016 Annual Report

*A U.S. Government-Controlled Corporation*

The Farm Credit System Insurance Corporation, a government-controlled, independent entity, shall

- protect investors in insured Farm Credit System obligations and taxpayers through sound administration of the Farm Credit Insurance Fund,
- exercise its authorities to minimize Insurance Fund loss, and
- help ensure the future of a permanent system for delivery of credit to agricultural borrowers.

FARM CREDIT SYSTEM INSURANCE CORPORATION

June 9, 2017

Dear Mr. President and Mr. Speaker:

In accordance with section 5.64 of the Farm Credit Act of 1971, as amended, the Farm Credit System Insurance Corporation is pleased to submit its annual report for calendar year 2016.

This report highlights our role as the independent federal corporation established to ensure the timely payment of principal and interest to investors in insured Farm Credit System debt securities. The balance in the Farm Credit Insurance Fund as of December 31, 2016, was $4.45 billion.

We earned $372.6 million in insurance premiums from Farm Credit System banks and $45.8 million in investment income in 2016, and expect to incur $4.1 million in operating costs in 2017.

FCSIC is proud of the role we play in supporting the safety and soundness of the Farm Credit System, and we are committed to faithfully fulfilling our mission.

Sincerely,

Jeffery S. Hall
Chairman

The President of the United States Senate
The Speaker of the United States House of Representatives

# Contents



# Message from the Chairman

I am pleased to present the 2016 Annual Report of the Farm Credit System Insurance Corporation. It is gratifying to note that, for the 27th consecutive year since we began issuing financial statements, our independent public auditor has issued unmodified or unqualified opinions on those statements. The enclosed opinion letters indicate that the financial statements of the Farm Credit Insurance Fund, of which we are stewards, are fairly and accurately presented.

FCSIC's net income for 2016 was $414.7 million, compared with $288.5 million for the previous year. The Insurance Fund balance as of December 31, 2016, was $4.45 billion, compared with $4.04 billion at year-end 2015.

Revenue from insurance premiums paid by Farm Credit System banks was $372.6 million for 2016, compared with $260.6 million for 2015. Premium revenue increased for two reasons. Premium assessment rates went up from 13 basis points in 2015 to an average of 17 basis points in 2016, and outstanding insured obligations were higher in 2016. Interest income for 2016 totaled $45.8 million, compared with $31.3 million in 2015.

In accordance with the requirements of the Federal Managers' Financial Integrity Act of 1982, FCSIC management conducts an annual assessment of the corporation's internal controls. The 2016 assessment found that, in the reviewed areas, internal controls comply with the standards prescribed by the U.S. Government Accountability Office and provide reasonable assurance that program objectives are being met.

We will continue to carry out our mission and work in 2017 to achieve our strategic goals and objectives. We are mindful of our public trust and will ensure that investors, Congress, the Farm Credit System, and other regulatory agencies receive timely and accurate information on issues concerning the Insurance Fund.

Sincerely,

Jeffery S. Hall

# Board of Directors

The Farm Credit System Insurance Corporation (FCSIC) is managed by a three-member board of directors comprising the same three individuals who make up the Farm Credit Administration (FCA) board. However, the same member may not serve as chairman of both entities. FCA is the independent federal agency responsible for the regulation and examination of the Farm Credit System (System), a nationwide network of financial cooperatives that lend to agriculture and rural America.

After being appointed to the FCA board by President Barack Obama on March 17, 2015, and serving as a FCSIC director, Jeffery S. Hall was elected chairman of the FCSIC board of directors on November 29, 2016.

As chairman of the FCSIC board of directors, Mr. Hall succeeds Dallas P. Tonsager, who served as chairman from March 13, 2015, until November 22, 2016, when the president designated him FCA board chairman and CEO. Mr. Tonsager remains a member of the FCSIC board of directors.

We are sad to report that in March 2017, Board Member Kenneth A. Spearman passed away. He was a member of the FCSIC board since 2009 and served as chairman from 2009 until 2015 when he became board chairman and CEO of FCA. As a result of his death, the FCSIC board now has a vacant position.

# Jeffery S. Hall

Jeffery S. Hall is chairman of the board of directors of FCSIC. He was elected to this position on November 29, 2016. Mr. Hall has served on the FCSIC board and on the FCA board since his appointment by President Barack Obama on March 17, 2015. He is serving a term that expires on October 13, 2018.

Before coming to FCSIC and FCA, Mr. Hall was president of The Capstone Group, an association management and consulting firm that he cofounded in 2009. From 2001 to 2009, he was the State Executive Director for the U.S. Department of Agriculture's (USDA's) Farm Service Agency in Kentucky. In that role, he was responsible for farm program and farm loan program delivery and compliance.

From 1994 to 2001, Mr. Hall served as assistant to the dean of the University of Kentucky, College of Agriculture, advising the dean on state and federal legislative activities and managing a statewide economic development initiative called Ag-Project 2000.

Mr. Hall also served as a senior staff member in the office of U.S. Senator Mitch McConnell from 1988 to 1994. During that time, he was the Legislative Assistant for Agriculture, accountable for internal and external issue management.

Before joining Senator McConnell's staff, Mr. Hall served on the staff of the Kentucky Farm Bureau Federation. Over his 30-year career in agriculture, he has held leadership positions in the following nonprofits: the Kentucky Agricultural Council, the Agribusiness Industry Network, the Louisville Agricultural Club, the Kentucky Agricultural Water Quality Authority, and the Governor's Commission on Family Farms.

Mr. Hall was raised on a family farm in southern Indiana, which has been in his family for nearly 200 years. He is currently a partner in the farm with his mother and sister. Mr. Hall received a Bachelor of Science degree from Purdue University.

# Dallas P. Tonsager

Dallas P. Tonsager has served on the FCSIC board of directors and on the FCA board since his appointment by President Barack Obama on March 13, 2015. He served as chairman of the FCSIC board of directors until he was appointed chairman and CEO of FCA on November 22, 2016.

Mr. Tonsager brings to his position on the FCSIC board extensive experience as an agriculture leader and producer, and a commitment to promoting and implementing innovative development strategies to benefit rural residents and their communities.

Mr. Tonsager served as under secretary for Rural Development at USDA from 2009 to 2013. In this position, he expanded broadband communication in rural America and implemented other key elements of the Recovery Act for rural America. He dramatically expanded USDA's water and wastewater programs, expanded funding for first- and second-generation biofuels, and funded hospitals and other public facilities in rural America.

In addition, Mr. Tonsager worked with the Farm Credit System and others to set up new venture capital investment funds. From 2010 to 2013, he was a member of the Commodity Credit Corporation board of directors.

From 2004 to 2009, Mr. Tonsager served as a member of the FCA board, as well as a member of the FCSIC board of directors.

From 2002 to 2004, he was the executive director of the South Dakota Value-Added Agriculture Development Center. In this position, he coordinated initiatives to better serve producers interested in developing value-added agricultural projects. Services provided by the center include project facilitation, feasibility studies, business planning, market assessment, technical assistance, and education.

In 1993, he was selected by President William J. Clinton to serve as USDA's state director for rural development in South Dakota. Mr. Tonsager oversaw a diversified portfolio of housing, business, and infrastructure loans in South Dakota. His term ended in February 2001.

A longtime member of the South Dakota Farmers Union, Mr. Tonsager served two terms as president of the organization from 1988 to 1993. During that same period, he was a board member of Green Thumb Inc., a nationwide job training program for senior citizens. In addition, he served on the board of National Farmers Union Insurance from 1989 to 1993, and he was a member of the advisory board of the Commodity Futures Trading Commission from 1990 to 1993.

Mr. Tonsager grew up on a dairy farm near Oldham, South Dakota. For many years, he and his older brother owned Plainview Farm in Oldham, a family farm on which they raised corn, soybeans, wheat, and hay. Mr. Tonsager is a graduate of South Dakota State University where he earned a Bachelor of Science degree in agriculture in 1976.

# 2016 — Year in Review

## Insurance Fund

As of December 31, 2016, the Farm Credit Insurance Fund was at $4.45 billion (1.96 percent of adjusted insured debt outstanding), which was $88 million below the secure base amount. (See table 1 on page 10 and "Insurance Fund Management" on page 17.) Consequently, no funds were available to transfer to the allocated insurance reserves accounts. (See "Notes to the Financial Statements" on page F11.)

## FCSIC's Operations

FCSIC's first full year of operations was 1993. That year, the Insurance Fund grew to $642 million, insuring $53.70 billion in System debt. We had a nine-member core staff and contracted with FCA for examination and administrative support. Other specialized services were available through public and private sector contractual arrangements on an as-needed basis.

Twenty-three years later, the Insurance Fund is about seven times larger, insuring $258.43 billion of System debt. Yet we continue to operate effectively with a small 11-person staff. We continue to carry out our mission in a cost-effective manner by leveraging our resources and purchasing support services from FCA and other public and private sector contractors.

Our operating costs as a percentage of our total assets were 8 basis points (0.08 percent) for 2016, representing no change since 2014. In September 2016, the FCSIC board of directors approved budgets for 2017 and 2018. The 2017 budget is $4.08 million, which is a decrease of 0.5 percent from the 2016 budget.

## Policy Statement Concerning Allowance for Insurance Fund Losses

In January, the FCSIC board adopted a revised Policy Statement Concerning Allowance for Insurance Fund Losses to ensure that the corporation assesses and reports these losses in accordance with generally accepted accounting principles (GAAP). Because we prepare our financial statements on an accrual basis using GAAP, we must recognize an allowance for loss on our financial statements if a loss to the Insurance Fund is probable and can be reasonably estimated. We disclose any loss exposure that is judged to be possible or probable but cannot be reasonably estimated in a footnote to our financial statements.

The policy statement requires FCSIC to continue to evaluate the adequacy of the allowance for losses by using a procedure that meets the requirements of GAAP. This procedure must also include a detailed methodology with specific criteria for assessing the probability of losses to the Insurance Fund and reasonably estimating losses identified as probable.

The review process and any allowance determination must be supported with documentation. The allowance methodology must be regularly validated and updated to incorporate any changes to authoritative sources (such as GAAP provisions and the regulations and policies of FCSIC and FCA) that would affect the evaluation of the adequacy of the allowance for losses to the Insurance Fund.

The allowance for loss review includes an analysis of potential sources of Insurance Fund losses and requires us to evaluate losses from the following sources:

- System banks
- Significant or troubled associations
- Active receiverships and conservatorships
- Assisted institutions
- FCSIC assets

## Strategic Plan

FCSIC adopted a new strategic plan using the revised Office of Management and Budget format. The plan details our long-term goals and objectives, how we intend to achieve those goals, and how we will manage the challenges and risks we will face as we work toward our goals. The 2016-2021 Strategic Plan is available on our website at www.fcsic.gov.

## Financial Assistance for Liquidity Purposes

FCSIC has statutory authority to provide financial assistance to System banks and associations. This assistance may include lending money to System banks in a liquidity crisis in which external market events threaten the System banks' ability to obtain needed funding. Any assistance must be approved by FCSIC's board of directors.

To improve our ability to help System banks in a liquidity crisis, in September 2013, we entered into an agreement for a $10 billion line of credit with the Federal Financing Bank, a government corporation within the U.S. Department of Treasury that provides funds to eligible federal agencies. We can access the credit line when a disruption in financial markets makes it extremely doubtful that the System banks will be able to pay maturing debt obligations that we insure. This liquidity backstop allows us to provide more assistance to System banks than is available from the Insurance Fund only.

We incurred no cost for establishing the line of credit with the Federal Financing Bank. The agreement is renewable annually and will terminate on September 30, 2017, unless renewed. All funds that we borrow from the Federal Financing Bank and then advance to System banks must be fully collateralized and repaid with interest by the System banks receiving assistance. This liquidity backstop should therefore operate without risk or cost to U.S. taxpayers.

During 2016, we worked with representatives of System banks, the Federal Farm Credit Banks Funding Corporation, and FCA to implement procedures for providing assistance during a liquidity crisis. We also kept the Federal Financing Bank apprised of the System's financial status. FCSIC is able to react quickly to a liquidity crisis because we have established procedures, maintain contact with key stakeholders, and regularly test our readiness.

Table 1

## Selected Financial Statistics for the Farm Credit System Insurance Corporation

(Dollars in Millions)

| BALANCE SHEET | 2016 | 2015 | 2014 |
|---|---|---|---|
| Total assets | $4,453.5 | $4,038.8 | $3,750.1 |
| Total liabilities | 0.6 | 0.5 | 0.3 |
| Insurance Fund balance | | | |
| Allocated Insurance Reserves Accounts | 0 | 0 | 0 |
| Unallocated Insurance Fund balance | 4,452.9 | 4,038.3 | 3,749.8 |
| OPERATIONS | | | |
| Revenues | 418.4 | 291.9 | 257.2 |
| Operating expenses | 3.7 | 3.4 | 3.1 |
| Insurance expense | 0 | 0 | 0 |
| Net income | 414.7 | 288.5 | 254.1 |

# The Farm Credit System

## Structure and Funding

The Farm Credit System is a network of federally chartered, cooperative lending institutions owned by the agricultural and rural customers it serves, including farmers, ranchers, producers or harvesters of aquatic products, agricultural cooperatives, and farm-related businesses. As of January 1, 2017, the System had 4 banks and 73 associations. Each association has its own chartered territory and is affiliated with one of the four banks. See table 2 for the combined financial statistics for the banks and associations.

Each association receives wholesale funding from its affiliated bank and lends directly to its owner-borrowers, providing a consistent and reliable source of agricultural and rural credit throughout the United States, including the Commonwealth of Puerto Rico. One of the System banks (CoBank) also has nationwide authority to make retail loans to cooperatives and other eligible entities.

The banks obtain funds for their operations primarily through the sale of consolidated Systemwide debt securities. The banks own and use the Federal Farm Credit Banks Funding Corporation to issue Systemwide debt securities in the capital markets. As the fiscal agent for the banks, the Funding Corporation partners with a select group of dealers to market and distribute the securities to investors throughout the world.

Table 2

### Combined Farm Credit System Statistics

(Dollars in Billions)

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Insured Debt Outstanding[1] | $258.4 | $243.8 | $225.7 |
| Production agriculture: | | | |
| Real estate mortgage loans | 114.5 | 107.8 | 100.8 |
| Production and intermediate-term loans | 50.3 | 49.2 | 46.3 |
| Agribusiness loans[2] | 39.6 | 36.6 | 32.9 |
| Communication loans | 6.0 | 6.2 | 5.0 |
| Energy, water, and waste disposal loans | 21.4 | 19.6 | 16.5 |
| Rural residential real estate loans | 7.2 | 7.1 | 6.8 |
| Agricultural export loans | 5.5 | 5.1 | 4.8 |
| Lease receivables | 3.5 | 3.4 | 3.0 |
| Loans to other financing institutions | 0.8 | 0.9 | 0.9 |
| Cash and investments | 62.6 | 59.4 | 57.8 |
| Net income | 4.8 | 4.7 | 4.7 |
| Nonperforming loans as a percentage of total loans | 0.8% | 0.7% | 0.8% |

1. Insured debt outstanding is based on System institution Call Report information and reflects the book value of insured debt outstanding plus accrued interest as of December 31, 2016, 2015, and 2014. (Book value excludes fair-value adjustments.)
2. As of December 31, 2016, agribusiness loans consisted of loans to cooperatives of $15.30 billion, processing and marketing loans of $21.17 billion, and farm-related business loans of $3.16 billion.

## Investor Protection

Investors provide the funds that the System lends to agriculture and rural America. FCSIC's primary purpose, as defined by the Farm Credit Act, is to ensure the timely payment of principal and interest on Systemwide debt securities purchased by these investors.

## Regulatory Oversight

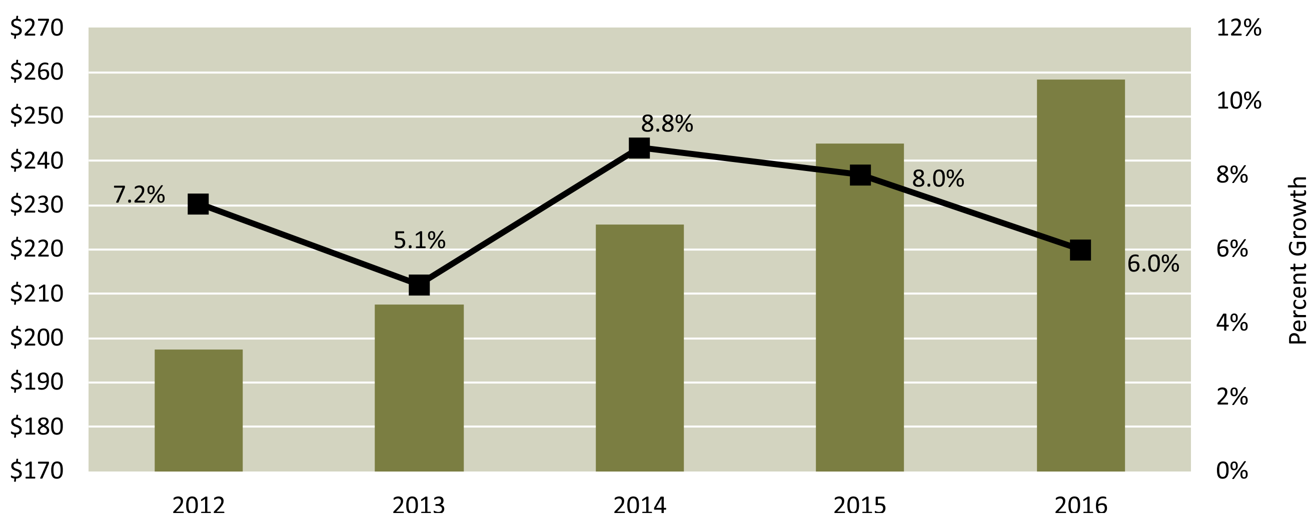
The Farm Credit Administration is the regulator of the Farm Credit System, responsible for the examination, supervision, and regulation of each System institution. FCA is an independent agency in the executive branch of the U.S. government and derives its authorities from the Farm Credit Act. These authorities include examination and enforcement authorities similar to those of commercial bank regulators. The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCSIC, FCA, and the System.

## Insured and Other Obligations

FCSIC insures Systemwide and consolidated bonds, notes, and other obligations issued by System banks through the Federal Farm Credit Banks Funding Corporation under section 4.2(c) or (d) of the Farm Credit Act. Figure 1 shows that insured debt outstanding increased by 6.0 percent in 2016 to $258.4 billion, compared with an increase of 8.0 percent in 2015.

Figure 1

**Insured Debt Outstanding:**
**Growth Averaged 7.0 Percent Over the Past 5 Years**
(Dollars in Billions)




Note: Insured debt outstanding, which is based on the Call Report information provided by System institutions, reflects the book value of insured debt outstanding, plus accrued interest. (Book value excludes fair-value adjustments.)

We also ensure the retirement of eligible borrower stock, also known as protected borrower stock, at par value, as required by section 4.9A of the Farm Credit Act. At year-end 2016, protected borrower stock outstanding at System institutions totaled $1 million, unchanged since year-end 2013.

## Farm Credit System Capital

The primary source of funds to repay insured Systemwide debt securities is the System's borrowers. Each borrower must have a minimum net worth and, in most cases, collateral posted in connection with his or her loan. The borrower makes payments on the loan to the lending bank or association, and it is the banks that ultimately repay Systemwide debt securities.

The lending association in turn makes payments on its loan to the lending bank. All of the banks and associations currently exceed their minimum regulatory capital requirements as protection and support for the repayment of the outstanding insured debt.

If a bank were unable to repay its portion of an insured Systemwide debt obligation, FCSIC would use the Insurance Fund to make the payment on its behalf. If the assets in the Insurance Fund were exhausted, the Farm Credit Act's provisions for joint and several liability would be triggered, requiring the other System banks to repay the defaulting bank's portion of the debt.

As figure 2 shows, the amount of System bank capital plus the balance in the Insurance Fund increased 27 percent, from $17.5 billion at year-end 2012 to $22.2 billion at year-end 2016. However, bank capital plus the amount in the Insurance Fund as a percentage of insured debt outstanding decreased from 8.9 percent in 2012 to 8.6 percent in 2016 (see figure 3). In 2016, the growth in capital exceeded the growth in insured debt outstanding, reversing the declining trend in 2015 and 2014 when the growth in insured debt outstanding exceeded capital growth. Without the Insurance Fund, bank capital as a percentage of insured debt was 6.8 percent at year-ends 2016 and 2015.

Overall, the financial performance and condition of the System on a consolidated basis remain strong, although some institutions continue to experience stress from credit deterioration in certain agricultural sectors. (See trends in the Financial Institution Rating System [FIRS] in the "Risk Management" section beginning on page 25.)

A bank's credit exposure to borrowing associations is partially mitigated by the associations' capital levels. Recent increases in System associations' capital levels, the result of higher retention levels of strong association net incomes, has further reduced credit risk. As figure 4 shows, from 2012 to 2016, combined association capital increased $9.3 billion — an annual average increase of approximately 8.8 percent. Since 2012, the associations have collectively achieved solid earnings and preserved capital, causing association capital as a percentage of total assets to increase to 18.9 percent in 2016 from 17.8 percent in 2012 (see figure 5).

Figure 2

## Bank Capital Plus Insurance Fund

(Dollars in Billions)

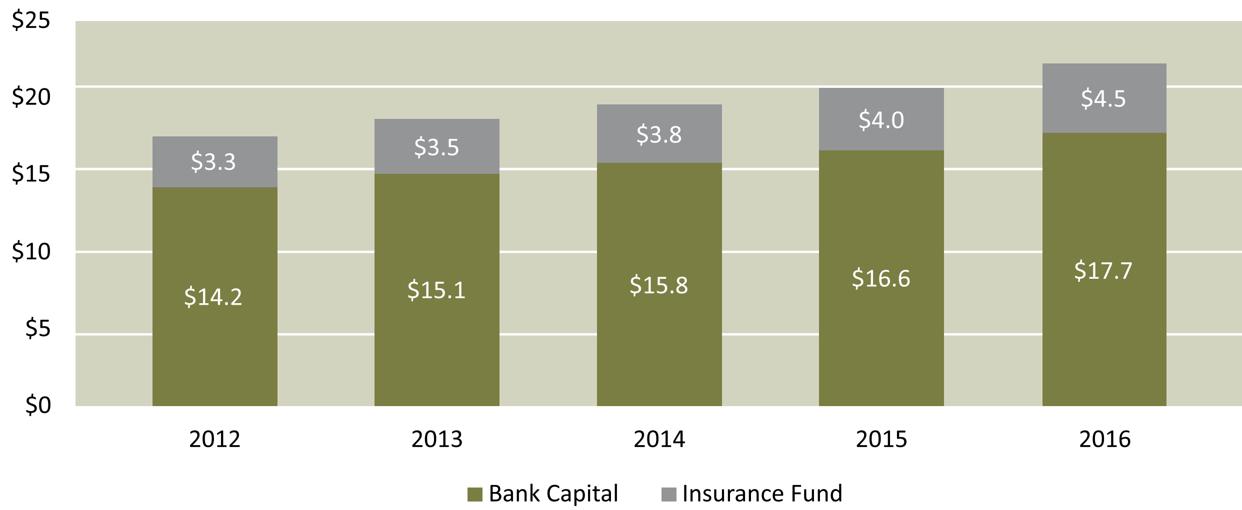



Figure 3

## Bank Capital Plus Insurance Fund as Percentage of Insured Debt

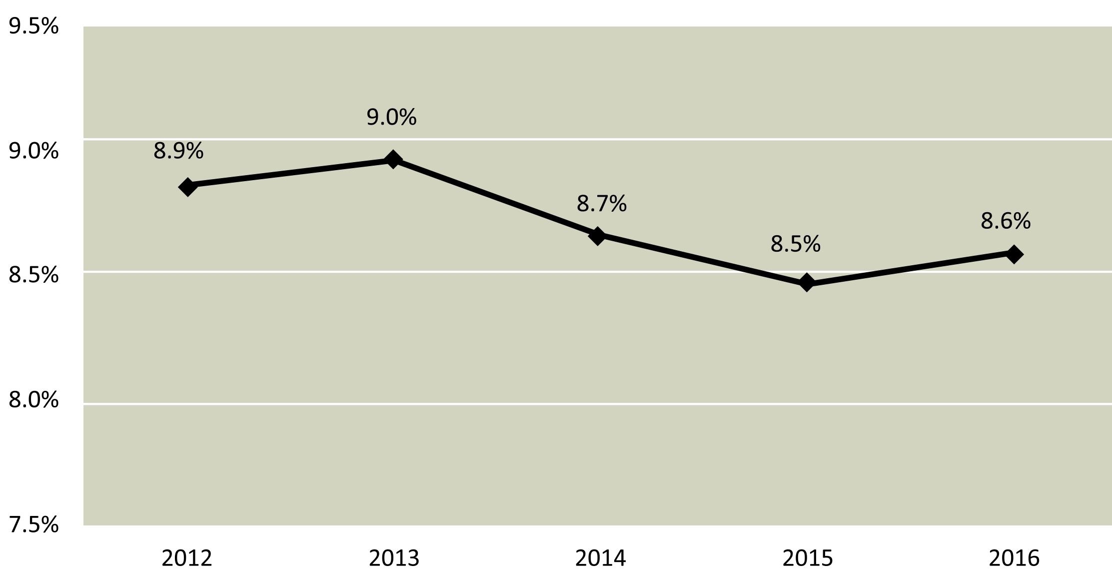


Figure 4
## Combined Association Capital
(Dollars in Billions)

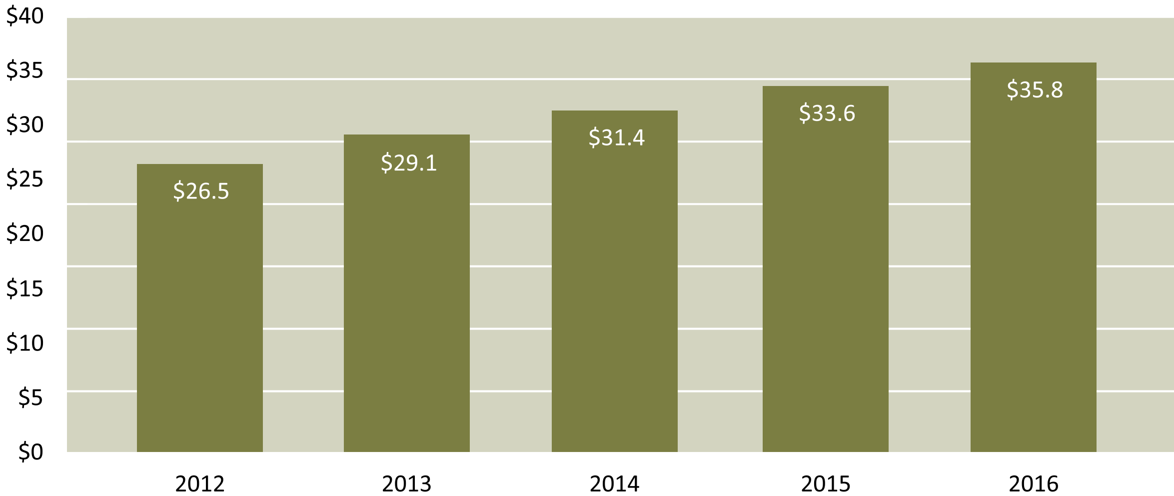
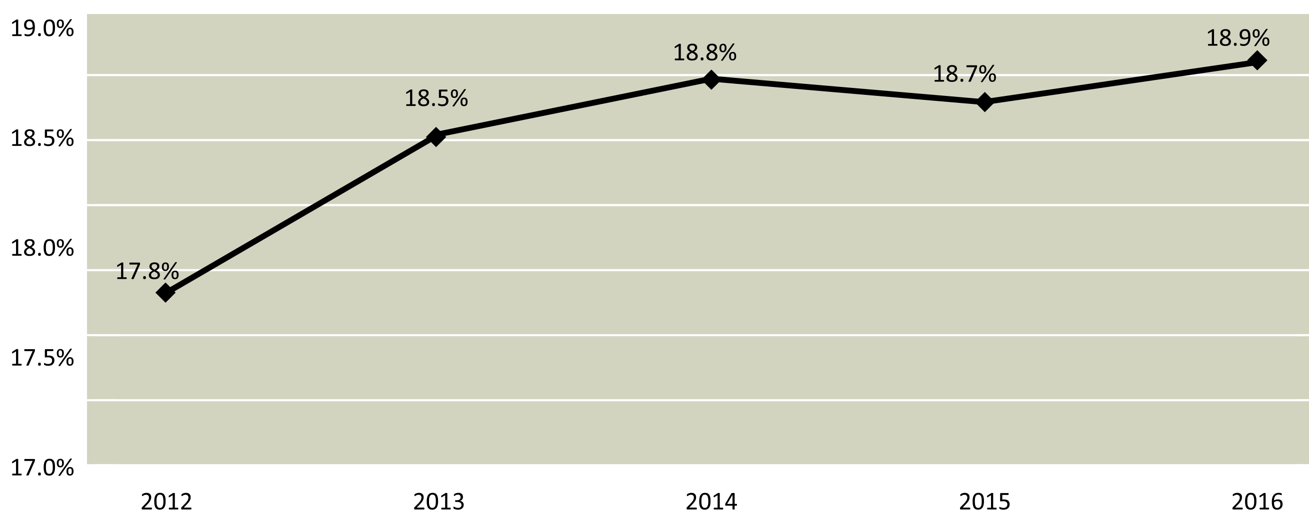



Figure 5
## Combined Association Capital as Percentage of Total Association Assets



## Additional Protections

Farm Credit System banks use additional risk management tools to protect investors. One tool is the Contractual Interbank Performance Agreement (CIPA). All System banks have entered into this agreement, which measures the financial condition and performance of each bank by using ratios that consider bank capital, asset quality, earnings, interest rate risk, and liquidity. The CIPA contains triggers that financially penalize banks that do not meet performance standards.

The System banks and the Federal Farm Credit Banks Funding Corporation have also entered into the Market Access Agreement. The Market Access Agreement establishes conditions for each bank's continued participation in the debt market. If a bank fails to meet agreed-upon performance measures, the bank may be restricted from issuing debt. The criteria used under the Market Access Agreement are the CIPA scores and the bank's tier 1 leverage and total capital ratios.

To improve the quality and quantity of bank liquidity reserves, the System adopted a minimum liquidity standard for its banks. This standard is designed to maintain adequate liquidity to meet the business and financial needs of each bank and the System as a whole in the event access to the debt market is temporarily impeded.

The Farm Credit Administration's liquidity regulation also requires the banks to strengthen management of liquidity risk and maintain a three-tiered liquidity reserve to better withstand a liquidity crisis.

# Insurance Fund Management

## The Insurance Fund and the Secure Base Amount

The Farm Credit Insurance Fund represents FCSIC's equity, the difference between total assets and total liabilities, including insurance obligations. The Insurance Fund is composed of an unallocated insurance fund (the portion of the Insurance Fund for which no specific use has been designated) and an allocated insurance fund (the portion of the Insurance Fund that has been transferred to the allocated insurance reserves accounts- AIRAs). Insurance premiums are due until the unallocated portion of the Insurance Fund reaches the secure base amount.

The Farm Credit Act established the secure base amount as 2 percent of the aggregate outstanding insured obligations (adjusted to exclude 90 percent of federal government-guaranteed loans and investments and 80 percent of state government-guaranteed loans and investments). As an alternative, the act also gives FCSIC the discretion to choose another percentage that we determine to be actuarially sound to maintain in the Insurance Fund, taking into account the risk of insuring outstanding debt obligations.

FCSIC's premiums are set with the goal of reaching and maintaining the 2% secure base amount. However, if growth of insured debt is greater than forecast when premium rates are established (or the Fund is used for some authorized purpose), the Insurance Fund will end the year below the secure base amount and FCSIC will need to collect additional premiums in the following year to make up the shortfall. If growth of insured debt is less than forecast when premium rates are set, then the Insurance Fund may end the year above the secure base amount.

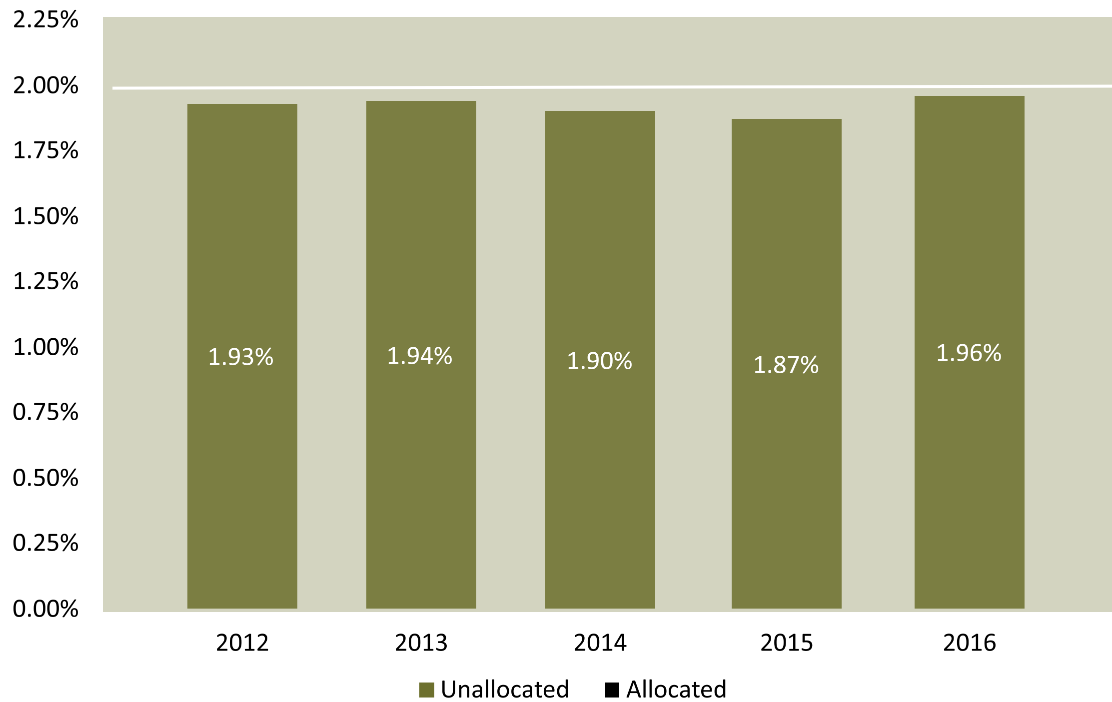
If the Insurance Fund exceeds the secure base amount at the end of any calendar year, FCSIC allocates those amounts, minus operating expenses and insurance obligations, to the allocated insurance reserve accounts established by Congress for the benefit of the System banks and holders of Financial Assistance Corporation stock (FAC stockholders). Once FCSIC determines that the allocation is appropriate and that the AIRA funds are not otherwise needed, FCSIC may pay the amounts in the AIRAs to the account holders in accordance with the formula specified in the Farm Credit Act. FAC stockholders receive 10 percent of any distribution until they have received $56 million under the terms of the Act. In 2010, FCSIC returned a total of $205.3 million to System institutions, with $20.5 million paid to FAC stockholders. In 2012 FCSIC returned a total of $221.9 million, with $22.2 million paid to FAC stockholders. As of 2016, $13 million is the amount that remains to be paid to FAC stockholders.

Both total Insurance Fund and total assets increased by 10.3 percent to $4.45 billion in 2016. Insured debt outstanding grew $14.6 billion in 2016 (6.0 percent). The Insurance Fund finished 2016 at 1.96 percent, which was $88 million below the secure base amount (see figure 6). Consequently, no excess funds were available for allocation to the allocated insurance reserves accounts at year-end 2016.

Total Insurance Fund growth over the past five years is 5.69 percent annually. We did not accrue a provision for insurance obligations in 2016 (see figure 7).

Figure 6

## Insurance Fund Relative to 2 Percent Secure Base Amount

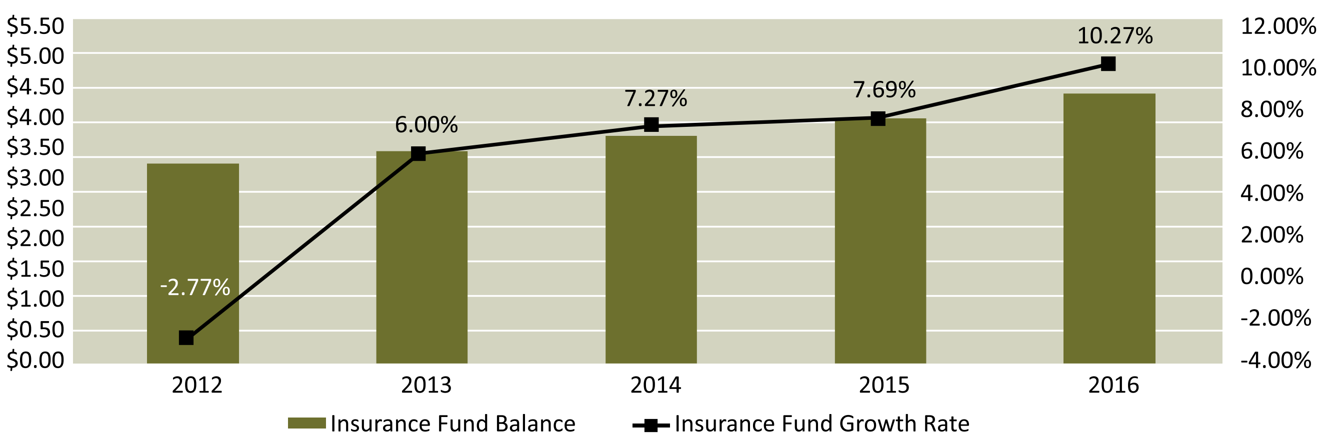



Note: There have been no allocated funds since 2011.

Figure 7

## Insurance Fund Balances and Growth Rates

(Dollars in Billions)



## Premiums

The FCSIC board reviews premium assessment rates as often as necessary but at least semiannually. The review focuses on five factors:

- The level of the Insurance Fund relative to the secure base amount
- Projected losses to the Insurance Fund
- The condition of the System
- The health of the agricultural economy
- Risks in the financial environment

The Farm Credit Act requires premium assessments to be 20 basis points on adjusted insured debt outstanding unless they are reduced by the board of directors. There is a risk surcharge of up to 10 basis points on nonaccrual loans and on other-than-temporarily impaired investments. In addition, the act reduces the total insured debt on which premiums are assessed. The act requires that premiums be based on outstanding insured debt obligations adjusted downward by 90 percent of federal government-guaranteed loans and investments and by 80 percent of state government-guaranteed loans and investments.

The most important factors in determining premium rates for 2016 were the Insurance Fund balance and prospects for Systemwide debt growth during the year. The Insurance Fund began 2016 at $290 million below the 2 percent secure base level. Based on System growth projections that ranged from 2.4 percent to 6.7 percent, with a 4.5 percent weighted average, the FCSIC board set the assessment rate on adjusted insured debt at 16 basis points for the first half of 2016 and 18 basis points for the second half of 2016.

Through May 2016, insured debt outstanding increased by $8.4 billion or 3.4 percent. We conducted a survey of the four System banks in May 2016 to update growth projections for the use of insured debt obligations for the remainder of 2016. Growth estimates ranged from 5.0 percent to 6.8 percent, with a weighted average growth rate of 5.8 percent.

Interim financial statements for May 31, 2016, indicated that the Insurance Fund was estimated to be at 1.88 percent of adjusted insured obligations, or $270 million below the secure base amount. This represented an improvement of $20 million from the beginning of the year. The board, at its June meeting, maintained the premium assessment rate on adjusted insured debt at 18 basis points for the second half of 2016.

Systemwide use of insured debt obligations increased more than expected during the second half of 2016 (see table 3). In December alone, Systemwide insured debt obligations grew $3.6 billion. Consequently, the Insurance Fund finished 2016 below the 2 percent secure base level, at 1.96 percent of adjusted insured obligations or $88 million below the target level.

Our board of directors decreased the assessment rate on adjusted insured debt to 15 basis points for 2017 because of slower expected growth in insured debt obligations for 2017. The board also continued the risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

Table 3

## Calculation of Secure Base Amount
## Results As of December 31, 2016

(Dollars in Millions)

| Debt Outstanding | Final 12/31/2015 | Interim 5/31/2016 | Final 12/31/2016 |
|---|---|---|---|
| Total Principal and Interest | $243,818 | $252,218 | $258,432 |
| Less: | | | |
| 90 percent federal government-guaranteed loans | (5,399) | (5,287) | (5,285) |
| 80 percent state government-guaranteed loans | (27) | (27) | (21) |
| 90 percent federal government-guaranteed investments | (21,998) | (23,286) | (26,088) |
| 80 percent state government-guaranteed investments | - | - | - |
| Total deduction | (27,424) | (28,600) | (31,394) |
| Adjusted insured debt | 216,394 | 223,618 | 227,038 |
| Secure base amount (2%) | 4,328 | 4,472 | 4,541 |
| Unallocated and allocated Insurance Fund balance | 4,038 | 4,202 | 4,453 |
| Unallocated and allocated Insurance Fund as a percentage of adjusted insured debt | 1.87% | 1.88% | 1.96% |

## Revenues and Expenses

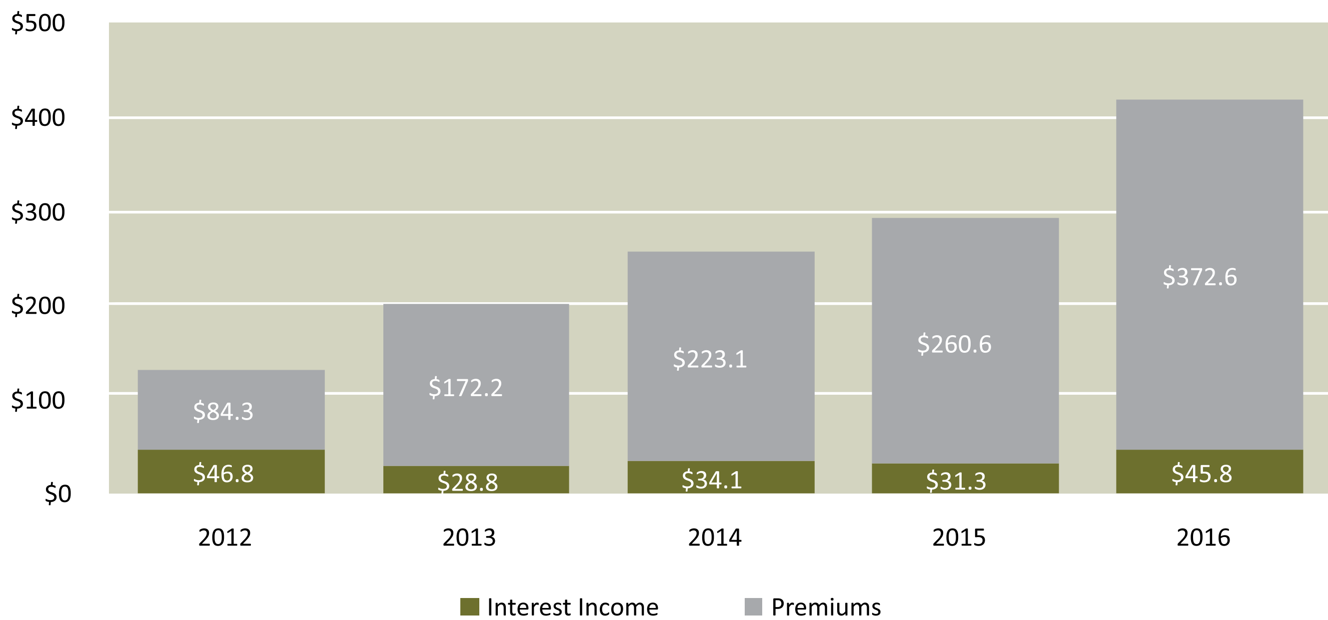
FCSIC operates with no appropriated funds. We collect insurance premiums from each Farm Credit System bank. These premiums and the income from our investment portfolio provide the funds necessary to fulfill our mission.

Our revenues increased by 43 percent to $418.4 million in 2016 from $291.9 million in 2015 (see figure 8). Revenues increased primarily because of higher insurance premiums in 2016. Interest income increased 46 percent in 2016 to $45.8 million from $31.3 million in 2015.

Figure 8

**FCSIC Revenues**

(Dollars in Millions)



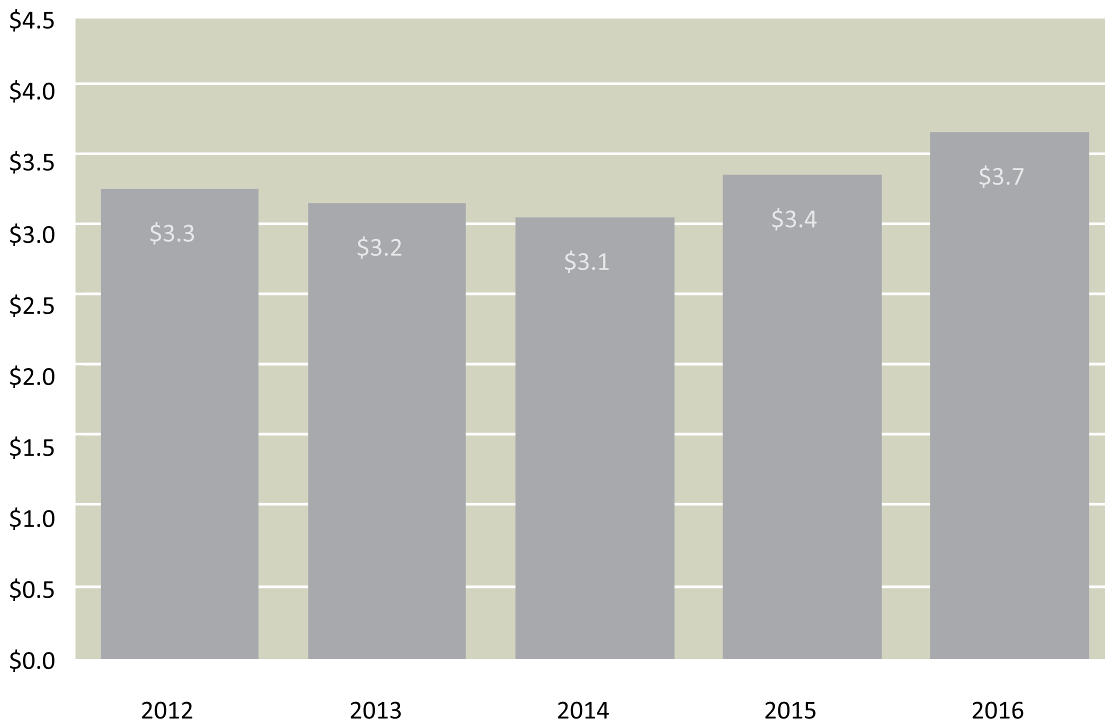
To avoid duplication of effort and to minimize costs, we operate with a small core staff and use private and public sector contractors to leverage our efforts. Our board of directors and management adopted this model as a cost-effective and efficient way to use available expertise, services, and resources to accomplish our mission.

Our operating costs as a percentage of total assets represented 8 basis points for 2016, unchanged since 2014. Fixed costs for staff salaries, travel, rent, and miscellaneous expenses were $2.8 million of the $3.7 million total for the year (see figure 9). The remaining expenses of $0.9 million were for contract services.

Figure 9

**FCSIC Operating Expenses**

(Dollars in Millions)



# Investments

FCSIC investments increased during the year from $3.6 billion as of December 31, 2015, to $4.0 billion as of year-end 2016 (see figure 10). An investment security of $46.4 million matured on December 31, 2016, and its proceeds were classified as "other receivables" on our balance sheet. An overnight investment of $140,000 was classified as "cash and cash equivalents."

Our primary investment objective is to ensure adequate liquidity of the Insurance Fund to meet our mission, and our secondary objective is to optimize the rate of return on our investment portfolio. Funds are invested in U.S. Treasury securities in accordance with the Farm Credit Act and our investment policy.

We added new benchmarks in 2014 to enhance our ability to assess portfolio performance. Three weighted-average Treasury yield benchmarks serve as primary benchmarks. Two Treasury index funds serve as secondary benchmarks. These index funds are considered secondary benchmarks because a portion of their returns is generated through trading. The FCSIC Policy Statement Concerning Investments prohibits trading for capital gains purposes.

In 2016, the average portfolio yield was 1.14 percent, up from 0.84 percent the prior year, while the average return for the primary benchmarks ranged from 0.75 percent to 0.86 percent. The average return for the secondary benchmarks ranged from 0.86 percent to 0.91 percent for 2016.

In accordance with our investment policy, our portfolio is composed of a liquidity pool and an investment pool. The liquidity pool consists of short-term Treasury securities maturing in 2 years or less. The investment pool is composed of Treasury securities with maturities that vary from 2 to 10 years. Our investment policy requires the liquidity pool to be at least 20 percent of the portfolio. The policy also states that securities maturing in 5- to 10-years must not exceed 20 percent of the portfolio.

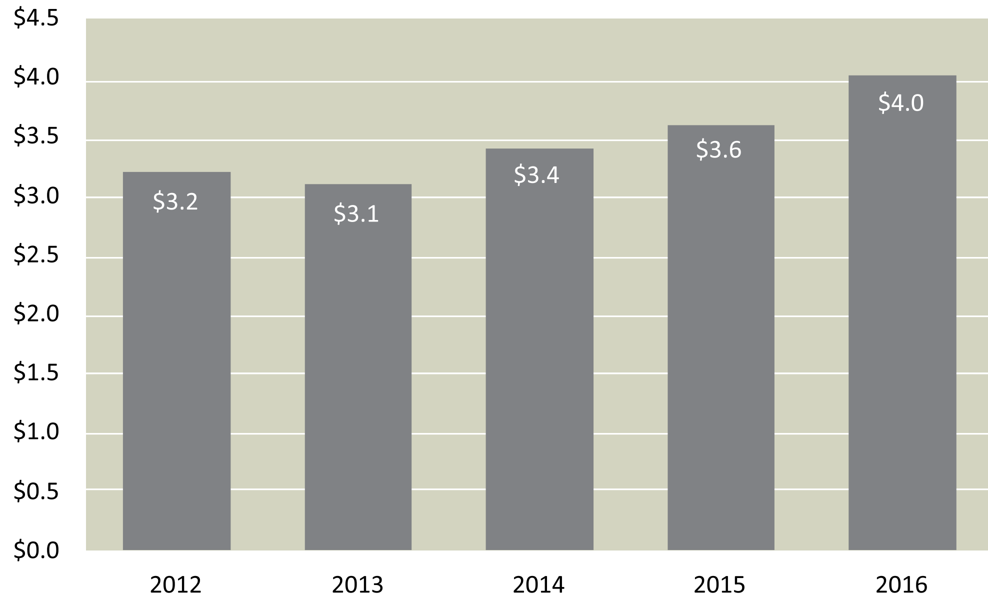
The weighted average maturity of the portfolio at year-end was 2.16 years. The composition of the investment portfolio as of December 31, 2016, is shown in figure 11.

In June 2008, we began purchasing Treasury Inflation Protected Securities (TIPS). TIPS have a stated rate of interest, payable semiannually, which is applied to the inflation-adjusted principal. TIPS provide a hedge against inflation, in terms of both yield and market value. TIPS have experienced monthly inflation or deflation adjustments, but the United States has not had an annual deflationary environment since 1954, more than 60 years ago. Because of the volatility of the monthly returns on TIPS and the risk of loss resulting from deflation, the FCSIC Investment Committee limits TIPS to no more than 20 percent of the portfolio. At year-end 2016, our TIPS investments totaled $196 million or 4.9 percent of the investment portfolio.

Figure 10

## FCSIC Investments

(Dollars in Billions)

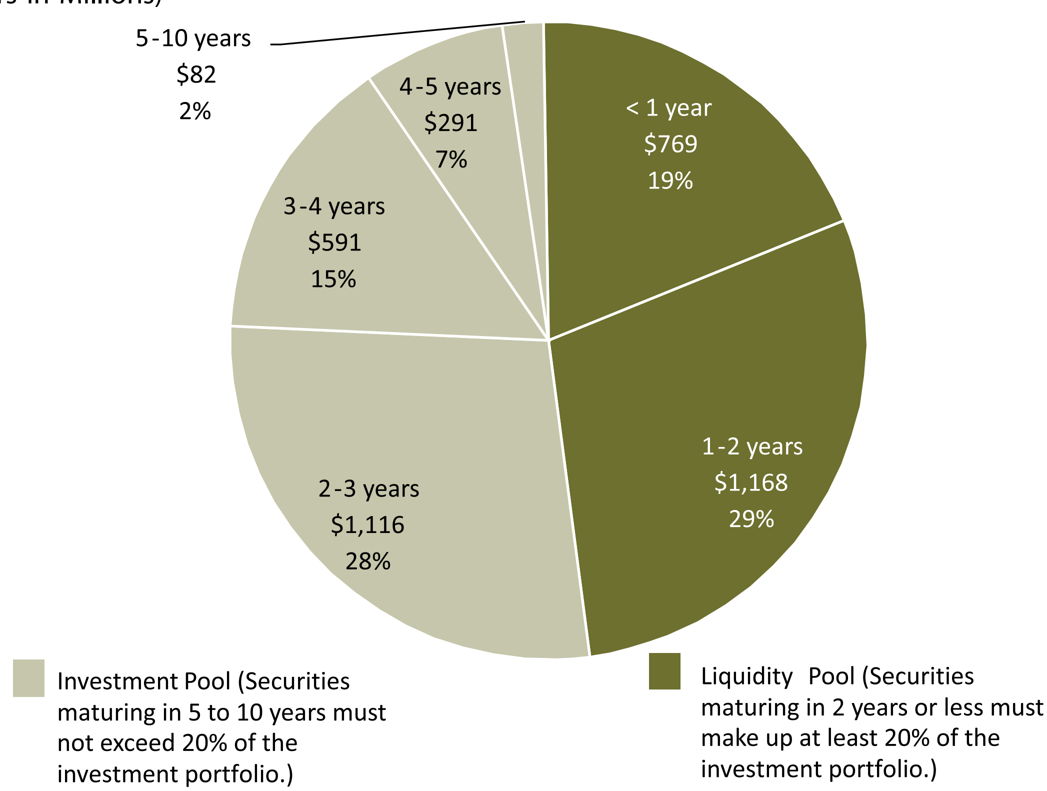



Note: Total investments reflected on this chart do not include overnight investments classified as "cash and cash equivalents" from the balance sheet.

Figure 11

## Investment Portfolio by Maturity as of December 31, 2016

(Dollars in Millions)




Note: Total investments reflected on this chart include overnight investments classified as "cash and cash equivalents" from the balance sheet.

# Risk Management

## FCSIC's Risk Profile

To carry out our mission as insurer of Systemwide obligations, we monitor conditions in the Farm Credit System, the farm economy, the rural economy, and domestic and international economies. All of these conditions affect the demand for loans and other services offered by the System. They also affect the ability of borrowers to repay their obligations in a timely manner. Specifically, we monitor

- price volatility for agricultural commodities,
- changes in farmland values,
- changes in government support programs for agriculture,
- loan concentration in the agricultural sector,
- changes in supply and demand for U.S. agricultural products,
- changes related to international trade and the value of the U.S. dollar,
- changes in production costs,
- changes in the domestic economy that affect incomes from off-farm jobs,
- weather conditions,
- environmental and other regulatory costs, and
- the availability of agricultural workers.

In addition, FCSIC's risk profile is affected by the System's ability to access the debt markets. The System depends on reliable access to the debt markets to fulfill its mission of providing loans and related financial services to U.S. farmers and ranchers, farmer-owned cooperatives, rural homebuyers, agribusinesses and rural infrastructure providers. The System's access to the debt markets and funding costs may be influenced by circumstances such as a downturn in agriculture, a general disruption in the U.S. and global financial markets, competition with other debt issuers, negative news about government-sponsored enterprises, or a downgrade in the System's credit ratings.

The major types of risk to which the System has exposure include the following:

- Credit risk – risk of default on a debt that may arise from a borrower failing to make required payments.
- Liquidity risk – risk that an institution may be unable to meet short–term financial demands without unacceptable losses.
- Interest rate risk – risk that changes in interest rates may reduce the value of assets with a consequent negative impact on operating results and financial condition.
- Operational risk – prospect of loss resulting from inadequate or failed procedures, controls, systems, or policies, including employee errors, systems failures, or fraud or other unauthorized activity.
- Structural risk – risk related to the design of the Farm Credit System. For example, as a lender to a single industry (agriculture), the System has a built-in concentration risk.

- Reputational risk – risk resulting from events that affect the reputation of the System or the agriculture industry.
- Political risk – risk of loss of support from federal and state governments.

## The Risk Environment in 2016

The U.S. economy continued to expand at a modest pace in 2016. Economic output as measured by real gross domestic product (GDP) increased by 1.6 percent in 2016, compared with 2015 when GDP increased by 2.6 percent.

At year-end 2016, the U.S. unemployment rate was 4.7 percent compared with 5.0 percent at the end of 2015. Job gains in 2016 totaled 2.2 million, a decline of about half a million from the previous year. At the same time, the number of people in the workforce declined. Those counted outside the labor force increased to 95.1 million in 2016. The labor force participation rate increased slightly to 62.7 percent, which is still near the lowest level since the late 1970s.

The Federal Open Market Committee, a committee of the Federal Reserve Board, raised the target range for the federal funds rate to between 0.50 percent and 0.75 percent in December 2016. It again raised the target range in March 2017 to between 0.75 percent and 1 percent.

The agricultural industry continued to experience stress in 2016, particularly in the grains sector where weak commodity prices continued to hurt rural economies. According to USDA estimates, 2016 net cash income (a measure of cash income after payment of business expenses) was $91.9 billion, down $12.8 billion from 2015 and down $11.3 billion from its 10-year average of $103.2 billion. The decline in 2016 net cash income was primarily due to decreases in livestock receipts of $21.7 billion and cash farm-related income of $3.7 billion, partially offset by an increase in crop cash receipts of $2.0 billion and a decrease in cash expenses of $8.3 billion.

USDA's February 2017 forecast indicates continued financial pressure in the agricultural sector. It forecasts 2017 farmers' net cash income to increase to $93.5 billion, up $1.6 billion from 2016 but $9.7 billion below the 10-year average. Farm sector debt is expected to increase 5.2 percent to $395 billion. USDA projects farm sector equity (assets minus debt) will decline 2.1 percent in 2017 to $2.44 trillion. If realized, this would be the third consecutive year of declining farm sector equity.

The value of farm real estate assets, forecast to be about $2.4 trillion in 2017, accounts for about 84 percent of total farm sector assets. In 2016 and into 2017, USDA anticipates a 1.1 percent decline in real estate values. This change reflects falling farm profit margins, increased interest rates, and more restrictive loan terms.

The System reported net income of $4.848 billion for 2016, up 3.4 percent from $4.688 billion in 2015. Net interest margin was 2.49 percent compared with 2.55 percent for 2015. The decline in net interest margin was due to a decrease in net interest spread of 9 basis points to 2.31 percent for 2016. Several factors contributed to the decline in the net interest spread, including competitive pressures, a change of the product mix into lower spread lines of business, and an increase in debt costs.

The System continued to have reliable access to the debt markets. Discount note issuances were $200 billion in 2016, compared with $189.6 billion in 2015. The average rate for discount notes was 0.51 percent in 2016, compared with 0.21 percent in 2015. Term debt issuances were $134 billion in 2016, compared with $109 billion in 2015. The average rate for term debt was 0.66 percent in 2016, compared with 1.08 percent in 2015. The System banks collectively called $57.9 billion in term debt in 2016, compared with $34.4 billion in 2015.

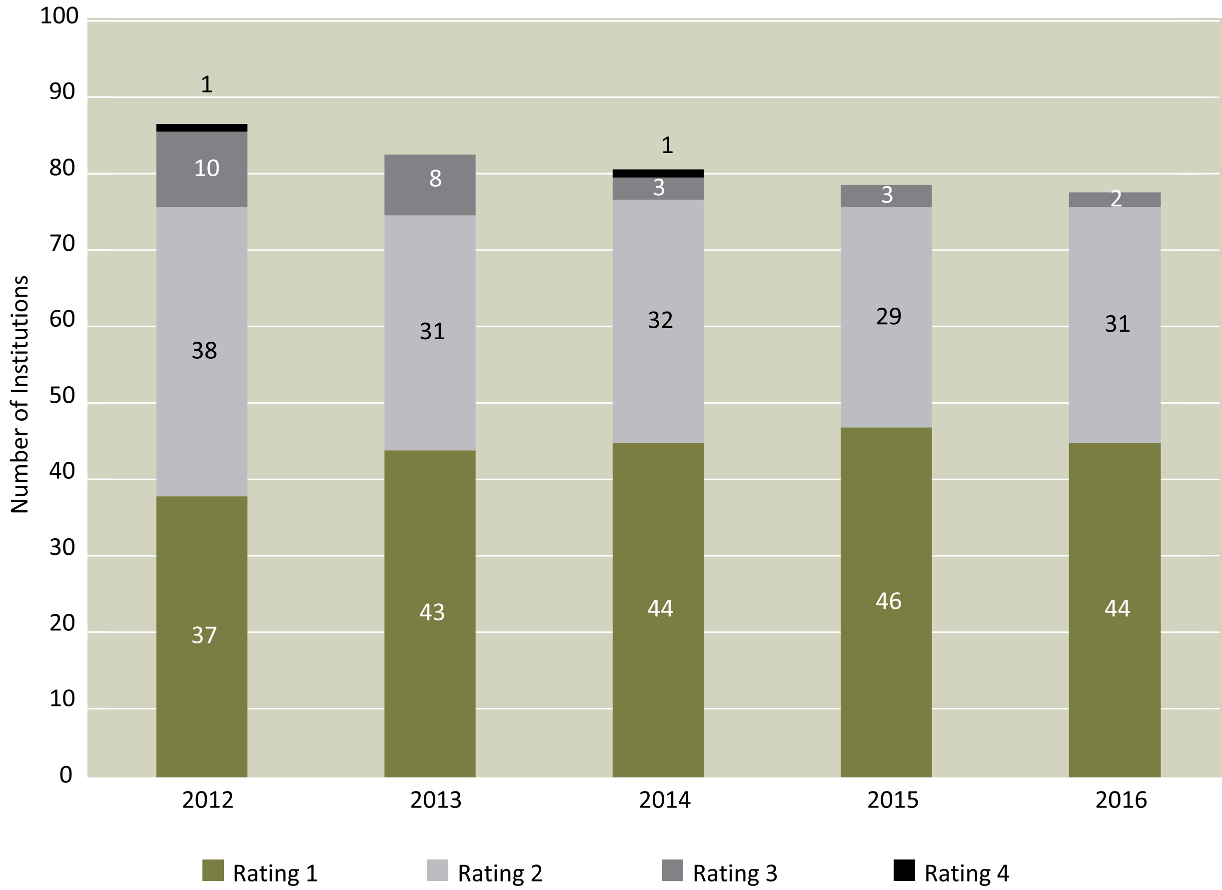
The Farm Credit Administration authorizes each System bank to hold eligible investments in an amount not to exceed 35 percent of its total outstanding loans for the purposes of maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk. The liquidity reserve must consist at all times of marketable investments that are sufficient to fund 90 days of on-balance-sheet maturing obligations. The System reported a combined $59.6 billion in cash and available-for-sale investments with a liquidity position of 180 days at year-end 2016 compared with 181 days at year-end 2015. The System banks are further required to maintain a three-tiered liquidity reserve, consisting of level 1 instruments to cover each bank's maturing obligations for the first 15 days, level 1 and 2 instruments sufficient to cover days 16 to 30, and level 1, 2, and 3 instruments to cover days 31 to 90. All four System banks exceeded these requirements in 2016.

The System banks have established contingency funding plans to provide for events that could impede access to the debt markets. The System banks also regularly perform credit and liquidity stress testing to determine their ability to withstand severe market events while continuing to fulfill their mission. FCSIC continues to enhance its model for assessing Insurance Fund solvency. The improved model will allow us to include bank investment assets as a component in the simulation of risks to the solvency of the Insurance Fund. In addition, we are updating the historic data used to estimate the probability and severity of modeled insurance obligations. We expect the updated model to improve our ability to forecast the Insurance Fund's capacity to withstand insurance losses if they occur.

Figure 12 shows a summary of composite year-end Financial Institution Rating System ratings for System banks and associations. Institutions with performance-related issues continued to receive greater examination scrutiny and supervisory attention from FCA.

Figure 12

## FIRS Composite Year-End Ratings for Banks and Associations of the Farm Credit System




Source: FCA

Note: Figure reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, the Federal Agricultural Mortgage Corporation, or the Federal Farm Credit Banks Funding Corporation.

# Financial Assistance and Receivership

FCSIC is authorized to provide assistance to troubled System banks and associations to prevent default, restore normal operations, and facilitate mergers or consolidations. In 2016, no institution received assistance. If a System institution were to need financial assistance, we would first have to ensure that the proposed assistance is the least costly means for resolving the institution's problems. By law, we may not provide financial assistance if the cost of liquidation is lower than the cost of providing assistance.

In 2016, we worked with the System and FCA to develop and test procedures to be used if a System bank requires liquidity assistance. The procedures implement the FCSIC board's Policy Statement Concerning Assistance. The procedures were approved in September 2016. We also revised our model assistance agreement and drafted forms for valuation of collateral and liquidity reserves.

When appointed by FCA, FCSIC has the statutory responsibility to serve as receiver or conservator for System banks and associations. As conservator, we will operate the institution as a going concern. When appointed as receiver, we will take possession of a System institution to settle its business operations, collect the debts owed to it, liquidate its property and assets, pay its creditors, and distribute any remaining proceeds to stockholders. At the present, there are no active receiverships or conservatorships in the System.

We use contractors on an as-needed basis so that we can operate with a small core staff while also maintaining our readiness to act as receiver or conservator. These contractors provide knowledgeable and readily available staff resources while allowing us to contain costs during periods of limited or no activity.

Our staff also maintains contact with the resolution staff of the Federal Deposit Insurance Corporation and other federal receivership authorities to stay informed about best practices and exchange information concerning receivership management.

As part of our strategic plan, we continue to pursue a legislative initiative to modernize and strengthen our resolution authorities, including our receivership and conservatorship powers. These changes would ensure that we have express statutory authority comparable to that of other federal receivers and conservators. They would also improve our ability to protect investors and reduce the cost of resolving a troubled System institution. Since 1987, there have been no substantive amendments to the Farm Credit Act relating to FCSIC's resolution authorities.

We have several board-approved policy statements that provide guidance related to resolution activities, including appraisals of real estate securing nonperforming assets, insurance of assets that come under our control, and environmental hazards assessments of real estate securing nonperforming assets. The FCSIC board must review and approve policy statements every five years.

# FARM CREDIT SYSTEM INSURANCE CORPORATION

McLean, VA

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

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**Independent Auditors' Report**

To the Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Farm Credit System Insurance Corporation ("FCSIC"), which comprise the statement of financial condition as of December 31, 2016 and 2015, and the related statements of income and expenses and changes in insurance fund and cash flows for the years then ended, and related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Farm Credit System Insurance Corporation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Reporting Required by U.S. Government Auditing Standards***

In accordance with U.S. Government Auditing Standards, we have also issued our report dated February 7, 2017 on our consideration of FCSIC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with U.S. Government Auditing Standards in considering FCSIC's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
February 7, 2017

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**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with U.S. Government Auditing Standards**

To the Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Farm Credit System Insurance Corporation ("FCSIC"), which comprise the statement of financial condition as of December 31, 2016, and the related statements of income and expenses and changes in insurance fund and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated February 7, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements we considered FCSIC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCSIC's internal control. Accordingly, we do not express an opinion on the effectiveness of FCSIC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether FCSIC's financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under U.S. Government Auditing Standards.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FCSIC's internal control or on compliance. This report is an integral part of an audit performed in accordance with U.S. Government Auditing Standards in considering FCSIC's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
February 7, 2017

FARM CREDIT SYSTEM INSURANCE CORPORATION
STATEMENTS OF FINANCIAL CONDITION
As of December 31, 2016 and 2015
(Dollars in thousands)

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 241 | $ 148,788 |
| Investments in U.S. Treasury obligations | 4,016,813 | 3,615,305 |
| Premiums receivable | 372,721 | 260,634 |
| Accrued interest receivable | 17,334 | 14,045 |
| Other receivables | 46,356 | - |
| **Total Assets** | $ 4,453,465 | $ 4,038,772 |
| **Liabilities and Insurance Fund** | | |
| Accounts payable and accrued expenses | $ 561 | $ 531 |
| **Total Liabilities** | 561 | 531 |
| Farm Credit Insurance Fund | | |
| Allocated Insurance Reserves Accounts | - | - |
| Unallocated Insurance Fund | 4,452,904 | 4,038,241 |
| **Total Insurance Fund** | **4,452,904** | **4,038,241** |
| **Total Liabilities and Insurance Fund** | **$ 4,453,465** | **$ 4,038,772** |

FARM CREDIT SYSTEM INSURANCE CORPORATION
STATEMENTS OF INCOME AND EXPENSES AND CHANGES IN INSURANCE FUND
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands)

| | 2016 | 2015 |
|---|---|---|
| **Income** | | |
| Premiums | $ 372,626 | $ 260,617 |
| Interest income | 45,751 | 31,295 |
| **Total Income** | **418,377** | **291,912** |
| **Expenses** | | |
| Administrative operating expenses | 3,714 | 3,420 |
| **Total Expenses** | **3,714** | **3,420** |
| **Net Income** | **414,663** | **288,492** |
| **Farm Credit Insurance Fund — Beginning of Year** | **4,038,241** | **3,749,749** |
| Payments to AIRAs Accountholders | **-** | **-** |
| **Farm Credit Insurance Fund — End of Year** | **$ 4,452,904** | **$ 4,038,241** |

FARM CREDIT SYSTEM INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands)

| | 2016 | 2015 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ 414,663 | $ 288,492 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Increase) decrease in premiums receivable | (112,087) | (37,376) |
| (Increase) decrease in accrued interest receivable | (3,289) | (521) |
| (Increase) decrease in other receivables | (46,356) | - |
| Net amortization and accretion of investments | 17,463 | 34,034 |
| (Increase) decrease in accounts payable and accrued expenses | 30 | 183 |
| **Net Cash Provided by Operating Activities** | **270,424** | **284,812** |
| **Cash Flows from Investing Activities** | | |
| Payments for purchase of U.S. Treasury obligations | (1,387,970) | (1,067,862) |
| Proceeds from maturity of U.S. Treasury obligations | 968,999 | 796,662 |
| **Net Cash Provided by Investing Activities** | **(418,971)** | **(271,200)** |
| **Cash Flows from Financing Activities** | | |
| Payment to AIRAs Accountholders | **-** | **-** |
| **Net Cash Used in Financing Activities** | **-** | **-** |
| Net change in cash and cash equivalents | (148,547) | 13,612 |
| Cash and cash equivalents, beginning of year | 148,788 | 135,176 |
| **Cash and Cash Equivalents, End of Year** | **$ 241** | **148,788** |

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

## NOTE 1 – Farm Credit Insurance Fund (Insurance Fund): Statutory Framework

The Agricultural Credit Act of 1987 established the Farm Credit System Insurance Corporation (the Corporation or FCSIC) for the purpose of ensuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 of the Farm Credit Act of 1971, as amended (the Farm Credit Act), (insured obligations). Each bank in the Farm Credit System (System) participating in insured obligations is an insured System bank. At December 31, 2016, there were four insured System banks and 74 direct lender associations.

The Corporation is managed by a Board of Directors consisting of the same individuals as the Farm Credit Administration (FCA) Board except that the Chairman of the FCA Board may not serve as the Chairman of the Corporation's Board of Directors.

The Corporation must spend the amounts necessary to:

1. Ensure the timely payment of interest and principal on insured obligations in the event of default by an insured System bank; and

2. Ensure the retirement of eligible borrower stock at par value under section 4.9A of the Farm Credit Act.

The Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to System banks and direct lender associations.

As of December 31, 2016, there were $258.4 billion of insured obligations and less than $1 million of eligible borrower stock outstanding.

If the Corporation does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability, as required by section 4.4 (a)(2) of the Farm Credit Act.

Under section 5.63 of the Farm Credit Act, the Corporation is exempt from all Federal, state, and local taxes with the exception of real property taxes.

## NOTE 2 – Summary of Significant Accounting Policies

*Basis of Accounting* — The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP) and, as such, the financial statements have been prepared using the accrual basis of accounting.

*Cash and Cash Equivalents* — Cash and cash equivalents include investments in U.S. Treasury obligations with original maturities of 90 days or less. At December 31, 2016, the Corporation held $140 thousand in overnight Treasury Certificates maturing on January 3, 2017, with an investment rate of 0.39 percent, and $100,849 in cash. At December 31, 2015, the Corporation held $148.7 million in overnight Treasury Certificates maturing on January 4, 2016, with an investment rate of 0.08 percent, and $100,084 in cash.

**NOTE 2 – Summary of Significant Accounting Policies (cont. )**

*Investments in U.S. Treasury Obligations* — Section 5.62 of the Farm Credit Act requires that funds of the Corporation, not otherwise employed, shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Corporation has classified its investments as held to maturity in accordance with Financial Accounting Standards Board Accounting Standards Codification 320, *Investments - Debt and Equity Securities* and carries them at amortized cost. Amortization of premium and accretion of discount on investments has been computed under the interest method since 2002. Fair value of investments is estimated based on quoted market prices for those or similar instruments.

*Other Receivables* — The Corporation reports receivables for securities when investments mature at the end of an accounting period and proceeds are received in the following month.

*Liability for Estimated Insurance Obligations* — The liability for estimated insurance obligations is the present value of estimated probable insurance payments to be made in the future based on the Corporation's analysis of economic conditions of insured System banks.

The insured System banks' primary lending markets are borrowers engaged in farming, ranching, and producing or harvesting of aquatic products, and their cooperatives. Financial weaknesses in these market segments and the effect of general market conditions on the System's borrowers could adversely affect the banks' financial condition and profitability. Insured System banks also face risks from changing interest rate environments and the need to maintain ongoing access to financial markets. Adverse changes in the financial condition and profitability of insured System banks resulting from increased levels of credit, financial, or other risks could occur in the future which would require a liability for estimated insurance obligations to be recorded.

The Corporation actively monitors the creditworthiness and financial position of the insured System banks. Management is not aware of any events or circumstances at this time which would require a liability for estimated insurance obligations to be recorded at December 31, 2016 or 2015.

*Premiums* — Annual premiums are recorded as revenue during the period on which the premiums are based. All premiums are due on or before January 31st of the year subsequent to the year in which they are earned.

*Use of Estimates* — The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – Investments in U.S. Treasury Obligations**

In addition to the amounts referenced in Note 2, Cash and Cash Equivalents, at December 31, 2016 and 2015, investments in U.S. Treasury obligations which are carried at amortized cost consisted of the following:

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| U.S. Treasury obligations | $ 4,016,813 | $ 6,947 | $ (16,584) | $ 4,007,176 |
| **December 31, 2015** | | | | |
| U.S. Treasury obligations | $ 3,615,305 | $ 5,107 | $ (12,764) | $ 3,607,648 |

The amortized cost and estimated fair value of U.S. Treasury obligations at December 31, 2016, by contractual maturity, are shown below.

| (Dollars in thousands) | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Due in one year or less | $ 798,657 | $ 799,091 |
| Due after one year through five years | 3,135,964 | 3,127,862 |
| Due after five years through ten years | 82,192 | 80,223 |
| | $ 4,016,813 | $ 4,007,176 |

The Corporation follows GAAP for measuring, reporting, and disclosing fair value. These standards apply to all assets and liabilities that are measured, reported, and/or disclosed on a fair value basis.

## NOTE 3 – Investments in U.S. Treasury Obligations (cont.)

As defined in the accounting standards, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the plan has the ability to access.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data. Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs that are unobservable and not corroborated by market data.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair values of FCSIC's investments in U.S. Treasury obligations are estimated based on quoted market prices for those instruments; accordingly these are classified as Level 1 assets.

## NOTE 4 – Premiums, the Secure Base Amount and Excess Insurance Fund Balances

Each System bank which issues insured obligations under subsection (c) or (d) of section 4.2 of the Farm Credit Act is an insured System bank and may be required to pay premiums to the Corporation.

The Food, Conservation, and Energy Act of 2008 amended the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to generally assess premiums based on each bank's pro rata share of insured debt (rather than on loans), aligning premiums with what FCSIC insures. The changes were implemented beginning July 1, 2008. Now FCSIC may collect from 0 to 20 basis points annually on adjusted insured debt outstanding. The amendments also authorize a risk surcharge of up to 10 basis points on non-accrual loans and on other-than-temporarily impaired investments. The amendments reduce the total insured debt on which premiums are assessed by 90 percent of Federal government-guaranteed loans and investments and 80 percent of state government-guaranteed loans and investments, and deduct similar percentages of such guaranteed loans and investments when calculating the secure base amount (SBA). The amendments clarify that FCSIC may collect premiums more frequently than annually.

**NOTE 4 – Premiums, the Secure Base Amount and Excess Insurance Fund Balances (cont.)**

In addition, the Farm Credit Act no longer specifies how the System banks pass premiums to associations and other financing institutions, although it requires that the banks do so in an equitable manner. This change allows the banks flexibility in allocating premium costs to associations. The amendments clarify that, in addition to FCSIC's regulatory authority under Title V of the Farm Credit Act, FCSIC has the authority to adopt rules and regulations concerning provisions in Title I of the Farm Credit Act related to banks passing along the cost of insurance premiums. Finally, the amendments change the Farm Credit Act provisions regarding certified statements and simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow more immediate distribution of excess Insurance Fund balances to insured banks and the System Financial Assistance Corporation (the FAC) stockholders.

The Farm Credit Act sets a base amount for the Insurance Fund to achieve. The statutory SBA is equivalent to 2.0 percent of the aggregate outstanding insured obligations of all insured System banks (adjusted downward by a percentage of the guaranteed portions of principal outstanding on certain government-guaranteed loans and investments) or such other percentage as determined by the Corporation in its sole discretion to be actuarially sound to maintain in the Insurance Fund taking into account the risk of insuring outstanding insured obligations. When the assets in the Insurance Fund for which no specific use has been designated exceed the SBA, the Corporation is required to reduce the premiums, but it still must ensure that reduced premiums are sufficient to maintain at the SBA the assets in the Insurance Fund for which no specific use has been designated (the unallocated Insurance Fund).

Insurance premium rates are reviewed semiannually. For 2016, the Board of Directors set premium rates at its February 19, 2016 meeting at 16 basis points for the first 6 months, and 18 basis points for the second 6 months, on average adjusted insured debt and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The Board of Directors again reviewed premiums at its June 9, 2016 meeting. The Board of Directors voted to maintain the premium accrual rate on average adjusted insured debt at 16 basis points for the first 6 months and 18 basis points for the second 6 months and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the remainder of 2016. In 2016, outstanding insured obligations increased by $15 billion (6 percent). At December 31, 2016, both the unallocated Insurance Fund and the total Insurance Fund were 1.96 percent of adjusted insured obligations.

For 2015, the Board of Directors set premium rates at its January 22, 2015 meeting at 13 basis points on average adjusted insured debt and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The Board of Directors again reviewed premiums at its June 11, 2015 meeting. The Board of Directors voted to maintain the premium accrual rate on average adjusted insured debt at 13 basis points and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the remainder of 2015. In 2015, outstanding insured obligations increased by $18 billion (8 percent). At December 31, 2015, both the unallocated Insurance Fund and the total Insurance Fund were 1.87 percent of adjusted insured obligations.

## NOTE 4 – Premiums, the Secure Base Amount and Excess Insurance Fund Balances (cont.)

A 1996 amendment to the Farm Credit Act requires the Corporation to establish AIRAs for each System bank and an account for the stockholders of the FAC. If at the end of any calendar year the unallocated Insurance Fund is at the SBA, the Corporation is to segregate any excess balances into these AIRAs. If at the end of any calendar year, the aggregate of the amounts in the Insurance Fund exceeds the SBA, the Corporation shall allocate to the AIRAs the excess amount less the amount that the Corporation, in its sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations of the Corporation for the immediately succeeding calendar year.

The AIRAs' balances are recorded as part of the Insurance Fund until approved for payment by the Corporation's Board of Directors. AIRAs balances may be used to absorb any insurance losses and claims. Furthermore, the Board of Directors has discretion to limit or restrict the AIRAs payments. In accordance with the Corporation's policy, any AIRAs' balances do not count in measuring the Insurance Fund's compliance with the SBA.

At year-end 2016, the Insurance Fund was below the SBA by $88 million. Consequently no funds were available to transfer to the AIRAs.

## NOTE 5 – Operating Lease

On October 8, 2015, the Corporation executed a ten-year lease with the FCS Building Association for office space. The terms of the lease provide for an annual minimum base rent for office space of $140,159 for 2017. The Corporation recorded lease expense (including operating cost assessments) of $138,662 and $155,049 for 2016 and 2015, respectively.

## NOTE 6 – Line of Credit

On September 24, 2013, the Corporation entered into an agreement with the Federal Financing Bank (the FFB), a United States government corporation subject to the supervision and direction of the U.S. Treasury. Pursuant to this agreement, the FFB may advance funds to the Corporation when exigent market circumstances threaten an insured System Bank’s ability to pay maturing debt obligations. The Corporation will in turn use the funds advanced by the FFB to provide assistance to the System banks until market conditions improve. The agreement provides for a short-term revolving credit facility of up to $10 billion, is renewable annually and terminates on September 30, 2017, unless otherwise further extended.

Under the agreement, each provision of funds by the FFB is subject to certain terms and conditions. The interest rate for each advance will be established by the FFB at the time the respective advance is made. Each advance cannot have a maturity date longer than twelve months and the maturity date cannot be later than the final termination date of the agreement.

The Corporation paid no commitment fee to secure this line of credit. There were no amounts drawn on this line of credit during 2016 and 2015.

## NOTE 7 – Retirement Plan

All permanent Corporation employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Corporation's contribution to the CSRS plan during 2016 and 2015 was 7 percent of base pay. For those employees covered by FERS, the Corporation's contribution was 13.7 percent of base pay for 2016. For 2015, the contribution rate was 13.2 percent of base pay for January through September 2015, and 13.7 percent from October through December 2015. In addition, for FERS-covered employees, the Corporation automatically contributes 1 percent of base pay to the employee's Thrift Savings Plan account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. In 2015, the Corporation began a 401K plan for both CSRS and FERS employees. The Corporation automatically contributes 1 percent of base pay to the employee's 401K account and matches the first 2 percent contributed by the employee. Retirement plan expenses amounted to $369,995 in 2016 and $349,772 in 2015.

## NOTE 8 – Related Parties

The Corporation purchases services from the FCA under an Interagency Agreement. These include examination and administrative support services. The intention of the parties as stated in the agreement is that specified rates and fees will reimburse the party providing services for all reasonable costs associated with provision of the services. The Corporation purchased services for 2016 which totaled $342,545, compared with $422,020 for 2015.

The Corporation may also provide assistance to the FCA under the same Interagency Agreement; however, the Corporation provided no services and recognized no revenue for 2016 and 2015. At December 31, 2016, and 2015, the Corporation did not have any receivables from the FCA.

## NOTE 9 – Subsequent Events

Management evaluated subsequent events through February 7, 2017, the date the financial statements were available to be issued. Events or transactions occurring after the balance sheet date but prior to the date the financial statements were available to be issued, that provide additional evidence about conditions that existed at the balance sheet date, are recognized in the financial statements. Events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose before the financial statements were available to be issued are not recognized in the financial statements.

The financial statements for the year ended December 31, 2016 have not been adjusted for any events or transactions occurring after the balance sheet date.

# Management Assurances

March 14, 2017

The management of the Farm Credit System Insurance Corporation is responsible for managing risk and maintaining effective internal control to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

FCSIC is an independent U.S. government-controlled corporation. Our primary purpose is to ensure the timely payment of principal and interest on insured debt obligations issued on behalf of System banks.

The System is a nationwide government-sponsored enterprise of cooperative lending institutions owned by the agricultural and rural customers it serves. By protecting investors, we help maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the System.

FCSIC actively monitors and manages insurance risk to minimize the Farm Credit Insurance Fund's exposure to potential losses. When appointed by the Farm Credit Administration, we also serve as receiver or conservator of any System bank or association.

Our management has completed an assessment of the effectiveness of the corporation's enterprise risk management and internal control systems in effect during 2016 in accordance with guidelines provided by the Office of Management and Budget (OMB) in consultation with the Comptroller General (OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control). The objective of these controls and systems is to provide reasonable assurance that

- obligations and costs comply with applicable laws;
- all assets are safeguarded against waste, fraud, unauthorized use, and mismanagement;
- revenues and expenditures applicable to our operations are recorded and accounted for properly; and
- financial and statistical reports are reliable, complete, and timely.

On the basis of established guidelines and the assessment performed, we concluded that as of December 31, 2016, the internal control over financial reporting was effective and meets the objectives of FMFIA.

In addition, as stated in the accompanying report, FCSIC's independent auditor, Baker Tilly Virchow Krause, LLP, did not identify any material weaknesses in the effectiveness of FCSIC's internal control over financial reporting as of December 31, 2016.

| | | |
|---|---|---|
| Dorothy L Nichols | Emily W F Dean | C Richard Pfitzinger |
| Dorothy L. Nichols<br>Chief Operating Officer | Emily W. F. Dean<br>Chief Financial Officer | C. Richard Pfitzinger<br>Director of Risk Management |

# Compliance with the Federal Civil Penalty Inflation Adjustment Act Improvements Act of 2015

FCSIC has authority under section 5.65(c) of the Farm Credit Act (12 U.S.C. § 2277a-14) to impose civil money penalties against a Farm Credit System bank that willfully fails or refuses to file any certified statement or pay any required premium.

In addition, section 5.65(d) of the Farm Credit Act provides that, except with the prior written consent of the Farm Credit Administration, it shall be unlawful for any person convicted of any criminal offense involving dishonesty or a breach of trust to serve as a director, officer, or employee of any System institution and authorizes FCSIC to recover penalties for a willful violation of this prohibition. Sections 5.65(c) and (d) provide for a penalty of not more than $100 for each day during which the violation continues.

The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (the 2015 Act) amended the Federal Civil Penalties Inflation Adjustment Act of 1990 to provide for regular evaluation of civil penalties and required every applicable federal agency to adopt, through an interim final rule, a one-time "catch up adjustment" to be effective no later than August 1, 2016 and annual adjustments thereafter.

On May 17, 2016, FCSIC published an interim final rule in the *Federal Register* increasing our penalties -- to not more than $198 for each day during which a violation continues -- in accordance with the "catch up adjustment" required by the 2015 Act.  FCSIC published a subsequent final rule on January 30, 2017 --making the annual adjustment required by the 2015 Act -- that increased our civil penalties to not more than $201 for each day during which a violation continues.

# Performance Management Program

FCSIC's mandate is to ensure the timely payment of principal and interest on insured Farm Credit System debt securities and to serve as receiver or conservator when appointed by the Farm Credit Administration board. To fulfill our mandate, we have three fundamental program goals:

- Build and manage the Insurance Fund to protect investors
- Monitor, evaluate, and report insurance risk
- Maintain the capability to manage assistance requests, receiverships and conservatorships

## Performance Measures

**1. Build and manage the Insurance Fund to protect investors**

We adjust insurance premium assessments when appropriate and manage assets to optimize investment returns to build and maintain the Insurance Fund at the statutory 2 percent secure base amount. At the same time, we must maintain appropriate liquidity to carry out our mission.

We assess the effectiveness of our performance in achieving this goal through the following:

- Reviewing semiannually the need for adjustments to insurance premium assessments
- Measuring investment performance by comparing the portfolio's average yield with peer investment funds that have similar investment parameters for quality and maturity
- Comparing the level of the Insurance Fund every month with the secure base amount and reporting the results to the board of directors

Our ability to maintain the Insurance Fund at the secure base amount may be affected by events beyond our control, such as insurance losses.

**2. Monitor, evaluate, and report insurance risk**

We measure progress toward this program goal by how promptly we detect emerging problems and how effectively we minimize insurance losses. We use financial indicators to monitor conditions and trends, and we analyze and report data before losses become likely. In periods when there are insurance claims or the probability of claims, the ratio of estimated losses to actual losses helps measure our ability to assess prospective loss exposure.

As guidance, our management uses criteria specified in our policy for allowance for losses and in the Financial Accounting Standards Board's Accounting Standards Topic 450, Contingencies. Timely evaluation of the Insurance Fund's risk exposure is critical to preserving the Insurance Fund's solvency. We use FCA reports of examination to evaluate risks to the Insurance Fund. When necessary, we independently examine and require information from System institutions.

**3. Maintain the capability to manage assistance requests, receiverships and conservatorships**

FCSIC has statutory authority to provide financial assistance to System institutions, including loans. Any assistance agreement is subject to our board of directors' approval. We have a policy statement on assistance and we have adopted procedures for providing assistance in a liquidity crisis. We measure effectiveness by periodically testing our procedures and updating our policy statement so we remain ready to provide financial assistance in a timely and cost-effective manner.

FCSIC is required to serve as receiver or conservator of System banks and associations when appointed by FCA. This program goal requires us to maintain readiness through periodic staff training and evaluation of contractors' capabilities. We must ensure that we have the resources we need to manage receiverships or conservatorships in case the need arises.

We use the following measures to determine the effectiveness of our receivership operations:

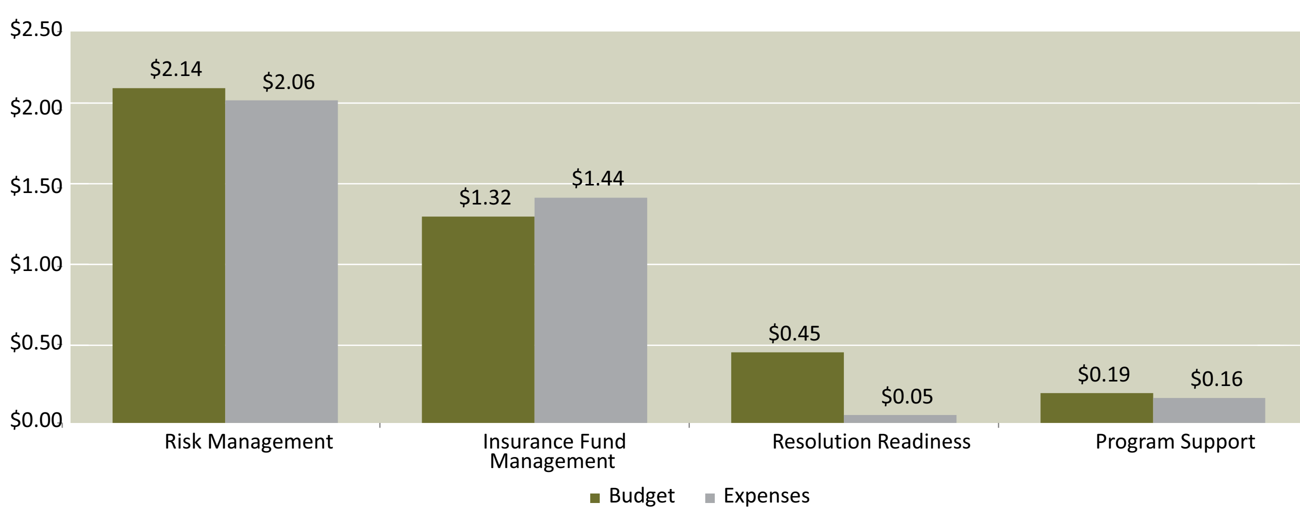
- Timeliness of initial processing of all claims (Processing should occur within a period of time warranted by the size and complexity of each case.)
- The ratio of operating costs to total assets
- The ratio of actual asset recovery returns to net realizable asset values

FCSIC has three major program areas with corresponding strategic goals and objectives. We have implemented performance measures to help us evaluate the effectiveness of these goals and objectives. It is important to note that some of these measures use management estimates that may be affected by the performance and condition of System institutions. Also, unforeseen events may have a material effect on performance measures over time. Figure 13 illustrates each program's 2016 budget and expenditures including program support.

Figure 13

## 2016 Budget and Expenditure by Program

(Dollars in Millions)




The Government Performance and Results Act of 1993 requires all federal government organizations to report on the results of program performance. Performance results are included in regular reports to the board of directors and our Annual Report. Information for each of the three major program areas is presented in table 4.

Table 4
**Strategic Goals and Objectives by Program Area**

| FCSIC's Mission | Program Areas | Strategic Goals | Strategic Objectives | For More Information |
|---|---|---|---|---|
| Protect investors in insured Farm Credit System obligations and taxpayers through sound administration of the Farm Credit Insurance Fund (Insurance Fund),<br><br>Exercise its authorities to minimize Insurance Fund loss, and<br><br>Help ensure the future of a permanent system for delivery of credit to agricultural borrowers. | Insurance Fund Management | Manage the Farm Credit Insurance Fund to maintain the SBA in order to provide protection for investors and taxpayers against identified risks. | 1. Manage the Insurance Fund to ensure adequate liquidity while optimizing investment returns and ensuring premium collections and refunds reflect anticipated changes in adjusted insured debt levels and potential insurance claims.<br><br>2. Use actuarial tools to evaluate the adequacy of investor protections and risk exposures to the Insurance Fund.<br><br>3. Ensure that System banks have adequate temporary liquidity in situations where external market factors make normal debt market access extremely doubtful.<br><br>4. Communicate accurate and easily understood information about the insurance program to the public, insured investors, and System institutions. | See pages 17- 22 for 2016 Results |
| | Risk Management | Monitor, evaluate and report risks that could generate losses to the Insurance Fund. | 1. Use analytical models and other risk management tools and processes to identify and respond to potential risks to the Insurance Fund. Conduct trend analysis on the System's growth, funding needs, condition and performance. Regularly report to the board of directors on identified risk exposures.<br><br>2. Monitor conditions in the agricultural and financial sectors that may affect insurance risk and integrate the results into the process for setting annual insurance premium rates. | See pages 25- 28 for 2016 Results |
| | Receivership and Conservatorship Management | Maintain the capability to manage assistance requests, receiverships and conservatorships. | 1. Subject to the provisions of the Farm Credit Act, including the least-cost test, provide assistance when appropriate to a troubled System bank or association.<br><br>2. Ensure receiverships and conservatorships are managed to fulfill the purposes of the Farm Credit Act, protect creditors, and are terminated in an orderly and timely manner. | See page 29 for 2016 Results |

# Glossary

**Farm Credit Act**—The Farm Credit Act of 1971, as amended, (12 U.S.C. § 2001 et seq.) is the statute under which the Farm Credit System, FCSIC, and the Farm Credit Administration operate.

**Farm Credit Administration**—FCA was established in 1933 to regulate the System. It is governed by a three-member presidentially appointed board. To ensure the safety and soundness of the System, FCA examines and supervises System institutions and develops regulations to govern them.

**Federal Farm Credit Banks Funding Corporation**—Based in Jersey City, New Jersey, the Funding Corporation manages the sale of Systemwide debt securities to finance the loans made by System institutions. It uses a network of bond dealers to market the System's securities.

**Federal Open Market Committee**—This committee of the Federal Reserve Board determines the direction of monetary policy. The committee is composed of the board of governors, which has seven members, and five Federal Reserve Bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

**Financial Institution Rating System (FIRS)**—The FIRS is similar to the Uniform Financial Institutions Rating System used by other federal banking regulators except that the FIRS reflects the nondepository nature of System institutions. The FIRS provides a general framework for assimilating and evaluating all significant financial, asset quality, and management factors to assign a composite rating to each System institution. The ratings are described below.

> Rating 1—Institutions in this group are basically sound in every respect; any negative findings or comments are of a minor nature and are anticipated to be resolved in the normal course of business. Such institutions are well managed, resistant to external economic and financial disturbances, and more capable of withstanding the uncertainties of business conditions than institutions with lower ratings. Each institution in this category exhibits the best performance and risk management practices for its size, complexity, and risk profile. These institutions give no cause for regulatory concern.
>
> Rating 2—Institutions in this group are fundamentally sound but may reflect modest weaknesses correctable in the normal course of business. Because the nature and severity of deficiencies are not material, such institutions are stable and able to withstand business fluctuations. Overall risk management practices are satisfactory for the size, complexity, and risk profile of each institution in this group. While areas of weakness could develop into conditions of greater concern, regulatory response is limited to the extent that minor adjustments are resolved in the normal course of business and operations continue in a satisfactory manner.
>
> Rating 3—Institutions in this category exhibit a combination of financial, management, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory. When weaknesses relate to asset quality or financial condition, these institutions may be vulnerable to the onset of adverse business conditions and could easily deteriorate if weaknesses are not corrected. Institutions that are in significant noncompliance with laws and regulations may also be given this

rating. Risk management practices are less than satisfactory for the size, complexity, and risk profile of each institution in this group. Institutions in this category generally give cause for regulatory concern and require more than normal supervision to address deficiencies. Overall strength and financial capacity, however, still make failure only a remote possibility if corrective actions are taken.

Rating 4—Institutions in this group have an immoderate number of serious financial or operating weaknesses. Serious problems or unsafe and unsound conditions exist that are not being satisfactorily addressed or resolved. Unless effective actions are taken to correct these conditions, they are likely to impair future viability or constitute a threat to the interests of investors, borrowers, and stockholders. Risk management practices are generally unacceptable for the size, complexity, and risk profile of each institution in this group. A potential for failure is present but is not yet imminent or pronounced. Institutions in this category require close regulatory attention, financial surveillance, and a definitive plan for corrective action.

Rating 5—This category is reserved for institutions with an extremely high, immediate, or near-term probability of failure. The number and severity of weaknesses or unsafe and unsound conditions are so critical as to require urgent external financial assistance. Risk management practices are inadequate for the size, complexity, and risk profile of each institution in this group. In the absence of decisive corrective measures, these institutions will likely require liquidation or some form of emergency assistance, merger, or acquisition.

**Government-Sponsored Enterprise (GSE)—**A GSE is typically a federally chartered corporation created by Congress that is privately owned, designed to provide a source of credit nationwide, and limited to servicing one economic sector. Each GSE has a public or social purpose. GSEs are usually created because the private markets did not satisfy a purpose that Congress deems worthy either to fill a credit gap or to enhance competitive behavior in the loan market. Each is given certain features or benefits (called GSE attributes) to allow it to overcome the barriers that prevented purely private markets from developing. The System is the oldest financial GSE.

# Acronyms and Abbreviations

| | |
|---|---|
| AIRAs | Allocated Insurance Reserves Accounts |
| CIPA | Contractual Interbank Performance Agreement |
| Farm Credit Act | Farm Credit Act of 1971, as amended |
| FCA | Farm Credit Administration |
| FCSIC | Farm Credit System Insurance Corporation |
| FIRS | Financial Institution Rating System |
| Funding Corporation | Federal Farm Credit Banks Funding Corporation |
| GAAP | generally accepted accounting principles |
| GSE | Government-sponsored enterprise |
| OMB | Office of Management and Budget |
| System | Farm Credit System |
| TIPS | Treasury Inflation Protected Securities |
| USDA | United States Department of Agriculture |

## Corporate Staff

| | |
|---|---|
| Dorothy L. Nichols | Chief Operating Officer |
| C. Richard Pfitzinger | Director of Risk Management |
| Emily W. F. Dean | Chief Financial Officer |
| Howard I. Rubin | General Counsel |
| Wade Wynn | Chief Investment Officer and Senior Risk Analyst |
| Gregory Smith | Senior Resolution Specialist |
| Tanya Renica | Accountant |
| Mark Bowen | Accountant |
| Matthew Morgan | Financial Analyst |
| Barbara Loggins | Senior Administrative Specialist |
| Molly Sproles | Administrative Management Assistant |

## Contact Information

To obtain Farm Credit System quarterly and annual information statements, contact the Federal Farm Credit Banks Funding Corporation at the following address:

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

These documents are also available on the Funding Corporation's website at www.farmcreditfunding.com.

To obtain copies of the Farm Credit Administration's Annual Report on the Farm Credit System and the FCA Annual Performance and Accountability Report, contact FCA at the following address:

Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102
(703) 883-4056

These documents are also available on the FCA website at www.fca.gov.

# Banks Insured by FCSIC as of January 1, 2017

To obtain copies of quarterly and annual reports of a Farm Credit System bank and its affiliated associations, please contact the bank directly. The mailing addresses, website addresses, and telephone numbers of all four System banks are provided below.

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

AgriBank
30 E. 7th Street, Suite 1600
St. Paul, MN 55101-4914
(651) 282-8800
www.agribank.com

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

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

Note: Information contained on these websites is not incorporated by reference into this annual report, and you should not consider information contained on these websites to be part of this annual report.

**Farm Credit System Insurance Corporation**
**1501 Farm Credit Drive**
**McLean, VA 22102**

**Voice: 703-883-4380**
**Fax: 703-790-9088**
**www.fcsic.gov**