FOCUS ON FUNDAMENTALS

Strength and Stability for Farm Credit Associations

AGRIBANK DISTRICT 2017 ANNUAL REPORT
AGRIBANK, FCB AND DISTRICT ASSOCIATIONS

AgriBank
FARM CREDIT BANK

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Combined Five-Year Summary of Selected Financial Data

AgriBank, FCB and District Associations

(Dollars in thousands)

	2017	2016	2015	2014	2013
Combined Statement of Condition Data					
Loans	**$102,472,674**	$99,069,239	$94,944,379	$88,498,435	$82,770,309
Allowance for loan losses	**436,059**	386,754	285,711	248,081	236,312
Net loans	**102,036,615**	98,682,485	94,658,668	88,250,354	82,533,997
Investment securities - AgriBank, FCB	**14,386,455**	14,897,252	14,262,883	14,294,777	11,555,272
Investment securities - District Associations	**2,146,458**	1,938,980	1,704,160	1,741,232	1,964,010
Other property owned	**12,295**	14,530	13,051	22,284	33,379
Other assets	**3,559,867**	3,474,041	4,294,240	4,278,297	4,205,718
Total assets	**122,141,690**	119,007,288	114,933,002	108,586,944	100,292,376
Obligations with maturities of one year or less	**$34,432,718**	$35,873,086	$32,771,588	$29,299,783	$25,327,384
Subordinated notes with maturities greater than one year	**--**	--	597,775	597,268	596,794
Other obligations with maturities greater than one year	**65,628,608**	62,342,139	62,278,870	60,840,811	57,854,176
Total liabilities	**100,061,326**	98,215,225	95,648,233	90,737,862	83,778,354
Perpetual preferred stock	**350,000**	350,000	350,000	350,000	350,000
Capital stock and participation certificates	**294,949**	272,034	268,697	266,420	265,473
Additional paid-in capital	**2,084,988**	--	--	--	--
Allocated surplus	**523,252**	531,150	406,758	371,004	339,360
Unallocated surplus	**19,356,250**	20,145,063	18,824,372	17,368,747	15,838,875
Accumulated other comprehensive loss	**(593,556)**	(566,831)	(616,099)	(549,705)	(314,550)
Noncontrolling interest	**64,481**	60,647	51,041	42,616	34,864
Total shareholders' equity	**22,080,364**	20,792,063	19,284,769	17,849,082	16,514,022
Total liabilities and shareholders' equity	**122,141,690**	119,007,288	114,933,002	108,586,944	100,292,376
Combined Statement of Income Data					
Net interest income	**$2,993,955**	$2,868,915	$2,694,861	$2,630,793	$2,512,287
Provision for (reversal of) credit losses	**110,041**	141,837	71,894	25,399	(28,537)
Provision for income taxes	**18,699**	10,997	19,258	45,627	50,145
Other expenses, net	**941,317**	884,182	771,306	671,377	660,289
Net income	**$1,923,898**	$1,831,899	$1,832,403	$1,888,390	$1,830,390
Combined Key Financial Ratios					
Return on average assets	**1.62%**	1.57%	1.68%	1.85%	1.93%
Return on average shareholders' equity	**8.90%**	9.13%	9.87%	10.88%	11.93%
Net interest income as a percentage of average earning assets	**2.56%**	2.51%	2.52%	2.64%	2.71%
Shareholders' equity as a percentage of total assets	**18.08%**	17.47%	16.78%	16.43%	16.46%
Net charge-offs (recoveries) as a percentage of average loans	**0.03%**	0.03%	0.03%	0.02%	(0.00%)
Allowance for loan losses as a percentage of loans	**0.43%**	0.39%	0.30%	0.28%	0.29%
Debt to shareholders' equity (:1)	**4.5**	4.7	5.0	5.1	5.1
AgriBank Only Capital Ratios					
Common equity Tier 1 capital ratio	**18.2%**	n/a	n/a	n/a	n/a
Tier 1 capital ratio	**19.0%**	n/a	n/a	n/a	n/a
Total capital ratio	**19.1%**	n/a	n/a	n/a	n/a
Tier 1 leverage ratio	**5.6%**	n/a	n/a	n/a	n/a
UREE leverage ratio	**3.2%**	n/a	n/a	n/a	n/a
Permanent capital ratio	**19.0%**	20.6%	20.8%	20.8%	22.1%
Total surplus ratio	**n/a**	17.2%	17.9%	18.1%	18.5%
Core surplus ratio	**n/a**	12.6%	12.1%	11.8%	11.4%
Net collateral ratio	**n/a**	105.5%	105.8%	105.9%	106.4%
Net Income Distributed					
Patronage distributions:					
Cash	**$494,990**	$330,173	$289,929	$274,529	$240,435
Common stock	**--**	--	--	--	913
Allocated surplus	**93,686**	157,097	62,911	60,003	61,598
Total patronage distributions	**$588,676**	$487,270	$352,840	$334,532	$302,946
Preferred stock dividends	**$23,938**	$23,938	$23,938	$23,938	$5,806

Management's Discussion and Analysis

AgriBank, FCB and District Associations

The following commentary reviews the financial condition and results of operations of AgriBank, FCB (AgriBank) and District Associations and provides additional specific information. AgriBank and District Associations are collectively referred to as the District. The accompanying Combined Financial Statements and Notes to the Combined Financial Statements also contain important information about the District's financial condition and results of operations.

The Farm Credit System

The Farm Credit System (the System) supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

The System provides loans, leases and financial services to farmers, ranchers and rural businesses across the United States and Puerto Rico. This focus on rural communities and agriculture is the reason Farm Credit was established over 100 years ago, and the System has been delivering on that mission ever since – helping fund America's food, fuel and fiber and supporting the thriving rural communities America's farmers and ranchers call home.

While the System has a national footprint, lenders are local – as of January 1, 2018, 69 independently owned and operated Farm Credit Associations provide services in the communities where they live and work. Each local Farm Credit Association is a cooperative that is owned by its local members and has employees and a board of directors that have a deep understanding of agriculture in its area. This expertise enables them to understand the industry sectors they finance and provide an unparalleled level of knowledge and service to its member-owners.

Combined, Farm Credit organizations provide over $250 billion in loans, leases and related services, which is more than 40 percent of the credit needed by U.S. agriculture. This capital helps over 500,000 borrower-owners plant and nurture seeds; purchase and care for livestock; buy land and equipment such as harvesters and combines; build barns and milking parlors; and expand storage, packing and processing facilities. Farm Credit also finances agricultural cooperatives and communications, electric, power and water providers, which deliver essential infrastructure services to maintain vibrant rural communities.

Farm Credit Associations receive funding through one of four regional Banks, including AgriBank. System entities have specific lending authorities within their chartered territories. Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (the Insurance Corporation). The Funding Corporation issues a variety of Federal Farm Credit Banks Combined Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System Banks. System Banks and Associations are subject to examination and regulation by an independent federal agency, the Farm Credit Administration (FCA).

The Farm Credit System 2017 Annual Information Statement, issued by the Funding Corporation, includes additional information about the System, its funding activities and its combined financial results. You can

obtain a copy of that report by contacting the Funding Corporation or visiting www.farmcreditfunding.com.

AgriBank and District Associations

AgriBank is a funding Bank that supports and is primarily owned by 14 Farm Credit Associations. AgriBank and the 14 Associations are collectively referred to as the District.

The District has over $120 billion in assets. The District covers America's Midwest, a 15-state area stretching from Wyoming to Ohio and Minnesota to Arkansas. With about half of the nation's cropland located in the AgriBank District and over 100 years of experience, AgriBank and District Associations have significant expertise in providing financial products and services for rural communities and agriculture.

During 2016, District Associations and AgriBank conducted research related to repositioning many business services offered by AgriBank into a separate entity jointly owned by AgriBank and participating Associations. The long-term strategic objective of this initiative is to increase scale, improve operating efficiency and enhance technology and business services. The proposed service entity will be named SunStream Business Services (SunStream). An application to form the service entity was submitted to the FCA for approval in May 2017, and the FCA continues its due diligence on the charter request.

Effective July 1, 2017 two District Associations, AgCountry Farm Credit Services, ACA and United FCS, ACA, merged under the name AgCountry Farm Credit Services, ACA (AgCountry) and is headquartered in Fargo, N.D.

Effective July 1, 2017, three District Associations—1st Farm Credit Services, ACA; AgStar Financial Services, ACA; and Badgerland Financial, ACA—merged under the name Compeer Financial, ACA (Compeer) and is headquartered in Sun Prairie, Wis.

Basis of Presentation

The accompanying Combined Financial Statements and related financial information found in this Annual Report include the accounts of AgriBank and District Associations and related entities. In the Combined Financial Statements, the accounts of the individual District entities are combined and all significant intra-District transactions and balances are eliminated.

Risk Management

Risk is inherent in agricultural lending, necessitating that sound risk management practices be a fundamental component of operations across the District. Some of the major types of risk in the business operations at AgriBank and District Associations are:

- Credit risk is the risk of loss arising from a borrower or counterparty failing to perform on an obligation
- Interest rate risk is the risk that changes in interest rates may adversely affect operating results and financial condition

- Liquidity risk is the risk of loss arising from the inability to timely meet operating and funding needs without incurring excessive costs
- Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events
- Reputation risk is the risk of loss resulting from events, real or perceived, that shape the image of the Farm Credit System or any of its entities

These and other risks, and the methods used to manage them, are discussed throughout this Annual Report.

While practices vary by entity, the overarching goals of AgriBank and District Association's enterprise risk management practices are to:

- Effectively assess, prioritize, monitor and report key organizational risks, enhancing the ability to achieve business objectives
- Identify and implement strategies to mitigate risk where appropriate
- Ensure adequate compensation is received for risks that are taken

AgriBank and District Associations are engaged in risk management as individual entities, as a combined District and as part of the System as a whole. The board of directors of each entity oversees risk management by adopting policies to guide the organization's risk governance framework and by monitoring performance against established risk limits. As the first line of defense, management establishes controls to guide the day-to-day risk management activities of the organization within the risk limits and framework approved by each entity's board. The various risk, controls and compliance oversight functions established by management are the second line of defense and independent assurance that these functions are operating within the board approved policies is the third line. Each board, through various committees, monitors this risk framework. This structure and board oversight, promotes effective risk management of all risks and fosters the establishment and maintenance of an effective risk culture throughout the District. Additionally, each entity utilizes, to varying degrees, independent audit and credit review functions to monitor risk management and policy compliance. To enhance financial reporting governance and internal controls, AgriBank and District Associations each apply policies and procedures that mirror the material provisions of the Sarbanes-Oxley Act of 2002, including section 404, *Management Assessment of Internal Control over Financial Reporting*.

Forward-Looking Information

This Annual Report includes, and representations may from time to time make, projections regarding financial information and statements concerning future economic performance and events, plans and objectives relating to management, operations, products and services and assumptions underlying these projections and statements. These projections and statements represent only the belief regarding future events, many of which, by their nature, are inherently uncertain and outside the control of AgriBank and District Associations. These projections and statements may address, among other things, business strategy, competitive strengths, goals, market and industry developments and businesses growth and operations. The words "anticipate," "believe," "estimate," "expect," "intend," "outlook" and similar expressions, as they relate to AgriBank or its management, or any District Association or its management,

are intended to identify forward-looking statements. Such statements reflect the current views of AgriBank and District Associations with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outlook may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. The information contained in this Annual Report, including without limitation, the information under "Management's Discussion and Analysis" identifies important factors that could cause such differences, including but not limited to a change in the U.S. agricultural economy, overall economic conditions, changes in market rates of interest, and the effect of new legislation or government regulations or directives. Many risks and uncertainties are beyond the control of AgriBank and District Associations. These risks and uncertainties include, but are not limited to:

- Political (including trade policies), legal, regulatory, financial markets and economic conditions and developments in the United States and abroad
- Economic fluctuations in the agricultural, international and farm-related business sectors
- Weather-related, disease and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate and liquidity risk inherent in lending activities
- Changes in assumptions for determining the allowance for loan losses, other than temporary impairment and fair value measurements
- Industry outlooks for agricultural conditions
- Outlook for the gas and oil industry

Refer to additional discussion in the Risk Factors section at the end of this report.

Financial Overview

The District's financial strength is evidenced by its financial performance in 2017. This strength translates into lasting value for customer-owners and reflects the District's commitment to the Farm Credit mission to support rural communities and agriculture.

Net income increased slightly to $1.9 billion for the year ended December 31, 2017 compared to $1.8 billion for the year ended December 31, 2016, driven by an increase in Net interest income (NII). NII increased 4.4 percent to $3.0 billion for the year ended December 31, 2017, primarily due to higher loan volume compared to the prior year.

Refer to the Results of Operations section for further discussion.

District loans totaled $102.5 billion at December 31, 2017, a $3.4 billion, or 3.4 percent, increase from December 31, 2016. The increase in total loans was primarily due to growth in real estate mortgage and agribusiness sectors.

The credit quality of the District's loan portfolio declined to 92.1 percent acceptable under the FCA's Uniform Classification System at December 31, 2017 from 93.2 percent at December 31, 2016. The decline was mainly attributable to lower net farm income levels in certain agricultural production sectors. In conjunction with the decline in credit quality, the allowance for loan losses increased to $436.1 million at December 31, 2017 from $386.8 million at December 31, 2016. Despite the decline in credit quality in 2017, credit quality has remained stable primarily due to sound underwriting practices, as well as adequate liquidity and strong equity positions of many borrowers.

Refer to the Loan Portfolio section for further discussion.

Total shareholders' equity for the District remains very strong at $22.1 billion as of December 31, 2017, compared to $20.8 billion at December 31, 2016. This increase resulted primarily from net income for the year, partially offset by patronage distributions declared and redemptions of allocated equities.

Refer to the Shareholders' Equity section for further discussion.

Economic Conditions

Interest Rate Environment

U.S. economic activity is expected to continue advancing at a moderate pace and the U.S. economy is forecasted to grow at 2.5 percent in 2018. U.S. economic growth is expected to be driven by consumer and investment spending. Consumer spending has remained strong due to consumer confidence, which is at elevated levels. Investment spending is expected to increase in 2018 due to the tax reform legislation that was passed in late 2017.

The Federal Open Market Committee (FOMC) of the Federal Reserve has started the process of normalizing the level of interest rates and has begun winding down its balance sheet. After the 25 basis point (bp) rate increase in December 2017, the target range for the federal funds rate stands at 1.25 to 1.50 percent. The path for the federal funds rates is expected to remain data-dependent and, according to Federal Reserve communications, anticipated economic conditions will warrant only gradual increases in policy rates. The U.S. Treasury yield curve flattened in 2017 due to the Federal Reserve's increases to short term rates and due to a decline in inflation expectations, which has constrained long-term rates from moving significantly higher. Bloomberg economist consensus forecast is for U.S. Treasury rates to move higher by the end of 2018 with the 2-year and 10-year rates approaching approximately 2.5 and 3.0 percent, respectively.

Agricultural Conditions

The U.S. Department of Agriculture's Economic Research Service (USDA) projects 2017 net farm income to be $63.8 billion, an increase of 3.7 percent from the final 2016 estimate. However, net farm income for 2018 is projected down to $59.5 billion, the lowest level since 2006. The decline in the forecasted 2018 net farm income is largely due to production expense increases and, to a lesser extent, a small reduction in cash income.

Aggregate farm equity is forecasted to increase in 2018 due to an increase in aggregate farm asset values while aggregate farm debt is projected to increase by the smallest amount since 2012. The increase in farm asset values primarily relates to increased valuations on farm real estate and buildings, partially offset by declines in the value of livestock, livestock production and stored crops. The increase in total farm debt is primarily related to increases in real estate debt.

Major cash crops in the U.S. are projected to end 2017 with record to near-record production and stocks, which is expected to incrementally build on an already burdensome supply situation for corn and soybeans. The crop price outlook for the next year is expected to present a continuation of the challenging margin situation for U.S. crop producers in 2018.

Regarding livestock and dairy production, a continuation of the low feed cost environment along with incrementally higher 2017 market prices in most major categories, and new processing capacity in specific protein sectors, are expected to drive production increases. These higher production levels in most major livestock, poultry and dairy categories is expected to provide farm commodity price challenges. This is particularly true in some regions as increased production has outpaced processing capacity. From a national perspective, the main concern remains with the egg industry, which continues to work its way out of the supply imbalance caused by the 2015 Highly Pathogenic Avian Influenza (HPAI) outbreak. Another risk factor for most of the livestock, poultry and dairy producers is the future of U.S. trade policy, particularly with regards to the North American Free Trade Agreement, as many categories have benefited from export growth to Mexico and Canada.

Producers who are able to realize cost of production efficiencies and market their farm products effectively are most likely to adapt to the current price environment. Optimal input usage, adopting cost-saving technologies, negotiating adjustments to various business arrangements, such as rental cost of agriculture real estate, and effective utilization of hedging and other price risk management strategies are all critical in yielding positive net income for producers.

Land Values

The AgriBank District continues to monitor agricultural land values as an integral part of its credit risk assessment process. Although the overall changes in values have not been significant, there are regions within the District, which have experienced more material changes in values. With the continuing pressure on net farm incomes, further modest declines are expected before values stabilize.

AgriBank conducts an annual Benchmark Survey, completed by certified real estate appraisers. The benchmark farms represent the lending footprint of District Associations. The District's most recent benchmark survey indicated that District real estate value changes ranged from negative 5.8 percent to positive 7.9 percent over the 12-month period ending June 30, 2017. Land value increases were generally concentrated in areas heavily influenced by livestock operations, off-farm income and areas with crop

production other than the major crops of corn, soybeans and wheat. Conversely, softening of values were concentrated primarily in areas of corn and soybean production.

As of the end of the fourth quarter 2017, the Federal Reserve Banks of Chicago, Kansas City, and St. Louis reported on the change in farmland values in their respective areas, which includes states within the AgriBank District. The Federal Reserve Bank of Chicago reported an overall increase of 1 percent in their farmland values in 2017. The Federal Reserve Bank of Kansas City reported an overall decrease of 3 percent on average in their farmland values during the same period. The Federal Reserve Bank of St. Louis reported a 5 percent increase for quality cropland and 14.8 percent for pastureland for the period ending December 2017.

The USDA 2017 land value survey for farmland, cropland and pastures indicated generally stable values across all segments analyzed within the states of the AgriBank District. The USDA survey is conducted annually and based on a survey of agricultural producers across the United States.

Declining agriculture land values are a potential lending risk, especially following periods of sustained, rapid land value increases. Land values have generally been stable over the past five years. Land values are expected to remain stable or soften over the next year, primarily due to anticipated continued lower levels of net farm income in 2018 and beyond and, to a lesser extent, expected interest rates increases.

Industry Conditions

AgriBank assesses the outlook for commodities with the largest concentrations in the Districtwide portfolio. These outlooks are for the industry in general, and individual producers may perform better or worse than the industry as a whole. The categories for the outlook are defined as follows:

- Positive – Industry participants are generally profitable with margins above historic norms. Credit quality for borrowers in this segment is expected to improve or remain very strong.
- Positive-to-Neutral – Industry participants are generally profitable with margins at or above historic norms. Credit quality for borrowers in this segment is expected to be maintained with moderate levels of improvement.
- Neutral – Industry participants are generally profitable, but participants may experience additional financial stress if they are highly leveraged, lack economies of scale or fail to manage risk or operate efficiently. Credit quality for borrowers in this segment is generally expected to be maintained.
- Neutral-to-Negative – Industry participants are profitable or operating at breakeven levels, but participants may experience additional financial stress if they are highly leveraged, lack economies of scale or fail to manage risk or operate efficiently. Credit quality for most borrowers in this segment is expected to be maintained; however, a portion will be subject to downgrades.
- Negative – Industry participants are operating at breakeven or loss levels, with participants experiencing financial stress if they are highly leveraged, lack economies of scale or fail to manage risk or operate efficiently. Credit quality for many borrowers is expected to be downgraded if negative market conditions persist.

AgriBank Outlook for Commodities in the Next 12 Months

As of December 31,	2017	2016	2015
Corn	**Negative**	Negative	Negative
Soybeans	**Neutral**	Neutral	Negative
Wheat	**Negative**	Negative	Negative
Cow-Calf	**Neutral**	Neutral	Positive
Cattle Feedlots	**Neutral**	Neutral	Negative
Dairy	**Neutral-to-Negative**	Neutral	Neutral-to-Negative
Pork	**Neutral**	Neutral	Neutral
Timber	**Positive-to-Neutral**	Positive-to-Neutral	Neutral
Poultry	**Neutral**	Neutral	Neutral

Corn

The February 2018 USDA World Agricultural Supply and Demand Estimates (WASDE) report projected continued lower prices and a decline of 2.9 percent to $3.30 per bushel for the average corn price for the 2017-2018 marketing year. The forecasted price will be the lowest market year average level in more than ten years. While planted and harvested acreage declined slightly, U.S. corn production for 2017 is estimated to surpass the all-time record resulting in the highest stocks-to-use ratio since the 2004 crop year and is the primary driver of the lower price projection. While feed usage and ethanol production are expected to continue to be heavy consumers of corn in the coming year, large domestic and global inventories are expected to result in a continued low commodity price environment. Many producers of major annual field crops continue to make reductions in their cost per bushel of production due to the expectation of continued lower commodity prices over the next several years.

Soybeans

The February 2018 WASDE projects a decrease in price of 2.2 percent to $9.30 per bushel for the average soybean price for the 2017-2018 marketing year. China's demand for soybean imports is expected to grow; however, at a limited pace such that domestic ending stocks will continue to increase. In addition, increased planted acreage in 2017 has added to ending stocks and is a driver in the limited price reduction projected.

Wheat

The February 2018 WASDE reflects a price increase of 19.5 percent to $4.60 per bushel for the average wheat price for the 2017-2018 marketing year. Price increases are being driven by a sharp decline in both planted acreage and yield which was due to the impact of a drought in the Northern Great Plains states. Despite the higher price, the cost of production is expected to contribute to low net farm income and potentially negative margins warranting a continued negative outlook.

Cow-Calf

The February 2018 WASDE estimates the U.S. beef cow herd has increased 2.0 percent compared to the prior year and the expansion is nearing its peak as cows expected to calve in 2018 are estimated to decline slightly resulting in the cow-calf segment transitioning from expansion to stabilization. Credit quality for the majority of AgriBank District's cow-calf portfolio is expected to remain stable through 2018.

Cattle Feedlots

The February 2018 WASDE report projected slight declines in the average steer price for 2018, down 1.7 percent to $119.50/cwt compared to the 2017 average steer price. The reduction in price has been driven by continued beef production increases outpacing beef consumption increases as well as an abundance of cheaper protein options. Despite the price declines, the combination of continued low feed costs and favorable packer margins will maintain stability in the industry over the next year.

Dairy

The February 2018 WASDE report projected declines in the average Class III milk price of 15.5 percent to $14.55/cwt for 2018 due to continued increases in domestic milk production and expected increased competition from Europe. Margins are expected to generally be breakeven or lower for the next twelve months, supporting an outlook downgrade to Neutral-to-Negative.

Pork

The February 2018 WASDE report projected a decline in price of 4.9 percent to $48.00/cwt in 2018 primarily due to increased production as a result of improvement in production practices, genetics and expansion. Overall, these prices are strong and are supported by an increase in pork consumption as a result of competitive retail pork prices and good demand. Operating margins are expected to be positive due to continued low feed costs and price risk management strategies that are common across the industry. Many pork producers maintain a strong financial profile, with strong working capital at this time.

Timber

While down 6.3 percent from December 2016, housing starts continue to be strong relative to the low in 2009. Housing affordability has decreased slightly, but remains at a favorable level. Interest rates have increased, but remain favorable with conventional mortgages near historic lows. Consumer confidence has declined slightly compared to the prior year and may be attributable to rising interest rates. Softwood saw log prices are expected to move higher due to sustained economic growth in the U.S. and globally as well as forward momentum in the U.S. housing market.

Poultry

The February 2018 WASDE report reflects egg prices increasing 16.5 percent to 117.5 cents/dozen in 2018 as a result of strong domestic demand and reduced supplies of conventional eggs. The conventional egg supply is expected to continue to decline and be replaced by an increasing supply of cage-free and specialty eggs to meet retailer and ingredient supplier demand. A small portion of the portfolio with significant production subject to open market prices may experience some credit quality deterioration over the next year. However, for those egg layer producers in the AgriBank District that utilize cost-plus or grain-based contracts for a majority of their production, credit quality is expected to remain stable in 2018.

The February 2018 WASDE report projected price declines of 5.3 percent to 91.0 cents/pound for turkeys and 2.7 percent to 91.0 cents/pound for broilers. Demand for both turkeys and broilers remains high due to higher competing meat prices, continued release of restrictions on exports and reduced international competition as several regions around the world are combating an HPAI outbreak in early 2018. The low cost structure combined with the financial strength of broiler and turkey producers support a neutral outlook for the poultry industry.

Loan Portfolio

Components of Loans

(in thousands)

December 31,	2017	2016	2015	2014	2013
Accrual loans:					
Real estate mortgage	**$57,159,353**	$55,776,558	$52,884,754	$49,422,414	$47,314,689
Production and intermediate-term	**26,101,406**	25,418,995	25,472,419	24,240,411	21,959,582
Agribusiness	**11,313,418**	10,162,217	8,772,555	7,518,822	6,975,211
Rural residential real estate	**2,713,168**	2,760,906	2,797,025	2,696,098	2,583,121
Other	**4,439,645**	4,272,355	4,500,617	4,139,281	3,311,302
Nonaccrual loans	**745,684**	678,208	517,009	481,409	626,404
Total loans	**102,472,674**	$99,069,239	$94,944,379	$88,498,435	$82,770,309

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

District loans totaled $102.5 billion at December 31, 2017, a $3.4 billion, or 3.4 percent, increase from December 31, 2016. The increase in total loans was primarily due to growth in the real estate mortgage sector as well as activity in the large multiple lender segment within the agribusiness sector. Consistent with prior years, production and intermediate-term loan volume increased in December 2017 as certain borrowers purchased inputs for next year's production for tax-planning purposes; however, this growth was lower than observed in recent years, primarily due to lower taxable income of certain borrowers.

The loan portfolio exhibits some seasonality relating to the patterns of operating loans made to crop producers. Operating loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs. The degree of seasonality exhibited by the loan portfolio is diminished primarily due to growth in real estate mortgage, agribusiness and part-time farmer sectors.

AgriBank and certain District Associations also participate in the AgDirect program. Under the AgDirect program, AgriBank purchases a 100 percent participation interest in agricultural equipment financing transactions. At December 31, 2017, seven Associations from the AgriBank District, and eight Associations from outside the AgriBank District participate in the AgDirect Program. AgFirst, FCB, one of three Farm Credit Banks within the Farm Credit System, also participates in the AgDirect program. AgriBank and District Associations had $3.5 billion, $3.4 billion and $3.2 billion of these participation interests outstanding at December 31, 2017, 2016 and 2015, respectively.

Portfolio Diversification

Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, or within close proximity, which could cause them to be similarly impacted by economic or other conditions. The table below illustrates commodity and geographic distribution of the District's $102.5 billion loan portfolio as of December 31, 2017:

Commodity Distribution		Geographic Distribution	
Crops	**46%**	Iowa	**11%**
Cattle	**9%**	Illinois	**10%**
Dairy	**7%**	Minnesota	**9%**
Investor real estate	**7%**	Nebraska	**8%**
Food Products	**5%**	Indiana	**6%**
Other	**26%**	Michigan	**6%**
Total	**100%**	Ohio	**6%**
		Wisconsin	**6%**
		South Dakota	**6%**
		Other	**32%**
		Total	**100%**

Other commodities consist primarily of loans in the pork, timber, poultry, rural residential real estate and grain marketing and farm supply sectors, none of which represented more than 5 percent of the District loan portfolio. Other states consist primarily of loans in Missouri, North Dakota, Tennessee, Arkansas, and Kentucky, none of which represented more than 5 percent of the District loan portfolio. The commodity and geographic concentrations have not changed materially from prior years.

While the District has concentrations in crops, these crops represent staple commodities of agriculture – corn, soybeans and wheat. To some extent, there is further concentration in crops related to the investor real estate sector, as these loans are typically made for the purchase of land that is rented for crop production. However, the concentration in crops is geographically diverse, with multiple states being significant producers of these important commodities. While the commodity distribution represents the primary commodity of the borrower, many of the crop producers may also have livestock operations or other forms of diversification.

Certain District Associations have diversified the concentration in agricultural production loans through rural residential real estate and part-time farmer loans, as well as agribusiness loans. Rural residential real estate, investor real estate and part-time farmer borrowers generally have significant off-farm sources of income, and, therefore, are less subject to cycles in agriculture. These borrowers are typically more susceptible to changes in the general economy, and the condition of the general economy will influence the credit quality of these segments of the portfolio. Credit quality in these sectors has remained strong as of December 31, 2017, 2016 and 2015.

Grain and livestock producers are somewhat subject to a counter-cyclical diversification effect. High grain prices are generally favorable to crop producers; however, livestock producers are adversely affected through higher feed costs. Conversely, low grain prices are generally negative to crop producers, but tend to improve the profitability for those livestock producers who purchase most or all of their feed. Severe fluctuations in commodity prices can negatively impact all District producers. During 2017, certain grain

and livestock producers across the District experienced additional financial stress as a result of continued low net farm income.

Portfolio Maturities

Contractual Maturities of Loans

(in thousands) **As of December 31, 2017**	**One Year or Less**	**Over One Through Five Years**	**Over Five Years**	**Total**
Real estate mortgage	**$6,416,257**	**$19,933,941**	**$31,242,862**	**$57,593,060**
Production and intermediate-term	**14,164,143**	**10,566,506**	**1,627,703**	**26,358,352**
Agribusiness	**6,028,991**	**3,504,760**	**1,798,048**	**11,331,799**
Rural residential real estate	**185,991**	**694,779**	**1,865,037**	**2,745,807**
Other	**2,490,291**	**877,057**	**1,076,308**	**4,443,656**
Total loans	**$29,285,673**	**$35,577,043**	**$37,609,958**	**$102,472,674**
Total of loans due after one year with:				
Fixed interest rates				**$41,577,683**
Variable and adjustable interest rates				**$31,609,318**

Credit Risk Management

AgriBank and District Associations are authorized to make loans, or participate in loans, to eligible borrowers as specified in the Farm Credit Act. As a result, the loan portfolio is concentrated in the agricultural industry. Earnings, loan growth and credit quality of the loan portfolio can be affected significantly by the general state of the economy, primarily as it affects agriculture and users of agricultural products.

AgriBank and District Associations actively manage credit risk through various policies and standards, including loan committees reviewing significant loan transactions. Underwriting standards include analysis of five credit factors: repayment capacity, capital position, collateral, management ability and loan terms. These standards vary by agricultural industry and are updated to reflect current market conditions.

Borrower and commodity concentration lending limits are also used to manage credit exposure. As required by FCA regulations, the lending limit to a single borrower is generally 15 percent of each Association's lending and leasing limit base. Similarly, AgriBank's retail participation lending limit is 15 percent of AgriBank's lending and leasing limit base. The lending and leasing limit base is generally calculated as permanent capital with certain adjustments as allowed by FCA regulation. Although not required by FCA regulations, AgriBank and District Associations generally have established single borrower lending limits below the FCA regulatory limits. In addition, AgriBank and District Associations have established and utilize single borrower lending limits on a combined District basis.

AgriBank and District Associations also manage credit risk through loan participations. AgriBank and District Associations diversify the portfolio and limit exposure to an individual borrower or commodity through buying and selling loans to other institutions within or outside of the Farm Credit System. Managing concentration risk through participations also provides the ability to manage growth and capital, primarily to improve geographic or commodity diversification.

Many of the credits in the portfolio are large and complex and AgriBank and District Associations do not use standardized credit scoring on these loans. The ten largest customers as of December 31, 2017 represented 2.6 percent of total loans (including accrued interest receivable). Within these ten largest customers, there are concentrations in five significant industries, including:

- Processing and marketing at 43.0 percent
- Timber at 20.1 percent
- Food products at 17.3 percent
- Dairy at 10.6 percent and
- Poultry at 9.0 percent.

Small loans (less than $250 thousand) account for 87.6 percent by number of District customers and 31.9 percent by dollar amount of District loans as of December 31, 2017. Credit risk on small loans is usually reduced by non-farm income sources. Associations generally use statistically validated scorecards to evaluate smaller credits. The scorecards widely used by District Associations are related to operating, intermediate-term (generally for farm equipment), agricultural mortgage and home mortgage loans.

The credit quality of the District loan portfolio remained sound over the past three-year period with 92.1 percent of the portfolio in the acceptable category at December 31, 2017. This was compared to 93.2 percent and 95.8 percent acceptable at December 31, 2016 and 2015, respectively. Acceptable loans represent the highest quality and are expected to be fully collectible. This credit quality is primarily due to sound underwriting practices, and generally, the adequate liquidity and strong equity positions of borrowers. Substandard and doubtful loans, collectively called adverse loans, are loans AgriBank and District Associations have identified as showing some credit weakness outside the credit standards. While acceptable percentage remains strong, special mention and adverse loan volume has continued to increase as the District moves through the current agricultural efficiency cycle whereby producers strive to lower operating costs to align with commodity price forecasts. This increase in adverse credit quality across the District has been driven by lower net farm income that has created additional stress in certain agricultural production sectors.

Percentage of Adverse Loans by Commodity

As of December 31,	**2017**	2016	2015
District retail portfolio:			
Cattle	**6.2%**	4.8%	2.1%
Crops	**5.3%**	4.7%	2.8%
Dairy	**5.0%**	3.2%	1.5%
Other	**2.7%**	1.9%	1.4%
Total	**4.3%**	3.5%	2.1%

Overall, District credit quality is expected to remain at acceptable levels in 2018, despite increases in adverse credit quality in 2017. Agriculture is a cyclical industry, and due to continued low net farm income levels throughout 2016 and 2017, credit quality continued to experience some downturn within many sectors of the District portfolio. Given projected continued low net farm income levels in certain agricultural production sectors, adverse credit quality and related allowance for loan losses and provision for loan losses are expected to continue to increase.

AgriBank and District Associations use a two-dimensional loan rating model that incorporates a 14-point probability of default scale to identify and track the probability of borrower default and a separate six-tier scale addressing loss given default over a period of time. Each of the probability of default rating categories carries a distinct percentage of default probability.

The 14-point probability of default scale provides for granularity of the probability of default, especially in the acceptable ratings. Generally, there are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The range of probabilities of default between one and nine is very narrow and would reflect almost no default to a minimal default percentage.

The six-tier scale for loss given default (LGD) measures the expected loss severity based upon the adequacy of the collateral supporting the loan. The scale ranges from A, with no loss expected, to F, with an anticipated significant loan loss. A substantial portion of the loan portfolio is collateralized, which reduces the exposure to credit loss. Well collateralized loans, those loans in the LGD A or B tier, make up 59.3 percent of the District portfolio as of December 31, 2017.

Total Loans Outstanding by Probability of Default and Loss Given Default Code

As of December 31, 2017

(in thousands)	Loss Given Default						
Probability of Default	**A**	**B**	**C**	**D**	**E**	**F**	**Total**
1	$644,013	$1,646	$ --	$ --	$ --	$ --	$645,659
2	--	--	--	8,651	--	--	8,651
3	26,351	184	80,474	32,729	12,857	12,706	165,301
4	2,719,197	1,518,619	917,492	524,531	236,991	139,518	6,056,348
5	5,005,909	3,773,374	2,631,079	3,251,937	830,117	242,916	15,735,332
6	6,151,930	5,442,945	3,128,834	4,527,838	1,145,630	260,263	20,657,440
7	6,460,835	6,231,912	3,288,587	4,676,374	1,942,473	271,580	22,871,761
8	5,239,439	5,701,546	2,409,766	3,176,334	1,072,905	196,558	17,796,548
9	2,832,994	3,046,256	1,567,245	1,689,882	652,956	76,166	9,865,499
10	1,362,373	1,466,090	521,897	429,937	128,451	27,885	3,936,633
11	1,085,439	1,475,969	521,716	360,082	233,194	106,562	3,782,962
12	275,481	325,519	121,585	79,810	70,105	46,188	918,688
13	--	--	--	112	29,260	2,480	31,852
	$31,803,961	$28,984,060	$15,188,675	$18,758,217	$6,354,939	$1,382,822	$102,472,674

There were no loans classified as 14 on the probability of default scale as of December 31, 2017.

A substantial portion of the loan portfolio is collateralized, which reduces exposure to credit losses. Collateral held varies, but may include real estate, equipment, inventory, livestock and income-producing properties. An estimate of credit risk exposure is considered in the allowance for loan losses. Additionally, credit policies reduce credit risk with emphasis placed on repayment capacity rather than exclusively on the underlying collateral. The District has an internally maintained database that uses market data to estimate market values of collateral for a significant portion of the real estate mortgage portfolio. Although FCA regulations allow real estate mortgage loans of up to 85 percent of appraised value, AgriBank and District Associations' underwriting standards generally limit lending to no more than 65 to 75 percent at origination. Some District Associations have also implemented risk

management practices that incorporate loan-to-appraised value limits below these thresholds. In addition, most District lenders impose lending caps per acre based on the land's sustainable income-producing capacity. While underwriting exceptions on loan-to-appraised-value are sometimes granted, in such cases loans are typically structured with shorter amortization schedules and/or additional principal payments in the early years to reduce risk. In addition to sound underwriting standards, the District also has hold restrictions to limit the District's credit exposure to any one borrower.

AgriBank and District Associations also reduce credit risk in the loan portfolio through government guarantee programs. At December 31, 2017, $2.3 billion of loans contained various levels of guarantees under such programs, compared to $2.2 billion and $1.9 billion as of December 31, 2016 and 2015, respectively.

Certain District Associations have individually entered into Standby Commitment to Purchase Agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, to help manage credit risk. If a loan covered by one of these agreements goes into default, subject to certain conditions, District Associations have the right to sell the loan to Farmer Mac. These agreements remain in place until the loan is paid in full. The net investment of loans subject to these purchase agreements were $646.0 million, $649.6 million and $683.6 million at December 31, 2017, 2016 and 2015, respectively. The District Associations paid Farmer Mac commitment fees totaling $2.6 million, $2.8 million and $3.0 million in 2017, 2016 and 2015, respectively. These amounts are included in "Other operating expenses" on the Combined Statements of Comprehensive Income. No loans were sold to Farmer Mac under these agreements in 2017 or 2016. There were $13.5 million of loans sold to Farmer Mac under these agreements in 2015.

One District Association utilized a credit default swap (CDS) in connection with synthetic securitizations to reduce risk in the loan portfolio. The loans under the CDS were $220.6 million at December 31, 2015. No loans were subject to the CDS agreement at December 31, 2017 or 2016 as a result of the CDS agreement being cancelled.

One District Association may hold loans for sale under a rural residential mortgage program to provide qualified borrowers with additional options for financing rural properties at competitive interest rates. Loans held for sale, including related accrued interest receivable, were $30.1 million, $27.4 million and $35.5 million at December 31, 2017, 2016 and 2015, respectively. Loans held for sale are included in "Other assets" on the Combined Statements of Condition.

Competitive Conditions

Competition historically is from community banks, insurance companies, large banks, manufacturers/suppliers and captive finance companies. Market share varies greatly across the District. In general, community banks continue to be very competitive, and insurance companies and regional/national banks are increasingly more competitive, particularly on the highest quality larger credits.

In traditional agriculture lending markets, District Associations have historically been most competitive in falling interest rate environments because Farm Credit cost of funds declines more rapidly than that of competitors. In a rising rate environment, Farm Credit cost of funds tends to increase more quickly than competitors, resulting in significant competitive pressure and narrowing spreads. Some District

Associations anticipate narrower spreads will continue in 2018 from increased competition which may be exacerbated by rising interest rates. Refer to the Results of Operations - Net Interest Income section for further discussion.

Risk Assets

Risk assets are comprised of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due (collectively, risk loans) and other property owned.

Components of Risk Assets

(in thousands)

As of December 31,	2017	2016	2015	2014	2013
Nonaccrual loans	**$745,684**	$678,208	$517,009	$481,409	$626,404
Accruing restructured loans	**91,876**	89,800	65,233	75,398	53,250
Accruing loans 90 days or more past due	**10,003**	12,123	11,096	8,082	2,222
Total risk loans	**847,563**	780,131	593,338	564,889	681,876
Other property owned	**12,295**	14,530	13,051	22,284	33,379
Total risk assets	**$859,858**	$794,661	$606,389	$587,173	$715,255
Risk loans as a % of total loans	**0.83%**	0.79%	0.62%	0.64%	0.82%
Nonaccrual loans as a % of total loans	**0.73%**	0.68%	0.54%	0.54%	0.76%
Delinquencies as a % of total loans	**0.55%**	0.56%	0.44%	0.42%	0.44%

Note: Accruing loans include accrued interest receivable.

Risk assets over the past five years have primarily been concentrated in the real estate mortgage and production and intermediate-term sectors. This increase in risk assets has been driven primarily by declines in net farm income levels for certain borrowers within the District. Based on current forecasts for net farm income levels in certain agricultural production sectors, risk assets are expected to continue to rise.

Total risk loans as a percentage of total loans remains at acceptable levels. At December 31, 2017, 59.8 percent of nonaccrual loans were current as to principal and interest.

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

The following table sets forth interest income that would have been recognized if nonaccrual and restructured loans had been fully performing:

(in thousands) For the year ended December 31,	2017
Interest income that would have been recognized under original contract terms	**$63,690**
Less: interest income recognized	**62,321**
Interest income not recognized	**$1,369**

Cash received on nonaccrual loans is applied to reduce the recorded investment in the loan asset, except in those cases where the collection of the recorded investment is fully expected, and the loan has no unrecovered prior charge-offs.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans as of the financial statement date. AgriBank and District Associations determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality and current economic and environmental conditions. Management of AgriBank and each District Association believe the allowance for loan losses is reasonable in relation to the risk in the portfolios at December 31, 2017.

Allowance for Loan Losses by Loan Category

(in thousands)	2017		2016		2015		2014		2013	
As of December 31,	**Amount**	**%**	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$196,749**	**45.1%**	$158,779	41.1%	$111,000	38.9%	$88,542	35.7%	$85,573	36.2%
Production and intermediate-term	**156,184**	**35.8%**	154,488	39.9%	118,409	41.4%	101,976	41.1%	87,261	36.9%
Agribusiness	**54,817**	**12.6%**	47,067	12.2%	32,166	11.3%	30,790	12.4%	37,409	15.8%
Rural residential real estate	**8,965**	**2.1%**	10,220	2.6%	8,986	3.1%	9,673	3.9%	8,864	3.8%
Other	**19,344**	**4.4%**	16,200	4.2%	15,150	5.3%	17,100	6.9%	17,205	7.3%
Total allowance for loan losses	**$436,059**	**100.0%**	$386,754	100.0%	$285,711	100.0%	$248,081	100.0%	$236,312	100.0%

Allowance Coverage Ratios

As of December 31,	**2017**	2016	2015
Allowance as a % of:			
Loans	**0.43%**	0.39%	0.30%
Nonaccrual loans	**58.48%**	57.03%	55.26%
Total risk loans	**51.45%**	49.58%	48.15%
Adverse assets as a % of risk funds*	**22.04%**	16.74%	10.37%

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

AgriBank and District Associations determine the amount of allowance that is required by analyzing risk loans individually and all other loans by grouping them into loan segments sharing similar risk characteristics. An allowance is recorded for the loan segments collectively evaluated using the combination of estimated probability of default and estimated loss given default assumptions. These estimated losses may be adjusted for relevant current environmental factors. These factors may vary by

the different segments reflecting the risk characteristics of each segment. As these factors change, earnings are impacted. When risk loans are analyzed, AgriBank and District Associations may record a specific allowance, if appropriate, to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral.

Allowance for Loan Losses Activity

(in thousands)

For the year ended December 31,	2017	2016	2015	2014	2013
Balance at beginning of year	**$386,754**	$285,711	$248,081	$236,312	$262,930
Charge-offs:					
Real estate mortgage	**(13,128)**	(5,494)	(9,453)	(15,688)	(21,246)
Production and intermediate-term	**(29,695)**	(34,386)	(27,393)	(11,259)	(12,620)
Agribusiness	**(2,730)**	(3,139)	(441)	(250)	(900)
Rural residential real estate	**(1,274)**	(2,175)	(2,466)	(2,936)	(6,293)
Other	**--**	--	(2,277)	(2,106)	(1,723)
Total charge-offs	**(46,827)**	(45,194)	(42,030)	(32,239)	(42,782)
Recoveries:					
Real estate mortgage	**1,905**	4,229	3,473	6,113	9,303
Production and intermediate-term	**10,993**	6,172	6,896	6,693	31,122
Agribusiness	**3,816**	851	1,179	983	2,366
Rural residential real estate	**612**	868	826	846	519
Other	**--**	1	447	4	--
Total recoveries	**17,326**	12,121	12,821	14,639	43,310
Net (charge-offs) recoveries	**(29,501)**	(33,073)	(29,209)	(17,600)	528
Fair value adjustment due to merger	**(34,315)**	--	--	--	--
Provision for (reversal of) loan losses	**113,121**	134,116	66,839	29,369	(27,146)
Balance at end of year	**$436,059**	$386,754	$285,711	$248,081	$236,312
Net charge-offs as a % of average loans	**0.03%**	0.03%	0.03%	0.02%	0.00%

The District's loan portfolio is primarily made up of real estate mortgage and production intermediate-term loans which, due to disciplined underwriting standards, generally have strong collateral. The decline in credit quality in the District portfolio, driven primarily by a decline in net farm income levels, has led to additional stress for certain grain and livestock producers, which has contributed to increases in the allowance for loan losses. Based on current forecasts for net farm income, the allowance for loan losses is expected to continue to increase.

The provision for credit losses for the year ended December 31, 2017 reported in the Combined Statements of Comprehensive Income includes reversal of provision for credit losses for unfunded commitments and unfunded letters of credit of $3.1 million. Any reserves for unfunded commitments and letters of credit are recorded in "Other liabilities" on the Combined Statements of Condition.

Refer to the Results of Operations – Provision for Credit Losses section for further discussion of provision for loan loss changes.

Investment Portfolio and Liquidity

Liquidity Risk Management

AgriBank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Access to the unsecured debt capital markets remains the District's primary source of liquidity. The System continues to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. During the year ended December 31, 2017, investor demand for Systemwide Debt Securities was strong.

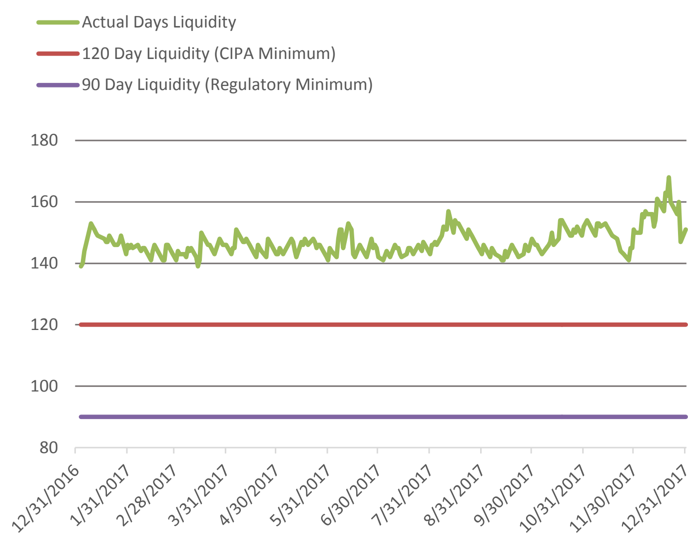
AgriBank also maintains a secondary source of liquidity through a high-quality investment portfolio and other short-term liquid assets. AgriBank manages liquidity for operating and debt repayment needs by forecasting and anticipating seasonal demands, as well as through managing debt maturities. AgriBank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

AgriBank manages intermediate and longer-term liquidity needs through the composition of the liquidity investment portfolio, which is structured to meet both regulatory requirements and operational demands. Specifically, AgriBank provides at least 15 days of liquidity coverage from cash, overnight investments and U.S. Treasury securities less than three years in maturity. Other short-term money market investments, as well as government and agency mortgage-backed securities (MBS), are positioned to cover regulatory requirements for 30- and 90-day intervals. Additionally, a supplemental liquidity buffer provides days coverage in excess of 90 days from money market instruments greater than 90 days in maturity and asset-backed securities (ABS). At December 31, 2017, AgriBank held qualifying assets in excess of each incremental level to meet the liquidity coverage intervals.

AgriBank's liquidity policy and FCA regulations also require maintaining a minimum of 90 days of liquidity on a continuous basis. In addition, the Contractual Interbank Performance Agreement (CIPA) with other System Banks requires AgriBank to maintain a minimum of 120 days of liquidity. The days of liquidity measurement refers to the number of days that maturing debt is covered by liquid investments. During 2017, AgriBank had a liquidity operating target between 135 and 185 days. As of December 31, 2017, AgriBank had sufficient liquidity to fund all debt maturing within 151 days, compared to 143 days as of December 31, 2016.

Cumulative Debt Maturities

(in thousands) **As of December 31, 2017**	**Bonds and Notes Amount**
Maturing in:	
15 days	**$2,978,424**
45 days	**6,464,932**
90 days	**10,193,561**
120 days	**12,705,786**
One year	**32,685,336**
One to five years	**79,192,204**
Five to ten years	**91,443,651**
More than ten years	**98,313,944**



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

AgriBank Investment Securities

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

Composition of AgriBank Investment Securities

As of December 31,	2017	2016	2015
Mortgage-backed securities:			
Government collateralized mortgage obligations	**$3,251,868**	$2,722,396	$3,008,410
Agency collateralized mortgage obligations	**2,677,128**	2,707,901	2,519,560
Agency pass through	**92,139**	125,462	158,603
Non-agency	**--**	--	70,438
Total mortgage-backed securities	**6,021,135**	5,555,759	5,757,011
Commercial paper and other	**5,220,678**	4,786,782	4,914,385
U.S. Treasury securities	**2,917,400**	3,811,798	2,815,257
Asset-backed securities:			
Automobile	**191,250**	656,400	724,680
Equipment	**35,992**	86,513	43,592
Home equity	**--**	--	7,958
Total asset-backed securities	**227,242**	742,913	776,230
Total	**$14,386,455**	$14,897,252	$14,262,883

AgriBank's ALCO and Counterparty Risk Committee (CRC) oversee the credit risk in AgriBank's investment portfolio. AgriBank manages investment portfolio credit risk by investing only in securities that are liquid, of high quality and whose risks are well understood. At purchase, all securities must meet eligibility

requirements as permitted by FCA regulations including certain credit ratings as assigned by one or more Nationally Recognized Statistical Rating Organizations.

Fair Value of AgriBank Eligible Investment Securities by Credit Rating

(in thousands)	Eligible			
As of December 31, 2017	**AAA/Aaa**	**A1/P1/F1**	**Split Rated [1]**	**Total**
Mortgage-backed securities	**$ --**	**$ --**	**$6,021,135**	**$6,021,135**
Commercial paper and other	**--**	**3,296,695**	**1,923,983**	**5,220,678**
U.S. Treasury securities	**--**	**--**	**2,917,400**	**2,917,400**
Asset-backed securities	**227,242**	**--**	**--**	**227,242**
Total	**$227,242**	**$3,296,695**	**$10,862,518**	**$14,386,455**

[1]Investments that received the highest credit rating from at least one rating organization.

Holdings of split-rated securities are related to U.S. government securities. At December 31, 2017, AgriBank held no ineligible securities.

Investment securities in an unrealized loss position are evaluated for other-than-temporary impairment (OTTI) on a quarterly basis. AgriBank continually evaluates assumptions used in estimating fair value and impairment and adjusts those assumptions as appropriate. As a result of AgriBank's evaluations, AgriBank did not hold any OTTI investment securities at December 31, 2017 and did not record any impairment losses during the year ended December 31, 2017.

District Association Investment Securities

Periodically, one District Association may sell loans held for sale to a third party and purchase back securities collateralized by the loans sold. As the District Association may not hold the investments to maturity, all or a portion of these securities are classified as AFS and have contractual maturities greater than ten years. No District Association held AFS investment securities as of December 31, 2017, 2016 or 2015.

All other investment securities held by the District Associations are classified as held-to-maturity (HTM), primarily consisting of government guaranteed instruments and Farmer Mac mortgage-backed securities.

No District Association securities were other-than-temporarily impaired during any of the years presented.

Refer to Note 4 of the accompanying Combined Financial Statements for further discussion on AgriBank and District Association investments.

Other Investments

AgriBank and certain District Associations are among the forming limited partners for certain rural Business Investment Companies (RBICs). AgriBank and certain District Associations had invested $53.9 million and $33.5 million at December 31, 2017 and 2016, respectively.

These other investments were evaluated for impairment. No impairments were recognized on these investments during the years ended December 31, 2017 or 2016. Other investments are included in "Other assets" on the Combined Statements of Condition.

Shareholders' Equity

AgriBank and District Associations believe a sound capital position is critical to long-term financial stability. AgriBank and District Associations maintain adequate capital to protect against unanticipated losses as well as to meet the District's growth needs. Total shareholders' equity was $22.1 billion, $20.8 billion and $19.3 billion at December 31, 2017, 2016 and 2015, respectively. This increase resulted primarily from net income for the year, partially offset by patronage distributions declared and redemptions of allocated equities.

As a result of 2017 Association mergers, $2.1 billion of equity was recharacterized from unallocated surplus to additional paid-in capital.

Select Capital Ratios

As of December 31,	Regulatory minimums	2017	2016	2015
Shareholders' equity to assets		**18.1%**	17.5%	16.8%
Surplus and allowance to risk loans (:1)[1]		**26.4**	27.0	32.9
Surplus to total shareholders' equity[1]		**99.5%**	99.4%	99.7%
Tier 1 capital ratio (AgriBank only)	8.5%	**19.0%**	n/a	n/a
Tier 1 leverage ratio (AgriBank only)	5.0%	**5.6%**	n/a	n/a

[1]Surplus includes additional paid-in capital.

Refer to Capital Plan and Regulatory Requirements section for discussion related to the new regulatory capital ratios effective January 1, 2017.

District shareholders' equity includes $250 million of AgriBank Series A Non-cumulative Perpetual Preferred Stock and $100 million of Compeer Series A-1 Non-cumulative Perpetual Preferred Stock, collectively Preferred Stock. Dividends on Preferred Stock, if declared by the respective institution's board in its sole discretion, are non-cumulative and are payable quarterly in arrears.

Capital Plan and Regulatory Requirements

Effective January 1, 2017, regulatory capital requirements for System Banks and Associations consisted of risk-based ratios including common equity tier 1 capital, tier 1 capital, and total capital. The requirements also included the non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents (UREE). The permanent capital ratio excludes allocated investments held by Associations in excess of the AgriBank capital requirement. Capital requirements also include capital conservation buffers that were immediately effective for non-risk-adjusted ratios and effective over a three-year phase-in for risk-adjusted capital ratios. AgriBank and District Associations have exceeded all regulatory capital requirements in 2017, including the capital conservation buffers. AgriBank and District Associations were also in compliance with the minimum required capital ratios as of December 31, 2016 and 2015.

Strong earnings, retail participation programs and stock investments allowed AgriBank and District Associations to maintain strong regulatory capital ratios while efficiently leveraging existing Bank capital for the benefit of District Associations.

Each institution's board of directors establishes a formal capital plan that addresses its capital targets in relation to its risks and establishes the required investment levels. The plans assess the capital level and composition necessary to support financial viability and growth. These plans are updated at least annually and are approved by each institution's board of directors. The plans consider factors such as credit risk and allowance levels, quality and quantity of earnings, sufficiency of liquid funds, operational risk, interest rate risk and growth in determining optimal capital levels. AgriBank and District Associations periodically review and modify these targets to reflect current business and economic conditions.

AgriBank models economic capital requirements for the Bank and for District Associations. Additionally, AgriBank and District Associations perform stress testing. Economic capital measures total enterprise risk looking at credit, interest rate and operational risk.

Patronage Programs and Dividend Distributions
Payment of patronage and/or dividends is solely at the discretion of each board and is generally allowed under AgriBank and District Associations' bylaws if the distribution is in accordance with applicable laws and regulations, including the FCA capital adequacy regulations.

The District Associations designated $485.2 million, $322.0 million and $282.9 million of earnings for patronage during 2017, 2016 and 2015, respectively.

In addition to patronage, AgriBank and Compeer declared preferred stock dividends of $17.2 million, and $6.8 million, respectively, during each year ended 2017, 2016 and 2015.

Refer to Note 7 of the accompanying Combined Financial Statements for additional information about Shareholders' Equity.

Accumulated Other Comprehensive Loss
AgriBank's derivative portfolio includes certain derivatives designated as cash flow hedges. Unrealized gains and losses on the effective portion of cash flow hedges are reported as a separate component of shareholders' equity. The majority of cash flow derivatives are hedging rising long-term interest rates.

Due to increasing interest rates over the past two years, the fair value of certain cash flow derivatives increased, resulting in $7.0 million of other comprehensive income for the year ended December 31, 2017 compared to $47.3 million, and $437 thousand in 2016 and 2015, respectively.

AgriBank's investment portfolio is held primarily for liquidity purposes; accordingly, it is considered available-for-sale and is carried at fair value. Unrealized gains and losses on investment securities that are not other-than-temporarily impaired are reported as a separate component of shareholders' equity. Unrealized gains and losses related to the non-credit component of other-than-temporarily impaired investment securities are also reported as a separate component of shareholders' equity.

Other comprehensive loss on AFS investment securities was $12.3 million, $42.4 million and $40.3 million for the year ended December 31, 2017, 2016 and 2015, respectively, primarily driven by increases in interest rates and sales of AFS investment securities during 2016 and 2015.

The unfunded status of the District pension and post-employment benefit plans is recognized as a liability on the Combined Statements of Condition. During 2017, the change in net unrealized losses recognized in accumulated other comprehensive loss for pension and post-employment benefit liabilities was driven by actuarial losses due to a flattening of long-term interest rates partially offset by amortization of actuarial losses from prior periods. During 2016, the change was driven by amortization of actuarial losses from prior periods and a 2016 plan amendment offset by actuarial losses related to 2016. During 2015, the change was driven by actuarial losses partially offset by amortization of actuarial losses from prior periods. Refer to Notes 2, 9 and 15 to the accompanying Combined Financial Statements for further discussion.

Results of Operations

Income levels remained stable, driven by strong net interest income and decreased provision for credit losses, partially offset by increased non-interest expense.

Profitability Information

(in thousands)

For the year ended December 31,	2017	2016	2015
Net income	**$1,923,898**	$1,831,899	$1,832,403
Return on average assets	**1.62%**	1.57%	1.68%
Return on average shareholders' equity	**8.90%**	9.13%	9.87%

Changes in Significant Components of Net Income

(in thousands)

For the year ended December 31,	2017	2016	2015	Increase (Decrease) in Net Income	Prior year Increase (Decrease) in Net Income
Net interest income	**$2,993,955**	$2,868,915	$2,694,861	$125,040	$174,054
Provision for credit losses	**110,041**	141,837	71,894	31,796	(69,943)
Non-interest income	**287,546**	305,000	349,050	(17,454)	(44,050)
Non-interest expense	**1,228,863**	1,189,182	1,120,356	(39,681)	(68,826)
Provision for income taxes	**18,699**	10,997	19,258	(7,702)	8,261
Net income	**$1,923,898**	$1,831,899	$1,832,403	$91,999	$(504)

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31,	2017 vs 2016			2016 vs 2015		
Increase (decrease) due to:	**Volume**	**Rate**	**Total**	Volume	Rate	Total
Interest income:						
Loans	**$135,905**	**$219,370**	**$355,275**	$263,984	$63,069	$327,053
Investments	**(5,069)**	**72,023**	**66,954**	3,120	48,915	52,035
Other earning assets	**241**	**119**	**360**	424	(53)	371
Total interest income	**131,077**	**291,512**	**422,589**	267,528	111,931	379,459
Interest expense:						
Systemwide debt securities and other	**(17,031)**	**(280,518)**	**(297,549)**	(69,194)	(136,211)	(205,405)
Net change in net interest income	**$114,046**	**$10,994**	**$125,040**	$198,334	$(24,280)	$174,054

Information regarding the average daily balances (ADB), average rates earned and components of NII on the portfolio follows:

(in thousands)

For the year ended December 31,	2017		
	ADB	**Rate**	**NII**
Interest earning assets:			
Accrual loans	**$98,869,401**	**4.23%**	**$4,185,879**
Nonaccrual loans	**747,613**	**5.76%**	**43,071**
Investment securities and federal funds	**17,285,689**	**1.52%**	**263,381**
Other earning assets	**36,654**	**4.62%**	**1,692**
Total earning assets	**$116,939,357**	**3.84%**	**$4,494,023**
Interest bearing liabilities	**96,059,362**	**1.56%**	**1,500,068**
Interest rate spread	**$20,879,995**	**2.28%**	
Impact of equity financing		**0.28%**	
Net interest margin		**2.56%**	
Net interest income			**$2,993,955**

(in thousands)

For the year ended December 31,	2016		
	ADB	Rate	NII
Interest earning assets:			
Accrual loans	$95,726,991	4.01%	$3,835,529
Nonaccrual loans	621,272	6.11%	37,954
Investment securities and federal funds	17,732,769	1.11%	196,427
Other earning assets	31,293	4.26%	1,524
Total earning assets	$114,112,325	3.57%	$4,071,434
Interest bearing liabilities	94,741,775	1.27%	1,202,519
Interest rate spread	$19,370,550	2.30%	
Impact of equity financing		0.21%	
Net interest margin		2.51%	
Net interest income			$2,868,915

(in thousands) For the year ended December 31,	2015		
	ADB	Rate	NII
Interest earning assets:			
Accrual loans	$88,837,229	3.96%	$3,516,203
Nonaccrual loans	530,952	5.83%	30,952
Investment securities and federal funds	17,411,880	0.83%	144,391
Other earning assets	21,882	4.50%	428
Total earning assets	$106,801,943	3.46%	$3,691,974
Interest bearing liabilities	89,019,478	1.12%	997,113
Interest rate spread	$17,782,465	2.34%	
Impact of equity financing		0.18%	
Net interest margin		2.52%	
Net interest income			$2,694,861

Net interest income increased primarily due to increases in loan volume compared to the prior year. The impact was somewhat offset by a decrease in the contribution to net interest income from the structure of AgriBank's funding. During the past several years, falling interest rates and an upward sloping yield curve created the opportunity to refinance callable bonds ahead of, and at times, in greater quantities than, loans that have refinanced or converted, contributing favorably to net interest income. Furthermore, funding longer term fixed-rate loans results in a greater contribution to net interest income during the first few years loans are outstanding, but the spread declines and becomes unfavorable in later years of the loan. In a rising interest rate environment, the positive contribution from funding actions would be expected to decline.

Overall, interest rate spreads continue to compress slightly. The decrease was primarily driven by the decline in contribution to net income from the funding structure in the District, and, but for this impact, interest rate spread would have remained the same compared to the prior year.

In general, operating loans, which are typically variable rate, have the highest spreads. Longer term fixed-rate loans generally carry narrower spreads. As the product mix between operating and real estate or intermediate term loans changes, and as competition increases, the interest rate spreads earned may change accordingly.

The impact from equity financing during 2017, compared to the prior year, has contributed significantly to the increase in net interest margin. The increase in earnings on equity was due to the rising interest rates during the year. The benefit of equity financing is greater when interest rates are higher as this equity allows AgriBank to fund higher earning assets with equity rather than higher rate funding.

Changes in loans are further discussed in the Loan Portfolio section of this report.

Provision for Credit Losses

The provision for credit losses was $110.0 million for the year ended December 31, 2017, which includes reversal of provision of $3.1 million for unfunded commitments and letters of credit. Any reserves for unfunded commitments and letters of credit are recorded in "Other liabilities" on the Combined Statements of Condition.

The year-over-year fluctuations for the District's provision for loan losses can be impacted by economic stress in individual agricultural sectors. Low net farm income and credit quality deterioration has resulted in additional provision for loan losses during 2017. Prolonged lower levels of net farm income and other economic factors could contribute to further declines in credit quality, which may increase provision for loan losses across the District.

Refer to the Loan Portfolio - Allowance for Loan Losses section for further discussion of allowance for loan losses changes.

Non-interest Income

Components of Non-Interest Income

(in thousands)

For the year ended December 31,	2017	2016	2015
Financially related services	**$170,708**	$167,772	$168,392
Loan prepayment and fee income	**57,262**	67,652	87,078
Mineral income	**45,795**	36,351	56,535
Miscellaneous income and other gains, net:			
Operating lease income	**7,766**	3,156	17,030
Loan servicing fee income	**5,114**	5,352	5,834
Other property owned losses, net	**(2,433)**	(861)	(2,417)
Derivative fair value adjustments	**(49)**	81	(648)
Other	**3,383**	25,497	17,246
Total	**$287,546**	$305,000	$349,050

Mineral income was earned primarily from royalties received on mineral rights, predominantly in the Williston Basin in western North Dakota. Oil and gas prices throughout 2017 remained comparable to those observed in the latter part of 2016 and was the primary factor resulting in increased mineral income compared to the prior year. An increase in mineral leasing activity during 2017 compared to the prior year further contributed to the increase in mineral income.

Non-interest Expense

Components of Non-interest Expense

(in thousands)

For the year ended December 31,	2017	2016	2015
Salaries and employee benefits	**$734,332**	$693,566	$678,867
Occupancy expense	**47,995**	47,227	45,002
Other operating expenses	**316,099**	303,688	292,085
Farm Credit System insurance expense	**130,437**	144,701	103,709
Net impairment losses recognized in earnings	**--**	--	693
Total	**$1,228,863**	$1,189,182	$1,120,356
Operating rate	**1.1%**	1.0%	1.1%

Salaries and employee benefits increased primarily due to annual merit increases to salaries and to a lesser extent increased incentive compensation.

Farm Credit System insurance fund expense is directly impacted by the premium rate AgriBank is assessed. Premiums were 15 basis points in 2017 compared to 16 basis points for the first half and 18 basis points for the second half of 2016 and 13 basis points in 2015. The Insurance Corporation has announced premiums will decrease to 9 basis points for 2018. The Insurance Corporation Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Provision for Income Taxes

The increase in provision for income taxes from the prior year was related to increased income primarily driven by an increase in patronage income from AgriBank and a decrease in provision for loan losses. The resulting increase in provision for income taxes was partially offset by an increase in tax savings from association patronage programs and the impact of deferred tax asset and liability revaluation due to tax reform. Refer to Note 8 of the accompanying Combined Financial Statements for further information.

Quarterly Financial information

Select Quarterly Financial Information

(in thousands) **2017**	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**723,369**	**736,168**	**767,947**	**766,471**	**2,993,955**
Provision for credit losses	**19,349**	**49,146**	**32,521**	**9,025**	**110,041**
Other expenses, net	**253,761**	**250,313**	**257,810**	**198,132**	**960,016**
Net income	**$450,259**	**$436,709**	**$477,616**	**$559,314**	**$1,923,898**

2016	First	Second	Third	Fourth	Total
Net interest income	698,688	707,883	729,104	733,240	2,868,915
Provision for credit losses	40,036	54,859	25,809	21,133	141,837
Other expenses, net	241,571	225,486	216,586	211,536	895,179
Net income	$417,081	$427,538	$486,709	$500,571	$1,831,899

Interest Rate Risk Management

Interest rate risk is the risk that changes in interest rates may adversely affect operating results and financial condition. Interest rate risk arises primarily from funding fixed rate loans that can be prepaid, adjustable rate loans with interest rate caps and decisions related to the investment of equity. AgriBank manages substantially all of the District's interest rate risk. AgriBank's ability to effectively manage interest rate risk relies on the ability to issue debt with terms and structures that match asset terms and structures. Because a substantial portion of those assets are prepayable, AgriBank issues a significant amount of callable debt. AgriBank also uses derivatives to manage interest rate risk and reduce funding costs.

AgriBank manages exposure to changes in interest rates under policies established by the board and limits established by the ALCO. Policies and limits regulate maximum exposure to net interest income and economic value of equity changes for specified changes in market interest rates. A full analysis of interest rate risk is completed monthly. Through these analyses, appropriate funding strategies are developed to manage the sensitivity of net interest income and economic value of equity to changes in interest rates.

Primary techniques used to analyze interest rate risk are:

- Interest rate gap analysis, which compares the amount of interest-sensitive assets to interest-sensitive liabilities repricing in selected time periods under various interest rate and prepayment assumptions.
- Net interest income sensitivity analysis, which projects net interest income in each of the next three years given various rate scenarios.
- Economic value of equity sensitivity analysis, which estimates the economic value of assets, liabilities and equity given various rate scenarios.

The assumptions used in these analyses are monitored routinely and adjusted as necessary. Assumptions about loan prepayment behavior are the most significant to the results. Prepayment speeds are estimated as a function of rate levels, age and seasoning. AgriBank monitors and tracks prepayment history and consider adjustments to assumed prepayment speeds based on historical experience observed. AgriBank uses third-party prepayment models for MBS investments.

Interest Rate Gap Analysis

The following table is based on the known repricing dates of certain assets and liabilities and the assumed or estimated repricing dates of others under an implied forward rate scenario. Prepayment estimates for loans are assumed consistent with standard prepayment assumptions. Callable debt is shown at the first call date it is expected to be exercised given implied forward rates. Various assets and liabilities may not reprice according to the assumptions and estimates used. The analysis provides a static view of interest rate sensitivity position and does not capture the dynamics of an evolving balance sheet, interest rate and spread changes in different interest rate environments, and the active role of asset and liability management.

Interest Rate Gap Position
(AgriBank only)

(in thousands)	Repricing Intervals						
As of December 31, 2017	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Over 5 Years**	**Total**
Earning assets:							
Prepayable loans	$42,145,426	$7,949,783	$6,494,153	$5,344,423	$4,634,835	$18,478,737	$85,047,357
Other loans	335,706	499,109	308,941	250,864	608,394	1,324,552	3,327,566
Investments and federal funds	11,996,610	1,277,506	569,866	397,499	241,101	580,173	15,062,755
Total earning assets	$54,477,742	$9,726,398	$7,372,960	$5,992,786	$5,484,330	$20,383,462	$103,437,678
Callable debt	$2,400,603	$4,111,468	$4,619,519	$3,856,048	$4,300,036	$18,761,278	$38,048,952
Other debt	51,550,398	4,360,755	2,346,881	807,562	749,790	449,606	60,264,992
Effect of interest rate swaps and other derivatives	(406,000)	(352,000)	(1,170,000)	170,000	170,000	1,588,000	--
Total rate-sensitive liabilities	$53,545,001	$8,120,223	$5,796,400	$4,833,610	$5,219,826	$20,798,884	$98,313,944
Interest rate sensitivity gap	$932,741	$1,606,175	$1,576,560	$1,159,176	$264,504	$(415,422)	$5,123,734
Cumulative gap	$932,741	$2,538,916	$4,115,476	$5,274,652	$5,539,156	$5,123,734	
Cumulative gap as a % of earning assets	1.7%	4.0%	5.7%	6.8%	6.7%	5.0%	

Net Interest Income and Economic Value of Equity (EVE) Sensitivity Analysis

The economic value of equity sensitivity analysis provides a static view of interest rate sensitivity position, commensurate with the interest rate gap analysis. Net interest income projections and sensitivity analysis incorporate assumptions to capture the dynamics of an evolving balance sheet. Policy limits related to interest rate sensitivity assume interest rates for all maturities change immediately in the same direction and amount (a parallel shock). AgriBank also routinely reviews the impact of a gradual change over one

year in interest rates in the same direction and same amount (a parallel ramp). Periodically, AgriBank reviews multi-year net interest income projections and the impact of varying the amount of change in rates at different maturities (a twist, flattening or steepening of the yield curve). AgriBank's policies establish a maximum variance from a base case in a plus or minus 200 basis point change in rates, except when the U.S. Treasury three-month rate is below 4 percent, at which time the minus scenario is limited to one-half of the U.S. Treasury three-month rate.

Because of the low interest rates at December 31, 2017, the down scenario is limited to a down 69 basis point change.

NII Sensitivity Analysis

	Basis Point Interest Rate Change		
As of December 31, 2017	**Down 69**	**Up 100**	**Up 200**
Immediate Change (Shock):			
District NII sensitivity	(1.4%)	(0.1%)	1.2%
AgriBank NII sensitivity	(1.1%)	(0.7%)	(1.8%)
AgriBank Board policy	(15.0%)		(15.0%)
Gradual Change (Ramp):			
AgriBank NII sensitivity		0.3%	0.4%

EVE Sensitivity Analysis

	Basis Point Interest Rate Change		
As of December 31, 2017	**Down 69**	**Up 100**	**Up 200**
Immediate Change (Shock):			
AgriBank EVE sensitivity	4.1%	(4.1%)	(7.6%)
AgriBank Board policy	(12.0%)		(12.0%)
District EVE sensitivity	3.0%	(4.0%)	(7.8%)

AgriBank Derivative Financial Instruments

AgriBank primarily uses derivative financial instruments to reduce funding costs, improve liquidity and manage interest rate sensitivity. AgriBank does not hold or issue derivatives for trading purposes.

AgriBank's derivative activities are monitored by the Asset/Liability Committee (ALCO) as part of the Committee's oversight of asset/liability and treasury functions. AgriBank's hedging strategies are developed within limits established by the board through analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest rate risk-management strategies.

The types and uses of derivatives AgriBank primarily uses are:

Derivative Products	Purpose of the Hedge Transaction	Strategic Impact
Receive-fixed swaps	To protect against the decline in interest rates on floating-rate assets by exchanging the debt's fixed-rate payment for a floating-rate payment.	These transactions enable us to improve liquidity, obtain lower funding cost or to hedge basis risk.
Pay-fixed swaps	To protect against an increase in interest rates by exchanging the debt's floating-rate payment for a fixed-rate payment that matches the cash flows of assets.	These transactions create lower cost synthetic fixed rate funding, hedge future debt issuance costs or manage interest rate sensitivity.
Floating-for-floating swaps	To protect against large increases in interest rates on the bank's floating-rate liabilities by embedding an interest rate cap on the floating-rate payment leg of the swap.	These transactions help us to manage the bank's exposure to large increases in interest rates and offset interest rate caps that are embedded within the bank's assets.

AgriBank also facilitates interest rate swaps to qualified borrowers of the District Associations. These swaps allow qualified borrowers to manage their interest rate risk and lock in a fixed interest rate similar to a fixed rate loan. AgriBank manages the interest rate risk from customer swaps with the execution of offsetting interest rate swap transactions.

By using derivative instruments, AgriBank is subject to credit loss exposure. If a counterparty is unable to perform under a derivative contract, AgriBank's credit risk equals the net amount due to AgriBank. Generally, when the fair value of a derivative contract is positive, AgriBank has credit exposure to the counterparty, creating credit risk for AgriBank. When the fair value of the derivative contract is negative, AgriBank does not have credit exposure; however, there is a risk of AgriBank's nonperformance under the terms of the derivative transaction.

AgriBank Derivative Credit Loss Exposure by Credit Rating

(in thousands) **As of December 31, 2017**	**Years to Maturity** **One to Five Years**	 **Over Five Years**	**Maturity Distribution Netting**	**Exposure**	**Exposure Net of Collateral**
Moody's Credit Rating					
Aa2	**$1,521**	**$ --**	**$(1,521)**	**$ --**	**$ --**
Aa3	**--**	**10,803**	**(2,277)**	**8,526**	**8,526**
A1	**262**	**--**	**(262)**	**--**	**--**
Cleared derivatives	**--**	**10,697**	**(10,697)**	**--**	**--**
Total	**$1,783**	**$21,500**	**$(14,757)**	**$8,526**	**$8,526**

Derivative credit loss exposure is estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts in a gain position. Within each maturity category, contracts in a loss

position are netted against contracts in a gain position with the same counterparty. If the net position within a maturity category with a particular counterparty is a loss, no amount is reported. Maturity distribution netting represents the impact of netting of derivatives in a gain position and derivatives in a loss position for the same counterparty across different maturity categories.

Expected Maturities of AgriBank Derivative Products and Other Financial Instruments

(in thousands) As of December 31, 2017	2018	2019	2020	2021	2022	2023 and thereafter	Total	Fair Value
Bonds and Notes:								
Fixed rate	$12,665,373	$8,682,959	$6,635,699	$4,858,562	$5,049,648	$19,121,740	$57,013,981	$56,484,058
Average interest rate	1.1%	1.3%	1.5%	1.7%	2.0%	2.6%	1.9%	
Variable rate	20,019,963	18,649,000	2,631,000	--	--	--	41,299,963	41,350,829
Average interest rate	1.2%	1.1%	1.2%	--	--	--	1.1%	
Total bonds and notes	$32,685,336	$27,331,959	$9,266,699	$4,858,562	$5,049,648	$19,121,740	$98,313,944	$97,834,887
Derivative Instruments:								
Receive-fixed swaps								
Notional value	$945,000	$671,000	$951,000	$ --	$50,000	$ --	$2,617,000	$(18,276)
Weighted average receive rate	1.0%	1.4%	1.7%	--	2.0%	--	1.4%	
Weighted average pay rate	2.2%	2.4%	2.3%	--	2.4%	--	2.3%	
Pay-fixed swaps								
Notional value	50,000	115,000	104,000	170,000	240,000	1,637,360	2,316,360	(1,498)
Weighted average receive rate	2.1%	2.2%	2.3%	2.3%	2.4%	2.5%	2.4%	
Weighted average pay rate	4.3%	3.3%	3.3%	2.5%	1.9%	2.3%	2.4%	
Floating for floating swaps								
Notional value	200,000	200,000	300,000	600,000	200,000	1,200,000	2,700,000	(4,950)
Weighted average receive rate	2.0%	2.3%	2.3%	2.3%	2.4%	2.5%	2.4%	
Weighted average pay rate	2.3%	2.3%	2.3%	2.3%	2.4%	2.5%	2.4%	
Customer swaps								
Notional value	--	15,000	4,000	--	20,000	49,360	88,360	(3,074)
Weighted average receive rate	--	1.4%	1.2%	--	2.2%	1.3%	1.5%	
Weighted average pay rate	--	2.3%	2.3%	--	2.4%	2.5%	2.4%	
Credit valuation adjustment								(49)
Variation margin settlement								2,241
Total derivative instruments	$1,195,000	$1,001,000	$1,359,000	$770,000	$510,000	$2,886,720	$7,721,720	$(25,606)
Total weighted average rates on swaps:								
Receive rate	1.2%	1.7%	1.9%	2.3%	2.4%	2.5%	2.0%	
Pay rate	2.3%	2.5%	2.4%	2.3%	2.2%	2.4%	2.4%	

The table was prepared based on implied forward variable interest rates as of December 31, 2017 and, accordingly, the actual interest rates to be received or paid will be different to the extent that the variable rates fluctuate from December 31, 2017 implied forward rates.

Derivative instruments are discussed further in Notes 2, 13 and 14 to the accompanying Combined Financial Statements.

Other Risks

Operational Risk
Operational risk represents the risk of loss resulting from operations. Operational risk includes risks related to fraud, processing errors, breaches of internal controls, cybersecurity and natural disasters. Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of objectives. AgriBank and District Associations manage operational risk through established internal control processes and disaster recovery plans. AgriBank and District Associations maintain systems of controls with the objectives of providing appropriate transaction authorization and execution, proper system operations, safeguarding of assets and reliability of financial and other data. AgriBank and District Associations have a strong control environment that includes independent audit committees, standards of conduct for employees, and whistleblower programs. AgriBank and District Associations have developed and regularly update comprehensive business continuity and disaster recovery plans and routinely test these plans with the goal of ensuring ongoing operations under a variety of adverse scenarios. AgriBank and District Associations maintain sound security infrastructure, which are periodically tested. AgriBank and District Associations also provide privacy and cybersecurity awareness training to staff.

AgriBank and District Associations document, test and evaluate internal control over financial reporting (ICFR) to support the Farm Credit System-level and AgriBank stand-alone attestations for ICFR consistent with that required by Sarbanes-Oxley Section 404. This effort supports a strong control environment through awareness, documentation and testing of key controls for all significant processes supporting ICFR. In addition, AgriBank's independent auditor provides an opinion on the effectiveness of AgriBank's ICFR program.

Reputation Risk
Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the Farm Credit System or any of its entities. Such risks include impacts related to investors' perceptions about agriculture, the reliability of the System financial information or business practices by any System institution which may appear to conflict with the System mission. The Farm Credit System has various committees responsible for reviewing business practices and, where appropriate, risk mitigation efforts, as well as providing strategic direction on System reputation management initiatives.

Credit Risk Related to Joint and Several Liability
AgriBank has exposure to System-wide credit risk because AgriBank is jointly and severally liable for all Systemwide debt issued. Under joint and several liability, if a System Bank is unable to pay its obligations as they come due, the other Banks in the System would ultimately be called upon to fulfill those obligations. The existence of the Farm Credit Insurance Fund (Insurance Fund), the CIPA and the Market Access Agreement (MAA) help to mitigate this risk. Refer to Note 11 of the accompanying Combined Financial Statements for additional information related to the CIPA and MAA.

The Farm Credit Act established the Insurance Corporation to administer the Insurance Fund. Refer to Note 1 of the accompanying Combined Financial Statements for further information on the Insurance Fund.

Critical Accounting Policies

The Combined Financial Statements are reported based on accounting principles generally accepted in the United States of America (GAAP) and require that significant judgment be applied to various accounting, reporting and disclosure matters. Assumptions and estimates are used to apply these principles where actual measurement is not possible or practical. For a complete discussion of significant accounting policies, refer to Note 2 of the accompanying Combined Financial Statements. The following is a summary of certain critical accounting policies:

- Allowance for Loan Losses — The allowance for loan losses is the best estimate of the amount of losses on loans in AgriBank's and District Associations' portfolios as of the date of the Combined Financial Statements. AgriBank and District Associations determine the allowance for loan losses based on a periodic evaluation of each loan portfolio, which considers loan loss history, estimated probability of default, estimated loss severity, portfolio quality and current economic and environmental conditions. Refer to the Loan Portfolio – Allowance for Loan Losses section for further discussion.

- Fair Value Measurements — AgriBank and District Associations apply various valuation methods to assets and liabilities that often involve judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as certain investment securities. However, for those items for which an observable active market does not exist, management utilizes significant estimates and assumptions to value such items. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, loss severity rates and third-party prices. The use of different assumptions could produce significantly different results.

Report of Management

AgriBank, FCB and District Associations

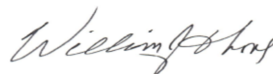
AgriBank, FCB (AgriBank) prepares the accompanying Combined Financial Statements of AgriBank and District Associations and is responsible for their integrity and objectivity. AgriBank has relied upon each Associations' management to advise AgriBank of all material transactions, judgements, estimates, events, commitments and disclosures at each Association. The Combined Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Combined Financial Statements, in AgriBank's opinion, present fairly the financial condition of AgriBank, FCB and District Associations. Other financial information included in the Annual Report is consistent with that in the Combined Financial Statements.

To meet AgriBank's responsibility for reliable financial information, AgriBank depends on the accounting and internal control systems at AgriBank and each Association. These systems are designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, the independent auditors, audit the Combined Financial Statements. They also conduct a review of internal control to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

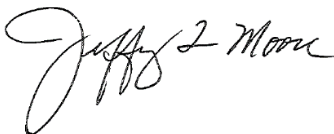
AgriBank's Board of Directors has overall responsibility for AgriBank's system of internal control and financial reporting. The board of directors and its Audit Committee consults regularly with management and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the board of directors, which is comprised solely of directors who are not officers or employees of AgriBank or District Associations.

The undersigned certify that they have reviewed the combined AgriBank, FCB and District Associations' December 31, 2017 Annual Report and it has been prepared in accordance with all applicable statutory and regulatory requirements and the information contained herein is true, accurate and complete to the best of their knowledge and belief.

Matthew D. Walther
Chair of the Board
AgriBank, FCB



William J. Thone
Chief Executive Officer
AgriBank, FCB



Jeffrey L. Moore
Chief Financial Officer
AgriBank, FCB

March 15, 2018

Report of Independent Auditors

To the Boards of Directors of AgriBank, FCB and District Associations:

We have audited the accompanying Combined Financial Statements of AgriBank, FCB and District Associations (the District), which comprise the combined statements of condition as of December 31, 2017, 2016 and 2015, and the related combined statements of comprehensive income, of changes in shareholders' equity and of cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the Combined Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Combined 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 Combined Financial Statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Combined Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Combined Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Combined Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the Combined 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 District'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 accounting estimates made by management, as well as evaluating the overall presentation of the Combined 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 Combined Financial Statements referred to above present fairly, in all material respects, the financial position of AgriBank, FCB and District Associations as of December 31, 2017, 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.

PricewaterhouseCoopers LLP

March 15, 2018

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
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Combined Statements of Condition

AgriBank, FCB and District Associations

(in thousands) **As of December 31,**	**2017**	2016	2015
Assets			
Loans	**$102,472,674**	$99,069,239	$94,944,379
Allowance for loan losses	**436,059**	386,754	285,711
Net loans	**102,036,615**	98,682,485	94,658,668
Investment securities - AgriBank, FCB	**14,386,455**	14,897,252	14,262,883
Investment securities - District Associations	**2,146,458**	1,938,980	1,704,160
Cash	**571,445**	559,760	596,730
Federal funds	**676,300**	591,300	1,427,125
Accrued interest receivable	**1,160,514**	1,046,835	974,722
Premises and equipment, net	**516,331**	512,832	484,646
Deferred tax assets, net	**10,076**	17,920	16,543
Assets held for lease, net	**221,373**	290,863	514,461
Derivative assets	**9,036**	13,344	777
Other property owned	**12,295**	14,530	13,051
Cash collateral posted with counterparties	**31,734**	33,128	33,323
Other assets	**363,058**	408,059	245,913
Total assets	**$122,141,690**	119,007,288	$114,933,002
Liabilities			
Bonds and notes	**$98,313,944**	$96,633,431	$93,404,251
Subordinated notes	**--**	--	597,775
Accrued interest payable	**288,978**	223,023	231,858
Derivative liabilities	**34,752**	34,637	52,034
Deferred tax liabilities, net	**38,649**	106,986	142,059
Accounts payable	**196,485**	216,537	191,841
Patronage and dividends payable	**549,617**	325,605	287,687
Post-employment liability	**410,749**	432,517	515,954
Other liabilities	**228,152**	242,489	224,774
Total liabilities	**100,061,326**	98,215,225	95,648,233
Commitments and contingencies (Note 10)			
Shareholders' equity			
Perpetual preferred stock	**350,000**	350,000	350,000
Capital stock and participation certificates	**294,949**	272,034	268,697
Additional paid-in capital	**2,084,988**	--	--
Allocated surplus	**523,252**	531,150	406,758
Unallocated surplus	**19,356,250**	20,145,063	18,824,372
Accumulated other comprehensive loss	**(593,556)**	(566,831)	(616,099)
Noncontrolling interest	**64,481**	60,647	51,041
Total shareholders' equity	**22,080,364**	20,792,063	19,284,769
Total liabilities and shareholders' equity	**$122,141,690**	119,007,288	$114,933,002

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

Combined Statements of Comprehensive Income

AgriBank, FCB and District Associations

(in thousands)

For the year ended December 31,	2017	2016	2015
Interest income			
Loans	**$4,230,356**	$3,874,815	$3,547,154
Investment securities and other earning assets	**263,667**	196,619	144,821
Total interest income	**4,494,023**	4,071,434	3,691,975
Interest expense	**1,500,068**	1,202,519	997,114
Net interest income	**2,993,955**	2,868,915	2,694,861
Provision for credit losses	**110,041**	141,837	71,894
Net interest income after provision for credit losses	**2,883,914**	2,727,078	2,622,967
Non-interest income			
Financially related services	**170,708**	167,772	168,392
Mineral income	**45,795**	36,351	56,535
Loan prepayment and fee income	**57,262**	67,652	87,078
Miscellaneous income and other gains, net	**13,781**	33,225	37,045
Total non-interest income	**287,546**	305,000	349,050
Non-interest expense			
Salaries and employee benefits	**734,332**	693,566	678,867
Other operating expenses	**316,099**	303,688	292,085
Occupancy expense	**47,995**	47,227	45,002
Farm Credit System insurance expense	**130,437**	144,701	103,709
Net impairment losses recognized in earnings	**--**	--	693
Total non-interest expense	**1,228,863**	1,189,182	1,120,356
Income before income taxes	**1,942,597**	1,842,896	1,851,661
Provision for income taxes	**18,699**	10,997	19,258
Net income	**$1,923,898**	$1,831,899	$1,832,403
Other comprehensive (loss) income			
Investments available-for-sale:			
Not-other-than-temporarily-impaired investments	**$(12,311)**	$(31,871)	$(35,689)
Other-than-temporarily-impaired investments	**--**	(10,561)	(4,630)
Derivatives and hedging activity	**7,036**	47,267	437
Employee benefit plans activity	**(21,450)**	44,433	(26,512)
Total other comprehensive (loss) income	**(26,725)**	49,268	(66,394)
Comprehensive income	**$1,897,173**	$1,881,167	$1,766,009

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

Combined Statements of Changes in Shareholders' Equity

AgriBank, FCB and District Associations

(In thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in Capital	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total
Balance at December 31, 2014	$350,000	$266,420	$ --	$371,004	$17,368,747	$(549,705)	$42,616	$17,849,082
Noncontrolling interest equity investment							8,425	8,425
Net income					1,832,403			1,832,403
Other comprehensive loss						(66,394)		(66,394)
Patronage					(289,929)			(289,929)
Surplus allocated under nonqualified patronage program				62,911	(62,911)			-
Redemption of allocated surplus under nonqualified patronage program				(27,157)				(27,157)
Perpetual preferred stock dividends					(23,938)			(23,938)
Capital stock/participation certificates issued		20,776						20,776
Capital stock/participation certificates retired		(18,499)						(18,499)
Balance at December 31, 2015	$350,000	$268,697	$ --	$406,758	$18,824,372	$(616,099)	$51,041	$19,284,769
Noncontrolling interest equity investment							9,606	9,606
Net income					1,831,899			1,831,899
Other comprehensive income						49,268		49,268
Patronage					(330,173)			(330,173)
Surplus allocated under nonqualified patronage program				157,097	(157,097)			--
Redemption of surplus allocated under nonqualified patronage program				(32,705)				(32,705)
Perpetual preferred stock dividends					(23,938)			(23,938)
Capital stock/participation certificates issued		24,507						24,507
Capital stock/participation certificates retired		(21,170)						(21,170)
Balance at December 31, 2016	$350,000	$272,034	$ --	$531,150	$20,145,063	$(566,831)	$60,647	$20,792,063
Noncontrolling interest equity investment							**3,834**	**3,834**
Net income					**1,923,898**			**1,923,898**
Other comprehensive loss						**(26,725)**		**(26,725)**
Patronage					**(494,990)**			**(494,990)**
Surplus allocated under nonqualified patronage program				**93,686**	**(93,686)**			**--**
Redemption of surplus allocated under nonqualified patronage program				**(101,584)**	**143**			**(101,441)**
Perpetual preferred stock dividends					**(23,938)**			**(23,938)**
Capital stock/participation certificates issued		**68,797**						**68,797**
Capital stock/participation certificates retired		**(45,882)**						**(45,882)**
Net fair value adjustments related to mergers					**(15,252)**			**(15,252)**
Equity issued and recharacterized upon association mergers		**23,592**	**2,084,988**					**2,108,580**
Equity retired and recharacterized upon association mergers		**(23,592)**			**(2,084,988)**			**(2,108,580)**
Balance at December 31, 2017	**$350,000**	**$294,949**	**$2,084,988**	**$523,252**	**$19,356,250**	**$(593,556)**	**$64,481**	**$22,080,364**

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

Combined Statements of Cash Flows

AgriBank, FCB and District Associations

(in thousands) **For the years ended December 31,**	**2017**	2016	2015
Cash flows from operating activities			
Net income	**$1,923,898**	$1,831,899	$1,832,403
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises, equipment and assets held for lease	**95,944**	136,112	144,190
Loss (gain) on sales of premises, equipment and assets held for lease	**109**	(5,545)	(1,851)
Provision for credit losses	**110,041**	141,837	71,894
Loss on other property owned, net	**2,246**	861	2,417
(Gain) loss on derivative activities	**(2,013)**	140	(213)
Net impairment losses recognized in earnings	**--**	--	693
Loss (gain) on sale of investment securities, net	**198**	(10,825)	(2,961)
Amortization of discounts on debt and deferred debt issuance costs, net	**80,400**	100,786	39,553
Amortization of (discounts) premiums on loans and investments, net	**(21,294)**	7,135	30,420
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(113,679)**	(72,113)	(85,761)
Decrease (increase) in other assets	**56,329**	(163,523)	(98,869)
Increase (decrease) in accrued interest payable	**65,955**	(8,835)	26,804
Decrease in other liabilities	**(126,464)**	(39,440)	(10,839)
Net cash provided by operating activities	**2,071,670**	1,918,489	1,947,881
Cash flows from investing activities			
Increase in loans, net	**(3,502,454)**	(4,176,261)	(6,490,050)
Proceeds from sales of other property owned	**12,580**	11,435	18,690
Purchases of investment securities	**(3,695,863)**	(4,195,252)	(4,275,897)
Proceeds from maturing investment securities	**3,891,962**	2,943,612	4,185,064
Proceeds from the sale of investment securities	**105,204**	348,262	104,330
Proceeds from sale of (purchases of) assets held for lease, net	**16,897**	133,355	(58,837)
Purchases of premises and equipment, net	**(48,481)**	(68,510)	(72,307)
Net cash used in investing activities	**(3,220,155)**	(5,003,359)	(6,589,007)
Cash flows from financing activities			
Bonds and notes issued	**187,595,517**	229,146,168	218,646,549
Bonds and notes retired	**(185,979,892)**	(225,998,333)	(213,814,646)
Subordinated notes retired	**--**	(600,000)	--
Increase (decrease) in cash collateral posted by counterparties, net	**8,073**	--	(7,280)
Decrease (increase) in cash collateral posted with counterparties	**--**	195	(11,305)
Variation margin settled on cleared derivatives, net	**(8,920)**	--	--
Patronage distributions paid	**(345,978)**	(292,255)	(275,993)
Redemption of surplus allocated under nonqualified patronage program	**(26,441)**	(32,705)	(27,157)
Capital stock/participation certificates issued, net	**22,915**	3,337	2,277
Preferred stock dividends paid	**(23,938)**	(23,938)	(23,938)
Increase in noncontrolling interest	**3,834**	9,606	8,425
Net cash provided by financing activities	**1,245,170**	2,212,075	4,496,932
Net increase (decrease) in cash and federal funds	**96,685**	(872,795)	(144,194)
Cash and federal funds at beginning of period	**1,151,060**	2,023,855	2,168,049
Cash and federal funds at end of period	**$1,247,745**	$1,151,060	$2,023,855
Supplemental schedule of non-cash investing and financing activities			
Decrease in shareholders' equity from investment securities	**$(12,311)**	$(42,432)	$(40,319)
(Decrease) increase in shareholders' equity from employee benefits	**(21,450)**	44,433	(26,512)
Loans transferred to other property owned	**13,668**	15,576	13,620
Patronage and preferred stock dividends accrued	**474,617**	325,605	287,687
Patronage payable under nonqualified patronage program	**75,000**	--	--
Transfer of retained earnings to additional paid-in capital related to association mergers	**2,084,988**	--	--
Supplemental non-cash fair value changes related to hedging activities			
Decrease (increase) in derivative assets	**$4,308**	$(12,567)	$14,623
Increase (decrease) in derivative liabilities	**2,155**	(17,344)	7,448
Decrease in bonds from derivative activity	**(15,512)**	(17,216)	(22,721)
Supplemental information			
Interest paid	**$1,353,713**	$1,110,568	$970,310
Taxes paid, net	**77,123**	38,228	89,761

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

Notes to Combined Financial Statements

AgriBank, FCB and District Associations

NOTE 1

Organization and Operations

Farm Credit System and District Organization

AgriBank, FCB (AgriBank) and District Associations (the District) comprise one of the four Districts of the Farm Credit System (the System), a nationwide system of cooperatively owned Banks and Associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

At January 1, 2018, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank and 69 Associations across the nation. System entities have specific lending authorities within their chartered territories. AgriBank and District Associations are chartered to provide agricultural financing in substantially all of Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin and Wyoming.

At January 1, 2018, the District had 14 Agricultural Credit Association (ACA) parent Associations, each of which has wholly owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. These 14 District Associations primarily own AgriBank. FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their FLCA and PCA subsidiaries. District Associations are also authorized to provide lease financing options for agricultural purposes and to purchase and hold certain types of investments. District Associations may also offer credit life, term life, credit disability, crop hail, and multi-peril crop insurance to their borrowers and those eligible to borrow. Additionally, certain District Associations offer farm records, fee appraisals, income tax planning and preparation services, retirement and succession planning and producer education services to their members. AgriBank is the primary funding source for all District Associations. AgriBank raises funds principally through the sale of Combined Systemwide bonds and notes to the public through the Federal Farm Credit Banks Funding Corporation (the Funding Corporation).

The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that AgriBank and District Associations can offer. AgriBank and District Associations are authorized to provide, in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, farm-related service businesses and processing or marketing operations. The Farm Credit Act, as amended, also allows AgriBank and District Associations to participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The activities of the System Banks and Associations are examined by the FCA and certain actions by these entities require prior approval from the FCA.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used for:

- Insuring the timely payment of principal and interest on Farm Credit Systemwide debt obligations
- Insuring the retirement of protected borrower capital at par or stated value
- Other specified purposes

The Insurance Corporation does not insure any payments on preferred stock, common stock or risk participation certificates. In the event of default by another System Bank, and if no available amounts remain in the Insurance Fund, AgriBank is required to fund the allocated portion of another System Bank's portion of the Systemwide Debt Securities.

At the discretion of the Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2 percent (the secure base amount) of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. The percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and under certain circumstances is required to transfer excess funds to establish Allocated Insurance Reserves Accounts (AIRAs). The Insurance Corporation may also distribute all or a portion of these reserve accounts to the System Banks.

The basis for assessing premiums is insured debt outstanding. Nonaccrual loans and impaired investment securities are assessed a surcharge, while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to the District Associations each year based on similar factors.

Service Organizations

System institutions jointly own several service organizations. These organizations were created to provide a variety of services for the System. AgriBank and/or District Associations have ownership interests in the following service organizations:

- **Federal Farm Credit Banks Funding Corporation** provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks and financial management and reporting services
- **Farm Credit Services Building Association** owns and leases premises and equipment to the System's regulator, the FCA
- **Farm Credit System Association Captive Insurance Company** provides corporate insurance coverage to member organizations
- **Farm Credit Foundations (Foundations)** provides benefits and payroll services to AgriBank and District Associations as well as certain other System entities

- **Farm Credit Financial Partners, Inc. (FPI)** provides core technology systems such as network infrastructure, loan accounting, general ledger and document management to certain District Associations

In addition, the Farm Credit Council acts as a full-service federated trade association that represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

District Association Mergers

Effective July 1, 2017 two District Associations, AgCountry Farm Credit Services, ACA and United FCS, ACA (United), merged under the name AgCountry Farm Credit Services, ACA (AgCountry) and is headquartered in Fargo, N.D. The primary reason for the merger was to strategically position the associations to best serve member needs.

Effective July 1, 2017, three District Associations, 1st Farm Credit Services, ACA (1st FCS), AgStar Financial Services, ACA (AgStar), and Badgerland Financial, ACA (Badgerland), merged under the name Compeer Financial (Compeer) and is headquartered in Sun Prairie, Wis. The primary reason for the merger was to increase portfolio diversification, expand and sustain the essential infrastructure of human capital necessary to the delivery of excellent customer service and value, gain operating efficiencies of a larger association, and increase the association's capital base to meet the lending needs of its clients.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In the mergers, the shares of United were converted into shares of AgCountry stock, the AgStar shares were renamed as Compeer stock and the shares of 1st FCS and Badgerland stock were converted into shares of Compeer stock with identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio.

Association management believes that because the stock in each association is fixed in value (although subject to impairment), the Compeer and AgCountry stock issued pursuant to the mergers provided no basis for estimating the fair value of the consideration transferred pursuant to the mergers. In the absence of a purchase price determination, Compeer and AgCountry undertook a process to identify and estimate the acquisition-date fair value of the equity interests of the acquired institutions, instead of the acquisition-date fair value of equity interests transferred as consideration by Compeer and AgCountry. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results.

The mergers were accounted for under the acquisition method of accounting. Pursuant to these rules, Compeer and AgCountry acquired the assets and assumed the liabilities of 1st FCS and Badgerland, and United, respectively, at their acquisition-date fair value. The fair value of the net identifiable assets acquired was substantially equal to the fair value of the equity interest exchanged in the mergers. In addition, no material amounts of intangible assets were acquired. As a result, no goodwill was recorded. Net fair value adjustments totaling $15.3 million were recognized pursuant to the mergers, resulting in a

net decrease to shareholders' equity on the Combined Statement of Condition. The member interests transferred as a result of the mergers were recognized as additional paid-in capital, with a corresponding reduction of unallocated surplus on the Combined Statement of Condition.

Condensed Statement Net Assets Acquired

(in thousands)	July 1, 2017
Assets	
Net loans	$10,778,919
Other assets	882,684
Total assets	$11,661,603
Liabilities	
Notes payable	$9,233,503
Other liabilities	123,090
Total liabilities	$9,356,593
Fair value of net assets acquired	$2,305,010

The mergers did not have a material impact on the District's financial condition or result of operations as the assets, liabilities, capital and incomes of the acquired institutions were previously reflected in the Combined Statements of Condition and Comprehensive Income.

As a result of the mergers, certain loans were considered to be purchased credit-impaired. The recorded investment and contractual cash flows of purchased credit-impaired loans are not significant to the Combined Financial Statements. Management of Compeer and AgCountry expect to collect the substantial majority of the contractual amounts of the loans acquired through merger not considered to be purchased credit impaired, which totaled $11.0 billion at July 1, 2017.

NOTE 2

Summary of Significant Accounting Policies

AgriBank's and District Associations' accounting policies conform to generally accepted accounting principles (GAAP) in the United States of America and prevailing practices within the financial services industry. The preparation of Combined Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Combined Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts in the prior years' Combined Financial Statements have been reclassified to conform to current year presentation.

Principles of Combination: The Combined Financial Statements include the accounts of AgriBank and District Associations. All significant transactions and balances between AgriBank and District Associations have been eliminated in combination.

Loans: Loans are carried at their principal amount outstanding, net of any unearned income, cumulative charge-offs and unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs are deferred and recognized over the life of the loan as a yield adjustment in net interest income.

Loans are placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless well secured and in the process of collection) or circumstances indicate that full collection is not expected. When a loan is placed in nonaccrual status, unpaid interest accrued in the current year is reversed to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment in the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, a concession is granted for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined in the Allowance for Loan Losses section).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

District Association Loans Held for Sale: One District Association has loans held for sale that include rural residential mortgages originated for sale. Loans held for sale are recorded at fair value under the fair value option election and are included in "Other assets" on the Combined Statements of Condition. Loans are valued on an individual basis and gains or losses are recorded in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income. Direct loan origination costs and fees for loans held for sale are recognized in income at origination. Interest income on loans held for sale is calculated based upon the note rate of the loan and recorded in "Interest income" on the Combined Statements of Comprehensive Income.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in the loan portfolios as of the financial statement date. The appropriate level of allowance for loan losses is based on periodic

evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Loans in the portfolios that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Impairment is generally measured based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

A specific allowance is recorded to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When a loan is deemed to be uncollectible, the loan principal and prior year(s) accrued interest are charged against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. A two-dimensional loan risk rating model is used that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors. Changes in the allowance for loan losses consist of recoveries, charge-offs and provision activity, recorded in "Provision for credit losses" on the Combined Statements of Comprehensive Income.

Investment Securities Available-for-Sale: AgriBank and one District Association hold investment securities that may not necessarily be held-to-maturity and, accordingly, have been classified as available-for-sale (AFS). These investments are reported at fair value, and unrealized holding gains and losses on investments that are not other-than-temporarily impaired are netted and reported as a separate component of shareholders' equity ("Accumulated other comprehensive loss"). Changes in the fair value of investment securities are reflected as direct charges or credits to other comprehensive (loss) income, unless the security is deemed to be other-than-temporarily impaired. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities.

Investment Securities Held-to-Maturity: Certain District Associations have the positive intent and ability to hold investments to maturity, which are classified as held-to-maturity (HTM) and are carried at cost adjusted for the amortization of premiums and accretion of discounts. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities. Realized gains and losses are determined using the specific identification method and are recognized in current earnings.

Other-than-temporary Impairment (OTTI): AgriBank and the District Association evaluate investment securities for OTTI on a quarterly basis. Factors considered in determining whether an impairment is other-than-temporary include: the financial condition and near-term prospects of the issuer, the financial condition of any financial guarantor, if applicable, a current projection of expected cash flow compared to current net carrying value and contractual cash flow, the intent to sell the impaired security and whether the entity holding the security will more likely than not to be required to sell the security before recovery and qualitative consideration of other available information when assessing whether impairment is other-than-temporary.

When OTTI exists and AgriBank and District Associations do not intend to sell the impaired debt security, nor are they more likely than not to be required to sell the security before recovery, the loss is separated into credit-related and non-credit-related components. If a security is deemed to be other-than-temporarily impaired, the security is written down to fair value, the credit-related component is recognized through earnings and the non-credit-related component is recognized in other comprehensive (loss) income. Realized gains and losses are determined using the specific identification method and are recognized in current earnings.

Other Investments: AgriBank and certain District Associations are limited partners and hold non-controlling interests in other investments which are accounted for under the equity method when an investee is considered to have significant influence; otherwise, they are accounted for at cost. All other investments are included in “Other assets” in the Combined Statements of Condition. The investments are assessed for impairment. If impairment exists, losses are included in “Miscellaneous income and other gains, net” in the Combined Statements of Comprehensive Income in the year of impairment.

Cash: Cash, as included on the Combined Financial Statements, represents cash on hand and deposits in banks.

Federal Funds: Federal funds, as included on the Combined Financial Statements, represent excess reserve funds on deposit at the Federal Reserve banks that are lent to other commercial banks. These transactions represent an investment of cash balances overnight in other financial institutions at the federal funds rate. Term federal funds would be a similar investment held for a period longer than overnight.

Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Depreciation is generally provided on the straight-line method over the estimated useful life of the asset. Gains or losses on disposition are reflected in current operations and are included in “Miscellaneous income and other gains, net” on the Combined Statements of Comprehensive Income. Maintenance and repairs are charged to other operating expenses and improvements are capitalized. Internally developed software costs are capitalized and amortized over their estimated useful life.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in “Miscellaneous income and other gains, net” on the Combined Statements of Comprehensive Income.

Mineral Rights: In connection with past foreclosure and sale proceedings, AgriBank has retained certain mineral interests and equity positions in land from which income is received from lease bonuses, rentals and leasing and production royalties. These intangible assets have no recorded value on the Combined Statements of Condition. All income received on these Mineral Rights is recognized in the period earned and is included in “Mineral income” on the Combined Statements of Comprehensive Income. The Farm Credit Act requires that mineral rights acquired after 1985 through foreclosure be sold to the buyer of the surface rights in the land.

Leases: Certain District Associations are lessors. For finance leases, unearned finance lease income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. Net unearned finance income is amortized to earnings using the interest method. The carrying amount of finance leases is presented in “Loans” on the Combined Statements of Condition and represents lease rent receivables net of the unearned income plus the estimated residual value. For operating leases, revenue is recognized as earned ratably over the term of the lease and depreciation and other expenses are charged against such revenue as incurred. The amortized cost of operating leases is presented as “Assets held for lease, net” on the Combined Statements of Condition and represents the asset cost net of accumulated depreciation.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which employees participate. Expenses related to these plans are included in “Salaries and employee benefits” on the Combined Statements of Comprehensive Income.

Certain employees participate in the defined benefit retirement plan of the District. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. Benefits-eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the non-qualified defined benefit Pension Restoration Plan of the AgriBank District. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

The defined contribution plan allows eligible employees to save for their retirement pre-tax, post-tax, or both, with an employer match on a percentage of the employees’ contributions. Benefits are provided under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

AgriBank and District Associations also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

Income Taxes: AgriBank and the FLCAs are exempt from federal and other income taxes as provided in the Farm Credit Act. The ACAs and PCAs accrue federal and state income taxes where applicable. The ACAs and PCAs are exempt from certain state taxes. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance.

Certain District Associations have patronage programs. Provisions for income taxes are made only on the earnings not distributed as qualified patronage distributions.

Patronage Program: AgriBank and certain District Associations accrue patronage distributions according to a prescribed formula approved by their boards of directors. Generally, District Associations with patronage programs pay the accrued patronage during the first quarter after year end. AgriBank pays its refunds in accordance with the declarations of its board of directors, generally within 15 days after each quarter end for which the patronage was declared. Accrued patronage is included in “Patronage and dividends payable” on the Combined Statements of Condition.

Preferred Stock Dividends: AgriBank accrues non-cumulative perpetual preferred stock dividends quarterly as declared by the board of directors. Dividends on non-cumulative perpetual preferred stock are payable quarterly in arrears on the first day of January, April, July and October.

A District Association, Compeer distributes dividends on non-cumulative perpetual preferred stock and they are payable quarterly in arrears on the fifteenth day of February, May, August and November, if declared by the board of directors in its sole discretion.

Accrued dividends are included in “Patronage and dividends payable” on the Combined Statements of Condition.

Noncontrolling Interest: Non-controlling interests are reported as a component of total equity. The noncontrolling interest represents the equity investments of Farm Credit entities outside the AgriBank District in the AgDirect program and Foundations.

AgriBank, certain District Associations and certain Farm Credit entities outside the District participate in the AgDirect program. Under the AgDirect program, AgriBank purchases a 100 percent interest in agricultural equipment financing transactions from AgDirect LLP (LLP). Associations participating in the program have an ownership interest in the LLP.

Refer to Note 1 for further discussion of Foundations.

Derivative Instruments and Hedging Activity: AgriBank is party to derivative financial instruments, primarily interest rate swaps, which are used to manage interest rate risk on assets, liabilities and forecasted transactions. Derivatives are recorded on the Combined Statements of Condition as assets or liabilities, measured at fair value and netted by counterparties pursuant to the provisions of master netting agreements.

Changes in the fair values of derivatives are recorded as gains or losses through earnings or as a component of other comprehensive (loss) income, on the Combined Statements of Comprehensive Income, depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. For fair value hedge transactions in which AgriBank is hedging changes in the fair value of an asset or liability, changes in the fair value of the derivative instrument are offset in net income on the Combined Statements of Comprehensive Income by changes in the fair value of the hedged item. For cash flow hedge transactions hedging the variability of cash flows related to a variable-rate asset or liability, changes in the fair value of the derivative instrument are reported in other comprehensive (loss) income on the Combined Statements of Comprehensive Income. To the extent the hedge is effective, the gains and losses on the derivative instruments are reported in other comprehensive (loss) income, until earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is

recognized in current period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings.

AgriBank documents all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to:

- Specific assets or liabilities on the Combined Statements of Condition
- Firm commitments
- Forecasted transactions

For hedging relationships, AgriBank assesses effectiveness of the hedging relationships through prospective effectiveness tests at inception and retrospective tests on an ongoing basis until the maturity or termination of the hedge. For prospective testing, AgriBank performs a shock test of interest rate movements. Alternative tests may be performed if those tests appear to be reasonable relative to the hedge relationship that is being evaluated. For retrospective testing, AgriBank performs correlation and regression tests of the value change of the hedge versus the value change of the hedged item using weekly data. If the hedge relationship does not pass the minimum levels established for effectiveness tests, hedge accounting will be discontinued.

AgriBank discontinues hedge accounting prospectively when it is determined that:

- A derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item
- The derivative expires or is sold, terminated, exercised or de-designated as a hedge
- It is no longer probable that the forecasted transaction will occur
- A hedged firm commitment no longer meets the definition of a firm commitment
- Management determines that designating the derivative as a hedging instrument is no longer appropriate

When AgriBank discontinues hedge accounting for cash flow hedges, any remaining accumulated other comprehensive income or loss is amortized into earnings over the remaining life of the original hedged item. When AgriBank discontinues hedge accounting for fair value hedges, changes in the fair value of the derivative will be recorded in current period earnings, and the basis adjustment to the previously hedged item will be taken into earnings using the interest method over the remaining life of the hedged item. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the derivative is carried at its fair value on the Combined Statements of Condition, recognizing changes in fair value in current period earnings. Refer to further discussion in Note 14.

One District Association is party to derivative financial instruments called to-be-announced securities (TBAs) to manage exposure to interest rate risk and changes in the fair value of investments available for sale, loans held for sale and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined. The derivatives are recorded on the Combined Statements of Condition as assets or liabilities on a net basis measured at fair value.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit

are agreements to pay a beneficiary if there is a default on a contractual arrangement. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management's best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on management's assessment, any reserve is recorded in "Other liabilities" on the Combined Statements of Condition and a corresponding loss is recorded in "Provision for credit losses" on the Combined Statements of Comprehensive Income.

Combined Statements of Cash Flows: For purposes of reporting cash flows, cash includes cash and overnight federal funds. Cash flows on hedges are classified in the same category as the items being hedged.

Fair Value Measurements: AgriBank and District Associations utilize a hierarchy to disclose the fair value measurement of financial instruments. A financial instrument's categorization within the valuation hierarchy is based upon the least transparent input that is significant to the fair value measurement.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

AgriBank and District Associations may use various acceptable valuation techniques to determine fair value. The primary techniques used include:

- Market Approach uses prices and other relevant information generated by market transactions involving identical or comparable assets to derive a fair value amount
- Income Approach uses various valuation methods to convert future cash flows to a single discounted present value, which becomes the applicable fair value amount
- Cost Approach is based on the current cost to acquire a substitute asset of comparable utility

For certain financial instruments presented at fair value, net asset value per share is used as a practical expedient. AgriBank and District Associations monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy and transfer between Level 1, Level 2 and Level 3 accordingly. Generally, transfers are reported as of the beginning of the quarter in which the transfer occurred.

Refer to Note 13 for further discussion on the fair value measurements.

Recently Issued or Adopted Accounting Pronouncements

AgriBank and District Associations' management have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to the Combined Financial Statements. While not all District Associations are public entities, for the purposes of combination, District Associations generally adopt on the public entity required date. For the recently issued and adopted accounting pronouncements disclosed, no District Association plans to adopt on a non-public entity date.

Standard and effective date	Description	Adoption status and financial statement impact
In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 "Revenue from Contracts with Customers." This guidance was effective for public business entities on January 1, 2018.	This guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of contracts within the District are excluded from the scope of this new guidance.	AgriBank and District Associations adopted this guidance on January 1, 2018, using the modified retrospective approach, as the majority of revenues at each institution are not subject to the new guidance. The adoption of the guidance did not have a material impact on the combined financial condition, combined results of operations or cash flows.
In March 2017, the FASB issued ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." This guidance was effective for public business entities on January 1, 2018.	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	AgriBank and District Associations adopted this guidance on January 1, 2018. Non-service cost components of net benefit cost were reclassified from salaries and employee benefits to other operating expenses on the Combined Statements of Comprehensive Income of $24.5 million and $28.3 million for the years ended December 31, 2017 and 2016, respectively. There were no changes to the financial statement disclosures.

Standard and effective date	Description	Adoption status and financial statement impact
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities." This guidance was effective for public business entities on January 1, 2018.	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure in the financial statements.	AgriBank and District Associations adopted this guidance on January 1, 2018. The adoption of this guidance did not impact the combined financial condition, combined results of operations or cash flows. Financial statement disclosures related to the methods and significant assumptions used to estimate fair value for financial instruments measured at amortized cost on the combined statement of condition are no longer required and will be excluded upon adoption of this guidance in the 2018 Annual Report.
In August 2016, the FASB issued ASU 2016-15 "Classification of Certain Cash Receipts and Cash Payments." This guidance was effective for public business entities on January 1, 2018.	The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.	AgriBank and District Associations adopted this guidance on January 1, 2018. The adoption of this guidance did not impact the combined financial condition or combined results of operations. Debt extinguishment costs were previously disclosed as operating cash flows and will be reported as financing cash flows as a result of this guidance. However, no debt extinguishment costs were incurred during the last three-year period. Therefore, no changes in the classification of cash flows were required as a result of this guidance.
In February 2016, the FASB issued ASU 2016-02 "Leases." The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	AgriBank and District Associations have no plans to early adopt this guidance. AgriBank and District Associations are currently evaluating the impact of the guidance on the combined financial condition, results of operations, cash flows, and other financial statement disclosures.
In August 2017, the FASB issued ASU 2017-12 "Targeted Improvements to Accounting for Hedging Activities." This guidance is effective for public business entities for our first quarter of 2019 and early adoption is permitted.	The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing.	AgriBank has no plans to early adopt this guidance. The guidance does not apply to any District Associations. The implementation at AgriBank is expected to have an immaterial impact to the combined results of operations as all derivative gains and losses will be recognized in interest expense on the Combined Statements of Comprehensive Income and modification to certain derivative-related financial statement disclosures. There is no impact expected to the combined financial condition or cash flows.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses." The guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	AgriBank and District Associations have no plans to early adopt this guidance. AgriBank and District Associations are currently evaluating the impact of the guidance on the combined financial condition, results of operations, cash flows, and other financial statement disclosures.

NOTE 3

Loans and Allowance for Loan Losses

Loans by Type

(in thousands)	2017		2016		2015	
December 31,	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$57,593,060**	**56.2%**	$56,142,318	56.7%	$53,163,216	56.0%
Production and intermediate-term	**26,358,352**	**25.7%**	25,677,124	25.9%	25,626,860	27.0%
Agribusiness	**11,331,799**	**11.1%**	10,176,335	10.3%	8,799,656	9.3%
Rural residential real estate	**2,745,807**	**2.7%**	2,796,940	2.8%	2,839,004	3.0%
Other	**4,443,656**	**4.3%**	4,276,522	4.3%	4,515,643	4.7%
Total loans	**$102,472,674**	**100.0%**	$99,069,239	100.0%	$94,944,379	100.0%

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

Participations

AgriBank and District Associations may purchase or sell participation interests with other parties in order to diversify concentration risk, manage loan volume and comply with FCA regulations or General Financing Agreement limitations.

Participations Purchased and Sold

	Other Farm Credit Institutions		**Non-Farm Credit Institutions**		**Total**	
(in thousands) **As of December 31, 2017**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**
Real estate mortgage	**$1,402,341**	**$370,466**	**$3,084,588**	**$52,606**	**$4,486,929**	**$423,072**
Production and intermediate-term	**2,004,600**	**579,720**	**3,820,867**	**13,812**	**5,825,467**	**593,532**
Agribusiness	**4,433,266**	**1,288,714**	**898,954**	**90,890**	**5,332,220**	**1,379,604**
Rural residential real estate	**65**	**--**	**8,860**	**--**	**8,925**	**--**
Other	**2,820,377**	**174,920**	**9,436**	**--**	**2,829,813**	**174,920**
Total loans	**$10,660,649**	**$2,413,820**	**$7,822,705**	**$157,308**	**$18,483,354**	**$2,571,128**

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(in thousands) As of December 31, 2016	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$1,358,833	$294,947	$2,897,972	$64,503	$4,256,805	$359,450
Production and intermediate-term	1,813,161	498,247	3,810,822	35,208	5,623,983	533,455
Agribusiness	4,730,254	1,185,808	688,395	116,840	5,418,649	1,302,648
Rural residential real estate	79	--	11,117	--	11,196	--
Other	2,682,523	128,476	14,155	--	2,696,678	128,476
Total loans	$10,584,850	$2,107,478	$7,422,461	$216,551	$18,007,311	$2,324,029

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

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

Portfolio Diversification
Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities or within close proximity, which could cause them to be similarly impacted by economic or other conditions.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk; however, substantial portions of lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

Portfolio Performance
One credit quality indicator that is utilized by management is the FCA Uniform Loan Classification System, which categorizes loans into five categories. The categories are:

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

Credit Quality of Loans

(in thousands)

As of December 31, 2017	**Acceptable**		**Special mention**		**Substandard/Doubtful**		**Total**	
Real estate mortgage	**$53,682,853**	**92.1%**	**$2,106,760**	**3.6%**	**$2,492,958**	**4.3%**	**$58,282,571**	**100.0%**
Production and intermediate-term	**23,604,600**	**88.4%**	**1,476,509**	**5.5%**	**1,631,501**	**6.1%**	**26,712,610**	**100.0%**
Agribusiness	**11,121,333**	**97.7%**	**94,449**	**0.9%**	**163,037**	**1.4%**	**11,378,819**	**100.0%**
Rural residential real estate	**2,596,528**	**94.0%**	**59,770**	**2.2%**	**105,527**	**3.8%**	**2,761,825**	**100.0%**
Other	**4,390,403**	**98.5%**	**14,867**	**0.3%**	**52,178**	**1.2%**	**4,457,448**	**100.0%**
Total loans	**$95,395,717**	**92.1%**	**$3,752,355**	**3.6%**	**$4,445,201**	**4.3%**	**$103,593,273**	**100.0%**

(in thousands)

As of December 31, 2016	Acceptable		Special mention		Substandard/Doubtful		Total	
Real estate mortgage	$53,209,717	93.7%	$1,699,557	3.0%	$1,852,227	3.3%	$56,761,501	100.0%
Production and intermediate-term	23,238,381	89.4%	1,353,933	5.2%	1,408,405	5.4%	26,000,719	100.0%
Agribusiness	9,970,333	97.6%	95,704	0.9%	148,617	1.5%	10,214,654	100.0%
Rural residential real estate	2,653,559	94.4%	54,470	1.9%	105,401	3.7%	2,813,430	100.0%
Other	4,169,916	97.3%	100,095	2.3%	16,812	0.4%	4,286,823	100.0%
Total loans	$93,241,906	93.2%	$3,303,759	3.3%	$3,531,462	3.5%	$100,077,127	100.0%

(in thousands)

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

Note: Accruing loans include accrued interest receivable.

There were no loans categorized as Loss at December 31, 2017, 2016 or 2015.

Aging Analysis of Loans

(in thousands) **As of December 31, 2017**	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less than 30 Days Past Due**	**Total Loans**	**Accruing loans 90 days or more past due**
Real estate mortgage	**$151,533**	**$96,941**	**$248,474**	**$58,034,097**	**$58,282,571**	**$1,119**
Production and intermediate-term	**145,404**	**117,615**	**263,019**	**26,449,591**	**26,712,610**	**6,953**
Agribusiness	**1,029**	**7,183**	**8,212**	**11,370,607**	**11,378,819**	**--**
Rural residential real estate	**19,956**	**9,173**	**29,129**	**2,732,696**	**2,761,825**	**563**
Other	**7,587**	**3,686**	**11,273**	**4,446,175**	**4,457,448**	**1,368**
Total loans	**$325,509**	**$234,598**	**$560,107**	**$103,033,166**	**$103,593,273**	**$10,003**

(in thousands) As of December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Accruing loans 90 days or more past due
Real estate mortgage	$152,444	$77,863	$230,307	56,531,194	$56,761,501	$3,949
Production and intermediate-term	145,970	111,201	257,171	25,743,548	26,000,719	4,893
Agribusiness	7,168	4,279	11,447	10,203,207	10,214,654	--
Rural residential real estate	22,377	10,296	32,673	2,780,757	2,813,430	64
Other	18,510	4,704	23,214	4,263,609	4,286,823	3,217
Total loans	$346,469	$208,343	$554,812	$99,522,315	$100,077,127	$12,123

(in thousands) As of December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Accruing loans 90 days or more past due
Real estate mortgage	$122,241	$61,015	$183,256	$53,556,102	$53,739,358	$1,998
Production and intermediate-term	95,252	61,614	156,866	25,777,431	25,934,297	2,981
Agribusiness	5,808	18,668	24,476	8,807,570	8,832,046	--
Rural residential real estate	23,290	11,645	34,935	2,821,138	2,856,073	--
Other	11,379	6,259	17,638	4,506,634	4,524,272	6,117
Total loans	$257,970	$159,201	$417,171	$95,468,875	$95,886,046	$11,096

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands)

As of December 31,	2017	2016	2015
Nonaccrual loans:			
Current as to principal and interest	**$446,173**	$406,559	$317,596
Past due	**299,511**	271,649	199,413
Total nonaccrual loans	**745,684**	678,208	517,009
Accruing restructured loans	**91,876**	89,800	65,233
Accruing loans 90 days or more past due	**10,003**	12,123	11,096
Total risk loans	**$847,563**	$780,131	$593,338
Volume with specific reserves	**$158,808**	$135,187	$129,524
Volume without specific reserves	**688,755**	644,944	463,814
Total risk loans	**$847,563**	$780,131	$593,338
Specific reserves	**$47,075**	$40,452	$40,890

Note: Accruing loans include accrued interest receivable.

Income on Risk Loans

(in thousands)

For the year ended December 31,	2017	2016	2015
Income on accrual risk loans	**$6,451**	$4,710	$4,172
Income on nonaccrual loans	**43,071**	37,954	30,952
Total income on risk loans	**$49,522**	$42,664	$35,124
Average risk loans	**$880,989**	$727,536	$615,379

Risk Loans by Type

(in thousands)

As of December 31,	2017	2016	2015
Nonaccrual loans:			
Real estate mortgage	**$433,708**	$365,760	$278,463
Production and intermediate-term	**256,946**	258,129	154,440
Agribusiness	**18,381**	14,117	27,100
Rural residential real estate	**32,639**	36,034	41,979
Other	**4,010**	4,168	15,027
Total nonaccrual loans	**$745,684**	$678,208	$517,009
Accruing restructured loans:			
Real estate mortgage	**$62,231**	$54,786	$49,501
Production and intermediate-term	**24,483**	19,320	14,964
Agribusiness	**3,173**	14	214
Rural residential real estate	**1,989**	1,640	554
Other	**--**	14,040	--
Total accruing restructured loans	**$91,876**	$89,800	$65,233
Accruing loans 90 days or more past due:			
Real estate mortgage	**$1,119**	$3,949	$1,998
Production and intermediate-term	**6,953**	4,893	2,981
Rural residential real estate	**563**	64	--
Other	**1,368**	3,217	6,117
Total accruing loans 90 days or more past due	**$10,003**	$12,123	$11,096
Total risk loans	**$847,563**	$780,131	$593,338

Note: Accruing loans include accrued interest receivable.

Nonaccrual loans represented 0.7 percent of total loans at December 31, 2017, of which 59.8 percent were current as to principal and interest.

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

All risk loans are considered to be impaired loans.

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2017 Recorded Investment[(1)]	Unpaid Principal Balance[(2)]	Related Allowance	For the year ended December 31, 2017 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$45,373**	**$56,603**	**$13,638**	**$44,873**	**$ --**
Production and intermediate-term	**99,230**	**114,006**	**27,116**	**96,277**	**--**
Agribusiness	**9,399**	**11,334**	**4,352**	**5,864**	**--**
Rural residential real estate	**3,134**	**3,781**	**1,156**	**3,426**	**--**
Other	**1,672**	**1,672**	**813**	**2,031**	**--**
Total	**$158,808**	**$187,396**	**$47,075**	**$152,471**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$451,685**	**$526,404**	**$ --**	**$464,153**	**$23,337**
Production and intermediate-term	**189,152**	**258,321**	**--**	**210,844**	**20,718**
Agribusiness	**12,155**	**19,028**	**--**	**13,252**	**3,953**
Rural residential real estate	**32,057**	**41,311**	**--**	**33,840**	**1,283**
Other	**3,706**	**3,670**	**--**	**6,429**	**231**
Total	**$688,755**	**$848,734**	**$ --**	**$728,518**	**$49,522**
Total impaired loans:					
Real estate mortgage	**$497,058**	**$583,007**	**$13,638**	**$509,026**	**$23,337**
Production and intermediate-term	**288,382**	**372,327**	**27,116**	**307,121**	**20,718**
Agribusiness	**21,554**	**30,362**	**4,352**	**19,116**	**3,953**
Rural residential real estate	**35,191**	**45,092**	**1,156**	**37,266**	**1,283**
Other	**5,378**	**5,342**	**813**	**8,460**	**231**
Total	**$847,563**	**$1,036,130**	**$47,075**	**$880,989**	**$49,522**

(in thousands)	As of December 31, 2016 Recorded Investment[(1)]	Unpaid Principal Balance[(2)]	Related Allowance	For the year ended December 31, 2016 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$44,954	$52,612	$7,442	$39,848	$ --
Production and intermediate-term	83,498	96,770	30,513	73,925	--
Agribusiness	490	495	327	878	--
Rural residential real estate	3,663	4,348	1,173	3,904	--
Other	2,582	2,582	997	1,658	--
Total	$135,187	$156,807	$40,452	$120,213	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$379,541	$467,790	$ --	$353,735	$23,174
Production and intermediate-term	198,844	268,023	--	186,753	14,534
Agribusiness	13,641	19,025	--	12,816	2,524
Rural residential real estate	34,075	43,919	--	37,620	2,152
Other	18,843	21,333	--	16,399	280
Total	$644,944	$820,090	$ --	$607,323	$42,664
Total impaired loans:					
Real estate mortgage	$424,495	$520,402	$7,442	$393,583	$23,174
Production and intermediate-term	282,342	364,793	30,513	260,678	14,534
Agribusiness	14,131	19,520	327	13,694	2,524
Rural residential real estate	37,738	48,267	1,173	41,524	2,152
Other	21,425	23,915	997	18,057	280
Total	$780,131	$976,897	$40,452	$727,536	$42,664

(in thousands)	As of December 31, 2015 Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	For the year ended December 31, 2015 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$42,611	$52,354	$10,462	$43,920	$ --
Production and intermediate-term	64,081	69,938	25,324	68,618	--
Agribusiness	17,062	18,455	3,339	17,737	--
Rural residential real estate	5,008	5,928	1,486	5,050	--
Other	762	762	279	739	--
Total	$129,524	$147,437	$40,890	$136,064	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$287,352	$377,470	$ --	$289,639	$21,767
Production and intermediate-term	108,305	174,647	--	118,374	9,804
Agribusiness	10,252	17,204	--	10,244	1,182
Rural residential real estate	37,525	48,451	--	37,160	2,048
Other	20,380	23,380	--	23,898	323
Total	$463,814	$641,152	$ --	$479,315	$35,124
Total impaired loans:					
Real estate mortgage	$329,963	$429,824	$10,462	$333,559	$21,767
Production and intermediate-term	172,386	244,585	25,324	186,992	9,804
Agribusiness	27,314	35,659	3,339	27,981	1,182
Rural residential real estate	42,533	54,379	1,486	42,210	2,048
Other	21,142	24,142	279	24,637	323
Total	$593,338	$788,589	$40,890	$615,379	$35,124

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

AgriBank and District Associations did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2017.

Troubled Debt Restructurings

Included within loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties.

TDR Activity

(in thousands) **For the year ended December 31, 2017**	**Pre-modification Outstanding Recorded Investment[1]**	**Post-modification Outstanding Recorded Investment[1]**
TDRs:		
Real estate mortgage	**$8,226**	**$8,261**
Production and intermediate-term	**23,444**	**24,019**
Agribusiness	**1,727**	**1,329**
Rural residential real estate	**196**	**195**
Total loans	**$33,593**	**$33,804**

(in thousands) For the year ended December 31, 2016	Pre-modification Outstanding Recorded Investment[1]	Post-modification Outstanding Recorded Investment[1]
TDRs:		
Real estate mortgage	$8,452	$8,639
Production and intermediate-term	31,111	30,826
Agribusiness	3,329	3,329
Rural residential real estate	331	299
Total loans	$43,223	$43,093

(in thousands) For the year ended December 31, 2015	Pre-modification Outstanding Recorded Investment[1]	Post-modification Outstanding Recorded Investment[1]
TDRs:		
Real estate mortgage	$6,444	$6,449
Production and intermediate-term	12,245	11,258
Agribusiness	31,393	31,393
Rural residential real estate	842	740
Total loans	$50,924	$49,840

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

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

TDRs that Subsequently Defaulted within the Previous 12 Months

(in thousands)	Recorded Investment		
For the year ended December 31,	**2017**	2016	2015
TDRs that subsequently defaulted:			
Real estate mortgage	**$2,766**	$272	$163
Production and intermediate-term	**648**	2,647	389
Agribusiness	**--**	--	15,733
Rural residential real estate	**--**	--	303
Total	**$3,414**	$2,919	$16,588

TDRs Outstanding

(in thousands)

As of December 31,	**2017**	2016	2015
Accrual Status			
Real estate mortgage	**$62,231**	$54,786	$49,501
Production and intermediate-term	**24,483**	19,320	14,964
Agribusiness	**3,173**	14	214
Rural residential real estate	**1,989**	1,640	554
Other	**--**	14,040	--
Total TDRs in accrual status	**$91,876**	$89,800	$65,233
Nonaccrual Status			
Real estate mortgage	**$22,841**	$28,489	$36,619
Production and intermediate-term	**9,307**	25,369	21,825
Agribusiness	**2,351**	5,949	24,708
Rural residential real estate	**1,396**	1,774	3,138
Other	**--**	--	13,964
Total TDRs in nonaccrual status	**$35,895**	$61,581	$100,254
Total TDRs	**$127,771**	$151,381	$165,487

There were no material unfunded loan commitments to borrowers whose loans have been modified in a TDR at December 31, 2017.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

For the year ended December 31,	**2017**	2016	2015
Balance at beginning of period	**$386,754**	$285,711	$248,081
Provision for loan losses	**113,121**	134,116	66,839
Charge-offs	**(46,827)**	(45,194)	(42,030)
Recoveries	**17,326**	12,121	12,821
Fair value adjustment due to mergers	**(34,315)**	--	--
Balance at end of period	**$436,059**	$386,754	$285,711

The allowance for loan losses increased $49.3 million at December 31, 2017, reflecting $113.1 million of provision for loan losses (not including net reversal of provision of $3.1 million on unfunded commitments and letters of credit) recorded for the year, substantially offset by net charge-offs of $29.5 million. The amounts reflect the change in the estimated losses in the loan portfolios during the year, which were primarily due to declines in net farm income across the District. The fair value adjustment due to mergers related to two District Association mergers, effective July 1, 2017, resulting in a $34.3 million decrease in the allowance for loan losses. Reserves for unfunded commitments and letters of credit are recorded in "Other liabilities" on the Combined Statements of Condition.

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

(in thousands)	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance as of December 31, 2016	$158,779	$154,488	$47,067	$10,220	$16,200	$386,754
Provision for (reversal of) loan losses	58,850	39,793	10,595	(541)	4,424	113,121
Charge-offs	(13,128)	(29,695)	(2,730)	(1,274)	--	(46,827)
Recoveries	1,905	10,993	3,816	612	--	17,326
Fair value adjustment due to merger	(9,657)	(19,395)	(3,931)	(52)	(1,280)	(34,315)
Balance as of December 31, 2017	$196,749	$156,184	$54,817	$8,965	$19,344	$436,059
As of December 31, 2017:						
Ending balance: individually evaluated for impairment	$13,638	$27,116	$4,352	$1,156	$813	$47,075
Ending balance: collectively evaluated for impairment	$183,111	$129,068	$50,465	$7,809	$18,531	$388,984
Recorded investments in loans outstanding:						
Ending balance as of December 31, 2017:	$58,282,571	$26,712,610	$11,378,819	$2,761,825	$4,457,448	$103,593,273
Ending balance for loans individually evaluated for impairment	$497,058	$288,382	$21,554	$35,191	$5,378	$847,563
Ending balance for loans collectively evaluated for impairment	$57,785,513	$26,424,228	$11,357,265	$2,726,634	$4,452,070	$102,745,710

(in thousands)	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance as of December 31, 2015	$111,000	$118,409	$32,166	$8,986	$15,150	285,711
Provision for loan losses	49,044	64,293	17,189	2,541	1,049	134,116
Charge-offs	(5,494)	(34,386)	(3,139)	(2,175)	--	(45,194)
Recoveries	4,229	6,172	851	868	1	12,121
Balance as of December 31, 2016	$158,779	$154,488	$47,067	$10,220	$16,200	$386,754
As of December 31, 2016:						
Ending balance: individually evaluated for impairment	$7,442	$30,513	$327	$1,173	$997	$40,452
Ending balance: collectively evaluated for impairment	$151,337	$123,975	$46,740	$9,047	$15,203	$346,302
Recorded investments in loans outstanding:						
Ending balance as of December 31, 2016:	$56,761,501	$26,000,719	$10,214,654	$2,813,430	$4,286,823	$100,077,127
Ending balance for loans individually evaluated for impairment	$424,495	$282,342	$14,131	$37,738	$21,425	$780,131
Ending balance for loans collectively evaluated for impairment	$56,337,006	$25,718,377	$10,200,523	$2,775,692	$4,265,398	$99,296,996

(in thousands)	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance as of December 31, 2014	$88,542	$101,976	$30,790	$9,673	$17,100	248,081
Provision for (reversal of) loan losses	28,438	36,930	638	953	(120)	66,839
Charge-offs	(9,453)	(27,393)	(441)	(2,466)	(2,277)	(42,030)
Recoveries	3,473	6,896	1,179	826	447	12,821
Balance as of December 31, 2015	$111,000	$118,409	$32,166	$8,986	$15,150	$285,711
As of December 31, 2015:						
Ending balance: individually evaluated for impairment	$10,462	$25,324	$3,339	$1,486	$279	$40,890
Ending balance: collectively evaluated for impairment	$100,538	$93,085	$28,827	$7,500	$14,871	$244,821
Recorded investments in loans outstanding:						
Ending balance as of December 31, 2015:	$53,739,358	$25,934,297	$8,832,046	$2,856,073	$4,524,272	$95,886,046
Ending balance for loans individually evaluated for impairment	$329,963	$172,386	$27,314	$42,533	$21,142	$593,338
Ending balance for loans collectively evaluated for impairment	$53,409,395	$25,761,911	$8,804,732	$2,813,540	$4,503,130	$95,292,708

Note: Accruing loans include accrued interest receivable.

NOTE 4

Investment Securities

AgriBank Investment Securities

All AgriBank investment securities are classified as AFS.

AgriBank Investment Securities

(in thousands) **As of December 31, 2017**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Mortgage-backed securities	**$6,077,973**	**$8,670**	**$65,508**	**$6,021,135**	**1.6%**
Commercial paper and other	**5,221,146**	**169**	**637**	**5,220,678**	**1.6%**
U.S. Treasury securities	**2,934,886**	**3**	**17,489**	**2,917,400**	**1.2%**
Asset-backed securities	**227,636**	**--**	**394**	**227,242**	**1.3%**
Total	**$14,461,641**	**$8,842**	**$84,028**	**$14,386,455**	**1.5%**

(in thousands) As of December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$5,607,671	$7,012	$58,924	$5,555,759	1.3%
Commercial paper and other	4,786,207	794	219	4,786,782	1.0%
U.S. Treasury securities	3,823,520	576	12,298	3,811,798	1.1%
Asset-backed securities	742,728	289	104	742,913	1.1%
Total	$14,960,126	$8,671	$71,545	$14,897,252	1.2%

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

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

As of December 31, 2017, 2016 and 2015, AgriBank had no investment securities or federal funds pledged as collateral.

Contractual Maturities of AgriBank Investment Securities

	Year of Maturity				
(in thousands)	One Year	One to	Five to	More Than	
As of December 31, 2017	**or Less**	**Five Years**	**Ten Years**	**Ten Years**	**Total**
Mortgage-backed securities	**$726**	**$26,192**	**$612,058**	**$5,382,159**	**$6,021,135**
Commercial paper and other	**5,220,678**	**--**	**--**	**--**	**5,220,678**
U.S. Treasury securities	**1,839,953**	**1,077,447**	**--**	**--**	**2,917,400**
Asset-backed securities	**3,727**	**223,515**	**--**	**--**	**227,242**
Total	**$7,065,084**	**$1,327,154**	**$612,058**	**$5,382,159**	**$14,386,455**
Weighted average yield	**1.4%**	**1.4%**	**1.6%**	**1.6%**	**1.5%**

Expected maturities differ from contractual maturities because borrowers may have the right to prepay these obligations. The remaining expected average life is 0.3 years for asset-backed securities (ABS) and 3.6 years for mortgage-backed securities (MBS) at December 31, 2017.

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

	Less than 12 months		More than 12 months	
(in thousands)	Fair	Unrealized	Fair	Unrealized
As of December 31, 2017	**Value**	**Losses**	**Value**	**Losses**
Mortgage-backed securities	**$1,654,394**	**$13,301**	**$2,615,875**	**$52,207**
Commercial paper and other	**3,589,901**	**637**	**--**	**--**
U.S. Treasury securities	**725,349**	**3,524**	**2,167,019**	**13,965**
Asset-backed securities	**166,823**	**313**	**60,418**	**81**
Total	**$6,136,467**	**$17,775**	**$4,843,312**	**$66,253**

	Less than 12 months		More than 12 months	
(in thousands)	Fair	Unrealized	Fair	Unrealized
As of December 31, 2016	Value	Losses	Value	Losses
Mortgage-backed securities	$3,375,456	$39,175	$1,784,315	$19,749
Commercial paper and other	713,576	219	--	--
U.S. Treasury securities	2,955,305	12,298	--	--
Asset-backed securities	246,081	102	6,897	2
Total	$7,290,418	$51,794	$1,791,212	$19,751

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

Additional AgriBank Investment Security Information

(in thousands) For the year ended December 31,	2016	2015
Proceeds from sales	$245,439	$50,660
Realized gross gains on sales	11,009	4,864
Realized gross losses on sales	843	2,258
Impairment losses	--	693

AgriBank sold no AFS investment securities during the year ended December 31, 2017. The proceeds from sales in 2016 and 2015 were related to the sales of short-term commercial paper, home-equity ABS and non-agency MBS investment securities. AgriBank utilizes specific identification to determine the basis of the cost of securities sold. The 2016 sales included all remaining OTTI AFS securities.

Investment securities are evaluated for OTTI on a quarterly basis. AgriBank has determined no securities were in an OTTI loss position at December 31, 2017 or 2016. AgriBank held $41.8 million of OTTI investment securities at December 31, 2015. Refer to Note 2 for additional information regarding fair value measurements and the accounting policy for assessing OTTI.

OTTI AFS Investment Securities Sold

(in thousands) For the year ended December 31,	2016	2015
OTTI AFS investment securities sold	$27,771	$17,552
Gains on sales of OTTI AFS investment securities, net	10,559	4,864
Total impairment previously recognized on OTTI AFS investment securities sold	24,696	12,633

There was no OTTI activity during the year ended December 31, 2017.

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

(in thousands) For the year ended December 31,	2016	2015
Credit-loss component, beginning of period	$25,160	$42,062
Additions:		
Initial credit impairment	--	73
Subsequent credit impairments	--	620
Reductions:		
Gains on securities sold	(10,559)	(4,864)
Incremental impairment previously recognized on securities sold	(14,137)	(7,769)
Increases in expected cash flows	(464)	(4,962)
Credit-loss component, end of period	$ --	$25,160

District Associations Investment Securities

One District Association manages a portfolio of loans held for sale. The portfolio balance builds and is then sold to a third party after which investment securities collateralized by these loans may be purchased, actively marketed and sold by the District Association. As the District Association may not hold the investments to maturity, all or a portion of these securities are classified as AFS and have contractual

maturities greater than ten years. There were no District Association investment securities available-for-sale as of December 31, 2017, 2016 or 2015.

The District Association sold AFS investment securities with sales proceeds of $105.2 million, $102.8 million and $53.7 million, resulting in losses of $198 thousand during the year ended December 31, 2017, and gains of $659 thousand and $355 thousand during the years ended December 31, 2016 and 2015, respectively.

All other investments held by District Associations are classified as HTM.

HTM Investment Securities

(in thousands) **As of December 31, 2017**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Government guaranteed instruments	**$1,432,697**	**$5,035**	**$58,640**	**$1,379,092**	**2.9%**
Farmer Mac mortgage-backed securities	**706,540**	**687**	**6,924**	**700,303**	**4.0%**
Agricultural and Rural Community bonds	**7,221**	**--**	**2**	**7,219**	**2.5%**
Total	**$2,146,458**	**$5,722**	**$65,566**	**$2,086,614**	**3.3%**

(in thousands) As of December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Government guaranteed instruments	$1,466,460	$9,202	$56,125	$1,419,537	2.4%
Farmer Mac mortgage-backed securities	465,294	787	12,986	453,095	4.0%
Agricultural and Rural Community bonds	7,226	--	2	7,224	2.0%
Total	$1,938,980	$9,989	$69,113	$1,879,856	2.8%

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

All investments were evaluated for OTTI. No securities were other-than-temporarily impaired in any of the periods presented.

NOTE 5

Bonds and Notes

The System obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued by the System Banks through the Funding Corporation. Systemwide bonds and discount notes are joint and several obligations of the System Banks (refer to Note 11 for further discussion).

AgriBank's Participation in Systemwide Bonds and Notes

(in thousands) **As of December 31,**	**2017**	2016	2015
Systemwide obligations:			
Bonds	**$95,179,771**	$87,677,387	$83,156,562
Discount notes	**2,114,210**	8,017,311	9,192,397
Member investment bonds	**1,019,963**	938,733	1,055,292
Total	**$98,313,944**	$96,633,431	$93,404,251

Maturities and Weighted Average Interest Rate of Bonds and Notes

(in thousands)	Systemwide Obligations				Member			
As of December 31, 2017	Bonds		Discount notes		investment bonds		Total	
Year of maturity	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
2018	**$29,551,163**	**1.2%**	**$2,114,210**	**1.2%**	**$1,019,963**	**0.9%**	**$32,685,336**	**1.1%**
2019	**27,331,959**	**1.2%**	--	--	--	--	**27,331,959**	**1.2%**
2020	**9,266,699**	**1.4%**	--	--	--	--	**9,266,699**	**1.4%**
2021	**4,858,562**	**1.7%**	--	--	--	--	**4,858,562**	**1.7%**
2022	**5,049,648**	**2.0%**	--	--	--	--	**5,049,648**	**2.0%**
2023 and thereafter	**19,121,740**	**2.6%**	--	--	--	--	**19,121,740**	**2.6%**
Total	**$95,179,771**	**1.6%**	**$2,114,210**	**1.2%**	**$1,019,963**	**0.9%**	**$98,313,944**	**1.5%**

Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2017 was 37 days.

Callable debt may be called on the first call date and generally is continuously callable thereafter.

Bonds and Notes with Call Options

(in millions) **As of December 31, 2017**	**Maturing Amount**	**Callable Amount**
Year of maturity / next call:		
2018	**$2,285.0**	**$36,141.0**
2019	**4,110.0**	**877.4**
2020	**4,617.0**	**980.9**
2021	**4,051.0**	**20.0**
2022	**4,300.0**	**15.0**
2023	**3,180.0**	**--**
2024	**2,510.0**	**--**
Thereafter	**12,981.3**	**--**
Total	**$38,034.3**	**$38,034.3**

Participation in Systemwide Debt Securities

Certain conditions must be met before System Banks can participate in the issuance of Systemwide Debt Securities. As one condition of participation, System Banks are required by the Farm Credit Act and FCA regulation to maintain specified eligible assets at least equal in value to the total amount of debt securities outstanding for which they are primarily liable. This requirement does not provide holders of Systemwide Debt Securities or bank bonds with a security interest in any assets of the System Banks. However, System Banks and the Funding Corporation have entered into a Market Access Agreement (MAA), which established criteria and procedures for the System Banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual System Bank's participation in Systemwide debt issuances, thereby reducing other System Banks' exposure to statutory joint and several liability. At December 31, 2017, AgriBank was, and as of the date of this report remains, in compliance with the conditions of participation in the issuance of Systemwide Debt Securities. As discussed in Note 11, only System Banks are statutorily liable for the payment of principal and interest on Systemwide bonds and notes. Refer to Note 16 for AgriBank-only financial data.

Member Investment Bonds

Member investment bonds, specifically authorized by the Farm Credit Act, are an alternative source of funding in which AgriBank sells bonds directly to District members and employees. Member investment bonds issued by AgriBank are offered primarily through the Farm Cash Management program, which links a District Association members' revolving line of credit with an AgriBank investment bond to optimize the members' use of their funds. Member investment bonds are an unsecured obligation of AgriBank and are not insured or guaranteed by any other entity.

Insurance Fund

The Farm Credit Insurance Fund is available to insure the timely payment of principal and interest on combined bonds and notes of System Banks to the extent net assets are available in the Insurance Fund. At December 31, 2017, the assets of the Insurance Fund were $4.8 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal, or interest on, insured debt securities in the event of default by any System Bank having primary liability for repayment of the debt. Refer to Note 1 for further information about the Insurance Fund.

Short-term Borrowings

AgriBank uses short-term borrowings as a source of funds.

Short-term borrowings by category

	2017		2016		2015	
(in thousands)	**Amount**	**Weighted average interest rate**	Amount	Weighted average interest rate	Amount	Weighted average interest rate
Systemwide discount notes:						
Outstanding as of December 31	**$2,114,210**	**1.2%**	$8,017,311	0.5%	$9,192,397	0.2%
Average during year	**4,010,399**	**0.9%**	8,930,845	0.3%	5,587,113	0.2%
Maximum month-end balance during the year	**5,915,833**		10,132,493		9,192,397	
Systemwide bonds[1]:						
Outstanding as of December 31	**112,944**	**1.6%**	1,495,615	0.6%	1,022,594	0.3%
Average during year	**748,120**	**1.0%**	1,609,281	0.4%	889,644	0.1%
Maximum month-end balance during the year	**1,494,637**		2,006,794		1,142,594	

[1]Represents bonds issued with an original maturity of one year or less.

NOTE 6

Subordinated Notes

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

On December 15, 2016, Compeer redeemed all $100 million of outstanding subordinated notes at par value, which were redeemable on any interest payment date at any time following FCA notification of certain changes to FCA regulatory capital requirements.

Refer to Note 11 for additional information on AgriBank’s subordinated notes.

NOTE 7

Shareholders' Equity

Description of Equities

All shares and participation certificates are $5 par value, except the Series A and Series A-1 Perpetual Preferred Stock, which have a par value of $100 and $1,000, respectively:

(in whole numbers)	Number of Shares Outstanding		
As of December 31,	**2017**	2016	2015
Series A Perpetual Preferred Stock	**2,500,000**	2,500,000	2,500,000
Series A-1 Perpetual Preferred Stock	**100,000**	100,000	100,000
Protected Common Stock	**5,380**	5,739	7,870
At-risk Voting Common Stock	**48,890,225**	44,722,701	44,160,416
At-risk Nonvoting Common Stock	**790,163**	314,873	233,044
Protected Participation Certificates	**36,261**	36,261	48,462
At-risk Participation Certificates	**9,267,690**	9,327,231	9,289,656

AgriBank and District Associations may be authorized to issue additional forms of stock. Refer to the AgriBank and District Associations' 2017 annual reports for additional information about stock.

Perpetual Preferred Stock

Compeer has $100 million of Series A-1 Non-Cumulative Perpetual Preferred Stock (Series A-1 Preferred Stock) outstanding, representing 100 thousand shares at one thousand dollars per share par value. This series may be held or transferred in blocks having an aggregate par value of not less than $250 thousand and an investor must hold at least 250 shares. For regulatory capital purposes, the Series A-1 Preferred Stock is included in permanent capital, tier 1 capital and total capital, subject to certain limitations as defined by the FCA.

Dividends on the Series A-1 Preferred Stock, if declared by Compeer's Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the fifteenth day of February, May, August and November. Dividends accrue at a fixed annual rate of 6.75 percent from the date of issuance through August 14, 2023, and beginning on August 15, 2023 accrue at an annual rate equal to the three-month United States Dollar LIBOR rate, reset quarterly, plus 4.58 percent.

The Series A-1 Preferred Stock is not mandatorily redeemable at any time. However, Series A-1 Preferred Stock will be redeemable at par value, in whole or in part, at Compeer's option, quarterly beginning on August 15, 2023. In addition, the Series A-1 Preferred Stock will be redeemable in whole, at Compeer's option, at any time upon the occurrence of certain defined regulatory events. The Series A-1 Preferred Stockholders do not have any voting rights, but may appoint two board observers after six unpaid dividend payments.

Compeer's Series A-1 Preferred Stock is junior to any subordinated notes, existing and future debt obligations and any series of preferred stock issued in the future with priority rights. The Series A-1 Preferred Stock is senior to Compeer's outstanding common stock, participation certificates, preferred stock and patronage equities.

AgriBank has $250 million of Series A Perpetual Preferred Stock (Series A Preferred Stock) outstanding, representing 2.5 million shares at $100 per share par value. This series may be held or transferred in blocks having an aggregate par value of $25 thousand to investors meeting the eligibility requirements and an investor must hold at least 250 shares. For regulatory capital purposes, AgriBank's Series A Preferred Stock is included in permanent capital, tier 1 capital and total capital, subject to certain limitations as defined by the FCA.

Dividends on the Series A Preferred Stock, if declared by AgriBank's Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the first day of January, April, July and October. Dividends accrue at a fixed annual rate of 6.875 percent from the date of issuance through December 31, 2023, and beginning January 1, 2024 will accrue at an annual rate equal to the three-month United States Dollar LIBOR rate, reset quarterly, plus 4.225 percent.

The Series A Preferred Stock is not mandatorily redeemable at any time. However, the Series A Preferred Stock will be redeemable at par value plus accrued and unpaid dividends, in whole or in part, at AgriBank's option, quarterly beginning January 1, 2024. In addition, the Series A Preferred Stock will be redeemable in whole, at AgriBank's option, at any time upon the occurrence of certain defined regulatory events. The Series A Preferred Stockholders do not have any voting rights, but may appoint two board observers after six unpaid dividend payments.

The Series A Preferred Stock is junior to any series of preferred stock AgriBank may issue in the future with priority rights. The Series A Preferred Stock is senior to AgriBank's outstanding capital stock.

Member Stock

In accordance with the Farm Credit Act, eligible borrowers are required to purchase common stock as a condition of borrowing. At-risk stock and participation certificates, which include all equities issued on or after October 6, 1988, may be retired only at the discretion of the boards of directors. Such equities are retired at the lower of book value or par value. The bylaws of the District Associations generally permit stock and participation certificates to be retired at the discretion of the boards of directors in accordance with the District Associations' capitalization plan provided prescribed capital standards have been met. At December 31, 2017, all District Associations exceeded these prescribed standards. Management at the District Associations does not anticipate any significant changes in capital that would impact the normal retirement of stock.

Protected stock and participation certificates of $208 thousand, $210 thousand and $282 thousand, are included in Capital Stock and Participation Certificates on the Statements of Changes in Shareholders' Equity as of December 31, 2017, 2016 and 2015, respectively.

Stock preference upon liquidation or impairment follows the respective entities' bylaws; however, protected stock will be retired at par value regardless of impairment.

Each holder of voting common stock is entitled to a single vote in matters affecting their respective Association. Holders of nonvoting common stock and participation certificates have no voting rights. Stock is generally transferable to other members eligible to own such stock as long as allowed for in the bylaws of the respective entities, provided that the regulatory minimum capital requirements are met.

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in capital stock (in the case of agricultural loans) or participation certificates (in the case of rural residence, farm related business or leases) of the respective District Association as a condition of borrowing. The initial investment requirement varies by District Association and ranges from the statutory minimum of 2 percent of the loan amount or one thousand dollars per borrower, whichever is less, to 5 percent of the loan amount. In addition, District Associations generally require the purchase of one participation certificate by each lease customer and non-stockholder customers who purchase financial services. Each District Association's board of directors may increase, within the range outlined in their bylaws, the amount of initial investment, if necessary, to meet the District Associations' capital needs.

The borrower of a District Association acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is generally added to the principal amount of the related obligation. A first lien is held on the stock or participation certificates owned by the borrowers.

As a condition of borrowing from AgriBank, OFIs are required to maintain an investment in AgriBank. AgriBank's bylaws authorize a required investment of up to 4 percent of the borrower's line of credit with AgriBank upon board approval. AgriBank's capital plan is updated at least annually and is subject to change at the discretion of the AgriBank Board. AgriBank's current capital plan required investment for OFIs is the lesser of 4 percent or a multiple component calculation based on a percentage of average loan commitments with a higher percentage on balances above a specified growth rate if the District is also growing above a specified growth rate. The 2017 component requirements were 2.25 percent on average commitments, plus an additional 3.00 percent on increases in commitments that exceeded 7.5 percent, if the District is growing at a rate above 5.5 percent.

District Associations are also required to invest in AgriBank as a condition of borrowing; however, these stock purchases are eliminated in the Combined Financial Statements presented in this Annual Report.

Protection Mechanisms

Protection of certain borrower capital is provided under the Farm Credit Act, which requires AgriBank and District Associations to retire protected capital at par or stated value regardless of its book value at the time of retirement. Protected borrower capital includes capital stock, participation certificates and allocated equities that were outstanding at January 6, 1988 or were issued or allocated before October 6, 1988. Borrower stock issued after October 5, 1988 is not subject to these protection provisions. If AgriBank or District Associations are unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

Regulatory Capitalization Requirements and Restrictions

FCA regulations require each institution to maintain certain minimum capital ratios. If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. No such prohibitions were in effect as of December 31, 2017.

Regulatory Capital Requirements and Ratios

As of December 31, 2017	AgriBank	District Associations	District Associations weighted average	Regulatory Minimums	Capital Conservation Buffer [1]	Total
Risk adjusted:						
Common equity tier 1 capital ratio	**18.2%**	**14.2% - 20.6%**	**16.8%**	4.5%	2.5%	7.0%
Tier 1 capital ratio	**19.0%**	**14.7% - 20.6%**	**16.9%**	6.0%	2.5%	8.5%
Total capital ratio	**19.1%**	**15.1% - 20.8%**	**17.4%**	8.0%	2.5%	10.5%
Permanent capital ratio	**19.0%**	**15.7% - 24.3%**	**17.2%**	7.0%	0.0%	7.0%
Non-risk adjusted:						
Tier 1 leverage ratio	**5.6%**	**14.6% - 21.0%**	**17.6%**	4.0%	1.0%	5.0%
UREE[2] leverage ratio	**3.2%**	**13.8% - 21.4%**	**17.7%**	1.5%	0.0%	1.5%

[1]The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in over three years under the FCA capital requirements.
[2]Unallocated retained earnings and equivalents

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1 capital, tier 1 capital and total capital risk-based capital ratios. The new regulations also added non-risk adjusted tier 1 leverage and UREE leverage ratios to replace the net collateral ratio. The permanent capital ratio continues to remain in effect.

Risk-adjusted assets have been defined by FCA regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 capital ratio is the core capital of the Bank or Association including all at-risk borrower stock as it is intended to be held for a minimum of 7 years, unallocated retained earnings as regulatorily prescribed, less certain regulatory required deductions including certain investments in other System institutions, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital ratio is tier 1 capital plus allowance and reserve for credit losses subject to certain limitations, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, non-cumulative perpetual preferred stock, unallocated retained earnings as regulatorily prescribed, less certain investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings as regulatorily prescribed, less certain regulatory required deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

The amount of third-party capital instruments, including preferred stock and subordinated notes that may be counted in the total capital ratio must not exceed the lesser of 40 percent of total capital or 100 percent of common equity tier 1.

FCA regulations require System Banks and Associations to agree upon a plan for allocating the Associations' investments in System Banks for calculation of the permanent capital ratio. AgriBank's agreement with District Associations is, generally, each District Association would count in its permanent capital ratio any excess allocated investment over that required by AgriBank unless there is a specific agreement to count the investment differently. There are no allotment agreements allowed for other regulatory capital ratios effective in 2017; therefore, the capital was counted by the institution where the capital stock resides.

Refer to the 2016 Combined Annual Report for further information regarding the calculations of capital ratios prior to 2017. AgriBank and District Associations were in compliance with the minimum required capital ratios as of December 31, 2016 and December 31, 2015.

Patronage Distributions and Dividends

Payment of discretionary patronage and/or dividends is allowed under AgriBank and District Associations bylaws if the distribution is in accordance with applicable laws and regulations, including the FCA capital adequacy regulations and approved by the respective boards.

The District Associations designated $484.9 million, $322.0 million and $282.9 million of earnings for patronage during 2017, 2016 and 2015, respectively. AgriBank also pays patronage, substantially all of which was paid to District Associations and was eliminated in combination. Patronage designated by AgriBank, primarily for OFIs and AgDirect participants outside the District and not eliminated in combination, was $9.8 million, $8.2 million and, $7.0 million at December 31, 2017, 2016 and 2015, respectively.

Compeer has a nonqualified patronage program and, upon merger, all allocated surplus issued by the acquired entities became allocated surplus in the merged Association. The total surplus allocated under the nonqualified program was $135.0 million, $67.1 million and $62.9 million in 2017, 2016 and 2015, respectively. Under a merger capital equalization plan, $41.3 of allocated surplus was designated as permanent allocations and is no longer subject to redemption as of December 31, 2017. Nonqualified patronage of $101.6 million, $32.7 million and $27.2 million was authorized for redemption during 2017, 2016 and 2015, respectively. The timing and amounts of all future allocated surplus redemptions is at the discretion of Compeer's Board of Directors, subject to compliance with applicable regulatory requirements. These patronage equities have no voting rights and are only transferable if specifically authorized by the boards of directors.

Certain District Associations have attributed and may continue to attribute to shareholders all patronage sourced income in excess of the qualified patronage program distributions to shareholders. It is communicated to shareholders that this amount will not be redeemed and as such, is not considered allocated surplus.

AgriBank and Compeer declared preferred stock dividends of $17.2 million and $6.8 million, respectively, during each year ended 2017, 2016 and 2015. In the event preferred stock dividends for the current dividend period have not been declared, the issuing entity may not declare or pay any dividends, patronage refunds or distributions on, or redeem, purchase, acquire or make a liquidation payment with

respect to, any shares of capital stock (including borrower stock, participation certificates and preferred stock), other than exercising their statutory lien under the Farm Credit Act, which allows them to apply member stock and/or participation certificates to reduce the aggregate principal amount of outstanding loans. AgriBank and Compeer have declared dividends as scheduled since issuing preferred stock.

Additional Paid-in Capital

As a result of 2017 Association mergers, $2.1 billion of equity was recharacterized from unallocated surplus to additional paid-in capital.

Noncontrolling Interest

The noncontrolling interest represents the equity investment by institutions outside the AgriBank District, in AgDirect LLP and Foundations, as described in Note 2.

NOTE 8

Income Taxes

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including changes to the Federal statutory tax rates from 34 to 35 percent, depending on the association, to 21 percent for all associations, effective January 1, 2018. The deferred tax assets and liabilities as of December 31, 2017, have been valued using the new statutory tax rates. The deferred tax assets and liabilities are expected to be recognized in each District Association's tax return in a future year under the new statutory tax rates. The effect of this revaluation is recognized in the "Provision for income taxes" for the year ended December 31, 2017.

Provision for Income Taxes

(in thousands)

For the year ended December 31,	2017	2016	2015
Current:			
Federal	**$68,470**	$44,525	$29,986
State	**5,113**	2,923	2,650
Total current	**73,583**	47,448	32,636
Deferred:			
Federal	**(51,294)**	(38,394)	(11,228)
State	**(1,627)**	(2,087)	(1,677)
(Decrease) increase in valuation allowances	**(1,963)**	4,030	(473)
Total deferred	**(54,884)**	(36,451)	(13,378)
Total provision for income taxes	**$18,699**	$10,997	$19,258

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands)

For the year ended December 31,	2017	2016	2015
Federal tax at statutory rate	**$679,909**	$645,014	$648,082
State tax, net	**1,696**	1,012	3,233
Effect of non-taxable entities	**(564,858)**	(560,952)	(558,660)
Patronage distributions	**(88,410)**	(81,326)	(65,752)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	**(10,704)**	--	--
(Decrease) increase in valuation allowances	**(1,963)**	4,030	(473)
Other, net	**3,029**	3,219	(7,172)
Total provision for income taxes	**$18,699**	$10,997	$19,258

Deferred Income Taxes

Tax laws require certain items to be included in each entity's tax returns at different times than the items are reflected on the Combined Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. The tax effect of temporary differences are recorded as deferred tax assets and liabilities netted on the Combined Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31,	2017	2016	2015
Allowance for loan losses	**$35,287**	$55,984	$41,155
Post-employment benefits accrual	**3,955**	6,157	6,224
Accrued pension asset	**(11,211)**	(12,922)	(8,023)
Leasing related, net	**(50,745)**	(125,923)	(155,851)
Accrued patronage income not received	**(5,773)**	(4,692)	(2,753)
AgriBank 2002 allocated stock	**(5,645)**	(10,041)	(10,122)
Depreciation	**(495)**	(892)	(1,310)
Valuation allowance	**(12,396)**	(16,932)	(12,903)
Net operating loss carryforwards	**--**	905	194
Other assets	**20,498**	21,627	20,292
Other liabilities	**(2,048)**	(2,337)	(2,419)
Net deferred tax liabilities	**$(28,573)**	$(89,066)	$(125,516)
Gross deferred:			
Tax assets	**$59,740**	$84,673	$67,865
Tax liabilities	**(88,313)**	(173,739)	(193,381)

Deferred tax assets and liabilities are presented on the Combined Statements of Condition as $10.1 million of deferred tax assets, representing the amount of deferred tax assets/liabilities for District Associations in a net deferred tax asset position and $38.6 million of deferred tax liabilities, representing the amount of deferred tax assets/liabilities for District Associations in a net deferred tax liability position at December 31, 2017.

Under the current standards of accounting for income taxes, any deferred tax asset must be evaluated as to its realizable value. At December 31, 2017, 2016 and 2015, certain District Associations have determined that, primarily due to the effect of patronage programs, there is insufficient certainty of having future taxable income and tax liabilities with which to realize tax savings from the reversal of these deferred tax

assets. As a result, these District Associations have booked valuation allowances against those deferred tax assets which reflect the current year's adjustments related to those allowances.

Deferred income taxes have not been provided by the PCAs and ACAs on approximately $525.3 million of patronage distributions allocated from AgriBank before January 1, 1993. Such allocations, distributed in the form of stock, are subject to income tax only upon conversion to cash. District Associations' management intent is to permanently maintain these investments in AgriBank. Additionally, deferred income taxes have not been provided by certain District Associations on approximately $9.5 million of 2002 patronage allocations received from AgriBank. Those District Associations' boards of directors passed resolutions that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under the Associations' patronage programs. Deferred income taxes have also not been provided on accumulated District Associations FLCA subsidiary earnings of $14.7 billion as it is the intention of the ACAs' management to permanently maintain their investments in the FLCA subsidiaries or to distribute the earnings to members in a manner that results in no additional tax liability to the District Associations. Similarly, we deferred income taxes have not been provided on prior FLCA subsidiary earnings transferred to APIC due to mergers in 2017.

Other than distributions made under AgriBank's patronage programs, AgriBank has no plans to make distributions of unallocated retained earnings to District Associations. Therefore, deferred taxes have not been provided by any District Association on AgriBank's retained earnings.

Income tax returns are subject to review by various U.S. taxing authorities. District Associations record accruals for items they believe may be challenged by these taxing authorizes. However, there were no uncertain income tax positions at December 31, 2017. In addition, District Associations believe they are no longer subject to income tax examinations for years prior to 2014.

At various times, Associations receive assessment or change letters from the IRS or state revenue departments as a result of audits or other reviews of prior year tax returns. There are no material assessments or other tax changes outstanding at December 31, 2017.

NOTE 9

Employee Benefit Plans

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or boards of director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefits plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any) and termination of specific benefits plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

All District employers, with the exception of one District Association, participate in the defined benefit retirement plan. Certain District employers also participate in the nonqualified retirement plan. Additionally, District employers provide certain health insurance benefits to eligible retired employees in

the District. Expenses related to these plans are included in “Salaries and employee benefits” on the Combined Statements of Comprehensive Income. The current measurement date is December 31 for the defined benefit and other post-employment benefit plans. The funded status of the post-employment benefit plans is recorded at the District level.

Pension Benefit Plans

Pension Plan: Certain employees at AgriBank and District Associations, with the exception of one District Association, participate in the AgriBank District Retirement Plan, a Districtwide defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan’s benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan’s termination is contingent on the sufficiency of the plan’s net assets to provide benefits at that time. This Plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers’ retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if an entity chooses to stop participating in the plan, it may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. Each employer recognizes their proportional share of expense and contributes a proportional share of funding. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the Combined Financial Statements.

Pension Restoration Plan: AgriBank and certain District Associations also participate in the Districtwide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. The Pension Restoration Plan is unfunded, and participating institutions make annual

contributions to fund benefits paid to retirees covered by the plan. Cash contributions were equal to the benefits paid.

Other Post-Employment Benefit Plans

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status.

Obligations and Funded Status

(in thousands)	Pension Benefits			Other Benefits		
As of December 31,	**2017**	2016	2015	**2017**	2016	2015
Change in benefit obligation:						
Benefit obligation at beginning of year	**$1,298,139**	$1,286,909	$1,262,655	**$29,697**	$30,479	$35,051
Service cost	**28,460**	30,606	30,085	**434**	452	559
Interest cost	**46,938**	46,335	50,594	**1,025**	1,083	1,392
Plan amendments	**965**	(27,632)	430	**--**	--	--
Actuarial loss (gain)	**140,048**	25,508	1,396	**(8,674)**	(902)	(5,120)
Benefits paid	**(109,135)**	(63,587)	(58,251)	**(1,438)**	(1,415)	(1,403)
Special termination benefits	**2,787**	--	--	**--**	--	--
Benefit obligation at end of year	**$1,408,202**	$1,298,139	$1,286,909	**$21,044**	$29,697	$30,479
Change in plan assets:						
Fair value of plan assets at beginning of year	**$895,321**	$801,434	$811,079	**$ --**	$ --	$ --
Actual return on plan assets	**136,898**	60,332	(16,193)	**--**	--	--
Employer contributions	**95,413**	97,142	64,799	**1,438**	1,415	1,403
Benefits, premiums and expenses paid	**(109,135)**	(63,587)	(58,251)	**(1,438)**	(1,415)	(1,403)
Fair value of plan assets at end of year	**$1,018,497**	$895,321	$801,434	**$ --**	$ --	$ --
Unfunded liability	**$(389,705)**	$(402,818)	$(485,475)	**$(21,044)**	$(29,697)	$(30,479)
Accumulated benefit obligation	**$1,214,394**	$1,119,690	$1,090,457	**n/a**	n/a	n/a

(in thousands)	Pension Benefits			Other Benefits		
As of December 31,	**2017**	2016	2015	**2017**	2016	2015
Amounts recognized in the District Statements of Condition consist of:						
Pension liabilities	**$389,705**	$402,818	$485,475	**$21,044**	$29,697	$30,479
Net loss (gain)	**$549,140**	$523,798	$541,704	**$(15,368)**	$(7,203)	$(6,744)
Prior service credit	**(25,521)**	(29,410)	(2,898)	**--**	(384)	(828)
Total recognized in accumulated other comprehensive loss (income)	**$523,619**	$494,388	$538,806	**$(15,368)**	$(7,587)	$(7,572)
Weighted-average assumptions used to determine benefit obligations:						
Discount rate	**3.70%**	4.25%	4.51%	**3.68%**	4.25%	4.51%
Rate of compensation increase	**5.25%**	5.25%	5.25%	**n/a**	n/a	n/a

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Combined Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation, which is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation, exceeds pension plan assets. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

During 2016, the pension plan was amended to change the discount rate basis for a certain distribution option utilizing a graduated increase from treasury rates to corporate bond rates. The plan amendment resulted in a reduction of the plan benefit obligation.

Components of Net Periodic Benefit Cost

(in thousands)	Pension Benefits			Other Benefits		
For the year ended December 31,	**2017**	2016	2015	**2017**	2016	2015
Net periodic benefit cost:						
Service cost	**$28,460**	$30,606	$30,085	**$434**	$452	$559
Interest cost	**46,938**	46,335	50,594	**1,025**	1,083	1,392
Expected return on plan assets	**(61,943)**	(59,335)	(55,632)	**--**	--	--
Amortization of prior service credit	**(2,924)**	(1,119)	(1,264)	**(384)**	(444)	(461)
Amortization of net loss (gain)	**39,297**	40,087	43,780	**(536)**	(442)	(21)
Settlements and termination benefits	**3,238**	2,330	--	**--**	--	--
Net periodic benefit cost	**$53,066**	$58,904	$67,563	**$539**	$649	$1,469
Other changes in plan assets and benefit obligations recognized in other comprehensive income:						
Net loss (gain)	**$65,090**	$24,511	$73,208	**$(8,701)**	$(901)	$(5,092)
Prior service cost	**965**	(27,631)	430	**--**	--	--
Amortization of prior service credit	**2,924**	1,119	1,264	**384**	444	461
Amortization of net (loss) gain	**(39,748)**	(42,417)	(43,780)	**536**	442	21
Total recognized in other comprehensive income	**$29,231**	$(44,418)	$31,122	**$(7,781)**	$(15)	$(4,610)
Total recognized in net periodic benefit cost and other comprehensive income	**$82,297**	$14,486	$98,685	**$(7,242)**	$634	($3,141)
Weighted-average assumptions used to determine net costs:						
Discount rate:						
Spot yield curve	**n/a**	n/a	4.10%	**n/a**	n/a	4.10%
Projected benefit obligation	**4.25%**	4.51%	n/a	**4.24%**	4.49%	n/a
Service cost	**4.40%**	4.67%	n/a	**4.55%**	4.84%	n/a
Interest cost	**3.72%**	3.73%	n/a	**3.57%**	3.67%	n/a
Expected return on plan assets	**6.75%**	7.25%	7.25%	**n/a**	n/a	n/a
Rate of compensation increase	**5.25%**	5.25%	4.50%	**n/a**	n/a	n/a

The estimated net loss and prior service credit for the Pension Benefits plans that will be amortized from District accumulated other comprehensive loss into net periodic benefit cost over the next year is an expense of $45.8 million. The estimated net gain and prior service credit for the Other Benefits plans that will be amortized from District accumulated other comprehensive loss into net periodic benefit cost over the next year is income of $1.7 million.

Assumptions

Benefit obligations and net periodic benefit costs are measured using assumptions designed to reflect future economic conditions. The most significant assumptions used in calculating the benefit obligations are discount rates, mortality rates and compensation rate increases. In addition to these assumptions, expected return on plan assets is also a significant driver in the measurement of net periodic benefit cost.

Beginning in 2016, the discount rates used to estimate service and interest components of net period benefit cost are calculated using a full yield curve method developed by an independent actuary. The approach maps a high-quality bond yield curve to the duration of the plans' liabilities, thus approximating

each cash flow of the liability stream to be discounted at an interest rate specifically applicable to its respective period in time. Previously, a single weighted-average discount rate was used to estimate the service and interest components of net periodic benefit cost.

The mortality improvement assumptions are updated when new tables are issued by the Society of Actuaries. The adoption of the most recent tables did not have a significant impact to the projected benefit obligation as of December 31, 2017.

Periodically, independent actuaries perform an assumption study based on actual plan participants' results over the past three years. Assumptions in this study include, but are not limited to: rates of termination, retirement age, and benefit form elected. The most recent study was completed in 2015.

The expected long-term rate of return assumption is determined by the Plan Sponsor Committee with input from the Trust Committee. Historical return information is used to establish a best-estimate range for each asset class in which the plans are invested. The most appropriate rate is selected from the best-estimate range, taking into consideration the duration of plan benefit liabilities and Plan Sponsor Committee investment policies. Generally, a lower rate of return assumption correlates to an increase in the net periodic benefit cost.

For measurement purposes, a 6.0 percent rate of increase in the per capita cost of covered health care benefits is assumed for 2018. The rate is assumed to decrease gradually to 5.0 percent by the year 2029 and remain at that level thereafter.

Assumed health care cost trend rates effect the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have minimal effect for the District.

Estimated Future Contributions and Benefit Payments
The amount of total District employer contributions expected to be paid into the plans during 2018 is $93.6 million for Pension Benefits and $1.2 million for Other Benefits.

The following benefit payments are expected to be paid by the District plans and reflect expected future service, as appropriate:

(in thousands) **As of December 31, 2017**	**Pension Benefits**	**Other Benefits**
Year:		
2018	**$72,710**	**$1,171**
2019	**77,210**	**1,241**
2020	**80,720**	**1,289**
2021	**89,920**	**1,327**
2022	**88,430**	**1,354**
2023 to 2027	**472,110**	**6,728**

Plan Assets
The overall objective of the investment policy is intended to meet the benefit obligations for the plan beneficiaries and to earn a long-term rate of return consistent with the related cash flow profile of the underlying benefit obligations.

The policy uses a risk management strategy designed to reduce investment risks as the funded status improves. To implement the policy, the plan has adopted a diversified set of portfolio management strategies to optimize the risk reward profile of the plan. Plan assets are divided into two primary component portfolios:

- A return-seeking portfolio that is invested in a diversified set of assets designed to deliver performance in excess of the underlying liability growth rate coupled with diversification controls regarding the level of risk. Equity exposures are expected to be the primary drivers of excess returns, but also introduce the greatest level of volatility of returns. Accordingly, the return-seeking portfolio contains additional asset classes that are intended to diversify equity risk as well as contribute to excess return.

  The largest subset contains U.S. equities including securities that are both actively and passively managed to their benchmarks across a full spectrum of capitalization and styles. Non-U.S. equities contain securities in both passively and actively managed strategies. Currency futures and forward contracts may be held for the sole purpose of hedging existing currency risk in the portfolio. Other investments that serve as equity diversifiers include:
  - High yield bonds: fixed income portfolio of securities below investment grade including up to 30 percent of the portfolio in non-U.S. issuers,
  - Global real estate: portfolio of diversified real estate investment trusts and private direct real estate and
  - Hedge fund of funds.

  These portfolios combine income generation and capital appreciation opportunities from developed markets globally. Other investment strategies may be employed to gain certain market exposures, reduce portfolio risk and to further diversify portfolio assets.

- A liability hedging portfolio that is primarily invested in intermediate-term and long-term investment grade corporate bonds in actively managed strategies that are intended to hedge interest rate risk. The portfolio will progressively increase in size as the plan's funded ratio improves. The use of selected portfolio strategies incorporating derivatives may be employed to improve the liability hedging characteristics or reduce risk. Finally, there is a managed liquidity portfolio that is comprised of short-term assets intended to pay periodic plan benefits and expenses.

Portfolios are measured and monitored daily to ensure compliance with the investment policy. Tactical tilts will be employed based on medium term views and capital market assumptions, but will remain within stated policy ranges. For 2018, the asset allocation policy of the pension plan provides a target of 75 percent of assets in return seeking investments and 25 percent of assets in liability hedging investments. Specifically, return seeking investments include: global equity securities, global real estate investment trust securities, hedge funds, and high yield bonds; and liability hedging investments include high quality credit debt securities.

Fair Value of Pension Plan Assets

(in thousands)	Fair Value Measurements			
As of December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	**$84,554**	**$ --**	**$ --**	**$84,554**
Mutual funds:				
International funds	--	**279,832**	--	**279,832**
Fixed income funds	--	**221,846**	--	**221,846**
Domestic funds	--	**167,106**	--	**167,106**
Bond funds	--	**80,520**	--	**80,520**
Real estate equity funds	--	**26,503**	**2,165**	**28,668**
Investment insurance contracts	--	--	**5,593**	**5,593**
Total	**$84,554**	**$775,807**	**$7,758**	**$868,119**
Investments measured at net asset value[1]				**150,378**
Total assets at fair value				**$1,018,497**

(in thousands)	Fair Value Measurements			
As of December 31, 2016	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$60,424	$ --	$ --	$60,424
Mutual funds:				
International funds	--	236,938	--	236,938
Domestic funds	--	143,933	--	143,933
Fixed income funds	--	187,105	--	187,105
Bond funds	--	96,503	--	96,503
Real estate equity funds	--	20,246	--	20,246
Investment insurance contracts	--	--	5,917	5,917
Total	$60,424	$684,725	$5,917	$751,066
Investments measured at net asset value[1]				144,255
Total assets at fair value				$895,321

(in thousands)	Fair Value Measurements			
As of December 31, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$25,347	$ --	$ --	$25,347
Mutual funds:				
International funds	--	221,260	--	221,260
Domestic funds	--	127,944	--	127,944
Fixed income funds	--	176,130	--	176,130
Bond funds	--	88,191	--	88,191
Real estate equity funds	--	19,580	--	19,580
Investment insurance contracts	--	--	6,303	6,303
Total	$25,347	$633,105	$6,303	$664,755
Investments measured at net asset value[1]				136,679
Total assets at fair value				$801,434

[1]Certain investments that are measured at fair value using the net asset value per share as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the net assets in the pension plans.

Fair Value Measurements using Level 3		
	Investment Insurance Contracts	Real Estate Equity Funds
As of December 31, 2014	$6,736	$ --
Actual return on plan assets:		
Still held at the reporting date	106	--
Sales	(539)	--
As of December 31, 2015	$6,303	$ --
Actual return on plan assets:		
Still held at the reporting date	99	--
Sales	(485)	--
As of December 31, 2016	$5,917	$ --
Actual return on plan assets:		
Still held at the reporting date	**95**	**491**
Purchases	--	**1,674**
Sales	**(419)**	--
As of December 31, 2017	**$5,593**	**$2,165**

There were no assets transferred out of Level 2 or Level 3 in 2017, 2016 or 2015.

Valuation Techniques

Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets would be classified as Level 1. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with observable market data would be classified as Level 2. In addition, assets measured at Net Asset Value (NAV) per share and that can be redeemed at NAV per share at the measurement date are classified as Level 2. Assets valued using unobservable inputs (e.g., a company's own assumptions and data) would be classified as Level 3. All assets are evaluated at the fund level. Refer to Note 13 for a complete description of fair value measurements.

Defined Contribution Plans

AgriBank and all District Associations also participate in a Districtwide defined contribution retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0 percent and 50 cents on the dollar on the next 4.0 percent on both pre-tax and post-tax contributions. The maximum employer match is 4.0 percent. For employees hired after December 31, 2006, District employers contribute 3.0 percent of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0 percent on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0 percent.

AgriBank and certain District Associations also participate in a Districtwide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, be either a Chief Executive Officer or President of a participating employer or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan were $39.4 million, $37.9 million and $36.8 million in 2017, 2016, and 2015, respectively. These expenses were equal to the cash contributions for each year.

Additionally, AgriBank and certain District Associations participate in the Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purpose as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions will be made to the plan.

NOTE 10

Related Party Transactions

In the ordinary course of business, District Associations may enter into loan transactions with their Senior Officers, Directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons.

One District Association had certain related party loans which were classified as substandard as the loans were deemed to involve more than the normal risk of collectability. The aggregate principal balance of these exposures at December 31, 2017 was $7.9 million. The loan payments were current with no amount past due as of December 31, 2017. In the opinion of management at the respective District entities, no other related party loans outstanding at December 31, 2017, involved more than the normal risk of collectability.

Related Party Loans and Leases Information

(in thousands)

As of December 31,	**2017**	2016	2015
Total related party loans and leases	**$331,162**	$414,763	$387,766
For the year ended December 31:			
Advances to related parties	**$213,876**	$252,051	$297,820
Repayments by related parties	**$216,047**	$272,550	$329,136

The related parties can be different each year end primarily due to changes in the composition of the boards of directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans and leases in the preceding chart are related to those considered related parties at year end.

Elected members of AgriBank's Board of Directors are District Association borrowers. AgriBank has no direct lending relationships with any of its board of directors or Senior Officers. In the ordinary course of business, AgriBank's Directors, Senior Officers and District Association Directors are eligible to hold member investment bonds under the same terms and conditions as all other District Association borrowers and AgriBank employees. The amount held by AgriBank's Directors, Senior Officers and District

Association Directors was immaterial to the Combined Statements of Condition. Refer to Note 5 for additional information regarding member investment bonds.

NOTE 11

Commitments and Contingencies

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

In November 2016, an alleged class action lawsuit was filed in New York state court against AgriBank by a purported beneficial owner of some of AgriBank's Subordinated Notes. The plaintiff asserted a breach of contract claim and a breach of an implied covenant of good faith and fair dealing alleging that we impermissibly redeemed the Subordinated Notes. AgriBank removed the lawsuit to federal court in the Southern District of New York. Plaintiff requests damages in an amount to be determined at trial, reasonable attorneys' fees, and other relief. In October 2017, AgriBank filed an answer to the lawsuit. The lawsuit is in the early pleadings and discovery stage, and we intend to vigorously defend against these allegations. As of the date of these financial statements, the likelihood of any outcome of this proceeding cannot be determined.

Additionally, from time to time AgriBank and District Associations may be named as defendants in certain lawsuits or legal actions in the normal course of business. At the date of these Combined Financial Statements, AgriBank's and District Associations' respective management teams were not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

While primarily liable for its portion of Systemwide bonds and notes, AgriBank is jointly and severally liable for the Systemwide bonds and notes of the other System Banks. The total bonds and notes of the System at December 31, 2017 were $265.2 billion.

AgriBank, together with all System Banks and the Funding Corporation, have entered into the Contractual Interbank Performance Agreement (CIPA). This agreement establishes agreed-upon standards of District financial condition and performance to achieve and maintain. AgriBank, and each of the other System Banks, exceeded the minimum performance measures at December 31, 2017.

AgriBank, together with all System Banks and the Funding Corporation, have entered into the MAA. This agreement establishes criteria and procedures for the System Banks to provide information and, under specific circumstances, restricting or prohibiting participation in issuances of Systemwide Debt Securities. The agreement is intended to identify and resolve individual System Bank financial problems in a timely manner. AgriBank, and each of the other System Banks, is in compliance with all aspects of the agreement at December 31, 2017.

If a System Bank fails to meet the MAA performance criteria, it will be placed into one of three categories. Each category gives the other System Banks progressively more control over a System Bank that has

declining financial performance under the MAA performance criteria. A “Category I” Bank is subject to additional monitoring and reporting requirements; a “Category II” Bank’s ability to participate in issuances of Systemwide Debt Securities may be limited to refinancing maturing debt obligations; and a “Category III” Bank may not be permitted to participate in issuances of Systemwide Debt Securities.

NOTE 12

Financial Instruments with Off-Balance Sheet Risk

AgriBank and District Associations participate in financial instruments with off-balance sheet risk to satisfy the financing needs of borrowers. These financial instruments are in the form of commitments to extend credit and letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the Combined Financial Statements. Commitments to extend credit are agreements to lend to a borrower as long as they are in compliance with conditions established in the contract. At December 31, 2017, AgriBank and District Associations had various commitments, primarily to extend credit and unexercised commitments related to standby letters of credit, totaling $24.6 billion, $21.1 million of which was included in “Other liabilities” on the Combined Statements of Condition at December 31, 2017. Standby letters of credit are agreements to pay a beneficiary if there is default on a contractual arrangement. At December 31, 2017, AgriBank and District Associations had issued standby letters of credit of $385.3 million. Refer to Note 13 for further discussion regarding standby letters of credit included on the Combined Statements of Condition.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses, and payment of a fee may be required. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized on the Combined Financial Statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable AgriBank and/or a District Association, as a guarantor, to recover from third parties amounts paid under guarantees, thereby limiting its maximum potential exposures. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers, and the same credit policies are applied by management. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 13

Fair Value Measurements

The fair value of financial instruments 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. AgriBank and District Associations utilize a fair value hierarchy intended to maximize the use of observable inputs and is based upon the transparency of inputs used in the valuation of an asset or liability. A financial instrument’s categorization within the valuation hierarchy is based upon the least transparent input that is significant to the fair value measurement. Refer to Note 2 for additional discussion of fair value measurement policy.

Recurring Measurements

The following is a list of financial instruments each with a summary of the methods, valuation techniques and inputs used to measure fair value on a recurring basis:

Valuation Techniques and Significant Inputs Used to Measure Fair Value on a Recurring Basis

	Source	Valuation Technique	Inputs
Federal Funds	Counterparty report	Cost approach	Principal plus accrued interest
Mortgage-backed securities	Third party pricing service	Market approach	Benchmark yield curves
			Volatilities
			Market spreads
			Prepayment speeds
			Quoted prices
Commercial paper and other	Third party pricing service	Market approach	Benchmark yield curves
U.S. Treasury securities	Third party pricing service	Market approach	Benchmark yield curves
			Quoted prices
			Bid prices
			Trade prices, yields, spreads
			Other observable market information
Asset-backed securities	Third party pricing service	Market approach	Benchmark yield curves
			Volatilities
			Market spreads
			Prepayment speeds
			Quoted prices
U.S. Agencies	Third party pricing service	Income approach	Benchmark yield curves
			Quoted prices
			Bid prices
			Trade prices, yields, spreads
			Other observable market information
Cash collateral posted with counterparties	Counterparty report	Cost approach	Principal plus accrued interest
Cash collateral posted by counterparties	Counterparty report	Cost approach	Principal plus accrued interest
Derivative assets	Internally developed	Market approach	LIBOR swap curves
			Volatilities
			Quoted prices
Derivative liabilities	Internally developed	Market approach	LIBOR swap curves
			Volatilities
			Quoted prices
Standby letters of credit	Internally developed	Income approach	Borrower probability of default
			Funding rate

Federal Funds: The fair value of federal funds is generally their face value, plus accrued interest, as these instruments are readily convertible to cash due to their next business day maturity.

Investments Available-for-Sale: The fair value of nearly all AFS investment securities is determined from third-party valuation services that estimate current market prices using discounted cash flow models. Level 2 inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Level 3 inputs are based on the relatively illiquid marketplace for some investments and the lack of marketplace information available for significant inputs and assumptions to the valuation process. Third-party provided prices are compared against publicly available benchmarks and/or dealer quotes from time to time. In an illiquid marketplace and when the price variance between third parties is greater than 5 percent, an average price from two pricing services is used to determine fair value.

Significant increases in volatilities, market spreads, default probabilities, loss severities and possibly prepayment speeds could result in significantly lower fair value measurements. Conversely, significant decreases in those same elements could result in significantly higher fair value measurements. Generally, a change in the assumption used for the probability of default may be accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

As the fair value is determined by third-party valuation services without adjustment by management, quantitative information about significant unobservable inputs used in the fair value measurement are not reasonably available to AgriBank.

Cash Collateral Posted With/By Counterparties: Derivative contracts are supported by bilateral collateral agreements with counterparties requiring AgriBank and District Associations/them to either post cash or pledge investment securities as collateral in the event certain dollar thresholds of credit exposure are reached or in the case of cleared derivatives, the posting of initial and variation margins. The market value of cash collateral posted with counterparties and by counterparties is the face value of the collateral posted, as that approximates fair value.

Derivative Assets and Liabilities: The fair value of AgriBank's and District Associations' derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models and inputs are observable directly or indirectly in the marketplace. Internally calculated derivative valuations are compared to broker/dealer quotes to substantiate the results.

Standby Letters of Credit: Estimating the fair value of letters of credit is determined by the inherent credit loss in such instruments.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(in thousands)	Fair Value Measurement Using			Total Fair
As of December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets:				
Federal funds	**$ --**	**$676,300**	**$ --**	**$676,300**
AgriBank investments available-for-sale:				
Mortgage-backed securities	**--**	**6,021,135**	**--**	**6,021,135**
Commercial paper and other	**--**	**5,220,678**	**--**	**5,220,678**
U.S. Treasury securities	**--**	**2,917,400**	**--**	**2,917,400**
Asset-backed securities	**--**	**227,242**	**--**	**227,242**
Total investments available-for-sale	**--**	**14,386,455**	**--**	**14,386,455**
Cash collateral posted with counterparties	**31,734**	**--**	**--**	**31,734**
Derivative assets	**--**	**8,956**	**80**	**9,036**
Total assets	**$31,734**	**$15,071,711**	**$80**	**$15,103,525**
Liabilities:				
Derivative liabilities	**$190**	**$34,562**	**$ --**	**$34,752**
Total liabilities	**$190**	**$34,562**	**$ --**	**$34,752**

(in thousands)	Fair Value Measurement Using			Total Fair
As of December 31, 2016	Level 1	Level 2	Level 3	Value
Assets:				
Federal funds	$ --	$591,300	$ --	$591,300
AgriBank investments available-for-sale:				
Mortgage-backed securities	--	5,555,759	--	5,555,759
Commercial paper and other	--	4,786,782	--	4,786,782
U.S. Treasury securities	--	3,811,798	--	3,811,798
Asset-backed securities	--	742,913	--	742,913
Total investments available-for-sale	--	14,897,252	--	14,897,252
Cash collateral posted with counterparties	33,128	--	--	33,128
Derivative assets	219	13,125	--	13,344
Total assets	$33,347	$15,501,677	$ --	$15,535,024
Liabilities:				
Derivative liabilities	$ --	$34,637	$ --	$34,637
Total liabilities	$ --	$34,637	$ --	$34,637

(in thousands)	Fair Value Measurement Using			Total Fair
As of December 31, 2015	Level 1	Level 2	Level 3	Value
Assets:				
Federal funds	$ --	$1,427,125	$ --	$1,427,125
AgriBank investments available-for-sale:				
Mortgage-backed securities	--	5,686,573	70,438	5,757,011
Commercial paper and other	--	4,914,385	--	4,914,385
U.S. Treasury securities	--	2,815,257	--	2,815,257
Asset-backed securities	--	768,272	7,958	776,230
Total investments available-for-sale	--	14,184,487	78,396	14,262,883
Cash collateral posted with counterparties	33,323	--	--	33,323
Derivative assets	--	777	--	777
Total assets	$33,323	$15,612,389	$78,396	$15,724,108
Liabilities:				
Derivative liabilities	$32	$52,002	$ --	$52,034
Total liabilities	$32	$52,002	$ --	$52,034

Fair Value Measurement Activity of Level 3 Instruments

	Investments Available-for-Sale		
(in thousands)	**Mortgage-backed Securities**	**Asset-backed Securities**	**Total**
Balance at December 31, 2014	$124,890	$33,716	$158,606
Total gains (losses) realized/unrealized:			
Included in earnings	2,141	(228)	1,913
Included in other comprehensive income	(2,265)	(729)	(2,994)
Sales	(34,547)	(16,113)	(50,660)
Settlements	(19,781)	(8,688)	(28,469)
Balance at December 31, 2015	$70,438	$7,958	$78,396
Total gains (losses) realized/unrealized:			
Included in earnings	4,545	5,573	10,118
Included in other comprehensive income	(3,610)	(5,957)	(9,567)
Sales	(63,093)	(7,325)	(70,418)
Settlements	(8,280)	(249)	(8,529)
Balance at December 31, 2016	$ --	$ --	$ --
Total losses realized/unrealized:			
Included in earnings	**(198)**	--	**(198)**
Purchases	**105,402**	--	**105,402**
Sales	**(105,204)**	--	**(105,204)**
Balance at December 31, 2017	**$ --**	**$ --**	**$ --**

There were no assets or liabilities transferred between levels during 2017, 2016 or 2015.

Non-Recurring Measurements

The following represents a summary of the valuation techniques and inputs used to measure fair value on a non-recurring basis:

Impaired Loans: Certain collateral dependent loans are measured at fair value on a non-recurring basis using the market approach when they are evaluated for impairment in which fair values are based upon the underlying collateral. Costs to sell represent transaction costs and are not included as a component of the fair value. Since the value of the collateral, less estimated costs to sell, was less than the principal balance of the loan, specific reserves were established for these loans. Level 2 inputs are based on independent appraisals and other market-based information. Level 3 inputs are significantly impacted based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Assets Measured at Fair Value on a Non-recurring Basis

	As of December 31, 2017			
	Fair Value Measurement Using			Total Fair
(in thousands)	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$126,869	$126,869

	As of December 31, 2016			
	Fair Value Measurement Using			Total Fair
(in thousands)	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$30,387	$69,087	$99,474

	As of December 31, 2015			
	Fair Value Measurement Using			Total Fair
(in thousands)	Level 1	Level 2	Level 3	Value
Impaired Loans	$ --	$34,441	$58,624	$93,065

Other Financial Instrument Measurements

A description of the methods and assumptions used to estimate the fair value of each class of financial instruments, measured at carrying amounts and not measured at fair value on the Combined Statements of Condition, follows:

Valuation Techniques and Significant Inputs Used to Measure Fair Value for Certain Financial Instruments

	Source(s)	Valuation Technique	Inputs
Cash	Counterparty report	Cost approach	Par
Investments held-to-maturity	Internally developed Third party pricing service	Income approach	Benchmark yield curves Volatilities Prepayment speeds Market spreads Quoted prices
Net loans	Internally developed	Income approach	Yield curve (Farm Credit) Prepayment speeds Credit classification Contractual loan information Collateral values Discount rates
Bonds and notes	Third party pricing service	Income approach	Yield curve (Treasury) Market spreads U.S. dollar interest rate swap curve Quoted prices Discount rates
Subordinated notes	Internally developed	Income approach	Credit spreads Interest rate risks Market trends Other market information
Reserve for unfunded loan commitments	Internally developed	Income approach	Borrower probability of default Funding rate
Commitments to extend credit and letters of credit	Internally developed	Income approach	Benchmark yield curves Volatilities Market spreads Prepayment speeds Quoted prices

Cash: The carrying value is a reasonable estimate of fair value.

Investments Held-to-Maturity: Investment securities held-to-maturity are valued using a discounted cash flow model either internally developed or provided by a third party.

Net Loans: Because no active market exists for loans made by AgriBank and District Associations, the fair value of loans that are not specifically impaired with related allowance for loan loss is estimated by segregating the loan portfolio into pools of loans with approximate homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool which are then discounted using current interest rates to determine the fair value. In addition, loans are valued using the Farm Credit interest rate yield curve, prepayment rates, contractual loan information, credit classification and collateral values. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render portfolio assets less marketable outside the System.

Bonds and Notes: Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt Securities and Treasury securities. The estimate includes an appropriate yield-spread taking into consideration selling group member (banks and securities dealers) yield indications, observed new government-sponsored enterprise debt security pricing and pricing levels in the related U.S. dollar interest rate swap market.

Subordinated Notes: The fair value of obligations held by AgriBank is based on an estimated fair value using credit spreads, market trends, interest rate risks and comparisons to similar institutions which AgriBank receives from an independent investment dealer. The fair value of obligations held by the District Association is based on a discounted cash flow model based on the Farm Credit interest rate yield curve.

Reserve for Unfunded Loan Commitments: Estimating the fair value of the reserve for unfunded loan commitments is determined by the inherent credit loss in such instruments.

Commitments to Extend Credit and Letters of Credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments based on rate of funding and credit loss factors.

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

(in thousands) **As of December 31, 2017**	**Total Carrying Amount**	**Fair Value Measurement Using**			**Total Fair Value**
		Level 1	**Level 2**	**Level 3**	
Assets:					
Cash	**$571,445**	**$571,445**	**$ --**	**$ --**	**$571,445**
Investments held-to-maturity	**2,146,458**	**--**	**257,757**	**1,828,857**	**2,086,614**
Net loans	**101,924,882**	**--**	**--**	**101,417,756**	**101,417,756**
Total assets	**$104,642,785**	**$571,445**	**$257,757**	**$103,246,613**	**$104,075,815**
Liabilities:					
Bonds and notes	**$98,313,944**	**$ --**	**$ --**	**$97,834,887**	**$97,834,887**
Reserve for unfunded loan commitments	**21,086**	**--**	**--**	**21,086**	**21,086**
Total liabilities	**$98,335,030**	**$ --**	**$ --**	**$97,855,973**	**$97,855,973**
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit	**$ --**	**$ --**	**$ --**	**$(29,994)**	**$(29,994)**

(in thousands) As of December 31, 2016	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	$559,760	$559,760	$ --	$ --	$559,760
Investments held-to-maturity	1,938,980	--	305,085	1,574,772	1,879,857
Net loans	98,587,750	--	--	97,900,467	97,900,467
Total assets	$101,086,490	$559,760	$305,085	$99,475,239	$100,340,084
Liabilities:					
Bonds and notes	$96,633,431	$ --	$ --	$96,111,397	$96,111,397
Reserve for unfunded loan commitments	24,166	--	--	24,166	24,166
Total liabilities	$96,657,597	$ --	$ --	$96,135,563	$96,135,563
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit	$ --	$ --	$ --	$(29,431)	$(29,431)

(in thousands) As of December 31, 2015	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	$596,730	$596,730	$ --	$ --	$596,730
Investments held-to-maturity	1,712,097	--	390,435	1,289,725	1,680,160
Net loans	94,570,034	--	--	94,607,252	94,607,252
Total assets	$96,878,861	$596,730	$390,435	$95,896,977	$96,884,142
Liabilities:					
Bonds and notes	$93,404,251	$ --	$ --	$93,319,254	$93,319,254
Subordinated notes	597,775	--	--	713,785	713,785
Reserve for unfunded loan commitments	16,445	--	--	16,445	16,445
Total liabilities	$94,018,471	$ --	$ --	$94,049,484	$94,049,484
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit	$ --	$ --	$ --	$(27,863)	$(27,863)

NOTE 14

Derivative and Hedging Activity

Use of Derivatives

AgriBank maintains an overall interest rate risk management strategy that incorporates the use of derivative products to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. AgriBank's goals are to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect net interest margin. As a result of interest rate fluctuations, fixed-rate assets will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains or losses on the derivative instruments that are linked to fixed-rate liabilities. Another result of interest rate fluctuations is that the inter interest expense of floating-rate liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these floating-rate liabilities. AgriBank considers the use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

AgriBank primarily enters into derivative transactions, particularly interest rate swaps, to reduce funding costs, improve liquidity and manage interest rate sensitivity. AgriBank uses various derivative instruments as follows:

- Interest rate swaps allow AgriBank to change the characteristics of fixed or floating debt we issue by swapping to a synthetic fixed or floating rate lower than those available to us if borrowings were made directly. Under interest rate swap arrangements, AgriBank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.
- AgriBank also facilitates interest rate swaps to qualified borrowers of the District Associations. These swaps allow qualified borrowers to manage their interest rate risk and lock in a fixed

interest rate similar to a fixed rate loan. AgriBank manages the interest rate risk from customer swaps with the execution of offsetting interest rate swap transactions.

AgriBank's derivative activities are monitored by the Asset/Liability Committee (ALCO) as part of the Committee's oversight of AgriBank's asset/liability and treasury functions. AgriBank's hedging strategies are developed within limits established by AgriBank's Board through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest rate risk-management strategies.

AgriBank Derivative Instruments Activity (in notional amount)

(in millions)	Receive-Fixed Swaps	Pay-Fixed Swaps	Floating-for-Floating	Other Derivatives	Total
As of December 31, 2014	$1,550	$1,235	$1,150	$40	$3,975
Additions	700	468	1,700	15	2,883
Maturities/amortization	(700)	(200)	(350)	--	(1,250)
Forward starting becoming effective	--	20	--	(20)	--
As of December 31, 2015	$1,550	$1,523	$2,500	$35	$5,608
Additions	1,216	566	1,400	56	3,238
Maturities/amortization	(200)	(1)	(800)	(1)	(1,002)
As of December 31, 2016	$2,566	$2,088	$3,100	$90	$7,844
Additions	**1,001**	**230**	**--**	**--**	**1,231**
Maturities/amortization	**(950)**	**(2)**	**(400)**	**(2)**	**(1,354)**
As of December 31, 2017	**$2,617**	**$2,316**	**$2,700**	**$88**	**$7,721**

Other derivatives consisted of retail customer interest rate swaps.

Credit Risk Management

By using derivative instruments, AgriBank is subject to credit and market risk. If a counterparty is unable to perform under a derivative contract, AgriBank's credit risk equals the net amount due to the Bank. Generally, when the fair value of a derivative contract is positive, AgriBank has credit exposure to the counterparty, creating credit risk for AgriBank. When the fair value of the derivative contract is negative, AgriBank does not have credit exposure; however, there is a risk of AgriBank's nonperformance under the terms of the derivative transaction.

To minimize the risk of credit losses, for non-customer bilateral derivatives, AgriBank deals only with counterparties that have an investment-grade or better credit rating from a rating agency and AgriBank monitors the credit standing and levels of exposure to individual counterparties. At December 31, 2017 AgriBank does not anticipate nonperformance by any of these counterparties. AgriBank typically enters into master agreements that contain netting provisions. These provisions allow AgriBank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. All derivative contracts are supported by bilateral collateral agreements with counterparties requiring AgriBank or the counterparty to post collateral in the event certain dollar thresholds of exposure of one party to the other are reached. These thresholds vary depending on the counterparty's current credit rating.

AgriBank Bilateral Interest Rate Swaps

(in thousands)

As of December 31,	2017	2016	2015
Notional amount	**$4,313,360**	$5,564,400	$4,885,000
Cash collateral posted with counterparties	**$11,150**	$9,952	--
Total collateral posted with counterparties	**$11,150**	$9,952	$ --

AgriBank may clear derivative transactions, through a futures commission merchant (FCM) with a clearinghouse or a central counterparty (CCP). When the swap is cleared by the two parties, the single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including margin, member capital contributions and FCM guarantees of their customers' transactions with the CCP. FCMs also pre-qualify the counterparties to all swaps that are sent to the CCP from a credit perspective, setting limits for each counterparty and collecting initial and variation margin daily from each counterparty for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. The initial and variation margin requirements are set by and held for the benefit of the CCP. Additional initial margin may be required and held by the FCM, due to its guarantees of its customers' trades with the CCP. Beginning in 2017, contracts with certain CCPs changed the legal treatment of variation margin payments, which resulted in daily variation margin payments being recognized as settlements rather than collateral posted.

AgriBank Centrally Cleared Interest Rate Swaps

(in thousands)

As of December 31,	2017	2016	2015
Notional Amount	**$3,408,360**	$2,279,396	$723,000
Initial margin posted with counterparties	**$18,580**	$27,856	$17,769
Variation margin posted (by) with counterparties	**--**	(6,680)	14,254
Total margin posted with counterparties, net	**$18,580**	$21,176	$32,023

All margin posted by or with counterparties was in cash. AgriBank had no securities posted by counterparties or to counterparties for any year presented.

Certain derivative instruments contain provisions that require AgriBank to post additional collateral upon the occurrence of a specified credit risk-related event. These events, which are defined by existing derivative contracts, are downgrades in the credit rating of AgriBank or if AgriBank is no longer considered a Federally Chartered Instrumentality of the United States. The fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position at December 31, 2017 was $30.7 million. In the event that AgriBank is downgraded, a tiered collateral posting would be activated which may require AgriBank to post collateral of up to $19.5 million.

One District Association is party to derivative financial instruments called TBAs to manage exposure to interest rate risk and changes in the fair value of forward loans held for sale and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined.

Margin pledged to counterparties was $2.0 million as of December 31, 2017 and 2016, and $1.3 million at December 31, 2015.

Accounting for Derivatives

Fair Value Hedges: For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. AgriBank includes the gain or loss on the derivative in the same line item ("Interest expense") as the offsetting gain or loss on the related hedged item. Gains and losses on derivatives representing hedge components excluded from the assessment of effectiveness are recorded in current period earnings in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Cash Flow Hedges: For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive (loss) income, until earnings are affected by the variability of the cash flows of the hedged transaction. Gains and losses on the derivatives representing hedge components excluded from the assessment of effectiveness are recorded in current period earnings in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Derivatives not Designated as Hedges: For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Financial Statement Impact of Derivatives

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

	2017		2016		2015	
(in thousands) **As of December 31,**	**Fair Value Assets**	**Fair Value Liabilities**	Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Derivatives designated as hedging instruments:						
Receive-fixed swaps	**$ --**	**$18,276**	$2,099	$6,746	$13,480	$649
Pay-fixed swaps	**34,447**	**39,615**	33,102	50,378	3,380	64,587
Floating-for-floating swaps	**--**	**4,950**	1,744	1,625	151	3,368
Total derivatives designated as hedging instruments	**34,447**	**62,841**	36,945	58,749	17,011	68,604
Derivatives not designated as hedging instruments:						
Pay-fixed swaps	**3,670**	**--**	3,568	130	40	305
Other derivative products	**94**	**3,278**	476	3,205	562	32
Total derivatives not designated as hedging instruments	**3,764**	**3,278**	4,044	3,335	602	337
Credit valuation adjustments	**(49)**	**--**	(198)	--	71	--
Total gross amounts of derivatives	**$38,162**	**$66,119**	$40,791	$62,084	$17,684	$68,941
Gross amounts offset in Combined Statements of Condition	**(29,126)**	**(29,126)**	(27,447)	(27,447)	(16,907)	(16,907)
Variation margin settled	**--**	**(2,241)**	--	--	--	--
Net amounts in Combined Statements of Condition	**$9,036**	**$34,752**	$13,344	$34,637	$777	$52,034

(in thousands) As of December 31,	2017	2016	2015
Derivative assets, net	**$9,036**	$13,344	$777
Derivative liabilities, net	**(34,752)**	(34,637)	(52,034)
Accrued interest payable on derivatives, net	**(3,457)**	(568)	2,426
Gross amounts not offset in Combined Statements of Condition:			
Cash collateral posted with counterparties	**31,734**	33,128	33,323
Net exposure amounts	**$2,561**	$11,267	$(15,508)

The fair value of derivatives includes credit valuation adjustments (CVA). The CVA reflects credit risk of each derivative counterparty to which AgriBank has exposure, net of any collateral posted by the counterparty, and an adjustment for AgriBank's credit worthiness where the counterparty has exposure to AgriBank. The CVA was not material in any of the periods presented. The change in the CVA for the period is included in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Fair Value Hedges: AgriBank recorded gains of $1.9 million and $169 thousand in 2017 and 2015, respectively and losses related to swaps of $262 thousand in 2016. The gains and losses on the derivative instruments are recognized in "Interest expense" on the on the Combined Statements of Comprehensive Income.

Cash Flow Hedges: The following table presents the amount of other comprehensive (loss) income (OCI) recognized on derivatives, the amount reclassified from accumulated other comprehensive loss (AOCI) into earnings on effective cash flow hedges and amounts excluded from effectiveness testing. During the next 12 months, no net losses in AOCI on derivative instruments that qualified as cash flow hedges are expected to be reclassified into earnings.

Cash Flow Hedging Relationships

(in thousands) **For the year ended December 31, 2017**	**Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)**	**Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)**	**Amount of Gain (Loss) Recognized in Income on Derivatives and Amount Excluded from Effectiveness Testing (Ineffective Portion)**
Pay-fixed and amortizing pay-fixed swaps	**$12,108**	**$ --**	**$ --**
Floating-for-floating swaps	**(5,072)**	**--**	**--**
Total	**$7,036**	**$ --**	**$ --**

(in thousands) For the year ended December 31, 2016	Amount of Gain Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Loss Recognized in Income on Derivatives and Amount Excluded from Effectiveness Testing (Ineffective Portion)
Pay-fixed and amortizing pay-fixed swaps	$43,931	$ --	$ --
Floating-for-floating swaps	3,336	--	(47)
Total	$47,267	$ --	$(47)

(in thousands) For the year ended December 31, 2015	Amount of (Loss) Gain Recognized in OCI on Derivatives (Effective Portion)	Amount of (Loss) Gain Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives and Amount Excluded from Effectiveness Testing (Ineffective Portion)
Pay-fixed and amortizing pay-fixed swaps	$(1,512)	$(27)	$2
Floating-for-floating swaps	1,991	--	(20)
Other derivative products	(105)	(36)	167
Total	$374	$(63)	$149

Derivatives not Designated as Hedges: AgriBank and one District Association recorded net losses related to swaps of $786 thousand and $880 thousand in 2017 and 2015, respectively. AgriBank and one District Association recorded net gains of $3.5 million in 2016. The gains and losses on these derivative instruments are recognized in “Miscellaneous income and other gains, net” on the Combined Statements of Comprehensive Income.

NOTE 15

Accumulated Other Comprehensive Loss

Changes in Components of Accumulated Other Comprehensive (Loss) Income

(in thousands)	Not-other-than-temporarily-impaired Investments	Other-than-temporarily-impaired Investments	Derivatives and Hedging Activity	Employee Benefit Plans Activity	Total
Balance at December 31, 2014	$4,687	$15,191	$(64,861)	$(504,722)	$(549,705)
Other comprehensive (loss) income before reclassifications	(37,665)	(386)	374	(68,546)	(106,223)
Amounts reclassified from accumulated other comprehensive loss	1,976	(4,244)	63	42,034	39,829
Net other comprehensive (loss) income	(35,689)	(4,630)	437	(26,512)	(66,394)
Balance at December 31, 2015	$(31,002)	$10,561	$(64,424)	$(531,234)	$(616,099)
Other comprehensive (loss) income before reclassifications	(31,605)	(2)	47,267	4,021	19,681
Amounts reclassified from accumulated other comprehensive loss	(266)	(10,559)	--	40,412	29,587
Net other comprehensive (loss) income	(31,871)	(10,561)	47,267	44,433	49,268
Balance at December 31, 2016	$(62,873)	$ --	$(17,157)	$(486,801)	$(566,831)
Other comprehensive (loss) income before reclassifications	**(12,509)**	**--**	**7,036**	**(57,354)**	**(62,827)**
Amounts reclassified from accumulated other comprehensive loss	**198**	**--**	**--**	**35,904**	**36,102**
Net other comprehensive (loss) income	**(12,311)**	**--**	**7,036**	**(21,450)**	**(26,725)**
Balance at December 31, 2017	**$(75,184)**	**$ --**	**$(10,121)**	**$(508,251)**	**$(593,556)**

Reclassifications Out of Accumulated Other Comprehensive Loss

(in thousands)

Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss			Affected Line Item in the Combined Statements of Comprehensive Income
For the year ended December 31,	**2017**	2016	2015	
Not-other-than-temporarily-impaired investments:				
Impairment losses	**$ --**	$ --	$73	Net impairment losses recognized in earnings
Realized loss (gain) on sale of investment securities, net	**198**	(266)	1,903	Miscellaneous income and other gains, net
	198	(266)	1,976	
Other-than-temporarily-impaired investments:				
Impairment losses	**--**	--	620	Net impairment losses recognized in earnings
Realized gain on sale of investment securities	**--**	(10,559)	(4,864)	Miscellaneous income and other gains, net
	--	(10,559)	(4,244)	
Derivatives and hedging activity:				
Interest rate contracts	**--**	--	63	Interest expense
Employee benefit plans activity:				
Prior service cost	**(3,308)**	(1,563)	(1,725)	Salaries and employee benefits
Actuarial loss	**39,212**	41,975	43,759	Salaries and employee benefits
	35,904	40,412	42,034	
Total reclassifications	**$36,102**	$29,587	$39,829	

NOTE 16

AgriBank Only Financial Data

(unaudited)
(in thousands)

As of December 31,	2017	2016	2015
Loans	**$88,374,923**	$86,078,402	$82,819,652
Allowance for loan losses	**26,047**	21,282	18,076
Net loans	**88,348,876**	86,057,120	82,801,576
Cash, federal funds and investment securities	**15,532,354**	15,958,548	16,223,719
Accrued interest receivable	**498,826**	420,670	381,104
Other assets	**164,669**	126,958	100,435
Total assets	**$104,544,725**	$102,563,296	$99,506,834
Bonds and notes	**$98,313,944**	96,633,431	93,404,251
Subordinated notes	**--**	--	498,283
Other liabilities	**588,899**	443,762	430,184
Total liabilities	**98,902,843**	97,077,193	94,332,718
Capital stock and participation certificates	**2,595,655**	2,433,701	2,313,343
Surplus	**3,132,653**	3,132,432	2,945,638
Accumulated other comprehensive loss	**(86,426)**	(80,030)	(84,865)
Total shareholders' equity	**5,641,882**	5,486,103	5,174,116
Total liabilities and shareholders' equity	**$104,544,725**	$102,563,296	$99,506,834

For the year ended December 31,	2017	2016	2015
Interest income	**$2,087,962**	$1,767,889	$1,508,138
Interest expense	**1,500,078**	1,193,414	988,136
Net interest income	**587,884**	574,475	520,002
Provision for loan losses	**8,500**	6,500	7,500
Net interest income after provision for loan losses	**579,384**	567,975	512,502
Net other expense	**54,026**	31,910	32,529
Net income	**$525,358**	$536,065	$479,973

Payment of patronage is allowed under AgriBank bylaws if the distribution is in accordance with applicable laws and regulations, including FCA regulations. AgriBank's patronage distributions totaled $507.9 million, $332.1 million and $284.0 million for 2017, 2016 and 2015, respectively. Substantially all patronage is paid to the District Associations and is eliminated in combination.

NOTE 17

Subsequent Events

Subsequent events have been evaluated through March 15, 2018, which is the date the Combined Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in the 2017 Combined Financial Statements or disclosure in the Notes to those Combined Financial Statements.

Additional Regulatory Information

AgriBank, FCB and District Associations

(Unaudited)

Various disclosures required by Farm Credit Administration regulations 620.3, 620.5 and 620.6 are included in the individual Institution reports. Refer to the individual District Associations' and AgriBank's 2017 annual reports for information required by these regulations. Each Institution's quarterly and annual reports are available free of charge and upon request to the respective addresses, phone numbers or websites listed at the back of this report.

Risk Factors

AgriBank, FCB and District Associations
(Unaudited)

In the course of conducting business operations, AgriBank, FCB and District Associations (the District) are exposed to a variety of risks, some of which are inherent in the financial services industry and others of which are more specific to the District's own business. The following discussion summarizes some of the more important risk factors that the District faces. This discussion is not exhaustive and there may be other risk factors that the District faces that are not described below. These risk factors, if realized, could negatively or positively affect the business, financial condition and future results of operations.

The District's funding is dependent upon the Farm Credit System's (the System) ability to access the capital markets.
The District's ability to fund operations, meet financial obligations, including unfunded commitments to extend credit, and generate income depends on the System's ability to issue Systemwide Debt Securities in the debt markets on a regular basis with select maturities and structures at attractive rates. The System's ability to continue to issue Systemwide Debt Securities depends, in part, on the conditions in the capital markets at that time, which are outside the System's control. As a result, the System cannot make any assurances that it will be able to issue competitively priced debt or issue any debt at all. If the System cannot issue competitively priced debt or cannot access the capital markets, the System's ability to access funding would be negatively impacted. This situation would have a negative effect on the District's financial condition and results of operations, which could be material.

Factors which could have an adverse effect on the System's ability to issue Systemwide Debt Securities at favorable rates and terms.
The System's government-sponsored enterprise (GSE) status has been an important factor in its ability to continually access the debt capital markets. In addition, the System's funding costs historically have been below that of similar non-GSEs. However, as a direct result of the financial difficulties experienced by the housing related GSEs, with both Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Company (Freddie Mac) having been placed into conservatorship by the U.S. government, housing related GSE status reform has been and will continue to be a topic of debate by Congress and the U.S. Administration. While the status and reform debate has not to date specifically related to the System, a potential risk exists that the System, as a GSE, may directly or indirectly be impacted by the decision made as Congress addresses these and other GSEs. Any change in the System's status as a GSE or investors' general perception by investors of GSE status could have a significant adverse impact on the System's ability to issue debt at favorable rates and terms.

The System is also subject to periodic review by credit rating agencies. Any event that could have an adverse impact on the System's financial condition or results of operations may cause the rating agencies to downgrade, place on negative watch or change their outlook on the System's credit ratings. Such actions could have an adverse effect on the System's ability to issue Systemwide Debt Securities at favorable rates and terms and could trigger additional collateral requirements. Also, changes in the credit ratings or credit ratings outlook of the U.S. government may influence changes in the System's credit ratings and credit ratings outlook given its GSE status.

Any downgrades in credit ratings and outlook could also result in higher funding costs or disruptions in the System's access to capital markets. To the extent that the System cannot access funding when

needed on acceptable terms or is unable to effectively manage its costs of funds, its financial condition and results of operations could be negatively affected.

The System also competes for competitively priced debt funding with the U.S. Treasury, other GSEs, including Fannie Mae, Freddie Mac and the Federal Home Loan Banks, and other highly rated institutions and companies. Competition for debt funding from these entities can vary with changes in economic, financial market and regulatory environments. In addition, any change in the perceptions of GSE status may intensify competition with other highly rated institutions and companies in connection with the issuance of Systemwide Debt Securities. Increased competition for competitively priced debt funding of highly rated institutions may result in a higher cost to finance AgriBank, FCB's (AgriBank) and District Associations' businesses, which could negatively affect the District's financial results. An inability to issue Systemwide Debt Securities at favorable rates in amounts sufficient to fund its business activities and meet its obligations could have an adverse effect on its liquidity, financial condition and results of operations.

The System issues combined financial statements and assurance of adequate disclosure controls and procedures and internal control over financial reporting. Failure by a System institution to provide required information for financial reporting, or to have adequate disclosure controls or procedures over financial reporting may delay the timely publication of the System's combined financial statements. Failure to timely issue the System's combined financial statements could disrupt the System's ability to access debt capital markets.

AgriBank and other Banks in the System are liable for the debt of the System.
AgriBank, along with the other Banks in the System, obtains funds for its lending activities and operations primarily from the Funding Corporation sale of Systemwide Debt Securities. The Systemwide Debt Securities are not obligations of and are not guaranteed by the United States of America or any agency or instrumentality thereof, other than the System Banks. Under the Farm Credit Act, each Bank is primarily liable for the portion of the Systemwide Debt Securities issued on its behalf. AgriBank is primarily liable for Systemwide Debt Securities AgriBank has issued. The Banks are also jointly and severally liable for interest payments on certain other debt securities issued individually by other Banks pursuant to Section 4.4(a)(1) of the Farm Credit Act (12 U.S.C. § 2155(a)(1)) (the "Co-Liability Statute"). However, the holders of outstanding subordinated notes that are subject to the Co-Liability Statute waived any right they may have pursuant to the Co-Liability Statute or otherwise to hold other Banks liable for interest payments on such subordinated notes. Additionally, each Bank is jointly and severally liable for the Systemwide Debt Securities issued on behalf of a Bank that is in default on its portion of the Systemwide Debt Securities and where the Farm Credit Insurance Fund (Insurance Fund) of Farm Credit System Insurance Corporation (FCSIC) is insufficient to cure the default. Although the Banks have established a system of mutual covenants and measures that are monitored on a quarterly basis, there is no assurance that these would be sufficient to protect a Bank from liability, should another Bank default and the Insurance Fund be insufficient to cure the default.

The Insurance Fund is available from the FCSIC to ensure the timely payment by each Bank of its primary obligations on the Systemwide Debt Securities, and can also be used by the FCSIC for its operating expenses and for other mandatory and permissive purposes. Under the Farm Credit Act, before joint and several liability can be invoked, available amounts in the Insurance Fund would be utilized to make the payment on such obligations. There is no assurance, however, that the Insurance Fund will have sufficient resources to fund a Bank's defaulted payment of principal and interest on its portion of the

Systemwide Debt Securities. If the Insurance Fund is insufficient, then the non-defaulting Banks must pay the default amount in proportion to their respective available collateral positions. "Available collateral" is collateral in excess of the aggregate of each Bank's "collateralized" obligations and is approximately equal to AgriBank's capital. The FCSIC does not insure any payments on the Series A Preferred Stock or any class of common stock, preferred stock or subordinated notes.

To the extent AgriBank must fund its allocated portion of another Bank's portion of the Systemwide Debt Securities as a result of its default on those securities, its earnings and capital would be reduced, possibly materially.

The District is subject to regulation under the Farm Credit Act.
AgriBank, along with the ACAs, FLCAs, PCAs, FCBs and related service organizations in the System, are subject to regulatory oversight and examination by the Farm Credit Administration (FCA) under the Farm Credit Act. A number of rules and regulations are imposed on the operations of AgriBank and District Associations under the Farm Credit Act. Any change in the rules or regulations that govern the Bank's business could have a material impact on AgriBank and District Associations and their operations. Rules and regulations may change from time to time and the interpretations of the relevant rules and regulations also are subject to change.

The System Banks are subject to the supervision of, and regulation by, the FCA, including with respect to complying with certain capital requirements. The FCA periodically updates and revises these requirements, including consideration of new capital requirements adopted by the U.S. banking regulators. In this regard, revised capital requirements became effective January 1, 2017, that are more consistent with those the U.S. banking regulators have adopted under the Basel Accord (Basel III) for U.S. banks. In addition, the FCA intends to complete a study to determine whether to align its liquidity requirements with the U.S. banking regulators and Basel III. Compliance with capital requirements or proposed and adopted liquidity or other requirements, may limit the System's business activities and could adversely affect its financial performance.

Effective January 1, 2017, FCA rules and regulations include requirements to maintain regulatory capital at or above minimum levels, including a capital conservation buffer, for common equity tier 1, tier 1 and total capital risk-based capital ratios as well as tier 1 leverage and unallocated retained earnings and equivalents non-risk-based ratios. The permanent capital ratio remained in effect in accordance with statutory requirements. If the capital ratios fall below the total requirements, including the buffer amounts, AgriBank and District Associations would be restricted or prohibited under the Farm Credit Act and FCA Regulations from paying patronage refunds or distributions, dividends on our preferred stock, including shares of Series A perpetual Preferred Stock, or discretionary senior executive bonuses without prior FCA approval. The FCA has broad discretionary authority to bring enforcement actions whenever AgriBank and District Associations fall below these prescribed standards or when the FCA otherwise determines that AgriBank and District Associations have insufficient capital, including, without limitation, the power to issue a capital directive or a cease and desist order.

The District is exposed to political risk.
Political risk is the risk that adverse consequences through U.S. Government actions or inactions could affect the viability of the System or create instability in agriculture, impacting the viability of System borrowers. The System, as a GSE, is directly at risk of changing legislation. Legislative change could inhibit our ability to fulfill the Farm Credit mission of reliably extending credit to agricultural producers and rural

communities. The System is also influenced by changes to trade policies and farm programs, including the Farm Bill and crop insurance support. Legislative and policy changes that adversely impact the System may negatively influence our borrowers' financial results, ultimately affecting our credit quality.

AgriBank and District Associations manage political risk by monitoring and remaining abreast of pending legislative changes. When necessary AgriBank and District Associations proactively address political concerns by communicating views on positions and policies directly to congressional representatives and by supporting Farm Credit System councils and industry trade associations representing System interests before Congress.

An unfavorable change in U.S. tax laws or an adverse interpretation of existing tax laws could negatively impact financial results.
AgriBank and FLCAs are statutorily exempt from federal taxes. Certain Associations affiliates operate as non-exempt cooperatives. As such, they are eligible, under Subchapter T of the Internal Revenue Code, to deduct or exclude from taxable income amounts determined to be qualified patronage dividends. A change in U.S. tax law or an adverse interpretation of existing tax laws in a manner that reduces or eliminates these tax benefits or that is different from application of such laws would negatively impact results of operations.

The District is exposed to credit risk.
In the course of lending and investment activities, the District is exposed to credit risk. Credit risk arises from changes in a borrower's or counterparty's ability or willingness to repay funds borrowed or meet agreed-to obligations, changes in collateral values and changes in prevailing economic environments.

Factors that can influence AgriBank's and District Associations' credit risk exposure include, but are not limited to:

- A general slowdown in the global economy and the relationship of demand for, and supply of, U.S. agricultural commodities in a global marketplace
- Political or regulatory changes that disrupt or modify an established market
- Major international events, including a downturn in the world economy, military or other armed conflicts, political disruptions, civil unrest or trade agreements, which can affect, among other things, the price of commodities or products used or sold by the District's borrowers or their access to markets
- Changes in financial and credit markets, which could affect the ability to buy and sell loan exposures or issue debt
- Fluctuations in prices of agricultural commodities
- Weakness in the U.S. financial, housing and mortgage markets that may impact the carrying value of certain mortgage-related investment securities and the ability of the District's derivative counterparties to perform under the terms of their contracts
- Changes in the general U.S. economy that may impact the availability of off-farm sources of income and prices of real estate
- Changes in farmland values
- Extreme adverse seasonal or weather conditions (such as flooding or drought) or market-related risks that significantly affect agricultural production and commodity prices
- The deteriorating credit quality or bankruptcy of market participants
- Changes in technology, regulations or shifts in demographics

- Changes in production expenses (such as feed, fuel and fertilizer)
- Availability and cost of agricultural workers
- An outbreak of a widespread disease in livestock/poultry populations, or in humans attributable to agricultural production
- Federal subsidies for agriculture that may be reduced or eliminated, including the federal crop insurance program
- Development of alternative uses and market for agricultural commodities, or the cessation thereof, including ethanol and other biofuel production
- Environmental conditions or laws impacting the District's lending activities
- Changes in U.S. tax laws could modify deductions taken by Farm Credit System borrowers

The District believes it maintains consistent and well-developed underwriting standards and industry-specific lending guidelines, which assist in managing credit risk. The District also believes AgriBank and District Associations maintain adequate allowance for credit losses inherent in the loan portfolio. Additionally, the District is regulated by and believes it complies with standards set by the FCA. Credit risk is minimized in the liquidity investment portfolio by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies. The District employs many tools to manage credit risk exposures. While AgriBank and District Associations believe these standards and tools are appropriate to manage the District's credit risk, there is no assurance that significant deterioration in credit quality will not occur, which would reduce the earnings of AgriBank and District Associations, possibly materially.

AgriBank and District Associations are exposed to risks associated with the agricultural industry and commodity prices.

AgriBank and District Associations are chartered to make loans as provided in the Farm Credit Act. Due to these statutory provisions, there is a significant concentration of lending to agricultural concerns in the District. Earnings, loan growth and the credit quality the District's lending portfolio can be impacted significantly by the general state of the agricultural economy. Production agriculture remains a cyclical business that is heavily influenced by the demand for U.S. agricultural products and by commodity prices. Regional agricultural economies within the District's territory can be impacted by weather, domestic and international demand for food and other agricultural products and other factors. Extreme seasonal conditions can substantially impact grain harvests and commodity prices and, ultimately, impact the credit quality of agricultural borrowers. In addition, declining land values are a potential lending risk following periods of sustained, rapid land value increases.

Furthermore, the U.S. agricultural sector receives significant financial support from the U.S. government through payments authorized under federal legislation, including USDA-sponsored crop insurance programs. While U.S. government support for agriculture has historically remained consistent, congressional efforts to decrease the U.S. budget deficit likely will result in continued pressure to reduce federal spending. The significant reduction or elimination of such support programs would have a negative impact on the credit quality of certain borrowers. As a result, AgriBank's and District Associations' earnings could be reduced, possibly materially.

Fluctuations in both commodity prices and production expenses (including interest rates), may have an adverse impact on the cash flow and profitability of certain District Association borrowers as well as participations, which, in turn, may negatively affect their ability to repay their loans. While certain borrowers are negatively impacted by these conditions, other borrowers may benefit. For example,

decreased prices for grains will result in lower risk profiles for livestock producers, processors and marketers of grains and oilseeds, and borrowers that purchase corn or other grains for use in their products. However, grain farmers may be negatively impacted by lower prices. Fluctuations in the agricultural commodities market and the cost of farm inputs may adversely impact the credit quality of the System's loan portfolio and, as a result, negatively affect operating results.

The volatility and prices for both crude oil and gasoline, diesel fuel and other refined petroleum products fluctuate widely and can have an adverse impact on the cash flow of District Association borrowers, as well as AgriBank's participations. Additionally, the level of mineral income generated from mineral rights AgriBank owns is a function of oil prices. Various factors influence these prices, many of which are beyond AgriBank's control, include, but not limited to: levels of worldwide and domestic supplies, the ability of the members of the Organization of Petroleum Exporting Countries (OPEC) to agree to and maintain oil price and production controls, the price and level of foreign imports and exports, disruption in supply, the level of consumer demand, the price and availability of alternative fuels, the availability of pipeline capacity, and domestic and foreign governmental regulations and taxes. AgriBank's mineral income is predominantly derived from royalties received from the extraction of crude oil. Should extraction slow, stop entirely or the supply chain be disrupted, mineral income could be severely and adversely impacted.

The District may lend only to qualified borrowers in the agricultural and rural sectors and certain related entities and are subject to geographic lending restrictions.
Unlike commercial banks and other financial institutions that lend to both the agricultural sector and other sectors of the economy, AgriBank and District Associations are restricted solely to making loans and providing financial services to qualified, eligible borrowers in the agricultural and rural sectors and to certain related entities. In addition, AgriBank and District Associations are subject to certain geographic lending restrictions. As a result, AgriBank and District Associations do not have as much flexibility in attempting to diversify loan portfolios as compared to commercial banks and other financial institutions. This concentration may limit the District's ability to offset adverse performance in one sector against positive performance in another sector like most diversified financial institutions.

AgriBank and District Associations face intense competition from competitors, many of whom are substantially larger and have more capital and other resources.
AgriBank and District Associations face intense competition, primarily from mortgage banking companies, commercial banks, thrift institutions, insurance companies, finance companies, and other non-traditional sources of funding. Many of these competitors in the financial services business are substantially larger and have more capital and other resources. AgriBank's and District Associations' future results may become increasingly sensitive to fluctuations in the volume and cost of their retail lending activities resulting from competition from other lenders and purchasers of loans. There can be no assurance that AgriBank and District Associations will be able to continue to compete successfully in the markets served.

AgriBank and District Associations depend on the accuracy and completeness of information from our customers and counterparties.
In deciding whether to extend credit or enter into transactions with customers and counterparties, AgriBank and District Associations rely on information furnished by or on behalf of customers and counterparties, including financial information. District Associations may also rely on representations of customers and counterparties as to the accuracy and completeness of that information. If the financial

or other information provided to us is incorrect, AgriBank and District Associations could suffer credit losses or other consequences.

The District is exposed to interest rate and counterparty risk.
In the course of its lending and investment activities, the District is subject to interest rate risk, which is defined as the risk of changes to future earnings or long-term market value of equity due to changes in interest rates. Interest rate risk arises from differences in timing between the contractual maturity, repricing characteristics and prepayments of its assets and the contractual maturity and repricing characteristics of the financing obtained to fund these assets. The risk can also arise from differences between the interest rate indices used to price assets and the indices used to fund those assets. AgriBank has asset/liability management policies, including risk limits, and strategies to actively manage the District's interest rate risk, including an Asset and Liability Committee composed of a cross-functional group of senior leaders. However, there can be no assurance that the District's interest rate risk management procedures will be effective or that changes in interest rates will not adversely impact earnings and capital.

The District funds real estate mortgage loans and purchases mortgage-backed and asset-backed securities that are impacted by changes in interest rates. Changes in interest rates can significantly impact the prepayment patterns of these assets and thus affect its earnings. AgriBank strives to manage or reduce this risk by "match-funding" debt securities issued to the maturities of its loans and investments and entering into interest-rate derivative transactions, and through the rebalancing of cash-flow mismatches of assets and liabilities. AgriBank's inability to "match-fund" debt securities to longer-term assets may increase the prepayment risks.

AgriBank uses derivative financial instruments to minimize the financial effects on the District's business of changes in interest rates and must determine the nature and quantity of these hedging transactions. The effectiveness of the hedging transactions depends upon management's ability to determine the appropriate hedging position, taking into consideration the District's assets, liabilities and prevailing and anticipated market conditions. In addition, the usefulness of the hedging strategy depends on the availability of cost-effective hedging instruments and the ability to enter into hedging transactions with high quality counterparties. If AgriBank is unable to manage a hedging position properly, it will negatively impact the District's financial condition and results of operations. AgriBank also faces the risk of operational failure of any of the clearing members, exchanges, clearinghouses, or other financial intermediaries used to facilitate such hedging transactions. If a clearing member or clearinghouse were to fail, AgriBank could experience losses related to any collateral posted with such clearing member or clearinghouse to cover initial or variation margin. A default by a counterparty with significant obligations to AgriBank could adversely affect the ability to conduct operations efficiently, which in turn could adversely affect results of operations or financial condition. To minimize the risk of credit losses, AgriBank has developed credit risk management policies and procedures as well as counterparty credit requirements.

If market interest rates move contrary to the District's interest rate risk position, earnings and the net present value of interest-sensitive assets and liabilities will be adversely affected.
The District realizes income primarily from the spread between interest earned on loans and investments and the interest paid on borrowings. Also, it is expected that, from time to time, there will be interest rate risk in the form of "gaps" in the interest rate sensitivities of assets and liabilities, meaning that either interest-bearing liabilities will be more sensitive to changes in market interest rates

than interest earning assets, or vice versa. In either event, if market interest rates should move contrary to a position, the "gap" will adversely affect earnings and the net present value of interest-sensitive assets and liabilities.

Changes in LIBOR could adversely affect AgriBank and District Associations' operations and cash flows.
In July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021. Further, in the United States, there are multiple efforts to identify a set of alternative U.S dollar reference interest rates. The potential reform, replacement, or elimination of LIBOR may adversely affect the interest AgriBank pays on Systemwide debt, the returns AgriBank and District Associations earn on loans and investments, and the effectiveness of AgriBank's derivatives, which could adversely impact AgriBank's and District Associations' results of operations and cash flows. If LIBOR is replaced, AgriBank would likely need to take steps to restructure debt and derivatives, which could adversely impact AgriBank's results of operations.

AgriBank is exposed to risks associated with its investments.
AgriBank maintains a liquidity plan covering certain contingencies in the event AgriBank's access to normal funding mechanisms is not available. AgriBank purchases only high credit quality investments to best position its investment portfolio to be readily marketable and available to serve as a source of funding in the event of disruption of AgriBank's normal funding mechanisms. AgriBank's liquidity investment portfolio can also be used as collateral to borrow funds to meet obligations.

The majority of AgriBank's investment portfolio consists of securities issued or guaranteed by GSEs or the U.S. government, which remain liquid. The remainder of AgriBank's investment portfolio represents investments in commercial paper, federal funds, certificates of deposit, asset-backed securities, and non-agency mortgage-backed securities. In further support of AgriBank's liquidity, AgriBank has cash on deposit at the Federal Reserve Bank.

Uncertainty in financial markets or distressed economic conditions may significantly reduce the liquidity of AgriBank's and District Associations' investments and may make it difficult to sell such investments if the need arises. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of AgriBank's and District Associations' investments may differ significantly from the values that would have been used had a liquid market existed for the investments.

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

The District is subject to reputation risk.
Reputation risk arising from negative public opinion could adversely affect the District's ability to obtain financing, impede the ability to hire and retain qualified personnel or create exposure to greater regulatory scrutiny or adverse regulatory or legislative changes. Such risk encompasses the loss of

confidence, trust and esteem among customers, investors, partners, policymakers, shareholders and other key stakeholders. Like all businesses, the District is subject to a wide variety of reputation risks both within and outside the District's control, including credit difficulties with individual customers or industries, business disputes, lawsuits, credit market disruptions, regulatory events and public allegations of misconduct against associates. As members of the System, AgriBank and District Associations could also be indirectly impacted by events that damage the reputation of another System entity. The boards of directors and management regard the District's reputation as a critical asset and have implemented a number of policies, procedures and programs to ensure the District's reputation is well protected.

AgriBank's and District Associations' ability to attract and retain qualified employees is critical to successfully fulfilling the District's mission.
The District's continued success will largely depend on our ability to attract and retain a high caliber of talent and on the efforts and abilities of key employees.

The District may be subject to information technology system failures, network disruptions and breaches in data security.
The District relies to a large extent upon information technology systems and infrastructure to operate the District's business. The size and complexity of the District's computer systems make them potentially vulnerable to breakdown, malicious intrusion and random attack. While the District's systems are primarily centralized within the AgriBank District, there is de-centralization of information technology systems across the System resulting in increased complexity in the technology infrastructure. Likewise, data privacy breaches by employees and others with permitted access to the District's systems may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. While the District has invested in protection of data and information technology, there can be no assurance that those efforts will prevent breakdowns or breaches in the District's systems that could adversely affect business.

A failure or circumvention of controls and procedures could have an adverse effect on business, results of operations and financial condition.
AgriBank and District Associations regularly review and update internal controls, disclosure controls and procedures, and corporate governance policies and procedures. However, no control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, while AgriBank and District Associations continue to evaluate internal controls, AgriBank and District Associations cannot be certain that these measures will ensure that there will be implementation and maintenance of adequate controls over financial processes and reporting in the future. Any failure or circumvention of AgriBank's and District Associations' controls and procedures or failure to comply with regulations related to controls and procedures could have an adverse effect on business, results of operations and financial condition.

Failures of critical vendors and other third parties could disrupt AgriBank's and District Associations' ability to conduct and manage our businesses.
AgriBank and District Associations rely on vendors and other third parties to perform certain critical services. A failure in, or an interruption to, one or more of those services provided could negatively

impact business operations. If one or more of these key external parties were not able to perform their functions for a period of time, at an acceptable service level, or for increased volumes, AgriBank and District Associations business operations could be constrained, disrupted, or otherwise negatively affected.

AgriBank and District Associations as of January 1, 2018

AgCountry Farm Credit Services, ACA
1900 44th St. S.
Fargo, ND 58108
(701) 282-9494
www.agcountry.com

AgHeritage Farm Credit Services, ACA
119 E. Third St., Suite 200
Little Rock, AR 72201
(800) 299-2290
www.agheritagefcs.com

Compeer Financial, ACA
2600 Jenny Wren Trail
Sun Prairie, WI 53590
(844) 426-6733
www.compeer.com

Delta Agricultural Credit Association
118 E. Speedway
Dermott, AR 71638
(870) 538-3258
www.deltaaca.com

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.fcsillinois.com

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404
(870) 932-2288
www.farmcreditmidsouth.com

Farm Credit Mid-America, ACA
1601 UPS Drive
Louisville, KY 40223
(502) 420-3700
www.e-farmcredit.com

Farm Credit Services of America, ACA
5015 S. 118th St.
Omaha, NE 68137
(402) 348-3333
www.fcsamerica.com

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554
(701) 663-6487
www.farmcreditmandan.com

Farm Credit Services of North Dakota, ACA
3100 10th St. S.W.
Minot, ND 58702
(701) 852-1265
www.farmcreditnd.com

Farm Credit Services of Western Arkansas, ACA
3115 W. 2nd Court
Russellville, AR 72801
(479) 968-1434
www.myaglender.com

Farm Credit Southeast Missouri, ACA
1116 N. Main St.
Sikeston, MO 63801
(573) 471-0342
www.farmcreditsemo.com

FCS Financial, ACA
1934 E. Miller St.
Jefferson City, MO 65101
(573)-635-7956
www.myfcsfinancial.com

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823
(800) 968-0061
www.greenstonefcs.com

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

Federal Farm Credit Banks Funding Corporation

101 Hudson Street, Suite 3505
Jersey City, New Jersey 07302
(201) 200-8000
www.farmcredit-ffcb.com

Farm Credit Associations in the AgriBank District

14 Associations, 15 States—Updated January 1, 2018

AGCOUNTRY FCS

FCS OF NORTH DAKOTA

FCS OF MANDAN

FARM CREDIT SERVICES OF AMERICA

COMPEER FINANCIAL

GREENSTONE FCS

FARM CREDIT ILLINOIS

FCS FINANCIAL

FARM CREDIT MID-AMERICA

FARM CREDIT SOUTHEAST MISSOURI AND FARM CREDIT MIDSOUTH

FARM CREDIT OF WESTERN ARKANSAS

FARM CREDIT SOUTHEAST MISSOURI

FARM CREDIT MIDSOUTH

AGHERITAGE FCS

AGHERITAGE FCS AND DELTA

Dual-chartered territories

Territory not served by AgriBank District Associations

AgriBank office