2017 ANNUAL REPORT

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2017 ANNUAL REPORT

TABLE OF CONTENTS

04 To Our Shareholders

06 Key Financial Data

07 Financial Highlights

08 The New Generation in Agriculture

10 Looking Ahead to a Promising Future Through Generations

12 A Partnership Rooted in Shared Expertise and Respect

14 Three Generations of Giles Thrive in the Family Business

16 Patronage Report

17 Report of Management

18 Audit Committee Report

19 Report on Internal Control Over Financial Reporting

20 Five-Year Summary of Selected Financial Data

21 Consolidated Key Financial Ratios

22 Management's Discussion & Analysis

34 Independent Auditor's Report

35 Consolidated Financial Statements

40 Notes to the Consolidated Financial Statements

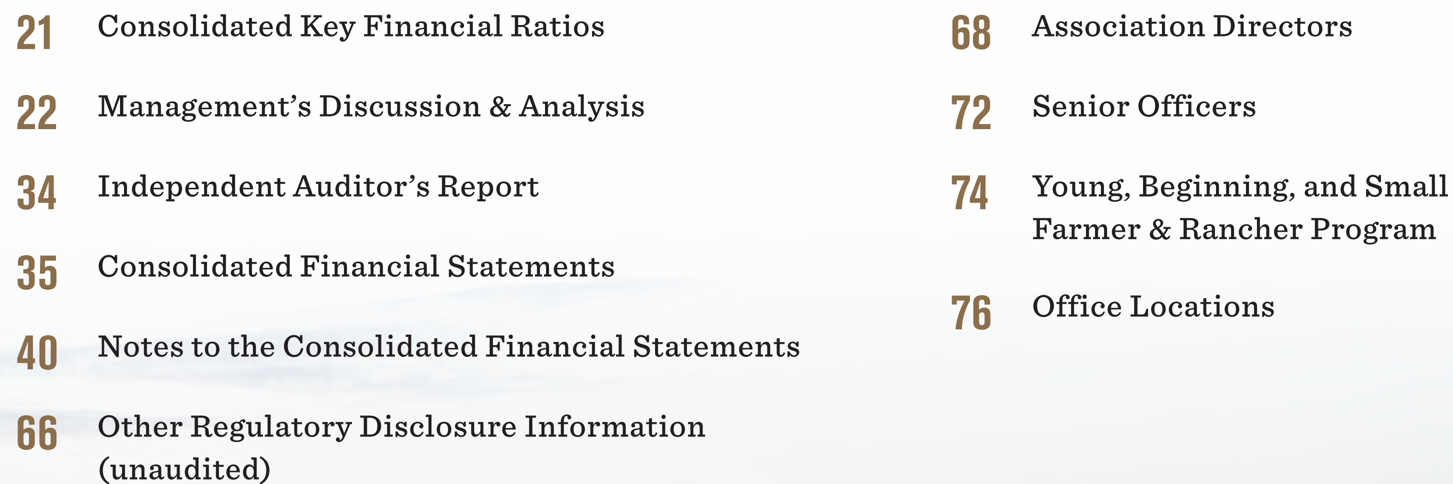
66 Other Regulatory Disclosure Information (unaudited)

68 Association Directors

72 Senior Officers

74 Young, Beginning, and Small Farmer & Rancher Program

76 Office Locations



TO OUR SHAREHOLDERS

American AgCredit certainly had an outstanding year financially and we are proud to deliver a record earnings year for you – our stockholders, owners, and customers. As responsible stewards of your assets, we continue to focus on growing our business and building new capabilities necessary in today's digital world. But financial success isn't the only reason we do what we do.

When you read the stories of some of our customers in the following pages, it's easy to understand that what inspires us is you. When you think about your own story and your commitment to agriculture and what that means to Americans and the world, you too catch a glimpse of the passion we have for contributing to a thriving agricultural industry. We take pride in being a part of helping customers realize their dreams – whether that means starting a new enterprise, expanding their operation, or leaving a generational legacy. And like our customers, we are a company that believes in the power of family, community, and mission.

Natural disasters are nothing new to those who farm for a living. Like in most years, many customers faced hardships ranging from natural events like floods, droughts, or wildfires, to pressure on commodity prices or labor shortages.

In 2017, we witnessed a wildfire without precedence. In October, a devastating firestorm swept through Sonoma, Napa, Lake, and Mendocino counties in Northern California, causing the closure of our headquarters for nearly two weeks. Our commitment to customers never wavered, and employees throughout the state and in the Midwest stepped in to ensure zero interruption in service both during the event and after. A good plan and dedicated people speak volumes to the passion we addressed earlier.

The good news is that we are all in this together and we are committed to helping customers through the challenges we know will occur. American AgCredit stands with agriculture year in and year out, and this is how we are more than just another bank. With our diversified portfolio, we are able to provide extra support to customers facing troubling times. We make adjustments to manage risk together. Because our commitment is to you, our customers, who are also our owners.

We look forward to a stronger-than-ever partnership through 2018 and beyond, guided by our mission to be the best lender to agriculture. Supporting this mission, behind everything we do and every decision we make, is our commitment to provide exceptional value to our customers, far beyond the money we lend.

Sincerely,

Charles Talbott
Board Chair

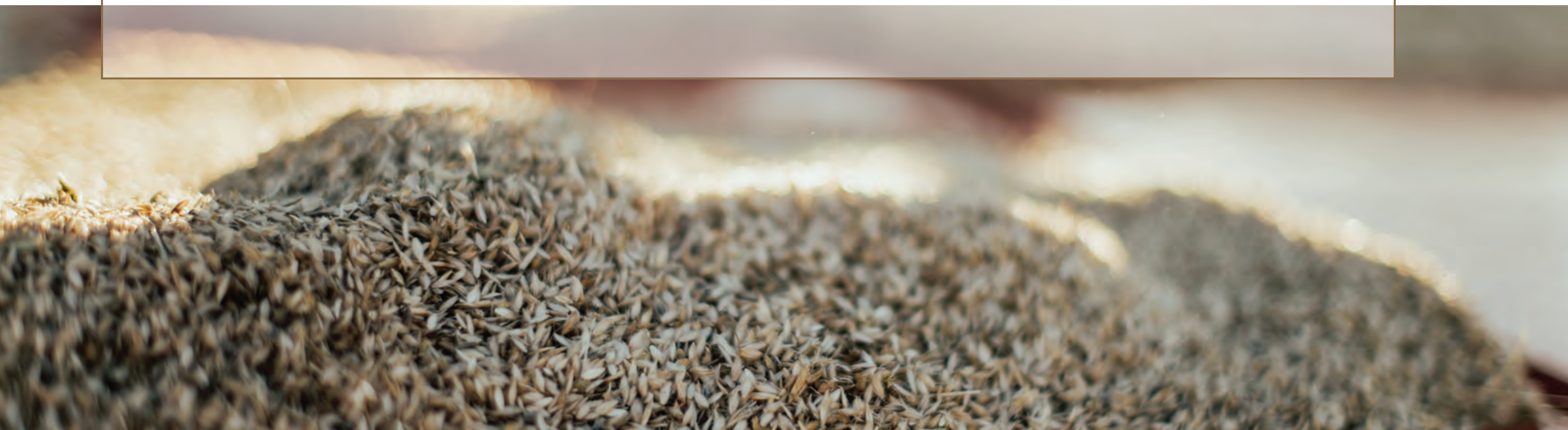
Byron E. Enix
Chief Executive Officer

MARCH 2, 2018

At American AgCredit, our singular focus is agriculture and serving the vast array of people that share our passion.

KEY FINANCIAL DATA

YEAR ENDED DECEMBER 31, (In thousands)	2017	2016	2015	2014	2013
NET INCOME	$159,142	$104,529	$99,739	$98,941	$111,238
PATRONAGE DECLARED	$59,808	$50,194	$43,485	$39,013	$36,970
PATRONAGE AS % OF NET INCOME	37.58%	48.02%	43.60%	39.43%	33.24%
LOAN VOLUME	$9,306,922	$8,008,875	$7,291,557	$6,358,767	$6,045,026
RETURN ON AVERAGE ASSETS	1.70%	1.31%	1.41%	1.53%	1.77%
MEMBERS' EQUITY AS % OF TOTAL ASSETS	20.38%	20.75%	22.88%	25.14%	24.98%



LOAN VOLUME BY STATE (In millions)

We manage our loan portfolio and related risks based on the unique characteristics of the agricultural market within each state. Issues related to geography – such as weather, land pricing, or market commodity – may be offset by overall strength within other regions, thereby reducing pressure on the overall portfolio.

	2017	2016	2015
CALIFORNIA	$4,735.6	$4,342.5	$3,882.3
KANSAS	1,307.4	684.0	600.0
COLORADO	889.3	878.0	819.8
WASHINGTON	320.8	312.2	271.0
OREGON	249.8	174.5	240.6
NEVADA	170.8	148.9	133.3
OTHER	1,633.2	1,468.8	1,344.6
TOTAL	**$9,306.9**	**$8,008.9**	**$7,291.6**

17% VINEYARDS & WINERIES

16% FIELD CROPS

13% DAIRIES

11% FOREST PRODUCTS

10% TREE FRUITS & NUTS

9% BEEF

4% VEGETABLES

20% OTHER

COMMODITIES FINANCED

Through the diversification of our portfolio, we are able to reduce risks associated with a measurable downturn in any one commodity. By diversifying our commodity mix, we can ensure that any material stress on the entire portfolio is minimized.

THE NEW GENERATION IN AGRICULTURE

Jon Arreche and His Family Legacy

The picturesque Surprise Valley in the northeastern corner of California is the only place Jon Arreche has ever wanted to be. A sixth-generation farmer, he was raised on the land – in the high-altitude community of Cedarville – that he now owns and operates as Arreche Hay Company.

Jon found his inspiration growing up on the farm. “Seeing my grandpa’s passion for it and watching him and my dad work hard every day to make it work, from equipment to growing the crops,” he says, “I knew I wanted to continue my family’s legacy.” His opportunity would come.

After college, Jon got to work by forming a hay-hauling business. When his grandparents decided to retire a couple of years ago, he was ready to purchase the family alfalfa operation. Jon turned to American AgCredit and lender Christine Taylor in the Alturas office for help. He’d known Christine for a few years and his grandparents had been Farm Credit customers for half a century. A young farmer with big financing needs, Jon relied on Christine during the loan process. “She helped me overcome obstacles and went over and beyond to make it worry-free,” he says. “Everyone was happy at the end of the day.”

> “There’s a lot of blood, sweat, and tears that went into this ground from my grandpa, my dad, my grandma, and me. It’s just a real honor to keep it going” – **JON ARRECHE**

Christine counts that as the best part of her job. As with most American AgCredit lenders, her personal agricultural expertise helps her to understand the unique needs of her customers. She grew up on her family’s cow/calf operation about 75 miles north of Cedarville across the Oregon border, and still helps there whenever she can.

Both lender and customer speak to the rewarding nature of their work. Christine especially enjoys helping customers buy their first ranch or first set of cattle, but says helping everyone is very rewarding. Jon takes pride in looking back at his accomplishments each day. When his hay goes down the road, he knows he’s feeding dairy cows and other animals, and as he says, “I essentially get to feed America.”

There are challenges, too. The hard work, the storm that comes and ruins everything, or the piece of equipment that breaks down bringing progress to a halt – all are reminders to Jon of the hardships farmers and ranchers weather year after year. Still, he is most grateful for the opportunity to continue his family’s legacy in Cedarville. “It’s a real honor to have American AgCredit help me purchase this land from my grandparents,” he said. “There’s a lot of blood, sweat, and tears that went into this ground from my grandpa, my dad, my grandma, and me. It’s just a real honor to keep it going.” ■

LOOKING AHEAD TO A PROMISING FUTURE THROUGH GENERATIONS

THE ASSALI FAMILY LEGACY

Frank Assali didn't plan to become a farmer, but when asked in 1964 to take over the peach orchard owned by his father and uncle, he and his wife, Marie, stepped up. Neither one had any farming or agricultural experience but, Frank says, "Being young and dumb, and feeling like we could do anything and everything, we said yes."

He worked his off-farm job for another seven years, leaving many of the orchard responsibilities in Marie's hands. And while it wasn't in his original plans, he hasn't regretted it. "It's a life that I really love and a job that I look forward to doing every single morning," he says. "One of the most rewarding things is having my whole family working right alongside of me, and my dream is to have our kids and grandkids take over the business and make it grow." Through the years, they've brought both their son, Michael, and granddaughter, Allie, into the operation.

Frank has both evolved and grown the family operation, transitioning from peaches to almonds, adding and later expanding a hulling and shelling operation, and adding land to expand their base. He's relied on Farm Credit to finance this growth for 40 years, and has enjoyed a very special relationship with his loan officer, Vince Flanders, for the past three years.

"I've known Vince most of his life. He actually worked with us harvesting peaches and apricots for three summers in the late 1970s," Frank says. "That relationship has continued with him finishing school, going through college, and then getting into the lending business."

Vince grew up on a family farm but after working those summers with Frank, he decided his career would be on the other side of the desk.

"My ideal customer relationship is like the one I have with Frank, when I can call and they recognize my voice and I feel welcome to visit with them, and they feel comfortable talking to me about their plans," Vince says. "Helping farmers with their financial needs and seeing generation after generation join family operations like at the Assalis is very rewarding. I go home every day knowing I helped somebody." ■

"One of the most rewarding things is having my whole family working right alongside of me, and my dream is to have our kids and grandkids take over the business and make it grow."

– FRANK ASSALI

A PARTNERSHIP ROOTED IN SHARED EXPERTISE AND RESPECT

LYNN FAGERBERG AND TOM RAINBOLT

Onions are a staple in kitchens around the world, and Lynn Fagerberg has been raising this labor-intensive crop since he was a child, first helping his father who started farming in 1949 on land the family homesteaded in 1886, and full time since he left college.

As with many crops, onions need an ample supply of water, and in Colorado's arid climate that can be a special challenge – nearby Fort Collins averages only 15 inches of precipitation each year. The Fagerbergs' solution was to install drip irrigation in 1999, which saves nearly 60% of the water that flood irrigation uses and positions them to reap a strong harvest year after year.

Today, working with his son, Ryan, Lynn has been an American AgCredit customer-owner for the past 10 years, primarily working with lender Tom Rainbolt. Lynn values the relationship with both American AgCredit and Tom, whom he credits with both expertise and responsiveness – he once provided a two-day approval for a loan to buy land that was in a bidding process, allowing Fagerberg Produce to expand.

"Our relationship with American AgCredit and Tom is wonderful," Lynn says. "He's very humble and easy to work with."

Tom has developed a deep understanding of agriculture over his 40 years with Farm Credit. His expertise in Colorado's unique water rights has helped him provide advice and support to many American AgCredit customers, including the Fagerbergs.

"We have 150 years of water law, and a Water Court system that manages the complex process to balance surface rights and irrigation wells," Tom says. "I've been able to better prepare my customers to secure the water rights they need to grow their crops."

Tom brings his expertise directly to his customers, visiting their operations and learning about their plans, and sharing his feedback and suggesting how American AgCredit can support them.

"As with any relationship, there has to be active participation on both sides, and with the Fagerbergs the relationship has grown over many years," Tom says. "I have a genuine interest in them and their operation. Best of all is watching their operation grow and thrive."

> "Our relationship with American AgCredit and Tom is wonderful. He's very humble and easy to work with."
>
> – LYNN FAGERBERG

THREE GENERATIONS OF GILES THRIVE IN THE FAMILY BUSINESS

SISTERS RIDE HERD ON THE GILES RANCH

"I can't imagine a life anywhere else. I loved working with my grandparents when they were here. I love working with my sisters and my parents," says Molly Giles-Beckford. "That's something I've always wanted to do."

The Giles story begins with the family's 1872 arrival in Kansas, and really took off in 1947, when Norman A. and Norman Lee Giles purchased the original ranch in Clark County. Today, Giles Ranch is a commercial cow/calf, stocker/feeder operation, with dryland wheat, sorghum hay, prairie hay, irrigated wheat, and alfalfa. Three generations of the Giles family work the ranch, including Roger Giles and his wife, Cathy, and their daughters Jennifer, Katie, and Molly.

Roger is very comfortable with the Giles women immersed in the family business. "Being raised with five sisters, it wasn't too far a stretch. I learned early on that you don't backtalk women, especially if you want to stay around very long."

The Giles sisters do it all, from managing the office to overseeing the finances to checking cattle in the pasture. Sunup to sundown, day in and out, whatever the weather, and whatever challenges arise. Because nature, which gives so much to agriculture, can take it all away in a heartbeat.

"This past March, a wildfire swept through Clark County. It burned 80% of our county and 100% of our ranch," says Katie. "American AgCredit and our loan officer, Terry Nemechek, were there immediately, pledging their support. We're going to work through it together."

Terry, like many American AgCredit employees, is a farmer himself, providing valuable expertise and a unique perspective others can't match. "Being a farmer, it's easy to relate to these folks," Terry says. "I've been the Giles's loan officer for 10 years. And frankly it's been a pretty exciting 10 years. We work well together."

A deep-rooted commitment to family is an important aspect of this particular ranch, and not unusual in the big picture of farming and ranching. The Giles clan is dedicated to each other and to keeping the ranch in the family, growing – and thriving – for generations to come.

As Roger puts it, "You always hope that your children come back, because a lot of generations the kids leave and don't return – they look for a different life. But this has been a good life to us and we wish to continue it." ■

"One of the most rewarding parts of ranching is being with my family. Not only do I get to work with my sisters, my parents, and my kids every day, I think the ranch ties our larger family together."

– MOLLY GILES-BECKFORD

PATRONAGE REPORT

American AgCredit has returned more than $400 million in cash patronage back to our members since 2005, with a payout for 2017 totaling $59.8 million.

This year marks the 13th consecutive year the Association has paid cash patronage. Each year, our Board of Directors (composed of member farmers and ranchers like you) decides how much to give back based on the success of the year. Our patronage program has effectively lowered our borrowers' interest rates an average of three quarters of one percent (0.75%) over the past 10 years.

By sharing our profits, we reduce your cost of borrowing and put dollars directly in your pocket. This allows you to invest funds back where it makes the greatest difference to you – in your operations, your families, and your local communities. Together, we make agriculture strong.

Our success is your success.

MONEY BACK?
BETTER BELIEVE IT.

REPORT OF MANAGEMENT

The Association's consolidated financial statements are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. In the opinion of management, the accompanying consolidated financial statements fairly present the financial condition and results of operations of the Association, in conformity with generally accepted accounting principles in the United States of America. Other financial information included in this Annual Report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association's internal auditors and review staff perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as needed. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent auditors. Their report is located on page 34. The Association is also examined by the Farm Credit Administration (FCA), regulator of the Farm Credit System.

The Association's Board of Directors, which is composed of directors who are not employees, has overall responsibility for the Association's system of internal control over financial reporting. The Board of Directors meets periodically with management, FCA, outside consulting firms, and the internal auditors and independent external auditors to review the manner in which each of these groups perform their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters. These internal auditors, independent external auditors, and regulators also have access to the Board of Directors and its individual members at any time.

The undersigned certify that they have reviewed the 2017 Annual Report and that it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Charles Talbott
Board Chair

Byron E. Enix
Chief Executive Officer

Vern Zander
Chief Financial Officer

MARCH 2, 2018

AUDIT COMMITTEE REPORT

The Audit Committee ("Committee") is composed of seven members of the Board of Directors. In 2017, five Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities.

The Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association's independent auditors for 2017. The Committee's responsibilities are described more fully in the Association's Internal Control Policy and the Audit Committee Charter.

The fees paid for professional services rendered for the Association by its independent auditors, PwC, during 2017 were $321,300 for audit services and $30,015 for tax services.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and Audited Financial Statements for the year ended December 31, 2017 (the "Audited Financial Statements"), with management. The Committee also reviews with PwC the matters required to be discussed by the Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditors' independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

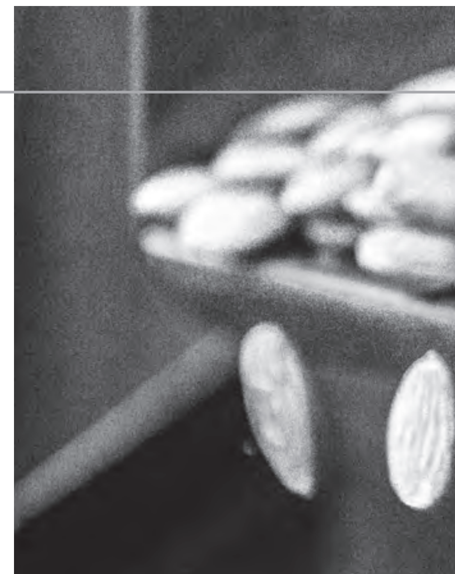
Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the Association's 2017 Annual Report and for filing with the FCA.

Thomas D. Stegman
Audit Committee Chair

MARCH 2, 2018

2017 AUDIT COMMITTEE MEMBERS

Jerold Harris
Linda Ingo
Larry Kepley
Brian Maloney
Larry Solari
Thomas D. Stegman
Thomas Teixeira



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements.

For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2017. In making the assessment, management used the framework in Internal Control – Integrated Framework (2013), promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the COSO criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2017.

Byron E. Enix
Chief Executive Officer

Vern Zander
Chief Financial Officer

MARCH 2, 2018

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

December 31, (In thousands)	2017	2016	2015	2014	2013
CONSOLIDATED STATEMENTS OF CONDITION DATA					
Loans	$9,306,922	$8,008,875	$7,291,557	$6,358,767	$6,045,026
Less: allowance for loan losses	(19,588)	(19,241)	(8,754)	(11,021)	(10,752)
Net loans	**9,287,334**	**7,989,634**	**7,282,803**	**6,347,746**	**6,034,274**
Investment in and receivable from CoBank	354,876	298,189	286,497	281,905	279,674
Accrued interest receivable	80,155	61,707	51,212	45,272	42,080
Other property owned	–	–	2,521	2,832	5,980
Other assets	242,389	199,451	175,162	110,343	103,949
Total assets	**$9,964,754**	**$8,548,981**	**$7,798,195**	**$6,788,098**	**$6,465,957**
Obligations with maturities of one year or less	$3,933,852	$6,775,336	$6,013,933	$5,081,538	$4,851,012
Obligations with maturities greater than one year	3,999,899	–	–	–	–
Total liabilities	**7,933,751**	**6,775,336**	**6,013,933**	**5,081,538**	**4,851,012**
Preferred stock	126,910	128,620	196,515	172,533	141,580
Common capital stock and participation certificates	8,714	7,805	7,680	7,396	7,422
Unallocated retained surplus	1,254,530	1,154,462	1,099,399	1,042,921	982,706
Additional paid in capital	656,723	490,564	490,564	490,564	490,564
Accumulated other comprehensive loss	(15,874)	(7,806)	(9,896)	(6,854)	(7,327)
Total members' equity	**2,031,003**	**1,773,645**	**1,784,262**	**1,706,560**	**1,614,945**
Total liabilities and members' equity	**$9,964,754**	**$8,548,981**	**$7,798,195**	**$6,788,098**	**$6,465,957**

Year Ended December 31,	2017	2016	2015	2014	2013
CONSOLIDATED STATEMENTS OF INCOME DATA					
Net interest income	$255,083	$212,452	$185,618	$175,119	$171,482
(Provision for)/Reversal of credit losses	(2,634)	(12,812)	(1,382)	1,465	6,949
Patronage distribution from Farm Credit institutions	37,126	34,044	28,670	26,075	24,828
Non-interest expense, net	(130,429)	(129,148)	(113,151)	(103,774)	(92,014)
(Provision for)/Benefit from income taxes	(4)	(7)	(16)	56	(7)
Net income	**$159,142**	**$104,529**	**$99,739**	**$98,941**	**$111,238**

CONSOLIDATED KEY FINANCIAL RATIOS

Year Ended December 31,	2017	2016	2015	2014	2013
Return on average assets	1.70%	1.31%	1.41%	1.53%	1.77%
Return on average members' equity	7.78%	5.67%	5.55%	5.85%	7.01%
Net interest income as a percentage of average earning assets	2.90%	2.84%	2.81%	2.89%	2.91%
Net charge-offs /(recoveries) as a percentage of average loans	0.03%	0.04%	0.00%	(0.03)%	(0.03)%
As of December 31,					
Members' common equity as a percentage of total assets	19.11%	19.24%	20.36%	22.60%	22.79%
Members' total equity as a percentage of total assets	20.38%	20.75%	22.88%	25.14%	24.98%
Debt as a ratio to members' equity	3.91:1	3.82:1	3.37:1	2.98:1	3.00:1
Allowance for credit losses as a percentage of loans	0.24%	0.28%	0.17%	0.17%	0.18%
Common Equity Tier 1 (CET1) capital	15.37%	n/a	n/a	n/a	n/a
Tier 1 capital	15.37%	n/a	n/a	n/a	n/a
Total capital	15.57%	n/a	n/a	n/a	n/a
Tier 1 leverage	17.61%	n/a	n/a	n/a	n/a
Unallocated retained earnings and URE equivalents (UREE) leverage	19.08%	n/a	n/a	n/a	n/a
Permanent capital ratio	16.65%	17.94%	19.70%	21.12%	21.01%
Other Information					
Cash patronage distributions declared (in thousands)	$59,808	$50,194	$43,485	$39,013	$36,970
Loans serviced for others (in millions)	$4,494	$4,199	$4,036	$3,912	$3,865

The New Capital Regulations took effect on January 1, 2017.

MANAGEMENT'S DISCUSSION & ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the financial position and results of operations of American AgCredit, ACA and its subsidiaries American AgCredit, FLCA and American AgCredit, PCA (collectively "the Association") as of December 31, 2017, with comparisons to prior years. The discussion includes significant known trends, commitments, events, or uncertainties that have impacted or are reasonably likely to impact our financial condition and results of operations. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of our Board of Directors. This commentary should be read with the accompanying consolidated financial statements and the related notes appearing in this report.

Our annual and quarterly reports to shareholders are available on our website, www.AgLoan.com, or can be obtained free of charge by calling our corporate headquarters at (707) 545-1200. Annual reports are mailed to all stockholders within 90 days after year-end and are available on our website within 75 days after year-end; quarterly reports are available on our website within 40 days after each calendar quarter-end.

FORWARD-LOOKING INFORMATION

Certain information included in this discussion constitutes forward-looking statements and information that is based on management's belief, as well as certain assumptions made by and with information currently available to management. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. When used in this discussion, words such as "anticipates," "projects," "expects," "believes," "estimates," "could," "should," and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations and projections will prove to be correct. Such forward-looking statements are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks materialize, or should such underlying assumptions prove to be incorrect, actual results may vary materially from those anticipated, projected, or expected. Among key factors that may have a direct bearing on operating results are fluctuations in the economy; the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market; regional weather conditions and trends; the actions taken by the Federal Reserve for the purpose of managing the economy; the continued growth of the agricultural market consistent with recent historical experience; the continued influx of government payments to borrowers; and FCA mandates and rulings.

BUSINESS OVERVIEW

FARM CREDIT SYSTEM STRUCTURE AND MISSION

American AgCredit is one of 69 associations in the Farm Credit System ("the System"), which was created by Congress in 1916 and has served rural communities and agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, producers or harvesters of aquatic products, and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The FCA is the System's independent safety and soundness federal regulator and was established to supervise, examine, and regulate System institutions.

OUR STRUCTURE AND FOCUS

As a cooperative, American AgCredit is owned by the members we serve. Our territory extends across a diverse agricultural region that includes parts of California, Kansas, Oklahoma, Colorado, and New Mexico, as well as the state of Nevada. The Association makes short- and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans. To meet the diverse needs of its borrowers, the Association is structured along geographical and business industry lines that allow for specialized transactions that are unique to various types of customers. The Association's success is highly dependent upon the customer experience it can provide to its borrowers. Business priorities are to serve the needs of all eligible customers, increase loan volume, improve operating efficiencies, build capital, increase profitability, and invest in the people and technological resources that will ensure future success.

As part of the System, the Association obtains funding from CoBank, ACB (CoBank). CoBank is a cooperative of which the Association is a member. CoBank and its affiliated associations and AgVantis, Inc. (AgVantis) are collectively referred to as "the District."

The Association, along with our borrowers' investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.CoBank.com, or may be obtained at no charge by calling (800) 542-8072 or mailing CoBank at 6340 S. Fiddlers Green Circle, Greenwood Village, CO 80111. Annual reports are available within 75 days after year-end and quarterly reports are available within 40 days after the calendar quarter-end.

MERGER

Effective January 1, 2017, American AgCredit, ACA acquired Southwest Kansas, ACA in a stock-for-stock exchange. The combined Association is headquartered in Santa Rosa, California. The primary reason for the stock exchange/merger was to ensure long-term stability by increasing the capital base and increasing portfolio and geographical diversification, thus allowing the combined Association to withstand fluctuations in the agriculture markets. The Association also expects to realize operating efficiencies and cost savings. The effects of the stock exchange/merger are included in American AgCredit's results of operations, balance sheet, average balances, and related metrics beginning January 1, 2017.

ECONOMIC OVERVIEW

Given the Association's significant commodity and geographical diversity, economic conditions in our territory during 2017 generally followed those of the national economy. Inflation remained relatively low but showed signs of upward movement while unemployment continued to decline. Land values continued to face negative pressures in our Midwest regions while remaining stable in the west. Dairy and field crops continue to be challenged with low prices and excess supply while the wine, forest products, and beef segments showed improvement during the year. The Northern California wildfires created small pockets of economic disruption but did not have a material impact on our customer base or the Association. The 2017–2018 water year got off to a slow start in much of our territory and the Association continues to closely monitor water conditions.

U.S. agriculture faces a challenging environment with large global supplies, near-record global demand, and significant competition from other suppliers. World inventories of major crops remain above historical averages, limiting the potential upside price movements. At the same time, global trade flows for most agricultural products are at record or near-record levels amid intense global competition. The competitive position of U.S. exporters has been impacted by the value of the U.S. dollar and uncertainties regarding ongoing trade negotiations and potential trade disputes. The U.S. dollar trended lower in 2017 but its value remained high relative to recent years, which has made U.S. goods more expensive to foreign buyers.

The Agricultural Act of 2014 ("Farm Bill") was signed into law on February 7, 2014. This Farm Bill governs an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs for five years. The Farm Bill eliminated $23 billion in mandatory federal spending over a 10-year period, representing a reduction in the U.S. government farm policy support. The Farm Bill repeals direct payments and limits producers to risk management tools that offer protection when they suffer significant losses. The Farm Bill provides continued support for crop insurance programs, strengthens livestock disaster assistance, and provides dairy producers with a voluntary margin protection program without imposing government-mandated supply controls.

COMMODITY REVIEW AND OUTLOOK

The following highlights the general health of agricultural commodities with the greatest concentrations in the Association's loan portfolio. Major commodities financed by the Association are shown in the table in Note 3 to the consolidated financial statements.

VINEYARDS AND WINERIES

The wine industry experienced a complicated year through 2017 with heavy rains and extreme weather spikes, cumulating with the tragic Northern California wildfires. However, the industry had another successful year demonstrated by a 2.4% year-over-year dollar volume increase. This marked a continuation of the industry's progress in 2017, which saw total wine sales in the U.S. increase 4.2%. Wineries continued to focus on the acquisition of $20 and higher brands to upgrade their portfolios to match shifting consumer preferences. The acquisition of strategic vineyard and production facility assets to support volume growth, particularly in the upper price segments, was also a common theme. Mid-tier producers, pressured by consolidating distribution channels and the enormous influence of major wineries, acquired brands to continue to build scale in their businesses. In addition, wineries continued to focus

on geographic diversification as domestic and foreign suppliers looked to establish or augment their presence in the Pacific Northwest and California's Central Coast.

California's 2017 vineyard harvest is estimated at 3.9 million tons, which is slightly below the 2016 harvest, but provides a balanced overall market between grape supply and demand. The key concerns of the vineyard industry continue to be centered on the supply and cost of labor. Mechanization continues to be evaluated as an alternative and is expected to play a larger role in the industry moving forward. Grape prices, especially for the core varietals Cabernet Sauvignon and Chardonnay, remain stable. The bulk of the Association's vineyard portfolio continues to be in the super- and ultra-premium segments in the wine market, which have exhibited less volatility than lower price tiers.

DAIRIES

The dairy industry returned to profitability in early 2017, providing much needed relief from losses experienced in 2016 and 2015. Class III milk prices strengthened while feed and operating costs remained stable. However, rising domestic and international production resulted in excess supply conditions for the industry in the latter half of 2017. As a result, prices have weakened, putting additional stress on the industry.

BEEF

The Association's beef portfolio consists primarily of cow/calf and feedlot operations. The cattle industry continued to expand in 2017 due to favorable prices and pasture/range conditions. However, drought conditions are beginning to impact the primary cow/calf areas. Should these conditions persist, profitability could be negatively impacted. Packer profitability continued in 2017, which continued to help keep fat cattle inventories fairly strong. Cattle feeder margins improved throughout 2017; however, with continued expansion, those margins are likely to compress slightly and stabilize during 2018. Retail beef prices held steady in 2017 but continue to face increased competition from growing pork and poultry supplies.

VEGETABLES AND FIELD CROPS

The vegetable industry remained strong in 2017, with good market conditions throughout much of the year. Fresh vegetable markets are highly cyclical, with short-term price swings dependent upon supply and demand. Availability of labor and water resources are the primary challenges facing the industry. Despite good rainfall in 2017, water availability continues to be a long-term concern. Inadequate labor availability has led the industry to look for solutions in growing practices, technology, and employee housing. Field crops consist primarily of wheat, corn, soybeans, alfalfa, sorghum, and other grains. Prices continue to be negatively impacted by the growth in domestic and world stocks. Current crop prices resulted in the majority of producers operating at or below break-even. Favorable weather patterns across much of the Association's Midwest territory in early 2017 led to above average yields, resulting in additional domestic stocks. With the reduction in government support, crop insurance continues to be an important risk management strategy for many producers.

FOREST PRODUCTS

Housing starts will likely reach 1.21 million units in 2017, up 2.9% from 2016. The forecast for 2018 is projected to exceed 1.30 million units. These positive gains will continue to be constrained by the lack of buildable lots and tight labor conditions, which will likely push home prices and rents higher over time.

In late 2017, the uncertainty over the impact trade agreements with Canada on lumber supply coupled with a shortage of logs in the Pacific Northwest and British Columbia pushed lumber and panel prices higher through the end of the year. These price gains have allowed sawmills to generate solid cash flows and strong profits. The industry should see another year of steady growth in 2018. Risks to the forecast for wood products demand continue to revolve around the pace of recovering U.S. residential construction, but this risk is somewhat mitigated by the continued strength in the residential repair and remodel market. Additionally, the tax reform bill recently passed by Congress and signed by the President will potentially negatively impact the demand for housing, particularly in high-tax states.

Timberland owners in the West enjoyed strong growth in log prices during 2017 as local sawmills competed aggressively for an increasingly constrained supply of timber available for harvest. Log prices are projected to increase through 2018 as sawmills try to add on more production to take advantage of favorable lumber prices.

In the South, timberland owners will continue to see stable to slowly increasing pine stumpage values as they struggle with ample timber inventories across the region in 2018. Limitations on the supply of lumber from Canada into U.S. markets (Canadian lumber imports account for approximately 33% of the U.S. market) should have a positive impact on pine stumpage in future years.

TREE FRUITS AND NUTS

The classification "Tree Fruits and Nuts" largely consists of almond orchards in California's Central Valley. California produced 80% of the world's almonds for the 2016–2017 crop year on 1.0 million bearing acres. The United States consumed 32% of the supply, with the remaining 68% exported. Spain (10%), India (8%), China (7%) and Germany (6%) round out the top five export countries by volume. The 2017 almond harvest is expected to yield 2.25 billion pounds, which, if achieved, will exceed 2016's previous record of 2.14 billion pounds, an increase of 5.3% year-over-year. Prices at the end of 2017 had stabilized after a manageable carryover, with strong shipments/exports through the fourth quarter and an expectation that the 2017 harvest may come in less than expected. Above-average precipitation and snowpack for the 2016–2017 water year provided full water allotments through 2017 and left reservoirs full through the end of the year. Even with a dry start to the 2017–2018 water year, deliveries should be adequate through 2018.

FINANCIAL CONDITION

LOAN PORTFOLIO

The Association's loan portfolio consists of accrual loans, nonaccrual loans on which the accrual of interest has been suspended, and other loans such as sales contracts arising from the sale of property acquired through foreclosure.

Loans were $9.31 billion as of December 31, 2017, compared to $8.01 billion and $7.29 billion for 2016 and 2015, respectively. The 2017 increase of $1.3 billion resulted in a 16.2% year-over-year growth rate and was due to strong organic growth and the merger with Southwest Kansas. The following table illustrates the major loan volume categories from December 31, 2015, to December 31, 2017.

(In millions)	2017	Percent of Total	2016	Percent of Total	2015	Percent of Total
	December 31,					
Real estate mortgage	$5,281.0	56.7%	$4,498.1	56.2%	$4,065.7	55.8%
Production and intermediate-term	2,001.1	21.5%	1,503.0	18.8%	1,340.3	18.3%
Agribusiness	1,718.3	18.5%	1,740.6	21.7%	1,606.6	22.0%
Rural infrastructure	279.4	3.0%	243.7	3.0%	255.0	3.5%
Agricultural export finance	23.1	0.2%	18.9	0.2%	18.9	0.3%
Rural residential real estate	4.0	0.1%	4.6	0.1%	5.1	0.1%
Total loans	**$9,306.9**	**100.0%**	**$8,008.9**	**100.0%**	**$7,291.6**	**100.0%**

Factors affecting the changes in loan volume categories are discussed below.

Real Estate Mortgage Loans: Real estate mortgage loan volume was $5.28 billion at December 31, 2017, compared to $4.50 billion and $4.07 billion at year-end 2016 and 2015, respectively. The 2017 increase of $782.9 million resulted in a 17.4% year-over-year growth rate. The increase was due to organic growth along with approximately $434.8 million of loan volume acquired in the Southwest Kansas merger. This portfolio increased by $432.4 million in 2016.

Production and Intermediate-Term Loans: Production and intermediate-term loan volume increased to $2.00 billion in 2017 compared to $1.50 billion and $1.34 billion at year-end 2016 and 2015, respectively. The $498.1 million increase resulted in a 33.1% annual growth rate. The 2017 growth consisted of $328.3 million in organic loan growth in addition to approximately $169.9 million in loan volume acquired in the Southwest Kansas merger. This portfolio grew by $162.7 million during 2016.

Agribusiness Loans: Agribusiness loans are primarily made to finance the throughput of agricultural goods to the marketplace. Such loans consist of long-term mortgages on processing facilities and equipment as well as short- and intermediate-term operating lines of credit. The agribusiness portfolio totaled $1.72 billion at year-end 2017, compared to $1.74 billion for 2016 and $1.61 billion for 2015. This loan portfolio decreased by $22.3 million during 2017 compared to a $134.0 million increase in 2016. The small volume decline experienced in 2017 was due primarily to normal loan amortization.

Other Loans: This loan portfolio consists of rural infrastructure, agricultural export finance, and loans made for sales contracts and for homes located in rural areas. This portion of the portfolio accounted for less than 4.0% of the total loan portfolio in each of the years reported.

Small loans (less than $250 thousand) accounted for 66.0% of the total number of loans but only 8.5% of loan volume at December 31, 2017. Credit risk on small loans, in many instances, is also reduced by non-farm income sources. Loans greater than $5 million account for 1.8% of the total number of loans but 34.3% of the total loan volume.

GEOGRAPHIC CONCENTRATIONS

The Association's territory covers 38 California counties from the Oregon border to the Mexican border, the entire state of Nevada, and parts of central and southwest Kansas, northern Oklahoma, western Colorado, and northwest New Mexico. The geographical distribution of loan volume as of December 31, 2017, 2016, and 2015, is shown in the following table. The Association originates and services loans in areas outside of its chartered territory with the concurrence of the Farm Credit associations where those loans are physically located.

	2017		2016		2015	
(In millions)	Loan Volume	Percent of Total	Loan Volume	Percent of Total	Loan Volume	Percent of Total
California	$4,735.6	50.9%	$4,342.5	54.2%	$3,882.3	53.3%
Kansas	1,307.4	14.1%	684.0	8.5%	600.0	8.2%
Colorado	889.3	9.6%	878.0	11.0%	819.8	11.2%
Washington	320.8	3.4%	312.2	3.9%	271.0	3.7%
Oregon	249.8	2.7%	174.5	2.2%	240.6	3.3%
Nevada	170.8	1.8%	148.9	1.9%	133.3	1.8%
Other	1,633.2	17.5%	1,468.8	18.3%	1,344.6	18.5%
Total	**$9,306.9**	**100%**	**$8,008.9**	**100.0%**	**$7,291.6**	**100.0%**

We are party to a Territorial Approval Agreement ("Agreement") with other associations in the states of Oklahoma, Colorado, Kansas, and New Mexico. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security, or location of headquarters. This Agreement can be terminated upon the earlier to occur of the following:

1) the time when all but one association has withdrawn as a party to the Agreement; or

2) December 31, 2025; or

3) when requested by FCA.

The Association routinely sells portions of large loans to other financial institutions to manage portfolio risk. These institutions are geographically dispersed and come from within the Farm Credit System, the commercial banking industry, and life insurance companies. In addition, the Association has entered into participation agreements with these institutions in which the Association services the entire loan but owns only a small portion. Participating in or selling loans allows the Association to manage its lending limits and its internal capital requirements, as well as to diversify risk. Neither the principal nor any unused commitments related to the participated or sold portion of these loans are included on the Association's Consolidated Statements of Condition. Participation and other multi-lender activity at December 31 is summarized on the following page.

(In millions)	2017	2016	2015
Loans sold to others	$3,537.4	$2,851.0	$2,538.5
Retained interest in sold loans	$1,329.1	$1,012.4	$966.2
Loans purchased from others	$1,756.9	$1,023.6	$920.4
Syndications serviced for others	$1,246.0	$1,348.6	$1,469.7

To further manage portfolio credit risk, the Association participates in a Federal Agricultural Mortgage Corporation (Farmer Mac) guarantee program. Under this program, the Association pays a guarantee fee to Farmer Mac to assume the balance of pre-designated loans if they become delinquent. Management considers these fees to be intrinsic credit enhancement costs that affect the yield on the pool of guaranteed loans. The Association paid $49 thousand, $68 thousand, and $84 thousand in guarantee fees during 2017, 2016, and 2015, respectively. These fees are included in interest expense. Farmer Mac guaranteed loans at December 31, 2017, 2016, and 2015, were $8.6 million, $10.7 million, and $15.6 million, respectively.

HIGH-RISK ASSETS

FCA regulations specify three high-risk loan performance categories – nonaccrual, restructured, and loans 90 days past due still accruing interest. These are referred to as impaired loans. Loans outstanding, including accrued interest, for each loan performance category as of December 31 follows.

(In thousands)	2017	2016	2015
Nonaccrual	$29,849	$27,409	$46,767
Restructured	11,421	8,626	9,067
Accrual > 90 days past due	–	1,300	–
Total impaired loans	41,270	37,335	55,834
Other property owned	–	–	2,521
Total high-risk assets	**$41,270**	**$37,335**	**$58,355**
Nonaccrual loans/total loans	0.32%	0.34%	0.64%
Nonaccrual loans current as to principal and interest	$15,823	$10,206	$44,495

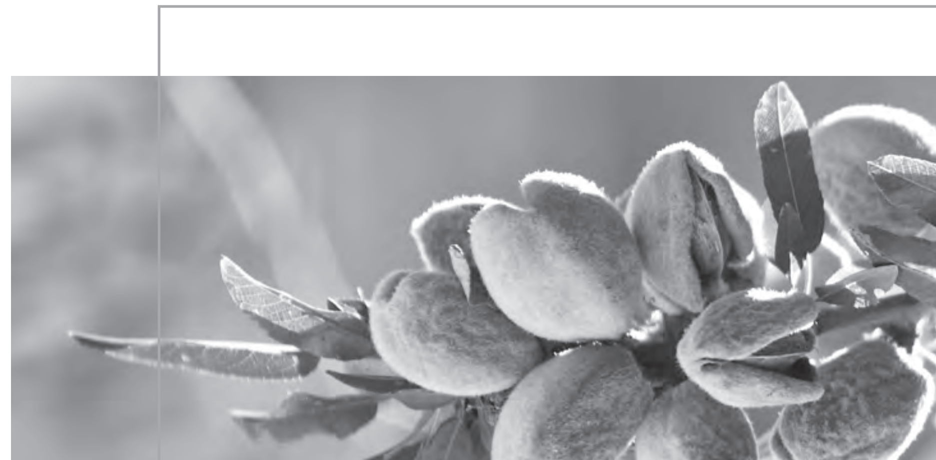
Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Nonaccrual loan volume increased by $2.4 million in 2017 from $27.4 million at December 31, 2016, to $29.8 million at December 31, 2017. While the Association does not accrue interest on loans classified as nonaccrual, 53.0% of the nonaccrual loan volume at December 31, 2017, was current as to principal and interest compared to 37.2% at December 31, 2016, and 95.1% at year-end 2015. Nonaccrual loan volume measured as a percentage of total loans decreased in 2017 to 0.32% compared to 0.34% as of year-end 2016 and 0.64% as of year-end 2015.

High-risk asset volume could increase in the future as the Association is currently experiencing near-record-high credit quality. Given the cyclical nature of agriculture, management anticipates that factors such as product oversupply, declining commodity prices, water issues, regulatory demands, increasing interest rates, and public demand for commodities may adversely impact high-risk volume over time. While the U.S. economy is expected to continue to grow, global economy and supply and demand dynamics is negatively impacting a number of U.S. agricultural segments. In addition, potential drought conditions throughout our territory could have a negative impact on our borrowers and the credit quality of our loan portfolio. The Association maintains a Risk Management Department to proactively monitor and address portfolio risk.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is composed of the allowance for loan losses (ALL) and the reserve for unfunded lending commitments. The allowance for credit losses is our best estimate of the amount of probable losses inherent in our loan portfolio as of the balance sheet date. The allowance for credit losses is determined based on a periodic evaluation of the loan portfolio and unfunded lending commitments, which generally considers types of loans, credit quality, specific industry conditions, general economic conditions, weather-related conditions, and changes in the character, composition, and performance of the portfolio, among other factors. The allowance for credit losses is calculated based on a historical loss model that takes into consideration various risk characteristics of our loan portfolio. We evaluate the reasonableness of this model and determine whether adjustments to the allowance are appropriate to reflect the risk inherent in the portfolio.

We maintain a reserve for unfunded lending commitments that reflects our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as the likelihood of disbursements and the likelihood of losses given disbursement are utilized in determining the reserve. This reserve is reported with Other Liabilities on the Consolidated Statements of Condition and totaled $2.4 million, $2.9 million, and $3.7 million at December 31, 2017, 2016, and 2015, respectively. The new allowance for credit losses model was implemented in 2015, which resulted in a $3.7 million increase to the reserve for unfunded lending commitments and a corresponding decrease to the ALL.



The ALL increased $0.4 million, to $19.6 million in 2017 from $19.2 million in 2016. The increase was primarily due to $3.2 million of provision for loan loss partially offset by $2.8 million of net charge-offs. The additional provision was due to incremental loan growth and some credit quality deterioration. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative ALL coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2017	2016	2015
Allowance for loan losses as a percentage of:			
Loans	0.21%	0.24%	0.12%
Impaired loans	47.46%	51.54%	15.68%

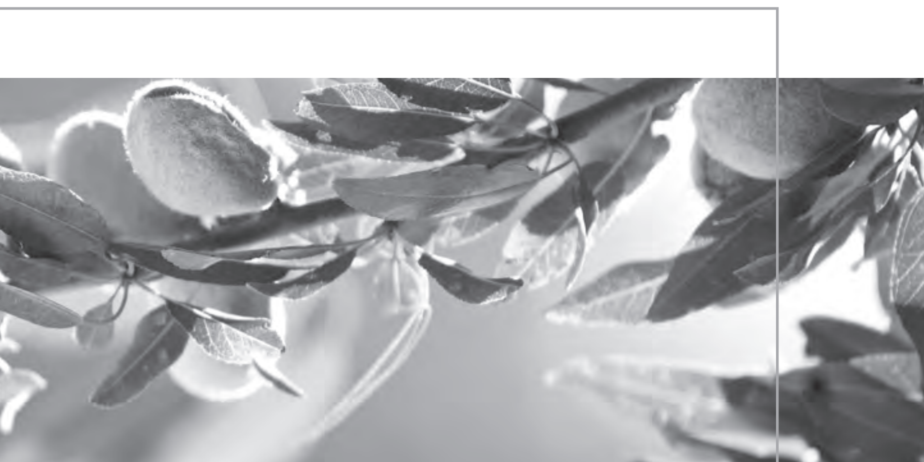
Further discussion of the allowance can be found in Note 3 to the consolidated financial statements.

OTHER ASSETS

Other assets were $104.6 million at December 31, 2017, an increase of $13.7 million when compared to year-end 2016. The change was primarily due to an increase in pension assets of $9.3 million, a $6.1 million increase in patronage receivables, and increases in other accounts receivables. Other assets were $90.9 million at December 31, 2016, an increase of $24.0 million compared to year-end 2015.

OTHER LIABILITIES

Other liabilities were $108.9 million at December 31, 2017, an increase of $22.9 million when compared to year-end 2016. The year-over-year change was primarily due to an $8.8 million increase in pension liability and a $9.3 million increase in other payables. Other liabilities totaled $86.0 million at December 31, 2016, an increase of $6.2 million when compared to year-end 2015.



RESULTS OF OPERATIONS

EARNINGS

The Association produced after-tax net income of $159.1 million in 2017, compared to $104.5 million in 2016 and $99.7 million in 2015. The $54.6 million increase in net income from 2016 was primarily due to a $42.6 million increase in net interest income as a result of strong organic loan growth and the Southwest Kansas merger. Other components of the 2017 net income increase consisted of a $10.2 million decrease in provision for credit losses and a $4.5 million increase in non-interest income partially offset by a $2.7 million increase in non-interest expense.

The Association's 2016 net income of $104.5 million was $4.8 million higher than 2015's net income of $99.7 million. The increase was driven by a $26.8 million increase in net interest income as a result of strong organic loan growth largely offset by a $16.3 million increase in non-interest expense and an $11.4 million increase in provision for credit losses.

The major components of change in net income over the past two years are summarized in the following pages.

(In thousands)	2017 vs. 2016	2016 vs. 2015
Net income, prior year	$104,529	$99,739
Increase in interest income	78,762	41,083
(Increase) in interest expense	(36,131)	(14,249)
Increase in net interest income	42,631	26,834
Decrease/(Increase) in provision for credit losses	10,178	(11,430)
Increase in non-interest income	4,530	5,660
(Increase) in non-interest expense	(2,729)	(16,283)
Decrease in income tax benefit/provision	3	9
Increase in net income	**54,613**	**4,790**
Net income, current year	**$159,142**	**$104,529**

NET INTEREST INCOME

The table below provides an analysis of the individual components of the change in net interest income for 2017 and 2016.

(In thousands)	2017 vs. 2016	2016 vs. 2015
Net interest income, prior year	$212,452	$185,618
Increase in net interest income due to changes in:		
Net interest margin	4,969	1,819
Volume of average earning assets	36,801	24,772
Margin/volume combination	861	243
Increase in net interest income	**42,631**	**26,834**
Net interest income, current year	**$255,083**	**$212,452**

The 2017 net interest income was $255.1 million, compared to $212.5 million in 2016 and $185.6 million in 2015. The 2017 increase of $42.6 million represents a 20.0% increase over 2016 and was primarily due to strong organic loan growth and the Southwest Kansas merger. Average earning assets grew by $1.3 billion during 2017, representing an annual growth rate of 17.3%. Nonaccrual interest income was $18 thousand in 2017, compared to $5.4 million in 2016.

Net interest income in 2016 increased 14.5% from $185.6 million in 2015 to $212.5 million. The $26.8 million increase was driven primarily by strong organic accrual loan volume growth. Average earning assets increased in 2016 by $883 million, representing an annual growth rate of 13.3%. Nonaccrual interest income was $5.4 million in 2016 compared to $1.1 million in 2015.

	2017	2016	2015
Average rate on earning assets	4.43%	4.15%	4.08%
Average rate on interest-bearing liabilities	1.86%	1.62%	1.62%
Net interest margin	2.90%	2.84%	2.81%

The Association administers its variable-rate loans based on its cost of funds. Although adjustments to borrower variable rates have generally followed changes in the Prime Rate, that rate has become increasingly less relevant as an indicator of credit demand. The Association's variable cost of funds is indexed to a blend of two rates – the Farm Credit Discount Note Rate and the one-month London Interbank Offered Rate (LIBOR). Management closely monitors interest rate movements and will adjust variable rates to customers to preserve adequate net interest income to sustain the growth of the Association.

The Association has a differential pricing policy for interest rates, which is based on loan size, servicing requirements, and credit risk of a loan. Management's objective is to maintain interest rates that are competitive with other lenders providing similar-type loans. The Association's competitiveness is evaluated by periodic surveys of other lending institutions in its lending territory.

PROVISION FOR CREDIT LOSSES

Management reviews the allowance for loan losses and the reserve for unfunded lending commitments on a quarterly basis and makes adjustments that reflect the changing risks in the portfolio. Generally speaking, increased loan volume and unfunded commitments will require additional allowance for credit losses. The Association's strong 2017 loan volume growth in addition to some credit quality degradation resulted in a $2.6 million provision for credit loss, compared to a $12.8 million provision for credit loss in 2016. The 2016 provision was largely driven by declining credit quality in addition to strong loan growth. The Association recorded a provision for credit loss in 2015 in the amount of $1.4 million.

NON-INTEREST INCOME

Non-interest income consists primarily of CoBank patronage, loan origination and servicing fees, insurance income, and other gains and losses. The Association recorded $35.6 million of CoBank patronage in 2017, a $2.9 million increase compared to the $32.7 million recorded in 2016. The Association recorded $27.7 million of CoBank patronage in 2015. The $2.9 million patronage increase in 2017 was due to increased borrowings on our CoBank direct note and an increase in loan participations sold to CoBank. Patronage increased $5.0 million from 2015 to 2016 due to increased borrowings on our CoBank direct note. Loan origination and servicing fees were $14.0 million in 2017, compared to $13.1 million in 2016 and $10.6 million in 2015. Fee income was very strong in 2017 as the Association originated a significant number of large loan transactions. Insurance income, a component of miscellaneous income, totaled $5.9 million in 2017, a slight decrease from the $6.2 million recognized in 2016 and the $6.6 million in 2015.

NON-INTEREST EXPENSES

Non-interest expenses consist of salaries and benefits, occupancy costs, insurance fund premiums, supervisory expenses, and other operating costs. Non-interest expenses were $153.9 million in 2017, compared to $151.2 million in 2016 and $134.9 million in 2015. The Association experienced a modest $2.7 million increase in 2017. The $16.3 million increase in 2016 was largely driven by a $9.9 million restructure charge. This expense was due to a voluntary retirement program that was offered in concert with the Association's go-to-market reorganization initiative. The 2016 increase was also due to a $3.4 million increase in Farm Credit System Insurance Corporation (FCSIC) premiums due to strong loan growth and an increase in the premium rate.

PROVISION FOR INCOME TAXES

The Association's effective tax rate is primarily affected by the mix of taxable and tax-exempt lending activities. The provision was relatively unchanged in 2017 compared to 2016 and 2015.

ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss (AOCL) arises from the recognition of an unfunded pension liability. AOCL is included in the Association's equity portion of the Consolidated Statements of Condition. The liability and the associated other comprehensive loss may fluctuate from year to year depending on the pension plan's performance and underlying actuarial assumptions and obligations. The actual loss or income to be realized as pension liabilities are paid will not be determinable until the liabilities expire. See Note 11 to the consolidated financial statements for further discussion.

LIQUIDITY AND FUNDING

Liquidity is necessary to meet our financial obligations, such as paying our note with CoBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments. The Association also has the ability to sell qualified loans to the Farmer Mac secondary market programs to generate additional liquidity as needed.

The Association's primary source of funds (excluding capital) and largest liability is its direct loan from CoBank. As further described in Note 7 to the consolidated financial statements, this direct loan is governed by a General Financing Agreement (GFA), is collateralized by a pledge of substantially all of the Association's assets, and is also subject to regulatory borrowing limits. The GFA includes financial and credit metrics that, if not maintained, can result in increases to our funding costs. The GFA also requires compliance with FCA regulations regarding liquidity. To meet this requirement, the Association is allocated a share of CoBank's liquid assets for calculation purposes. The Association is currently in compliance with the GFA and does not foresee any issues with obtaining funding or maintaining liquidity. The Association applies substantially all cash received to the direct loan and draws all cash disbursements from it. The Association's ability to incur debt from other sources is subject to statutory and regulatory restrictions.

CoBank's primary source of funds is the issuance of Farm Credit System debt securities through the Federal Farm Credit Bank's Funding Corporation. The continued liquidity of the Association is therefore directly dependent upon the ability of the Farm Credit System to continue to sell debt securities at competitive rates. Historically, this access has provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets continue to experience significant volatility, the Association anticipates continued access to the funding necessary to support its lending and business operations.

The Association adopted a block funding methodology to debt issuance in the third quarter of 2017. Effective August 1, 2017, all of the Association's debt is block-funded through a direct note with CoBank. The interest rate on the debt may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

The Association also obtains a measurable amount of funding from customer Funds Held accounts and H stock, both of which currently pay an interest rate that is comparable to the short-term interest rate component that is paid on the direct loan with CoBank. The Funds Held accounts are uninsured and the rate is variable. Customer investments in H stock are also uninsured and the dividend rate on H stock is also variable. From a funding perspective, in combination, Funds Held and H stock provide a cost-effective alternative to borrowing on our direct loan with CoBank. Both are offered to customers of the Association as investment vehicles for excess operating funds. Restrictions apply to the purpose for which the Funds Held may be withdrawn, the maximum dollar amount a customer may maintain in Funds Held, and the maximum amount a customer may invest in H stock.

ASSET / LIABILITY MANAGEMENT

In the normal course of lending activities, the Association is subject to interest rate risk. The asset/liability management objective is monitored and managed within interest rate risk limits designed to target reasonable stability in net interest income over an intermediate planning horizon and to preserve a relatively stable market value of equity over the long term. Mismatches and exposure in interest rate re-pricing and indices of assets and liabilities can arise from product structures, customer activity, capital re-investment, and liability management. While the Association actively manages interest rate risk within the policy limits approved by the Association's Board of Directors (the Board) through the strategies established by the Market Risk Committee (MRC) and Market Strategies Committee (MSC), there is no assurance that these mismatches and exposures will not adversely impact earnings and capital. The overall objective is to develop competitively priced and structured loan products for the customers' benefit and fund these products with an appropriate blend of equity and debt obligations.

The interest rate gap analysis shown in the following table presents a comparison of interest-earning assets and interest-bearing liabilities in defined time segments at December 31, 2017. The interest rate gap analysis is a static indicator for how the Association is positioned by comparing the amount of assets and liabilities that re-price at various time periods in the future. The value of this analysis can be limited given other factors, such as the differences between interest rate indices on loans and the underlying funding, the relative changes in the levels of interest rates over time, and optionality included in loans and the respective funding that can impact future earnings and market value.

December 31, 2017 (In thousands)	1 month or less	Over 1 month to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Interest-earning assets:						
Floating rate loans	$4,540,977	$995,079	$2,555	–	–	$5,538,611
Adjustable rate loans	8,818	17,152	14,604	17,186	–	57,760
Fixed rate loans, prepayable	72,285	177,178	186,737	1,382,605	646,551	2,465,356
Fixed rate loans	27,177	101,579	90,324	591,118	405,147	1,215,345
Nonaccrual loans	21,757	1,528	2,259	3,849	457	29,850
Total interest-earning assets	**$4,671,014**	**$1,292,516**	**$296,479**	**$1,994,758**	**$1,052,155**	**$9,306,922**
Interest-bearing liabilities:						
Floating rate debt	$4,224,427	$140,000	–	–	–	$4,364,427
Adjustable rate debt	25,097	2,079	19,692	9,384	–	56,252
Discount notes	288,766	1,008,120	–	–	–	1,296,886
Fixed rate debt, callable	49,656	171,915	198,606	149,204	–	569,381
Fixed rate debt	138,705	150,124	343,483	302,695	431,773	1,366,780
Funds Held	86,599	–	–	–	–	86,599
FMV Adj	4,529	–	–	–	–	4,529
Total interest-bearing liabilities	**$4,817,779**	**$1,472,238**	**$561,781**	**$461,283**	**$431,773**	**$7,744,854**
Interest rate sensitivity gap	**$(146,765)**	**$(179,722)**	**$(265,302)**	**$1,533,475**	**$620,382**	**$1,562,068**
Cumulative gap	**$(146,765)**	**$(326,488)**	**$(591,790)**	**$941,686**	**$1,562,068**	
Cumulative gap/total interest-earning assets	(1.58)%	(3.51)%	(6.36)%	10.12%	16.78%	

The Association's re-pricing gap as of December 31, 2017, can be characterized as slightly liability sensitive. A liability-sensitive position would indicate that the Association has more interest-rate-sensitive liabilities than interest rate assets for particular time periods into the future. It is also an indication that the Association's equity is being deployed to fund longer-term assets. Given some of the inherent weaknesses with interest rate gap analysis, simulation models are used to develop additional interest-rate-sensitivity measures and estimates. The assumptions used to produce anticipated results are periodically reviewed and models are tested to help ensure reasonable performance. Various simulations are produced for net interest income and the market value of equity. These simulations help to assess interest rate risk and make adjustments as needed to the products and related funding strategies.

The Association's Asset/Liability Management Board policy establishes limits for changes in net interest income and market value of equity sensitivities. These limits are measured and reviewed by MRC monthly and reported to the Board at least quarterly. The Board policy limit for net interest income is a negative 10% change, and the market value of equity policy limit is a negative 15% change given parallel and instantaneous shocks of interest rates up and down 200 basis points. In instances when the rate on the three-month U.S. Treasury bill is less than 4%, FCA guidelines provide the Regulatory Down Policy shock measure should be used in lieu of the down 200 basis point measure, with that measure equal to one-half of the three-month U.S. Treasury bill rate. This was the case as of December 31, 2017, with the Regulatory Down Policy shock measure being at 0.69%. The GFA also uses these simulation results to assess the interest rate risk position and whether corrective action is necessary. The following table shows the percentage impacts to net interest income and market value of equity using parallel and instantaneous interest rate increases of 100 basis points and 200 basis points. Due to the current low short-term interest rate environment, the Regulatory Down Policy interest rate shock measure was used. As of December 31, 2017, all interest rate risk-related measures were within the Board policy limits, GFA requirements, and management guidelines.

December 31, 2017	Regulatory Down Policy shock	+ 1% shock	+ 2% shock
Change in net interest income	(0.32)%	0.15%	0.16%
Change in market value of equity	2.03%	(2.61)%	(5.11)%

CREDIT RISK MANAGEMENT

The Association utilizes a portfolio risk management process to evaluate and monitor the risk associated with major commodity groups, credit classifications, unsecured loans, and purchased loans. This process employs the use of shock analysis to determine the impact of significant credit deterioration in any one group on the portfolio as a whole. Credit classification trends are identified and monitored as an early warning sign of potential non-performing assets. The Association employs management personnel to perform the risk management process that the Board of Directors oversees. In addition, the Association conducts internal credit reviews to evaluate the effectiveness of the process.

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio (including letters of credit and unfunded loan commitments), and is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies, and procedures. Underwriting standards are developed and utilized to determine an applicant's operational, financial, and management resources available for repaying debt within the terms of the note or loan agreement. Underwriting standards include, among other things, an evaluation of the following:

- **Character:** borrower integrity and credit history;
- **Capacity:** repayment capacity of the borrower based on cash flows from operations or other sources of income;
- **Collateral:** protects the lender in the event of default and also serves as a secondary source of loan repayment;
- **Capital:** ability of the operation to survive unanticipated risks; and
- **Conditions:** intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds, and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, the Association cannot have loan commitments to one borrower for more than 15% of permanent capital. Additionally, the Association has set lending limits to manage loan concentration. Lending limits are established for individual loan size, commodity, special lending programs, and geographic concentrations. The Association has established internal lending delegations to properly control the loan approval process. Delegations to staff are based on the Association's risk-bearing ability, loan size, complexity, type, and risk, as well as the expertise of the credit staff member. Larger and more complex loans are typically approved by a loan committee with the most experienced and knowledgeable credit staff serving as members.

One method for managing concentration is through the use of participation programs with other System and non-System institutions. Buying and selling loan volume, within and outside the System, can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs and Farmer Mac guarantee programs. The Association has further diversified concentrations in agricultural production by developing rural residence, part-time farmer, and agribusiness portfolios. Rural residents and part-time farmers often derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

The majority of Association lending is first-mortgage real estate lending. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured. Collateral evaluations are made within FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. Certain appraisals must be performed by individuals with a state certification or license.

The Association utilizes a Combined System Risk Model ("Model") in its loan and portfolio management processes. The Model is a two-dimensional risk rating system that estimates each

loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model estimates loan losses with levels of risk granularity, particularly related to acceptable loans. The Model's 14-point scale provides for nine acceptable categories, one other assets especially mentioned (OAEM) category, two substandard categories, one doubtful category, and one loss category. This Model also serves as the basis for future economic capital modeling.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

	2017	2016	2015
Acceptable and OAEM	98.2%	98.5%	99.0%
Substandard	1.8%	1.5%	1.0%
Total	**100.0%**	**100.0%**	**100.0%**

The Association's credit quality remained strong during 2017 as Acceptable and OAEM as a percentage of total loans was 98.2%, a slight decrease from 98.5% during 2016. Credit quality was positively impacted by the continued strength in the U.S. economy but was outweighed by the global economic conditions and other challenges facing agriculture. The Association's Acceptable and OAEM credit quality declined from 99.0% in 2015 to 98.5% at year-end 2016. The agricultural sectors most impacted in 2017 were field crops and dairy. Both industries continue to face low commodity prices, which negatively impact profitability. Even with the industry pressures in 2017, there were no loans classified as doubtful or loss for any of the three years presented. The credit quality of the Association's loan portfolio remains strong due to our geographical and commodity diversification and our continued emphasis on sound underwriting standards. Agriculture remains a cyclical business that is heavily influenced by production, operating costs, commodity prices, and global economic conditions. Each of these can be significantly impacted by uncontrollable events. Credit quality is expected to face continued pressure in 2018 due to weak commodity prices and adverse global conditions. In addition, the 2018 water year is off to a slow start, which could negatively impact water conditions in our lending territory.

CREDIT COMMITMENTS

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2017.

(In thousands)	Less than 1 Year	1–3 Years	4–5 Years	Over 5 Years	Total
Commitments to extend credit	$381,584	$962,435	$644,965	$635,259	$2,624,243
Standby letters of credit	47,220	8,698	154	168	56,240
Total commitments	**$428,804**	**$971,133**	**$645,119**	**$635,427**	**$2,680,483**

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their contractual amounts are not reflected on the Consolidated Statements of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and the Association applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success and our ability to serve our mission. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Members' equity at December 31, 2017, totaled $2,031 million, compared with $1,774 million at December 31, 2016, and $1,784 million at December 31, 2015. The $257.4 million increase in 2017 was primarily due to strong earnings and approximately $166.2 million of additional paid in capital resulting from the Southwest Kansas merger, partially offset by $59.8 million of cash patronage distributed back to our customers. Our capital position is reflected in the following ratio comparisons.

	2017	2016	2015
Total capital (in millions)	$2,031.0	$1,773.6	$1,784.3
Debt to capital	3.91:1	3.82:1	3.37:1
Capital to net loans	21.9%	22.2%	24.5%
Capital to total assets	20.4%	20.7%	22.9%
Capital to total liabilities	25.6%	26.2%	29.7%

As a prudent business practice, the Association has established a capital adequacy plan that outlines objectives relating to maintaining a stable, secure capital base. Permanent capital, as defined by FCA regulations, is generated from two sources: retained earnings and at-risk stock. Retained earnings (including additional paid in capital) represented 94.1%, 92.7%, and 89.1% of total capital at December 31, 2017, 2016, and 2015, respectively. For a description of classes of stock and regulatory capital requirements, as well as a description of the Association's Capital Adequacy Plan, please see Note 8 to the consolidated financial statements. The Board and management consider current capital ratios to be adequate in view of anticipated loan growth, operating performance, and identified risks.

Association bylaws require each borrower to invest in the capital stock of the Association. The Association may require additional capital contributions in accordance with federal regulations. Equities purchased by members and surplus accumulated from earnings provide the capital resources used in the Association's operations.

The Board of Directors has adopted an Obligating Resolution to distribute 2018 patronage-sourced earnings to patrons of the Association, contingent upon the Association achieving certain capital criteria.

REGULATORY MATTERS

In 2016, the FCA adopted final rules (the New Capital Regulations) relating to regulatory capital requirements for System banks and associations. The New Capital Regulations took effect January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government-sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The New Capital Regulations, among other things, replaced existing Core surplus and Total surplus requirements with Common Equity Tier 1 (CET1), Tier 1 and total capital (Tier 1 plus Tier 2) risk-based capital ratio requirements. The New Capital Regulations also added a Tier 1 leverage ratio for all System institutions, which replaced the existing net collateral ratio for System banks. In addition, the New Capital Regulations established a capital conservation buffer and a leverage buffer and enhanced the sensitivity of risk weightings. The revisions to the risk-weightings included alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5%;
- A Tier 1 capital ratio (CET1 capital plus additional Tier 1 capital) of 6%; and
- A total capital ratio (Tier 1 capital plus Tier 2) of 8%.

The New Capital Regulations also set a minimum Tier 1 leverage ratio (Tier 1 capital divided by total assets) of 4%, of which at least 1.5% must consist of Unallocated Retained Earnings (URE) and URE Equivalents (UREE), which are nonqualified allocated equities with certain characteristics of URE.

The New Capital Regulations established a capital cushion (capital conservation buffer) of 2.5% above the risk-based CET1, Tier 1 and total capital requirements. In addition, the New Capital Regulations established a leverage capital cushion (leverage buffer) of 1% above the Tier 1 leverage ratio requirement. If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations established a three-year phase-in of the capital conservation buffer beginning January 1, 2017. There is no phase-in of the leverage buffer. The Permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

As shown in the following table, at December 31, 2017, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities, and pay preferred stock dividends.

	Regulatory Minimums	Capital Conservation Buffer	Total	As of December 31, 2017
Common Equity Tier 1 ratio	4.5%	2.5%	7.0%	15.37%
Tier 1 capital ratio	6.0%	2.5%	8.5%	15.37%
Total capital ratio	8.0%	2.5%	10.5%	15.57%
Permanent capital ratio	7.0%	0.0%	7.0%	16.65%
Tier 1 leverage ratio	4.0%	1.0%	5.0%	17.61%
UREE leverage ratio	1.5%	0.0%	1.5%	19.08%

2012–2016 REGULATORY CAPITAL REQUIREMENTS AND RATIOS

As displayed in the following table, at December 31, 2016, 2015, 2014, 2013, and 2012, we exceeded the minimum regulatory capital requirements effective through December 31, 2016, which are noted parenthetically. Through December 31, 2016, the regulatory minimum Core surplus ratio was 3.5%.

December 31,	2016	2015	2014	2013	2012
Permanent capital ratio (7.0%)	17.94%	19.70%	21.12%	21.01%	21.12%
Total surplus ratio (7.0%)	15.76%	16.96%	18.34%	18.86%	19.03%
Core surplus ratio (3.5%)	15.45%	16.40%	17.66%	18.09%	18.19%

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of American AgCredit, ACA and Subsidiaries:

We have audited the accompanying consolidated financial statements of American AgCredit, ACA and its subsidiaries (the "Association"), which comprise the consolidated statements of condition as of December 31, 2017, 2016, and 2015, and the related consolidated statements of comprehensive income, of changes in members' equity, and of cash flows for the years then ended.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated 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 Association'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of American AgCredit, ACA and its subsidiaries as of December 31, 2017, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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MARCH 2, 2018

CONSOLIDATED STATEMENTS OF CONDITION

December 31, (In thousands)	2017	2016	2015
ASSETS			
Loans	$9,306,922	$8,008,875	$7,291,557
Less: allowance for loan losses	(19,588)	(19,241)	(8,754)
Net loans	**9,287,334**	**7,989,634**	**7,282,803**
Cash	51,202	17,184	28,495
Accrued interest receivable	80,155	61,707	51,212
Investment in CoBank	312,302	261,711	255,966
Premises and equipment, net	129,123	127,819	110,311
Other property owned	–	–	2,521
Other assets	104,638	90,926	66,887
Total assets	**$9,964,754**	**$8,548,981**	**$7,798,195**
LIABILITIES			
Note payable CoBank	$7,658,255	$6,561,500	$5,824,914
Funds Held accounts	86,599	67,562	56,906
Accrued interest payable	20,183	10,045	8,594
Patronage/dividends payable	59,818	50,199	43,670
Other liabilities	108,896	86,030	79,849
Total liabilities	**7,933,751**	**6,775,336**	**6,013,933**
Commitments and contingencies (Note 14)			
MEMBERS' EQUITY			
Preferred stock	126,910	128,620	196,515
Common capital stock and participation certificates	8,714	7,805	7,680
Additional paid in capital	656,723	490,564	490,564
Unallocated retained surplus	1,254,530	1,154,462	1,099,399
Accumulated other comprehensive loss	(15,874)	(7,806)	(9,896)
Total members' equity	**2,031,003**	**1,773,645**	**1,784,262**
Total liabilities and members' equity	**$9,964,754**	**$8,548,981**	**$7,798,195**

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

CONSOLIDATED **STATEMENTS OF COMPREHENSIVE INCOME**

For the Year Ended December 31, (In thousands)	2017	2016	2015
INTEREST INCOME			
Loans	$389,722	$310,960	$269,877
Total interest income	**389,722**	**310,960**	**269,877**
INTEREST EXPENSE			
Notes payable CoBank	133,641	98,205	83,959
Funds Held and other interest	998	303	300
Total interest expense	**134,639**	**98,508**	**84,259**
Net interest income	**255,083**	**212,452**	**185,618**
Provision for credit losses	(2,634)	(12,812)	(1,382)
Net interest income after provision for credit losses	**252,449**	**199,640**	**184,236**
NON-INTEREST INCOME			
Loan origination fees and late charges	10,519	9,783	7,179
Servicing fees	3,461	3,352	3,439
Patronage distribution from Farm Credit institutions	37,126	34,044	28,670
Other gains/(losses), net	718	158	(36)
Miscellaneous	8,764	8,721	11,146
Total non-interest income	**60,588**	**56,058**	**50,398**

For the Year Ended December 31, (In thousands)	2017	2016	2015
NON-INTEREST EXPENSES			
Salaries and employee benefits	94,319	95,343	87,067
Occupancy and equipment expense	10,425	11,867	9,161
Insurance fund premiums	10,189	9,704	6,332
Supervisory and examination expense	2,992	2,462	2,633
Losses/(Gains) on other property owned, net	3	(21)	532
Merger costs	229	365	21
Other operating expenses	35,734	31,442	29,133
Total non-interest expenses	**153,891**	**151,162**	**134,879**
Income before income taxes	159,146	104,536	99,755
Provision for income taxes	(4)	(7)	(16)
Net income	**$159,142**	**$104,529**	**$99,739**
COMPREHENSIVE INCOME			
Change in retirement obligation	(8,068)	2,090	(3,042)
Total comprehensive income	**$151,074**	**$106,619**	**$96,697**

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

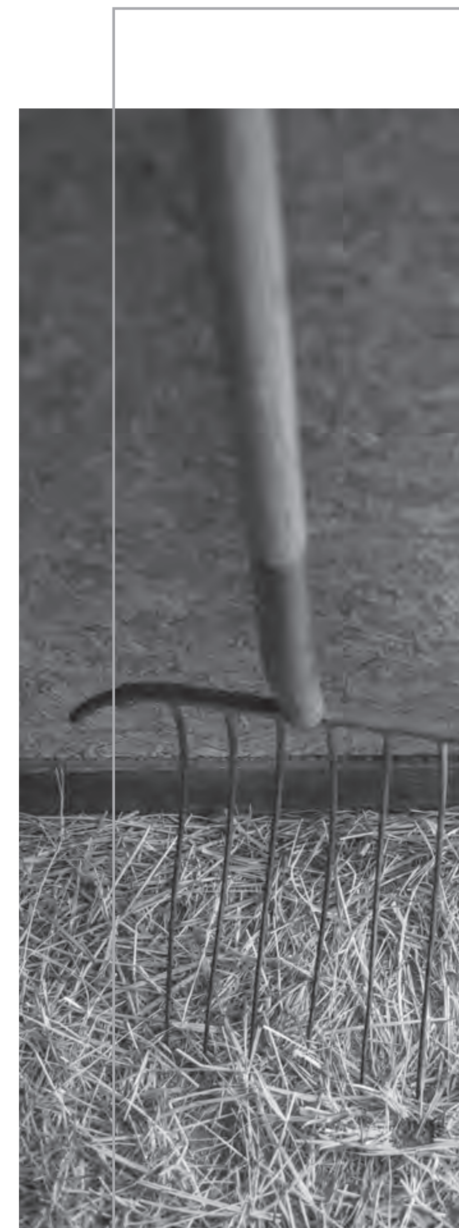
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(In thousands)	Stock and Participation Certificates	Preferred Stock	Additional Paid in Capital	Unallocated Retained Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
BALANCE AT DECEMBER 31, 2014	**$7,396**	**$172,533**	**$490,564**	**$1,042,921**	**$(6,854)**	**$1,706,560**
Comprehensive income				99,739	(3,042)	96,697
Common capital stock/participation certificates issued	855					855
Common capital stock/participation certificates retired	(571)					(571)
Preferred stock issued		441,897				441,897
Preferred stock retired		(418,635)				(418,635)
Preferred stock dividends paid		720				720
Preferred stock dividends accrued				(740)		(740)
Patronage distribution declared				(43,485)		(43,485)
Reversal of prior-year patronage declared but not paid				964		964
BALANCE AT DECEMBER 31, 2015	**$7,680**	**$196,515**	**$490,564**	**$1,099,399**	**$(9,896)**	**$1,784,262**
Comprehensive income				104,529	2,090	106,619
Common capital stock/participation certificates issued	980					980
Common capital stock/participation certificates retired	(855)					(855)
Preferred stock issued		322,046				322,046
Preferred stock retired		(390,822)				(390,822)
Preferred stock dividends paid		881				881
Preferred stock dividends accrued				(701)		(701)
Patronage distribution declared				(50,194)		(50,194)
Reversal of prior-year patronage declared but not paid				1,429		1,429
BALANCE AT DECEMBER 31, 2016	**$7,805**	**$128,620**	**$490,564**	**$1,154,462**	**$(7,806)**	**$1,773,645**
Comprehensive income				159,142	(8,068)	151,074
Common capital stock/participation certificates issued	1,166					1,166
Common capital stock/participation certificates retired	(1,219)					(1,219)
Preferred stock issued		203,758				203,758
Preferred stock retired		(206,834)				(206,834)
Equity issued or re-characterized upon merger	962		166,159			167,121
Preferred stock dividends paid		1,366				1,366
Preferred stock dividends accrued				(1,370)		(1,370)
Patronage distribution declared				(59,808)		(59,808)
Reversal of prior-year patronage declared but not paid				2,104		2,104
BALANCE AT DECEMBER 31, 2017	**$8,714**	**$126,910**	**$656,723**	**$1,254,530**	**$(15,874)**	**$2,031,003**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Year Ended December 31, 2017	2016	2015
Cash flows from operating activities:			
Net income	$159,142	$104,529	$99,739
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	2,634	12,812	1,382
Depreciation	6,592	5,916	5,406
Amortization of fair market value of net assets acquired in merger	4,312	(226)	(572)
Other property owned carrying value adjustments	–	–	505
Other losses/(gains), net	47	(40)	36
Loss/(Gain) on sale of other property owned, net	3	(21)	27
(Gain) on sale of other assets	(765)	(118)	–
Stock patronage from CoBank	(2,647)	(1,868)	(1,652)
Change in assets and liabilities:			
(Increase) in accrued interest receivable	(10,513)	(10,448)	(5,886)
Decrease /(Increase) in other assets	1,434	(11,168)	433
Increase/(Decrease) in accrued interest payable	9,316	1,451	(2,512)
Increase in other liabilities	8,446	9,056	2,522
Net cash provided by operating activities	**$178,001**	**$109,875**	**$99,428**
Cash flows from investing activities:			
Increase in loans, net	$(620,091)	$(736,977)	$(937,022)
Recovery of loans charged-off	814	2,439	506
Acquisition of premises and equipment, net	(3,217)	(23,828)	(52,013)
Purchase of CoBank stock, net	(22,782)	(3,877)	–
Proceeds from sale of premises and equipment	2,322	444	2,792
Proceeds from sale of other property owned, net of expenses	(3)	2,542	(27)
Investment in AgDirect	(1,096)	(1,087)	(1,404)
Cash acquired in merger transaction	18,339	–	–
Net cash used in investing activities	**$(625,714)**	**$(760,344)**	**$(987,168)**



CONSOLIDATED **STATEMENTS OF CASH FLOWS**

(In thousands)	2017	For the Year Ended December 31, 2016	2015
Cash flows from financing activities:			
Net draws on note payable to CoBank	$532,557	$739,209	$927,498
Increase/(Decrease) in Funds Held accounts	5,042	10,656	(2,193)
Cash distributions paid	(52,739)	(42,056)	(38,051)
Issuance of capital stock and participation certificates	1,166	980	855
Retirement of capital stock and participation certificates	(1,219)	(855)	(571)
Issuance of preferred stock	203,758	322,046	441,897
Retirement of preferred stock	(206,834)	(390,822)	(418,635)
Net cash provided by financing activities	**$481,731**	**$639,158**	**$910,800**
Net increase / (decrease) in cash	$34,018	$(11,311)	$23,060
Cash at beginning of year	17,184	28,495	5,435
Cash at end of year	**$51,202**	**$17,184**	**$28,495**

SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS (In thousands)	2017	For the Year Ended December 31, 2016	2015
Patronage/dividends currently payable	$59,818	$50,199	$43,670
Loan charge-offs	$3,686	$5,549	$421
Other property owned in settlement of loans	–	–	$195
Dividend accrual adjustment to prior year	$2,104	$1,429	$964
Preferred stock dividends paid	$1,366	$881	$720
Impact of merger transaction:			
Assets acquired	$720,075	–	–
Liabilities assumed	$571,293	–	–
Equity issued	$167,121	–	–
Supplemental information:			
Cash paid for interest	$(126,439)	$(99,680)	$(90,959)
Cash paid for income taxes	$(4)	$(7)	$(16)

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

NOTE 1 – ORGANIZATION AND OPERATIONS

A. ORGANIZATION: American AgCredit, ACA and subsidiaries, American AgCredit, PCA and American AgCredit, FLCA (collectively called "the Association"), is a member-owned cooperative that provides credit and credit-related services to and for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in the state of Nevada and the following California counties: Alameda, Alpine, Amador, Calaveras, Contra Costa, Del Norte, El Dorado, Humboldt, Lake, Lassen, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Sierra, Siskiyou, Sonoma, Stanislaus, Tuolumne, and portions of Los Angeles, Fresno, and Trinity. In Kansas, the Association serves the counties of Barber, Barton, Butler, Chautauqua, Clark, Cloud, Comanche, Cowley, Edwards, Elk, Ellis, Ellsworth, Finney, Ford, Graham, Grant, Gray, Greeley, Greenwood, Hamilton, Harper, Harvey, Haskell, Jewell, Kearny, Kingman, Kiowa, Lane, Lincoln, McPherson, Meade, Mitchell, Morton, Norton, Osborne, Ottawa, Pawnee, Phillips, Pratt, Reno, Republic, Rice, Rooks, Rush, Russell, Saline, Scott, Sedgwick, Seward, Smith, Stafford, Stanton, Stevens, Sumner, Trego and Wichita. In Oklahoma, the Association serves the counties of Kay, Noble, and Osage. In Colorado, the Association serves the counties of Adams, Arapahoe, Archuleta, Boulder, Clear Creek, Delta, Denver, Dolores, Douglas, Eagle, part of Elbert, Garfield, Gilpin, Grand, Gunnison, part of Hinsdale, Jackson, Jefferson, La Plata, Larimer, Mesa, Moffat, Montezuma, Montrose, Ouray, Pitkin, Rio Blanco, Routt, San Juan, San Miguel, part of Saquache, Summit, and Weld. The Association also serves the counties of San Juan and half of Rio Arriba that lies west of the Continental Divide in the state of New Mexico.

The Association is a lending institution of the Farm Credit System ("the System"), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended ("Farm Credit Act"). At December 31, 2017, the System was composed of three Farm Credit Banks (FCBs), one Agricultural Credit Bank (ACB), and approximately 69 associations. Each FCB and the ACB serve Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that may originate and service long-term, short-term, and intermediate-term loans. Production Credit Associations (PCAs), FLCAs, and ACAs are collectively referred to as associations.

CoBank, its related associations, and AgVantis, Inc. (AgVantis) are collectively referred to as "the District." CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations. As of December 31, 2017, the District consisted of CoBank, 22 ACAs, which each have two wholly owned subsidiaries (an FLCA and a PCA), and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

American AgCredit participates in AgDirect, LLP (AgDirect), a trade credit financing program that includes originations and re-financing of agricultural equipment loans through independent equipment dealers. AgDirect is an entity created by Farm Credit Services of America (FCSA), which is responsible for the marketing, operation, and implementation of the program. FCSA serves as the master servicer for the program assets and provides periodic reporting to investor associations. At December 31, 2017, the Association's investment in AgDirect, which was included in other assets in the Consolidated Statements of Condition, was $11.0 million, representing a 5.4% ownership in the partnership.

Congress has delegated authority to the FCA to regulate the System banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund ("Insurance Fund"). By law, the Insurance Fund is required to be used to insure the timely payment of principal and interest on System-wide debt obligations ("insured debt"), ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes. The Insurance Fund is also available for discretionary uses by the FCSIC in providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank is required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average outstanding insured debt, adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% of the aggregate insured debt or such other percentage of the insured debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0% level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds, as applicable, through to the District associations based on their average adjusted note payable with the Bank.

B. OPERATIONS: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow from the Association, and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses. The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

C. MERGER ACCOUNTING: On January 1, 2017, American AgCredit, ACA merged with Farm Credit of Southwest Kansas, ACA ("Southwest Kansas"), a Farm Credit System association within the CoBank District. The primary reason to merge was based on a determination that the combined organization should be financially and operationally stronger than either Association on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

As the accounting acquirer, American AgCredit accounted for the transaction by using American AgCredit's historical information and accounting policies and adding the identifiable assets and liabilities of Southwest Kansas as of the acquisition date of January 1, 2017, at their respective fair values.

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 these and other respects, the shares of Southwest Kansas stock that were converted in the merger and the shares of American AgCredit stock to which they were converted had identical rights and attributes. For this reason, the conversion of Southwest Kansas stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Southwest Kansas share was converted into one share of American AgCredit stock with an equal par value).

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

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification (ASC 805, Business Combinations). Pursuant to these rules, American AgCredit acquired the assets and assumed the liabilities of Southwest Kansas at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($167.1 million) was substantially equal to the fair value of the equity interest exchanged in the merger. In addition, no material amounts of intangible assets were acquired. As a result, no goodwill was recorded. A net increase of $167.1 million was recorded in members' equity related to the merger.

The following condensed statement of net assets acquired reflects that fair value assigned to Southwest Kansas's net assets as of the acquisition date. There were no subsequent changes to these fair values within one year after the date of the acquisition as no additional information became available.

(In thousands)	Fair Value	Book Value	Contractual Amounts Not Expected to Be Collected
ASSETS			
Loans receivable:			
Long-term mortgage	$429,958	$434,845	–
Production and intermediate-term	168,493	169,577	703
Agribusiness	56,227	56,661	–
Rural infrastructure	16,013	16,057	–
Rural residential real estate	161	161	–
Agricultural export finance	4,013	4,082	–
Total loans receivable	674,865	681,383	703
Cash	18,339	18,339	–
Investments in Farm Credit institutions	25,162	25,162	–
Property and equipment, net	7,048	6,581	–
Other assets	13,000	13,519	–
Total assets	**$738,414**	**$744,984**	**$703**
LIABILITIES			
Notes payable	$544,889	$545,592	–
Interest payable	822	822	–
Funds Held	13,995	13,995	–
Other liabilities	11,587	11,885	–
Total liabilities	**$571,293**	**$572,294**	–
Net assets acquired	**$167,121**		

Fair value adjustments to Southwest Kansas's assets and liabilities included a $6.5 million decrease to loans and a $0.7 million decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts in the first three years following the merger. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans, which totaled $681.4 million at January 1, 2017.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of December 31, 2017. The Consolidated Statement of Income reflects the results of the merged entity for the period of January 1 to December 31 for 2017. For 2017, the Consolidated Statement of Changes in Members' Equity reflects the changes in members' equity for American AgCredit as a merged entity. For 2017, the Consolidated Statement of Cash Flows reflects the cash flows for American AgCredit as a merged entity. The information presented in the Notes to the Consolidated Financial Statements for 2017 reflects the balances of the merged Association as of December 31, or in the case of transactional activity, of the merged Association for the period of January 1 to December 31.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these notes, as applicable. Actual results may differ from these estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's financial statement presentation. Loan type categories were modified as follows: Rural infrastructure is made up of communications, energy, and water/waste water loan types. Agricultural export finance and rural residential real estate loans were reported in the Other category in prior years. The Standard Industrial Classification (SIC) codes were replaced by the North American Industry Classification System (NAICS) codes for classifying loan commodity groups. Certain technology-related amounts have been reclassified from occupancy and equipment to other operating expenses.

The consolidated financial statements include the accounts of American AgCredit, PCA and American AgCredit, FLCA. All significant inter-company transactions have been eliminated in consolidation.

A. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS: In August 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." 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. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." 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. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." 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. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The Association adopted this guidance effective January 1, 2018, and the Association's financial condition or its results of operations were not materially impacted.

In May 2014, the FASB issued guidance entitled "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange

for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of the Association's contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which resulted in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association determined the effect was not material to its financial condition or results of operations.

B. LOANS AND ALLOWANCE FOR LOAN LOSSES: Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans acquired in a business combination are initially recognized at fair value based on current interest rates and taking into account the borrowers' credit quality; therefore, no "carryover" of the allowance for loan losses is permitted. The difference between the book value and fair value of these loans at acquisition date is accreted into interest income during the estimated remaining life of the acquired loans. Those loans with evidence of credit quality deterioration at purchase price are required to follow the authoritative accounting guidance. This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable-rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest.

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be transferred to accrual status when contractual 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, and the loan is not classified as "Doubtful" or "Loss." Loans are charged-off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring if, for economic or legal reasons related to the debtor's financial difficulties, the Association grants a concession to the debtor that it would not otherwise consider. In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loan origination fees and certain direct origination costs for mortgage loans and commercial loans with terms greater than one year are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment of the yield of the related loan.

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are accounted for following the accounting requirements for sale treatment.

The Association uses a two-dimensional loan rating model based on internally generated combined system risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a 9 to other assets especially mentioned, and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan

recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions, and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision, and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations, and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

A specific allowance may be established for impaired loans under GAAP. Impairment of these loans is measured by the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, by the loan's observable market price, or fair value of the collateral, if the loan is collateral dependent.

The reserve for unfunded lending commitments is based on management's best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency.

C. CASH: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

D. INVESTMENT IN COBANK: The Association's required investment in CoBank is in the form of Class A stock. The minimum required investment is 4.0% of the prior year's average direct loan volume. The investment in CoBank is composed of patronage-based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.0% of the prior 10-year average of such participations sold to CoBank.

E. OTHER PROPERTY OWNED: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at 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. On at least an annual basis, revised estimates to the fair value 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. Income and expenses from operations and carrying value adjustments are included in losses on other property owned, net in the Consolidated Statements of Comprehensive Income.

F. PREMISES AND EQUIPMENT: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the assets. Useful lives for buildings are 39 years and range from four to seven years for furniture, equipment, and automobiles. Progress payments for assets under construction or development are held in construction in progress and do not begin depreciation or amortization until the asset is designated as complete and placed in service by the Association. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed, and improvements above certain thresholds are capitalized.

G. OTHER ASSETS AND OTHER LIABILITIES: Other assets are composed primarily of patronage receivable from CoBank, investment in the nonqualified deferred compensation plan, and the investment in AgDirect. Significant components of other liabilities primarily include accounts payable, employee benefits, and reserve for unfunded commitments.

H. FUNDS HELD ACCOUNTS: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such Funds Held is restricted, the Funds Held are netted against the borrower's related loan balance. Unrestricted Funds Held are included in liabilities. Restricted Funds Held are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Funds Held are not insured. Interest is generally paid by the Association on Funds Held accounts.

I. EMPLOYEE BENEFIT PLANS: Substantially all employees of the Association participate in either the Ninth Farm Credit District Pension Plan ("Pension Plan") or the Eleventh District Defined Benefit Retirement Plan ("Defined Benefit Plan") and/or the Farm Credit Foundations Defined Contribution/401(k) Plan ("Defined Contribution Plan"). The Pension Plan and Defined Benefit Plan are noncontributory defined benefit plans. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997. The Pension Plan was closed to employees beginning January 1, 2007.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plans may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998, are eligible to participate only in the Defined Contribution Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Ninth and Eleventh District Nonqualified Defined Benefit Pension Restoration Plans. These plans provide retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the plans are offset by the benefits payable from the Pension Plan and the Defined Benefit Plan.

Certain eligible employees may also participate in a nonqualified deferred compensation plan, which was included in other assets and other liabilities in the Consolidated Statements of Condition, where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundation Retiree Medical and Retiree Life Plans. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

J. INCOME TAXES: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. The ACA, which is the holding company, and the PCA subsidiary are subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state, or local laws. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the financial statements and tax bases of assets and liabilities. In addition, a valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, that the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings.

At December 31, 2017, deferred income taxes have not been provided on approximately $78.7 million of patronage refunds received from the Bank before January 1, 1993, the adoption date of accounting guidance on income taxes. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Management's intent is to permanently invest these undistributed earnings in CoBank, thereby indefinitely postponing their conversion to cash.

The Association has not provided deferred income taxes on amounts allocated to the Association that relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. CoBank currently has no plans to distribute unallocated CoBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

For state tax purposes, the Association can exclude from taxable income all patronage-sourced income. Therefore, the provision for state income taxes is made only on non-patronage-sourced taxable earnings.

K. PATRONAGE DISTRIBUTION FROM COBANK: Patronage distributions from CoBank are accrued by the Association in the year earned.

L. OTHER COMPREHENSIVE INCOME/LOSS: Other comprehensive income/loss refers to revenue, expenses, gains, and losses that under generally accepted accounting principles are recorded as an element of members' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

M. FAIR VALUE MEASUREMENT: Accounting guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

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 1 assets include assets held in trust funds that relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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 the following: (a) quoted prices for similar assets or liabilities in active markets; (b) 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, the prices are not current, or principal market information is not released publicly; (c) inputs other than quoted prices that are observable, such as interest rates and yield curves, prepayment speeds, credit risks, and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are 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. Level 3 assets include loans acquired in an acquisition or merger and other property owned.

The fair value disclosures are presented in Note 15.

N. OFF-BALANCE-SHEET CREDIT EXPOSURES: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Components of loans in the Consolidated Statements of Condition are as follows:

December 31,	2017	2016	2015
Real estate mortgage	$5,280,957	$4,498,055	$4,065,731
Production and intermediate-term	2,001,070	1,502,995	1,340,338
Agribusiness	1,718,331	1,740,584	1,606,617
Rural infrastructure	279,440	243,706	254,754
Rural residential real estate	4,054	4,565	5,131
Agricultural export finance	23,070	18,970	18,986
Total	**$9,306,922**	**$8,008,875**	**$7,291,557**

The unamortized premium on loans acquired in mergers remaining at December 31, 2017, 2016, and 2015, was $1.3 million, $6.6 million, and $9.0 million, respectively.

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. All loans sold to others are sold without recourse. The following table presents information regarding participations purchased and sold as of December 31, 2017.

	Other Farm Credit Institutions		Non–Farm Credit Institutions		Total	
December 31, 2017	PARTICIPATIONS PURCHASED	PARTICIPATIONS SOLD	PARTICIPATIONS PURCHASED	PARTICIPATIONS SOLD	PARTICIPATIONS PURCHASED	PARTICIPATIONS SOLD
Real estate mortgage	$170,897	$1,225,261	$292	–	$171,189	$1,225,261
Production and intermediate-term	341,482	788,297	–	–	341,482	788,297
Agribusiness	929,541	1,514,430	2,830	–	932,371	1,514,430
Rural infrastructure	288,758	9,444	–	–	288,758	9,444
Agricultural export finance	23,070	–	–	–	23,070	–
Total	**$1,753,748**	**$3,537,432**	**$3,122**	**$0**	**$1,756,870**	**$3,537,432**

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

December 31,	2017		2016		2015	
Commodity	Amount	%	Amount	%	Amount	%
Vineyards and wineries	$1,545,939	17%	$1,360,201	17%	$1,251,949	17%
Field crops	1,504,406	16%	997,298	12%	924,091	13%
Dairies	1,178,126	13%	1,039,148	13%	871,477	12%
Forest products	1,001,539	11%	933,770	12%	896,219	12%
Tree fruits and nuts	976,058	10%	884,723	11%	775,569	11%
Beef	900,676	9%	717,869	9%	705,549	10%
Vegetables	346,806	4%	318,154	4%	258,367	3%
Other	1,853,372	20%	1,757,712	22%	1,608,336	22%
Total	**$9,306,922**	**100%**	**$8,008,875**	**100%**	**$7,291,557**	**100%**

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, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum.

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

Acceptable: Assets are expected to be fully collectible and represent the highest quality;

Other Assets Especially Mentioned (OAEM): Assets are currently collectible but exhibit some potential weakness;

Substandard: Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan;

Doubtful: Assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable; and

Loss: Assets are considered uncollectible.

The determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of December 31, 2017, the allowance for loan losses is adequate based on information currently available.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

December 31,	2017	2016	2015
Real estate mortgage			
Acceptable	96.98%	97.56%	96.89%
OAEM	1.53	1.24	1.62
Substandard/Doubtful	1.49	1.20	1.49
	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	93.73%	94.05%	98.67%
OAEM	4.30	4.44	0.48
Substandard/Doubtful	1.97	1.51	0.85
	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	96.98%	96.92%	98.80%
OAEM	–	0.41	1.03
Substandard/Doubtful	3.02	2.67	0.17
	100.00%	100.00%	100.00%
Rural infrastructure			
Acceptable	100.00%	98.49%	93.65%
OAEM	–	1.51	6.35
Substandard/Doubtful	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate			
Acceptable	92.48%	92.03%	96.09%
OAEM	4.51	6.31	2.11
Substandard/Doubtful	3.01	1.66	1.80
	100.00%	100.00%	100.00%
Agricultural export finance			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/Doubtful	–	–	–
	100.00%	100.00%	100.00%
Total loans			
Acceptable	96.38%	96.79%	97.53%
OAEM	1.80	1.67	1.44
Substandard/Doubtful	1.82	1.54	1.03
	100.00%	100.00%	100.00%

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table presents information relating to impaired loans (including accrued interest).

December 31,	2017	2016	2015
Nonaccrual:			
Current as to principal and interest	$15,823	$10,206	$44,495
Past due	14,026	17,203	2,272
Total nonaccrual loans	29,849	27,409	46,767
Accrual:			
Accrual > 90 days past due	–	1,300	–
Accruing restructured loans	11,421	8,626	9,067
Total impaired accrual loans	11,421	9,926	9,067
Total impaired loans	**$41,270**	**$37,335**	**$55,834**

Commitments to lend additional funds to debtors whose loans were classified as impaired at December 31 was $253 thousand for 2017, $0 for 2016, and $2.2 million for 2015.

High-risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These non-performing assets (including accrued interest) are as follows:

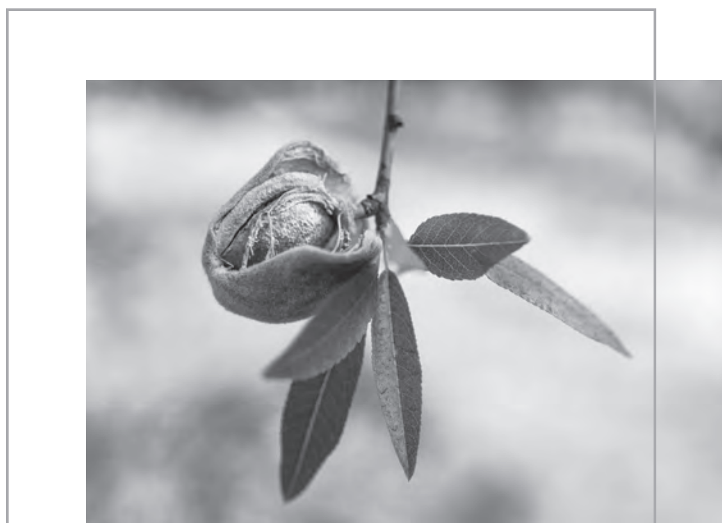
December 31,	2017	2016	2015
Nonaccrual loans:			
Real estate mortgage	$19,544	$21,377	$39,166
Production and intermediate-term	10,263	5,972	7,521
Agribusiness	14	22	31
Rural residential real estate	28	38	49
Total nonaccrual loans	29,849	27,409	46,767
Accruing restructured loans:			
Real estate mortgage	11,421	8,626	9,067
Total accruing restructured loans	11,421	8,626	9,067
Accruing loans 90 days or more past due:			
Real estate mortgage	–	1,300	–
Total accruing loans 90 days or more past due	–	1,300	–
Total impaired loans	41,270	37,335	55,834
Other property owned	–	–	2,521
Total high-risk assets	**$41,270**	**$37,335**	**$58,355**

Additional impaired loan information follows:

	AT DECEMBER 31, 2017			FOR THE YEAR ENDED DECEMBER 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	–	–	–	$146	–
Production and intermediate-term	2,354	3,216	600	2,147	–
Total	**$2,354**	**$3,216**	**$600**	**$2,293**	**–**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$30,965	$39,874	–	$32,305	$1,053
Production and intermediate-term	7,909	16,014	–	3,458	310
Agribusiness	14	1,991	–	12	10
Rural residential real estate	28	38	–	22	–
Total	**$38,916**	**$57,917**	**–**	**$35,797**	**$1,373**
Total impaired loans:					
Real estate mortgage	$30,965	$39,874	–	$32,451	$1,053
Production and intermediate–term	10,263	19,230	600	5,605	310
Agribusiness	14	1,991	–	12	10
Rural residential real estate	28	38	–	22	–
Total	**$41,270**	**$61,133**	**$600**	**$38,090**	**$1,373**

Additional impaired loan information, continued.

	AT DECEMBER 31, 2016			FOR THE YEAR ENDED DECEMBER 31, 2016	
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$504	$707	$84	$323	–
Production and intermediate-term	4,128	6,721	663	1,278	–
Total	**$4,632**	**$7,428**	**$747**	**$1,601**	**–**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$30,799	$41,887	–	$39,513	$5,236
Production and intermediate-term	1,844	3,022	–	3,441	598
Agribusiness	22	44	–	20	5
Rural residential real estate	38	46	–	34	–
Total	**$32,703**	**$44,999**	**–**	**$43,008**	**$5,839**
Total impaired loans:					
Real estate mortgage	$31,303	$42,594	$84	$39,836	$5,236
Production and intermediate-term	5,972	9,743	663	4,719	598
Agribusiness	22	44	–	20	5
Rural residential real estate	38	46	–	34	–
Total	**$37,335**	**$52,427**	**$747**	**$44,609**	**$5,839**



	AT DECEMBER 31, 2015			FOR THE YEAR ENDED DECEMBER 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$498	$664	$85	$290	–
Production and intermediate-term	–	–	–	241	–
Total	**$498**	**$664**	**$85**	**$531**	**–**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$47,735	$68,784	–	$47,275	$1,111
Production and intermediate-term	7,521	8,162	–	2,057	344
Agribusiness	31	56	–	8	–
Rural residential real estate	49	55	–	41	–
Total	**$55,336**	**$77,057**	**–**	**$49,381**	**$1,455**
Total impaired loans:					
Real estate mortgage	$48,233	$69,448	$85	$47,565	$1,111
Production and intermediate-term	7,521	8,162	–	2,298	344
Agribusiness	31	56	–	8	–
Rural residential real estate	49	55	–	41	–
Total	**$55,834**	**$77,721**	**$85**	**$49,912**	**$1,455**

Note: The recorded investment in the loan receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

For the Year Ended December 31,	2017	2016	2015
Interest income recognized on:			
Nonaccrual loans	$732	$5,401	$1,101
Accruing restructured loans	641	374	354
Accrual loans 90 days or more past due	–	64	–
Interest income recognized on impaired loans	**$1,373**	**$5,839**	**$1,455**

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

For the Year Ended December 31,	2017	2016	2015
Interest income that would have been recognized under the original loan terms	$6,980	$8,944	$4,855
Less: interest income recognized	(1,373)	(5,775)	(1,455)
Foregone interest income	**$5,607**	**$3,169**	**$3,400**

The following table provides an age analysis of past due loans (including accrued interest).

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
Real estate mortgage	$12,452	$10,237	$22,689	$5,315,211	$5,337,900
Production and intermediate-term	7,282	2,096	9,378	2,006,363	2,015,741
Agribusiness	2,775	–	2,775	1,723,569	1,726,344
Rural infrastructure	–	–	–	279,916	279,916
Rural residential real estate	130	–	130	3,939	4,069
Agricultural export finance	–	–	–	23,107	23,107
Total	**$22,639**	**$12,333**	**$34,972**	**$9,352,105**	**$9,387,077**

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
Real estate mortgage	$6,956	$13,203	$20,159	$4,520,846	$4,541,005
Production and intermediate-term	9,444	4,140	13,584	1,500,050	1,513,634
Agribusiness	4,107	–	4,107	1,744,271	1,748,378
Rural infrastructure	–	–	–	243,989	243,989
Rural residential real estate	103	–	103	4,478	4,581
Agricultural export finance	–	–	–	18,995	18,995
Total	**$20,610**	**$17,343**	**$37,953**	**$8,032,629**	**$8,070,582**

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
Real estate mortgage	$7,217	$2,048	$9,265	$4,091,720	$4,100,985
Production and intermediate-term	2,199	–	2,199	1,346,467	1,348,666
Agribusiness	–	–	–	1,613,913	1,613,913
Rural infrastructure	–	–	–	255,047	255,047
Rural residential real estate	–	–	–	5,149	5,149
Agricultural export finance	–	–	–	19,009	19,009
Total	**$9,416**	**$2,048**	**$11,464**	**$7,331,305**	**$7,342,769**

A restructuring of debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding TDRs, whether accrual or non-accrual, that occurred during the period presented. The Association had $5.0 million in new TDRs in 2017, $75 thousand in 2016, and $0 in 2015.

Year Ended December 31, 2017	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$4,133	$4,133
Production and intermediate-term	881	881
Total	**$5,014**	**$5,014**

Year Ended December 31, 2016	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Production and intermediate-term	$75	$75
Total	**$75**	**$75**

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

In the allowance for loan loss analysis, TDR loans are individually evaluated and a specific allowance is established based on the likelihood the current events will result in an anticipated loss on the individual loans.

The following table provides information on the outstanding principal balance of loans restructured in TDR at period-end. These loans are included as impaired loans in the impaired loan table.

The Association had no TDRs for which there was a payment default during the years presented.

Additional commitments to lend to borrowers whose loans have been modified in TDRs were $140 thousand at December 31, 2017.

December 31,		2017	2016	2015
Loans Modified as TDRs	Real estate mortgage	$13,964	$11,731	$14,078
	Production and intermediate-term	825	256	278
	Total	**$14,789**	**$11,987**	**$14,356**
TDRs in Nonaccrual Status	Real estate mortgage	$2,564	$3,105	$5,011
	Production and intermediate-term	825	257	278
	Total	**$3,389**	**$3,362**	**$5,289**

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is as follows:

Ending Balance at December 31, 2017	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	–	$4,006	$30,965	$5,306,935
Production and intermediate-term	600	8,368	10,264	2,005,477
Agribusiness	–	5,929	14	1,726,330
Rural infrastructure	–	643	–	279,916
Rural residential real estate	–	4	27	4,042
Agricultural export finance	–	38	–	23,107
Total	**$600**	**$18,988**	**$41,270**	**$9,345,807**

Ending Balance at December 31, 2015	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$85	$2,801	$48,233	$4,052,752
Production and intermediate-term	–	2,216	7,521	1,341,145
Agribusiness	–	2,747	31	1,613,882
Rural infrastructure	–	882	–	255,047
Rural residential real estate	–	4	49	5,101
Agricultural export finance	–	19	–	19,009
Total	**$85**	**$8,669**	**$55,834**	**$7,286,936**

Ending Balance at December 31, 2016	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$84	$3,771	$31,303	$4,509,702
Production and intermediate-term	663	5,685	5,972	1,507,661
Agribusiness	–	8,285	22	1,748,355
Rural infrastructure	–	730	–	243,989
Rural residential real estate	–	4	38	4,543
Agricultural export finance	–	19	–	18,995
Total	**$747**	**$18,494**	**$37,335**	**$8,033,245**

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2017
Real estate mortgage	$3,855	–	$92	$60	$4,007
Production and intermediate-term	6,348	(3,686)	722	5,583	8,967
Agribusiness	8,285	–	–	(2,356)	5,929
Rural infrastructure	730	–	–	(87)	643
Rural residential real estate	4	–	–	–	4
Agricultural export finance	19	–	–	19	38
Total	**$19,241**	**$(3,686)**	**$814**	**$3,219**	**$19,588**

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2016
Real estate mortgage	$2,886	$(570)	$298	$1,241	$3,855
Production and intermediate-term	2,216	(4,978)	2,136	6,974	6,348
Agribusiness	2,747	(1)	5	5,534	8,285
Rural infrastructure	882	–	–	(152)	730
Rural residential real estate	4	–	–	–	4
Agricultural export finance	19	–	–	–	19
Total	**$8,754**	**$(5,549)**	**$2,439**	**$13,597**	**$19,241**

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Reclassification from Allowance to Reserve for Unfunded Commitments	Balance at December 31, 2015
Real estate mortgage	$2,674	$(165)	$326	$171	$(120)	$2,886
Production and intermediate-term	3,064	(256)	–	744	(1,336)	2,216
Agribusiness	4,398	–	180	(168)	(1,663)	2,747
Rural infrastructure	866	–	–	242	(226)	882
Rural residential real estate	3	–	–	1	–	4
Agricultural export finance	16	–	–	3	–	19
Total	**$11,021**	**$(421)**	**$506**	**$993**	**$(3,345)**	**$8,754**

A summary of the changes in the reserve for unfunded lending commitments follows:

Year Ended December 31,	2017	2016	2015
Balance at the beginning of the year	$2,949	$3,734	–
(Reversal of)/Provision for unfunded lending commitments	(585)	(785)	389
Reclassification from the allowance for loan losses to the reserve for unfunded commitments	–	–	3,345
Balance at end of the year	**$2,364**	**$2,949**	**$3,734**

To mitigate the risk of loan losses, the Association may enter into Long-Term Standby Commitment to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event a delinquency of four months occurs, subject to certain conditions. The balance of the loans under the Long-Term Standby Commitment to Purchase agreements was $8.6 million, $10.7 million, and $15.6 million at December 31, 2017, 2016, and 2015, respectively. Fees paid to Farmer Mac for such commitments totaled $49 thousand, $68 thousand, and $84 thousand for the years ended December 31, 2017, 2016, and 2015, respectively. These amounts are classified as interest expense. Farmer Mac has not purchased any loans under this agreement.

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2017, the Association's investment in CoBank is in the form of Class A stock with a par value of $100 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4% of the Association's prior-year average direct loan balance. The 2017 requirement for capitalizing its patronage-based participation loans sold to CoBank is 8% of the Association's prior 10-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75% cash and 25% Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements or its joint and several liability under the Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned approximately 9.70% of the outstanding common stock of CoBank at December 31, 2017.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

December 31,	2017	2016	2015
Buildings and improvements	$122,295	$119,224	$34,589
Furniture and equipment	29,158	27,751	24,169
Land	13,395	12,886	12,913
Construction in progress	557	125	66,048
Vehicles	2,767	2,042	2,409
Premises and equipment at cost	168,172	162,028	140,128
Less: accumulated depreciation	(39,049)	(34,209)	(29,817)
Premises and equipment, net	**$129,123**	**$127,819**	**$110,311**

The Association is obligated under various non-cancelable operating leases of certain vehicles and equipment. At December 31, 2017, future minimum lease payments for all non-cancelable leases are as follows:

2018	2019	2020	2021	2022	Thereafter	Total
$756	$607	$529	$373	$148	$1,504	$3,917

NOTE 6 – OTHER PROPERTY OWNED

Gains and losses on other property owned, as reflected on the Consolidated Statements of Income, consisted of the following:

December 31,	2017	2016	2015
Gains			
Gains on sale	–	$24	–
Carrying value adjustments	–	–	61
Total gains	–	24	61
Losses			
Loss on sale	–	–	–
Carrying value adjustments	–	–	566
Operating expense, net	3	3	27
Total losses	3	3	593
Losses/(Gains) on other property owned, net	**$3**	**$(21)**	**$532**

NOTE 7 – NOTES PAYABLE

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets to CoBank and is governed by a General Financing Agreement (GFA). The GFA is subject to renewal periodically in accordance with normal business practice and requires the Association to comply with certain covenants. The GFA matures on May 31, 2018. Management expects renewal of the GFA at that time. The Association adopted a block-funding methodology to debt issuance in the third quarter of 2017. Effective August 1, 2017, all of the Association's debt is block-funded through a direct note with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.86% at December 31, 2017, compared with 1.69% at December 31, 2016, and 1.73% at December 31, 2015.

The unamortized premium related to loans acquired in mergers at December 31, 2017, 2016, and 2015, was $4.5 million, $7.2 million, and $9.8 million, respectively.

Through the note payable, the Association was liable for the following:

December 31,	2017
Fixed rate debt	$1,936,161
Floating rate debt	3,826,093
Discount notes	1,296,886
Daily revolving line of credit	594,586
Total	**$7,653,726**

Prior to 2017, all of the Association's borrower loans were match-funded with CoBank. The Association's direct note was $6.5 billion and $5.8 billion at December 31, 2016, and 2015, respectively.

Fixed rate debt typically has original maturities ranging from one to 30 years, and at December 31, 2017, included callable debt of $569.4 million, with a range of call dates between January 2018 and August 2022. Floating rate notes generally have maturities ranging from one year to five years. Discount notes have maturities from one day to 365 days. The daily revolving line of credit is renewed annually and is priced at the overnight discount note rate.

The maturities of debt within the note payable to CoBank as of December 31, 2017, are shown below:

Year of Maturity	Amount	Weighted Average Interest Rate
2018	$3,663,827	1.41%
2019	1,766,731	1.56%
2020	998,267	1.59%
2021	45,935	1.91%
2022	55,913	2.03%
Subsequent years	1,123,053	2.75%
Total	**$7,653,726**	**1.67%**

Under the Farm Credit Act, the Association is obligated to borrow from CoBank, unless CoBank gives approval to borrow elsewhere.

NOTE 8 – MEMBERS' EQUITY

A description of the Association's capitalization requirements, capital protection mechanisms, regulatory capitalization requirements and restrictions, and equities is provided below.

A. CAPITAL STOCK AND PARTICIPATION CERTIFICATES

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in capital stock (for agricultural loans) or participation certificates (for rural home and farm-related business loans) in the Association as a condition of borrowing. In accordance with the Association's capitalization bylaws, the required investment is currently the lesser of $1,000 or 2% of the total borrower's commitment.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. ADDITIONAL PAID IN CAPITAL

The additional paid in capital represents the excess value received over the par value of capital stock and participation certificates issued, and arose from the issuance of American AgCredit capital stock and participation certificates in connection with mergers.

C. REGULATORY CAPITALIZATION REQUIREMENTS AND RESTRICTIONS

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the Core surplus and Total surplus requirements with Common Equity Tier 1, Tier 1 capital and total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents leverage ratio that are applicable to both the banks and associations. The permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2017:

Ratio	Primary Components of Numerator	Denominator	Ratios as of December 31, 2017	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 (CET1) capital	URE, common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	15.37%	7.00%	4.50%
Tier 1 capital	CET1 capital, non-cumulative perpetual preferred stock	Risk-adjusted assets	15.37%	8.50%	6.00%
Total capital	Tier 1 capital[2], allowance for loan losses, common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	15.57%	10.50%	8.00%
Tier 1 leverage**	Tier 1 capital	Total assets	17.61%	5.00%	4.00%
URE and URE equivalents (UREE) leverage	URE and URE Equivalents	Total assets	19.08%	–	1.50%
Permanent capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	16.65%	–	7.00%

*The New Capital Requirements have a 3-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

**Must include the regulatory minimum requirement for the URE and UREE leverage ratio.

1. Equities outstanding 7 or more years
2. Capped at 1.25% of risk-adjusted assets
3. Outstanding 5 or more years, but less than 7 years
4. Outstanding 5 or more years

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.

D. Description of Equities

Class A Common Stock: (Nonvoting, at-risk, no shares outstanding, $5 par value.) Class A Common Stock may be issued as a patronage distribution or in exchange for a like number of shares of Class C Common Stock when said holder has fully retired his loan or loans with the Association and has not had a borrowing relationship with the Association for two years. Class A Common Stock may be converted to Class C Common Stock if the holder becomes a borrower eligible to own Class C Common Stock, and to Class F Participation Certificates if the holder becomes a borrower eligible to own Class F Participation Certificates.

Class C Common Stock: (Voting, at-risk, 1,709,354 shares outstanding, $5 par value.) Each owner of Class C Common Stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

Class D Common Stock: (Nonvoting, at-risk, no shares outstanding, $1,000 par value.) Issued to CoBank or to any person through direct sale. Retirement is at the sole discretion of the Board of Directors.

Class F Participation Certificates: (Nonvoting, at-risk, 33,410 shares outstanding, $5 par value.) Class F Participation Certificates may be issued or transferred to rural residents, persons furnishing farm-related services, or to other persons eligible to borrow for the purpose of qualifying for services offered by the Association who are not eligible to hold Class C Common Stock.

Class H Preferred Stock: Class H Preferred Stock may be issued to, and may be acquired by, members and equity holders who, at the time of such issuance or acquisition, hold any class of common stock or participation certificates. Class H Preferred Stock is transferable only to another holder of Class H Preferred Stock, and then only after the transferor provides written notice to the Association in a form prescribed by the Association's Board. The holders of the H stock are limited to voting on matters that would affect any preference accorded to the H stock and any amendments that would authorize a new class of preferred stock. Each holder of the H stock is entitled to receive dividends in an amount equal to a specified percentage ("Dividend Rate") as declared by the Board of Directors. The Dividend Rate is a per annum rate that may change monthly at the discretion of the Board, but is limited to 8.0% per annum. Dividends accrue daily and will accumulate until declared and paid in the form of additional shares of H stock. The H stock is redeemable at par plus cumulative unpaid dividends. At December 31, 2017, the Dividend Rate was 1.10%.

H stock is considered "at-risk" as redemption of the H stock is at the discretion of the Board and such redemption is not assured due to future financial operational or regulatory limitations on the Association. In the event of liquidation or dissolution of the Association and after satisfaction of all liabilities, each share of H stock is entitled to a first liquidation preference of any assets remaining, pro rata, to the extent of par value plus any accrued but unpaid dividends. At December 31, 2017, there were 126,910,249 shares of the H stock outstanding at a par value of $1 per share.

The Association has the authority to issue other classes of stock, no shares of which are outstanding. The voting rights, duties, and liabilities of such classes of stock are similar to those discussed above.

Losses that result in impairment of capital stock and participation certificates will be allocated to the common classes of equity described above on a pro rata basis and then to preferred stock. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of equities, beginning with preferred stock. After the retirement of stock, any remaining assets will be distributed to holders of allocated surplus as evidenced by nonqualified written notices of allocation. Any assets remaining after such distribution will be shared pro rata on a patronage basis by all common stock and certificate holders of record immediately before the liquidation distribution.

E. Patronage Distributions

The Association's bylaws provide for the payment of patronage distributions. All patronage distributions to a borrower shall be on such proportionate patronage basis as may be approved by the Association's Board of Directors, consistent with the requirement of Subchapter T of the Internal Revenue Code.

The Association's Board of Directors adopted a resolution establishing the distribution of 2017 patronage-sourced net earnings. The resolution established the cash patronage in the amount of 0.75% of the Association's borrowers' average daily loan balances. This calculation resulted in cash patronage of $59.8 million, which will be distributed to qualified patrons in 2018. This amount was recognized as a liability on the Association's Consolidated Statements of Condition at December 31, 2017.

In December 2017, the Association's Board of Directors adopted an Obligating Resolution to distribute 2018 patronage-sourced earnings to patrons of the Association, contingent upon the Association maintaining certain capital criteria.

Cash patronage of $50.2 million and $43.5 million were paid on the Association's patronage-sourced earnings for 2016 and 2015, respectively. These amounts were recognized as a liability on the Association's balance sheet at December 31 in the year they were declared and paid in the first quarter of the following year. Cash patronage represented 0.75% of the Association's borrowers' average daily loan balances for both 2016 and 2015.

F. Unallocated Retained Earnings

Net income can be distributed annually in the form of cash or allocated retained earnings; it may also be retained as unallocated retained earnings. Thus, unallocated retained earnings include patronage-sourced net income that is retained each year. The Board of Directors must approve any use of unallocated retained earnings.

G. Accumulated Other Comprehensive Income/(Losses)

The Association reports accumulated comprehensive income/(loss) in its Consolidated Statements of Changes in Members' Equity. As more fully described in Note 11, other comprehensive income/(loss) results from the recognition of the Pension Restoration Plan's net unamortized gains and (losses) and prior service costs or credits of $(8.1) million, $2.1 million, and $(3.0) million in 2017, 2016, and 2015, respectively. There were no other items affecting comprehensive income or loss.

NOTE 9 – PATRONAGE DISTRIBUTIONS FROM SYSTEM INSTITUTIONS

Patronage income recognized from Farm Credit Institutions to the Association follows:

Year Ended December 31,	2017	2016	2015
CoBank	$35,626	$32,699	$27,724
AgDirect, LLP	1,082	989	552
Foundations	43	36	23
FCS Insurance Exchange	375	320	371
Total	**$37,126**	**$34,044**	**$28,670**

Patronage distributed from CoBank is received in cash and stock. The amount in 2017 was accrued and is included in other assets on the Consolidated Statements of Condition and will be paid by CoBank in March 2018. The amount earned and accrued in 2016 was paid in March 2017.

NOTE 10 – INCOME TAXES

The benefit for income taxes follows:

Year Ended December 31,	2017	2016	2015
Current tax provision	$4	$7	$16
Total provision for income taxes	**$4**	**$7**	**$16**

The following table quantifies the differences between the provision/(benefit) for income taxes and the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income of the Association.

Year Ended December 31,	2017	2016	2015
Federal tax at statutory rate	$54,110	$35,506	$33,917
State tax, net	5	2	8
Tax-exempt FLCA income	(46,851)	(34,240)	(32,386)
Patronage dividends paid	(7,611)	(3,197)	(1,546)
Change in deferred tax valuation allowance	(572)	1,927	12
Change in tax rate	918	–	–
Other	5	9	11
Provision for income taxes	**$4**	**$7**	**$16**

The Tax Cuts and Jobs Act of 2017 (TCJA) was enacted in late 2017, which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). Management's position is that none of the deferred tax benefits will be realized in future periods and accordingly a valuation allowance is provided against net deferred tax assets. Consequently, no net tax benefit was recognized.

Deferred tax assets and liabilities result from the following:

Year Ended December 31,	2017	2016	2015
Gross deferred tax asset:			
Allowance for loan losses	$2,213	$3,699	$1,758
Deferred loan fees	633	1,097	821
Nonaccrual loan interest	561	461	209
Gross deferred tax asset	3,407	5,257	2,788
Gross deferred tax liabilities:			
Mineral depletion	(49)	(78)	(78)
Accrued CoBank patronage	(1,875)	(3,124)	(2,582)
Net deferred tax asset before valuation allowance	1,483	2,055	128
Deferred tax asset valuation allowance	(1,483)	(2,055)	(128)
Net deferred tax asset	**$0**	**$0**	**$0**

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

The Association had a valuation allowance of $1.5 million in 2017, $2.1 million in 2016, and $128 thousand in 2015. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

The Association had no uncertain tax positions to be recognized as of December 31, 2017, 2016, and 2015.

The Association recognizes interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. There were no interest or penalties recognized in 2017, 2016, or 2015. The tax years that remain open for federal and major state income tax jurisdictions are 2014 and forward.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth and Eleventh Retirement Plans, multi-employer defined benefit retirement plans. The Department of Labor has determined the plans to be governmental plans; therefore, the plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plans are not subject to ERISA, the plans' 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 plans' termination is contingent on the sufficiency of the plans' net assets to provide benefits at that time. The plans are noncontributory and cover eligible employees. The assets,

liabilities, and costs of the plans 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 the Association chooses to stop participating in the plan, it may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves 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 these plans.

The defined benefit pension plans reflect an unfunded liability totaling $84.6 million for the Ninth Plan and $70.4 million for the Eleventh Plan at December 31, 2017. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated 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 projected benefit obligation and fair value of the multi-employer plan assets at December 31 follows:

(In millions)	2017	2016	2015
Projected benefit obligation			
Ninth Plan	$292.6	$270.6	$244.3
Eleventh Plan	$271.1	$257.9	$244.5
Fair value of plan assets			
Ninth Plan	$208.0	$175.6	$155.1
Eleventh Plan	$200.7	$172.2	$154.5

The amount of the pension benefits 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.

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. The Association recognizes its proportional share of expense and contributes a proportional share of funding.

Costs and contributions for the multi-employer plans at December 31 follows:

(In millions)	2017	2016	2015
Total plan expenses for all participating employers			
Ninth Plan	$12.7	$11.3	$16.1
Eleventh Plan	$3.6	$5.9	$4.8
The Association's allocated share of plan expenses included in salaries and benefits			
Ninth Plan	$3.7	$2.6	$3.8
Eleventh Plan	$1.4	$2.9	$1.6
Total plan contributions for all participating employers			
Ninth Plan	$20.0	$20.4	$13.6
Eleventh Plan	$16.0	$17.5	$7.5
The Association's allocated share of plan contributions			
Ninth Plan	$5.8	$4.7	$3.1
Eleventh Plan	$5.7	$5.9	$2.5

While the plans are governmental plans and are not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plans with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2018 is $36.0 million. The Association's allocated share of these pension contributions is expected to be $11.0 million. 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 anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were $154 thousand for 2017, $111 thousand for 2016, and $224 thousand for 2015. These expenses are equal to the Association's cash contributions for each year.

The Association participates in two nonqualified defined benefit Pension Restoration Plans that are unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plans are offset by the benefits payable from the Pension Plans. Pension Restoration Plan expenses included in salaries and employee benefits were $2.8 million for 2017, $2.9 million for 2016, and $2.3 million for 2015.

The funded status and the amounts recognized in other liabilities in the Consolidated Statements of Condition for the Association's Pension Restoration Plans follow:

December 31,	Nonqualified Pension Restoration Benefits 2017	2016	2015
Change in benefit obligation:			
Benefit obligation at beginning of the period	$20,274	$21,937	$19,163
Benefit obligation acquired in merger	21	–	–
Service cost	487	524	307
Interest cost	512	536	786
Net actuarial (gain)/loss	9,854	(253)	4,116
Benefits paid	(3,900)	(2,470)	(2,435)
Total benefit obligation	**$27,248**	**$20,274**	**$21,937**
Amounts recognized in other liabilities in the Consolidated Statements of Condition consist of:			
Projected benefit obligation	$27,248	$20,274	$21,937

The following table represents the amounts included in accumulated other comprehensive income (AOCI)/loss for the Pension Restoration Plans:

	2017	2016	2015
Net actuarial loss	$15,874	$7,806	$9,895
Prior service costs	–	–	1
Total amount recognized in AOCI/loss	**$15,874**	**$7,806**	**$9,896**

An estimated net actuarial loss of $3.2 million for the Pension Restoration Plans will be amortized into income during 2018.

The projected and accumulated benefit obligation for the Pension Restoration Plans at December 31 was as follows:

	2017	2016	2015
Projected benefit obligation	$27,248	$20,274	$21,937
Accumulated benefit obligation	$20,577	$14,906	$16,716

The net periodic pension expense for the defined benefit Pension Restoration Plans included in salaries and benefits in the Consolidated Statements of Income is composed of the following at December 31.

	Pension Benefits 2017	2016	2015
Components of net periodic benefit cost			
Service cost	$487	$524	$307
Interest cost	512	536	786
Net amortization and deferral	1,355	1,837	1,195
Net periodic cost	**$2,354**	**$2,897**	**$2,288**

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2017	2016	2015
Current year net actuarial loss /(gain)	$9,854	$(253)	$4,116
Amortization of net actuarial (gain)	(1,355)	(1,837)	(1,195)
Adjustment due to settlement accounting	(431)	–	–
Adjustment due to participant transfer	–	–	121
Total recognized in other comprehensive loss/(income)	**$8,068**	**$(2,090)**	**$3,042**

Weighted average discount rate and rate of compensation increase assumptions used to determine benefit obligation at December 31 were as follows:

	Nonqualified Pension Restoration Benefits 2017	2016	2015
Discount rate – Ninth Plan	3.35%	3.51%	3.60%
Discount rate – Eleventh Plan	2.99%	3.20%	3.17%
Rate of compensation increase – Ninth Plan	5.00%	5.00%	5.00%
Rate of compensation increase – Eleventh Plan	5.50%	5.50%	5.50%

The Association estimates it will contribute $2.5 million to the Pension Restoration Plans in 2018.

ESTIMATED FUTURE BENEFIT PAYMENTS

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

2018	2019	2020	2021	2022	2023–2027
$2,483	$2,117	$2,495	$1,664	$3,085	$13,366

The Association participates in the Farm Credit Foundations Ninth and Eleventh District Defined Contribution/401(k) Plans. Under these plans, the Association matches a certain percentage of employee contributions. The plans have two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plans. In these plans, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Under both plans, employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Ninth and Eleventh Contribution Plans included in salaries and employee benefits were $4.9 million in 2017, $4.2 million for 2016, and $4.2 million for 2015.

NOTE 12 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with directors or employees of the Association, their immediate families, and other organizations with which such directors or employees of the Association may be associated (related party borrowers). These loans 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 unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an acceptable or other assets especially mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2017	2016	2015
New loans	$43,359	$60,533	$48,382
Repayments	$39,950	$51,548	$39,363
Loans no longer related parties	$445	$12,483	$32,280
Loans acquired in merger	$45,727	–	–
Ending balance	**$93,577**	**$44,886**	**$48,384**

In the opinion of management, none of these loans outstanding at December 31, 2017, involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $388 thousand in 2017, $355 thousand in 2016, and $343 thousand in 2015 to Farm Credit Foundations for human resource services. As of December 31, 2017, the Association's investment in AgDirect was $11.0 million, which was included in other assets on the Consolidated Statements of Condition. Income recorded related to AgDirect in 2017 was $1.1 million.

NOTE 13 – REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2017, $2.6 billion of commitments to extend credit were outstanding.

Since many of these commitments and letters of credit are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statements of Condition until funded or drawn upon. The credit risk associated with issuing commitments is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2017, $56.2 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2018 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is $56.2 million.

The Association maintains a contingency reserve for unfunded commitments, which reflects management's best estimate of losses inherent in lending commitments made to customers but not yet disbursed upon. The reserve totaled $2.4 million, $2.9 million, and $3.7 million at December 31, 2017, 2016, and 2015, respectively.

NOTE 15 – FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

Quoted market prices are generally not available for certain financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized below.

	Hierarchy Level 3	Total Fair Value	Total (Loss)
2017			
Loans	$1,754	$1,754	$(600)
2016			
Loans	$3,885	$3,885	$(747)
2015			
Loans	$415	$415	$(85)
Other property owned	$3,084	$3,084	$(505)

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below.

Assets Held in Nonqualified Benefits Trusts	Hierarchy Level 1	Total Fair Value
2017	$17,373	$17,373
2016	$15,524	$15,524
2015	$14,487	$14,487

During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

VALUATION TECHNIQUES

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement:

A. Loans: Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the District's current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the Association's loans would seek in an actual sale.

For purposes of determining the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate, which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral dependent for which real estate is the collateral. The fair value measurement process uses appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

B. Assets Held in Nonqualified Benefits Trusts: Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Assets held in nonqualified benefits trusts are included in other assets in the Consolidated Statements of Condition.

C. Other Property Owned: Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. As a result, these fair value measurements fall within Level 3 of the hierarchy. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 2, 2018, which is the date the financial statements were issued, and no material subsequent events were identified.

OTHER REGULATORY DISCLOSURE INFORMATION (UNAUDITED)

FINANCIAL STATEMENTS

The Association will post the annual report and quarterly reports to shareholders on the Association's website (www.AgLoan.com) approximately 40 days after the end of each calendar quarter for the quarterly reports and 75 days after year-end for the annual report. Copies of these reports may be obtained free of charge by contacting American AgCredit at P.O. Box 1120, Santa Rosa, CA 95402, or by calling (800) 800-4865.

DESCRIPTION OF PROPERTY

American AgCredit is headquartered in Santa Rosa, California. The Association owns and leases various facilities throughout the territory, which is described in this annual report.

In 2016, the Association completed construction of a 120,000-square-foot office building located near the Charles M. Schultz–Sonoma County Airport in Santa Rosa, California. This facility replaced the old Santa Rosa headquarters facility. The Association occupies 80,000 square feet of the new building, while the remaining space is leased. The new facility's cost, including land, building, furniture, and equipment, was $80.4 million. Construction expenses were funded from capital.

The Association constructed a 35,000-square-foot office building in Wichita, Kansas. This facility was completed in 2016 and replaced the Association's old Wichita regional facility. The new facility's cost, including land, building, furniture, and equipment, was $17.0 million. Construction expenses were funded from capital.

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Other than ordinary routine litigation incidental to the business, there are no material legal proceedings pending to which the Association is a party, of which any of its property is the subject, or which involve claims that the Association may be required to satisfy. There are no enforcement actions in effect against the Association.

RELATIONSHIP WITH INDEPENDENT EXTERNAL AUDITORS

There has been no change in independent external auditors and no material disagreements on any matters of accounting principles or financial statement disclosures during the period.

BORROWER PRIVACY

As a member-owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs. FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers, and employees. FCA regulations specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' non-public information.

BOARD OVERSIGHT

The Association is governed by a 23-member Board that oversees the management of our Association. Of these directors, 20 are elected by the stockholders and three are appointed by the elected directors. The Board represents the interests of stockholders and meets regularly to perform the following functions, among others:

- Select, evaluate, and compensate the chief executive officer;
- Establish the strategic plan and approve annual operating plan and budget;
- Oversee the lending operations;
- Advise and counsel management on significant issues; and
- Oversee the financial reporting process, communications with stockholders, and legal and regulatory compliance.

DIRECTOR INDEPENDENCE

All directors must exercise sound judgment in deciding matters in the Association's interest. All directors are independent from the perspective that no management or staff serves as Board members. However, as a financial service cooperative, the Association is required by the Farm Credit Act and FCA regulations to have elected directors that have a loan relationship with the Association.

The elected directors, as borrowers, have a vested interest in ensuring the Association remains strong and successful. However, the borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of the Board. Annually, in conjunction with the independence analysis and reporting on loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

AUDIT COMMITTEE

The Audit Committee is composed of seven members and is responsible for oversight of financial reporting and examinations. During 2017, five meetings were held. The Audit Committee responsibilities include, but are not limited to, the following:

- Oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- Oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- Review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and
- Establishment and maintenance of procedures for the receipt, retention, and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls, and auditing matters.

COMPENSATION COMMITTEE

The Compensation Committee is responsible for the oversight of employee and director compensation. The committee is composed of eight members and meets regularly to review and evaluate all aspects of compensation, including benefits programs. Six meetings were held in 2017.

GOVERNANCE COMMITTEE

The Governance Committee is composed of seven members. Five meetings were held in 2017. The committee oversees and evaluates matters of corporate governance and structure, including, without limitation, the director nomination and election process, evaluation and development of Board performance and processes, director orientation and continuing education, and the independence of directors.

The Governance Committee's responsibilities include, but are not limited to, the following:

- Develop and recommend to the Board a set of corporate governance guidelines applicable to the Association;
- Conduct periodic reviews of the number of Board members and composition and make recommendations regarding any changes;
- Determine the qualifications, qualities, skills, and other expertise desired for directors;
- Oversee annual Board self-evaluation; and
- Oversee Nominating Committee process.

STRATEGY AND RISK COMMITTEE

The Strategy and Risk Committee (SRC) assists the Board in fulfilling its oversight responsibilities for strategic planning and the enterprise-wide risk management framework of the Association. The SRC is composed of the Board's Vice Chair and at least two additional Board members. In addition, the Association CEO and at least two members of senior managment shall attend every SRC meeting but shall not serve as members of the committee. Five meetings were held in 2017. The SRC's responsibilities include, but are not limited to, the following:

- Collaborate with management on the development and periodic update of the Association's overall strategy, business objectives, and strategic initiatives;
- Discuss and present recommendations to the Board related to the Association's mission, vision, risk appetite, and major programs;
- Develop Association's merger criteria and evaluate potential merger partners;
- Oversee that management has identified and assessed the risks the Association faces;
- Ensure risk is appropriately considered in strategy setting;
- Coordinate the risk oversight activities of the various standing committees of the Board;
- Coordinate with the Audit Committee to understand how the Association's internal audit plan is aligned with its key risks; and
- Recommend to the Board policies governing enterprise risk management.

ASSOCIATION DIRECTORS

It is the Association's policy to reimburse directors and senior officers for mileage as well as documented business expenses while serving in an official capacity. A copy of the Association's reimbursement policies is available to shareholders upon request. There were five regularly scheduled Board meetings in 2017. The committee meetings are called as needed to address Association business.

The following identifies all Board members who served during the year and describes the business activities and principal occupation for the past five years, as well as current committee assignments, for those directors serving on the Board during the year.

Charles Talbott, Chair
Term Expires: 2020
Committee(s): Executive & Strategy and Risk

Mr. Talbott resides in Palisade, Colorado. His business experience is in tree fruit and wine grape production, packing, processing, and marketing. He attended five regularly scheduled Board meetings, one special Board meeting, and 19 committee meetings for which he was compensated $69,500.

George Fontes, Vice Chair
Term Expires: 2019
Committee(s): Executive & Strategy and Risk

Mr. Fontes is a fourth-generation farmer in Salinas Valley, California. His family operation has included beef cattle, grain hay production, and vegetable farming. Currently, he owns and operates Fontes Farms LLC, providing farm management, equipment rental, and repair services. He was president and co-owner of Comgro Incorporated, growing lettuce, broccoli, mix lettuce, and spinach. He also serves on the board of Farm Credit Foundations. He attended six Board meetings and 20 committee meetings for which he was compensated $60,500.

Joe Alamo, Director
Term Expires: 2021
Committee(s): Governance

Mr. Alamo has been a partner in Alamo Dairy and Alamo Farms since 1997. He currently milks 4,000 cows and grows nearly 4,000 acres of corn, winter forage, alfalfa, and almonds. He is also a partner in Mills Orchards LLC, currently developing 700 acres of almonds. He attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $45,000.

Berry Bortz, Director
Term Expires: 2022
Committee(s): Compensation

Mr. Bortz farms in partnership with his family in eastern Pratt, southwest Reno, and southern Wichita counties in Kansas, producing corn, wheat, soybeans, alfalfa, cotton, sorghum, and bermuda. They also have a commercial and registered cow herd along with a feedlot and recently bought into a cotton gin in Cullison, Kansas. He attended three regularly schedule Board meetings and four committee meetings for which he was compensated $23,500.

James Boyd, Director
Term Expired: 2017
Committee(s): Governance

Mr. Boyd owns and operates a grain, alfalfa, mint, and cattle operation in Tulelake, California. Prior to serving on the American AgCredit Board, he served on the Intermountain FLCA board for 12 years. He attended one regularly schedule Board meeting, one special Board meeting, and two committee meetings for which he was compensated $15,500.

Robert Boynton, Director
Term Expires: 2022
Committee(s): Governance

Mr. Boynton has been actively involved in agriculture for his entire professional life, and grew up on a small family dairy farm in Humboldt County, California, which he owns today. He has a PhD in Ag Economics from Michigan State University. Bob has an extensive agricultural business background, having served as Executive Director of the Dairy Institute of California and as Sr. VP of Marketing & Sales for Leprino Foods. He attended three regularly scheduled Board meetings and two committee meetings for which he was compensated $22,500.

John Caldwell, Director
Term Expires: 2020
Committee(s): Governance

Mr. Caldwell resides in Longmont, Colorado. His business experience is in cattle feeding and brokerage, grain merchandising, and farming. He attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $48,000.

James Cooksey, Director
Term Expires: 2019
Committee(s): Governance

Mr. Cooksey resides in Roggen, Colorado. His business experience is in farming and ranching. He attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $46,000.

Derek Davis, Director
Term Expires: 2020
Committee(s): Audit

Mr. Davis has 29 years of executive management experience, most recently as Executive VP/Chief Operating Officer at Teac America, Inc., and has served on multiple boards. He has a master's degree in business administration from San Diego State University and is a Certified Public Accountant. He owns an orchard in Escondido and an avocado ranch property in Valley Center. He attended five regularly scheduled Board, one special Board meeting, and six committee meetings for which he was compensated $46,000.

Randall Doll, Director
Term Expires: 2019
Committee(s): Executive & Governance

Mr. Doll joined the Board of Directors in July 2014. He is a farmer and rancher in Butler County, Kansas, overseeing production of alfalfa, bluestem prairie hay, brome, milo, and wheat. He also has extended family ranch and farming operations located in Barton, Finney, and Gray counties in Kansas. He attended five regularly scheduled Board meetings, one special Board meeting, and nine committee meetings for which he was compensated $60,000.

Jerold Harris, Appointed Director
Resigned: October 23, 2017
Committee(s): Audit & Strategy and Risk

Mr. Harris is retired. He was formerly employed as the President and CEO of U.S. AgBank in Wichita, Kansas. He attended three regularly scheduled Board meetings, one special Board meeting, and eight committee meetings for which he was compensated $44,000.

Gary Harshberger, Director
Term Expires: 2018
Committee(s): Governance

Mr. Harshberger is a farmer with an operation consisting of dryland and irrigated wheat, corn, milo, and soybeans with a summer grass stocker program. Gary is currently Chairman of the Kansas Water Authority. In addition, he operates Harshberger Enterprises and Harshberger Seeds, is President of Double H Farms, Inc., and a member of Harshberger Land, LLC and Hatcher Holdings, LLC, which are all involved in farm commodity production. He is also involved in the ethanol industry as a director of Conestoga Energy. He attended four regularly scheduled Board meetings and four committee meetings for which he was compensated $39,500.

Linda Ingo, Director
Term Expires: 2018
Committee(s): Audit

Ms. Ingo resides on the family ranch near Ridgway, Colorado. Working together with family, they raise hay and Red Angus cattle, host big-game hunters, and manage their water, wildlife, and timber resources. She attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which she was compensated $46,500.

Larry Kepley, Director
Term Expires: 2018
Committee(s): Audit

Mr. Kepley is a farmer/stockman with an operation consisting of wheat seed production and sales, corn and milo production, and a beef cow herd. Larry's operation includes both dryland and irrigated production and he operates Kepley Wheat Seed. He has numerous affiliations and board relationships including the following: Farmer Direct Foods member, Kansas Wheat Commission board member, U.S. Wheat Association board member, Grant County Farm Bureau board member, and Southwest Kansas Irrigation Association board member. He attended three regularly scheduled Board meetings and four committee meetings for which he was compensated $38,000.

Kirvin Knox, PhD, Appointed Director
Term Expires: 2020
Committee(s): Executive & Compensation

Dr. Knox resides in Fort Collins, Colorado. His business experience is in energy, production agriculture, academic administration, and agriculture research. He attended five regularly scheduled Board meetings, one special Board meeting, and 10 committee meetings for which he was compensated $52,000.

Alan List, Director
Term Expires: 2018
Committee(s): Governance & Strategy and Risk

Mr. List served as a board member and chairman of both Intermountain Farm Credit and AgCredit Financial prior to their merger into American AgCredit. He is the owner and operator of a hay, grain, and seed business in Lovelock, Nevada, and serves as a director of List Cattle Co., Lovelock Hay Market Inc., and Nevada Agricultural Self Insurance Group. He has been a director of American AgCredit since 2005. He attended five regularly scheduled Board meetings, one special Board meeting, and 10 committee meetings for which he was compensated $54,500.

Brian Maloney, Director
Term Expires: 2021
Committee(s): Audit

Mr. Maloney is a fifth-generation farmer/rancher in south-central Kansas. The family-based operation includes wheat, corn, soybeans, sorghum, canola, and beef cattle. Prior to joining the farming operation, Mr. Maloney spent 20 years working in the Farm Credit System, including Farm Credit of Southwest Kansas, CoBank, and the Farm Credit Administration. He attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $45,000.

Richard Miller, Director
Term Expires: 2018
Committee(s): Compensation

Richard Miller is a fourth-generation western Kansas farmer residing in Leoti, Kansas. His farming operation produces wheat, corn, and grain sorghum. He currently owns Miller Ag, Inc. and is co-owner of R&M Miller Farms, Inc. Mr. Miller has served on Farm Credit boards since 1994. He attended five regularly scheduled Board meetings, one special Board meeting, and six committee meetings for which he was compensated $46,000.

Jason Ochs, Director
Term Expires: 2022
Committee(s): Compensation & Strategy and Risk

Mr. Ochs is a member of Plum Creek Farms, LLC in Syracuse, Kansas, an agricultural entity that produces dryland wheat, milo, corn, and custom farming including harvesting, tillage, planting, and CRP management. He attended five regularly scheduled Board meetings, one special Board meeting, and 11 committee meetings for which he was compensated $53,500.

Greg Ringler, Director
Term Expires: 2018
Committee(s): Compensation

Mr. Ringler runs a diversified operation consisting of wheat, milo, beans, alfalfa, and beef cattle in Kansas. He attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $44,500.

David Santos, Director
Term Expires: 2022
Committee(s): Compensation

Mr. Santos is an apricot, cherry, and almond farmer in Stanislaus County, California. He is a partner/owner in Lucich & Santos Farms and Blossom Hill Packing Company, a packing and marketing company. He also has served as a board member and chair of Central Valley Production Credit prior to the merger into American AgCredit. He attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $44,000.

ASSOCIATION DIRECTORS (CONTINUED)

Joe Schoonover, Director
Term Expired: 2017
Committee(s): Compensation

Mr. Schoonover owns and manages farmland in Pratt County, Kansas, raising corn, soybeans, wheat, and alfalfa. He is currently American AgCredit's representative to the CoBank District Farm Credit Council, giving him the opportunity to work with state and national legislators on issues affecting the Farm Credit System and the farmers and ranchers that we serve. He attended two regularly scheduled Board meetings, one special Board meeting, and two committee meetings for which he was compensated $24,000.

Larry Solari, Appointed Director
Term Expires: 2022
Committee(s): Audit

Mr. Solari is a Certified Public Accountant and partner in Croce & Company Accountancy Corporation located in Stockton, California. He was appointed as an outside director of the Association Board of Directors in January 1994. He also serves on the San Joaquin County Assessment Appeals Board. He attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $44,000.

Thomas D. Stegman, Appointed Director
Term Expires: 2020
Committee(s): Executive & Audit

Mr. Stegman is retired. Most recently, he served as President and CEO of AgVantis. Prior to that, he served in various information technology management positions at Farm Credit Bank of Wichita, Kansas. Mr. Stegman was raised on a family farm in southwestern Kansas and now resides in Oro Valley, Arizona. He attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $46,500.

Frank Stonebarger, Director
Resigned: December 31, 2017
Committee(s): Compensation

Mr. Stonebarger has been involved in Farm Credit since 1977 and began farming in 1973. He produces walnuts, cherries, and apples, and provides custom farming services. He attended five regularly scheduled Board meetings, one special Board meeting, and six committee meetings for which he was compensated $45,500.

Thomas Teixeira, Director
Term Expires: 2018
Committee(s): Audit & Strategy and Risk

Mr. Teixeira is partner/owner of Teixeira and Sons and grows 6,000 acres of alfalfa, almonds, cantaloupes, corn, cotton, fresh-market tomatoes, processing tomatoes, and wheat. Teixeira and Sons also operate a tomato transplant greenhouse facility and are part owners in Pacific Ginning LLC, Eagle Valley Ginning LLC, and 360 Agri LLC. Pacific Ginning and Valley Ginning are cotton ginning operations and 360 is a custom cotton harvesting company. He attended five regularly scheduled Board meetings, one special Board meeting, and nine committee meetings for which he was compensated $53,000.

For 2017, directors were compensated for their services based on annual retainers as follows:

Chair	$55,000
Vice Chair	$52,500
Audit Committee Chair	$47,500
Compensation Committee Chair	$45,000
Governance Committee Chair	$45,000
Director	$40,000

Retainer amounts are adjusted for meeting absences or attendance at meetings in excess of scheduled board meetings. The total compensation paid to directors for 2017, as described above, amounted to $1,157,000. The aggregate amount of compensation and reimbursements for travel, subsistence, and other related expenses for all directors were $1,865,680 for 2017, $1,536,000 for 2016, $1,403,000 for 2015.

SENIOR OFFICERS

Byron E. Enix, Chief Executive Officer

Mr. Enix was promoted to Chief Executive Officer on January 1, 2014. He previously served as Chief Operating Officer and Senior Vice President–Credit Heartland Region since 2012 and 2010, respectively. Prior to the Farm Credit Services of the Mountain Plains merger and since 2006, he served as Chief Financial Officer–Mountain Plains. He has 33 years of Farm Credit System experience in credit, operations, and finance.

Greg Somerhalder, Chief Operating Officer

Mr. Somerhalder was promoted to Chief Operating Officer on March 1, 2014. He previously served as Chief Corporate Strategist since 2013. He has over 35 years experience with Farm Credit in many areas of banking, including lending, credit, risk, and strategy. Mr. Somerhalder serves as a Director of Farm Credit System Associations Captive Insurance Company. He also serves on the board of three charity organizations: St. George Christian Orthodox Endowment, The Treehouse, and Laham Family Foundation.

Kate Wheelock, Chief Credit Officer

Ms. Wheelock served as Chief Credit Officer since 2013. She previously served as Chief Risk Officer and Senior Vice President–Risk Management since 2012 and 2005, respectively. Ms. Wheelock retired from American AgCredit on August 31, 2017, with over 34 years of banking experience, including capital markets, commercial banking, and loan syndications.

Lynn Scherler, Chief Lending Officer

Mr. Scherler joined American AgCredit as Chief Lending Officer in October 2017. He previously served as President–Strategic Relationship Division for CoBank; as Interim President & CEO of Farm Credit of Southwest Kansas from October 2015–March 2016; and a number of other relationship and leadership roles at CoBank. Mr. Scherler has a total of 20 years of banking experience, 16 of which have been served in the Farm Credit System, with experience in the areas of relationship management, credit, and strategy.

REGIONAL AND SENIOR VICE PRESIDENTS

Paul Anderson
SVP Human Resources

Rachel Angress
SVP General Counsel

Mike Banks
SVP Chief Credit Officer

Marc Busalacchi
SVP Western District

Heather Callens
SVP Underwriting Manager

Patricia Curtian (retired 6/30/17)
SVP Controller

Alan Duensing (retired 1/2/18)
SVP Chief Appraisal Officer

Chase Hafner
SVP Chief Technology Officer

Matt Keating
SVP Underwriting Manager

Vicky Lagorio
SVP Operations

Claudia McGinness
SVP Express

Paula Olufs
SVP Chief Innovation Officer

Erik Person
SVP Chief Audit Executive

Dennis Regli
SVP Underwriting Manager – Corporate

Greg Reno
SVP Midwest Banking

Deb Seedorf
SVP Chief Credit Delivery Officer

Steve Stephens
SVP Deputy Chief Appraiser

Gary Van Schuyver
SVP West Banking

Tim Wong (retired 2/28/17)
SVP Chief Internal Auditor

Alan Feit, Chief Banking Officer

Mr. Feit was promoted to Chief Banking Officer on March 1, 2014. He previously served as Senior Vice President–Credit since 2012. He has over 37 years experience with the Farm Credit System in the functional areas of lending, credit, sales, and management. He serves on the board of Network Beyond, a humanitarian-based charitable organization with projects in Kenya, Uganda, and Peru.

Vern Zander, Chief Financial Officer

Mr. Zander has served as Chief Financial Officer since 2012. He previously served as Vice President–Relationship Manager in the Association's Capital Markets Group. He is a Certified Public Accountant and has been with American AgCredit for the last 15 years, with a total of 30 years of Farm Credit service. He serves on the board of The Fountaingrove Club, a nonprofit social and recreational club.

Roger Bastow, Chief Administrative Officer

Mr. Bastow has served as Chief Administrative Officer since 2009. He previously served as Senior Vice President–Finance and Operations from 1999 to 2009 at Farm Credit of the Heartland. He is a Certified Public Accountant and has served in human resources, operations, and finance roles over the past 26 years in the Farm Credit System and is a member of the Farm Credit Foundations Trust Committee.

Sean O'Day, Chief Banking Officer–Corporate

Mr. O'Day currently serves as the Chief Banking Officer for Corporate Banking. Agribusiness lending and Capital Markets operate under the Corporate Banking umbrella. Prior to assuming the position of Chief Banking Officer, Mr. O'Day served as Senior Vice President–Capital Markets. For the past 27 years his focus has been in the areas of corporate finance and loan syndications, and he has a total of 38 years of Farm Credit System service.

Jerry Rose, Chief Risk Officer

Mr. Rose has served as Chief Risk Officer since 2013 and previously served as Senior Vice President–Risk Management since 2012. He has held risk and financial management roles for the past 29 years in the Farm Credit System.

SENIOR OFFICERS' COMPENSATION

The Compensation Committee of the Board ("Compensation Committee") follows a comprehensive compensation philosophy where the objectives of the Compensation Plans ("Plans") are the following:

- Provide market-based compensation through base salary and annual and long-term incentive components that will allow the Association to attract, motivate, and retain superior executive talent;
- Place a portion of total compensation for the executive at risk and contingent upon the Association remaining financially sound and meeting established performance goals; and
- Ensure that long-term financial stability of the Association is emphasized over short-term results and decisions.

The Plans are designed to do the following:

- Reward successful fiscal year results through an annual Incentive Compensation Plan (ICP);
- Foster long-term financial stability through Leadership Retention and Transition (LRT);
- Promote senior officer retention through Long-Term Deferral Plan (LTDP) incentives; and
- Significantly contribute to the retention of the president/chief executive officer (CEO) and other senior officers.

The Compensation Committee annually reviews market information related to the level and mix of salaries, benefits, and incentive plans for the CEO and other senior officers. The Compensation Committee considers the structure, effectiveness, and risk associated with the plans on an annual basis. Due to the cooperative business structure of the Association, the Plans do not contain stock-based compensation components.

The Association maintains the ICP for senior officers and employees that rewards performance based on objective criteria. Such criteria include achievement of corporate and individual strategic business goals. The ICP is administered by the Compensation Committee. The ICP has been revised in recent years to enhance the alignments of rewards, with progress towards the organization's overall strategic initiatives.

Select senior officers may also participate in a supplemental incentive compensation plan. Supplemental incentive compensation plans are administered by the Compensation Committee and include specialized earnings goals. The supplemental incentive compensation plans were revised in 2014 to enhance their alignment with risk associated with the activities the incentives were based on.

LRT and LTDP incentives provide targeted long-term awards for senior officers based on position and responsibilities.

For select senior officers, a long-term award (LRT) was established and communicated at the beginning of the plan term. The payout of these awards are six or more years later and is conditioned upon satisfactory performance of the senior officer and the Association. Senior officers that voluntarily terminate employment or do not maintain satisfactory performance forfeit awards. Extension of new awards under the LRT plan was discontinued in 2011.

Starting in 2014, certain executives began participation in an LTDP, which defers payment of a portion of the incentive earned under the ICP or supplemental incentive compensation plans for three years, to ensure the long-term performance objectives of the Association are met.

Certain senior officers participate in the Ninth Farm Credit District Pension Plan or the Eleventh Farm Credit District Employee's Retirement Plan ("Pension Plans"). These plans have been closed to new participants for many years.

Compensation earned by the CEO and aggregate compensation of other senior officers and highly compensated employees for the year ended December 31, 2017, amounted to $12.0 million, compared to $10.8 million for 2016 and $7.8 million for 2015. Changes in several key leadership roles and changes/refinement in the actuarial assumptions in the Pension Plans assumptions were the primary contributor to the increase from 2015 to 2016. The increase from 2016 to 2017 was the result of final vesting of the LRT plan.

Disclosure of fiscal year 2017, 2016, and 2015 compensation for the CEO and senior officers as defined by regulation, or to any other employee whose compensation is among the five highest amounts paid by the Association, is included in the Annual Meeting Information Statement sent to shareholders and is available to the public at the Association's offices upon request.

YOUNG, BEGINNING, AND SMALL **FARMER & RANCHER PROGRAM**

American AgCredit offers Young, Beginning, and Small (YBS) farmers and ranchers opportunities to invest in, build, and support their agribusiness. Through specific, tailored programs designed to meet the credit and related needs of YBS customers and potential customers in our chartered territory, we provide various layers of support throughout this market.

Per FCA regulations, qualified YBS programs serve farmers and ranchers by one or more of the following categories:

Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger.

Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience.

Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products.

OUR YBS MISSION

Provide credit and related services tailored to the specific needs of the YBS market via the following:

- Support of AgYouth Programs: Interest-free financing to young people for 4-H and FFA projects.
- Host the Young Farmer & Rancher Institute: Legacy and business continuity planning for generations of farmers and ranchers. Training provided free of charge for customers in good standing.
- Support of youth programs in the community: Outreach and sponsorship of ag-related educational activities, such as ag training, exhibits, and other outreach.
- Promote YBS program information, including webpages, brochures, and ad slicks: Awareness of programs to support new businesses and encourage young people to get involved in agriculture.
- Provide scholarships to college students interested in working in or studying agriculture.
- Offer paid internships: Professional training and paid work experience provided to young professionals interested in learning about agriculture and ag financing.

To facilitate credit offerings to this specialized customer base, we support financing programs and use government-guaranteed loan programs. We are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers.

DEMOGRAPHICS

To ensure these groups are adequately serviced, demographic research known as AgCensus is completed by the U.S. Department of Agriculture every five years, and those demographics are compared to our borrower base. Part of adequately servicing these segments is understanding how farming is changing within the Association's lending territory.

The latest data available is from the 2012 AgCensus, which was released in May 2014. Compared to the 2007 AgCensus, the 2012 research showed the number of farms overall has decreased. The continuing shift in farm demographics in the Young farmer category has stabilized in the last five years to about 10% within our total territory. Beginning farm operators comprise 28% of the market in our territory, while the Small farm operator makes up 87% of the farms in the market. The most significant changes over the last five years include the following:

- Significant drop in Beginning farmers in California (13%), Oklahoma (10%), Kansas (7%), and Colorado (13%);
- Slight increase in Small farmers in Oklahoma and California; and
- Stabilized marketplace for Young farmers – with slight increases in Nevada, Oklahoma, Kansas, New Mexico, and California.

The 2017 AgCensus has been conducted and results will be released in February 2019.

EXCEPTION PROGRAM

The Association's YBS Exception Program is tailored for those ag businesses that do not meet all underwriting criteria, and exhibit higher-than-normal risk factors.

The Exception Program offers unique financing criteria and additional benefits. This includes additional business support, education, training, and other incentives – allowing them to strengthen and prosper, and in the process, to develop avenues for the Association to fulfill its mission and serve all fields and levels of agriculture.

The following table outlines the percentage of Young and Beginning loans in the loan portfolio (by number) as of December 31, 2017, compared to the total number of loans in the portfolio.

Category (Dollars in thousands)	**Number of Loans**	**Percent of Total Loans**	**Volume Outstanding**	**Percent of Total Volume**
Total loans and commitments outstanding at year-end	14,937	100.00%	$11,987,404	100.00%
Young farmers and ranchers	1,577	10.56%	$500,896	4.18%
Beginning farmers and ranchers	2,752	18.42%	$1,012,238	8.44%

The following table provides a breakdown of Small farmer and rancher loans by size as of December 31, 2017.

Number/Volume Outstanding (Dollars in thousands)	**$0 – $50.0**	**$50.1 – $100.0**	**$100.1 – $250.0**	**$250.1 & Greater**
Total number of loans and commitments outstanding at year-end	2,959	2,297	3,575	6,106
Total number of loans to Small farmers and ranchers	1,730	1,263	1,427	891
Percent of loans to Small farmers and ranchers	58.47%	54.98%	39.92%	14.59%
Total loan volume outstanding at year-end	$78,024	$174,845	$606,922	$11,127,613
Total loan volume to Small farmers and ranchers	$47,263	$95,729	$228,299	$495,799
Percent of loan volume to Small farmers and ranchers	60.57%	54.75%	37.62%	4.46%

FUNDING OUTREACH

We believe that by supporting the full spectrum of agricultural efforts, all agriculture benefits. American AgCredit, on its own and through alliance partnership with other Farm Credit associations, sponsors many events and activities to promote Farm Credit and the services offered by the System and to inform and educate Young, Beginning, and Small farmers. They include the following:

Kitchen Table Advisors Project: The Association launched a strategic partnership with Kitchen Table Advisors, a project that empowers farmers and ranchers throughout Northern California with the business tools, knowledge, and resources they need to flourish. With a $10,000 sponsorship in 2017, American AgCredit committed to support the economic viability of sustainable Small farmers and ranchers.

Multicultural Scholars in Agriculture at Fresno State University: In late 2012, American AgCredit partnered with Farm Credit West, Fresno Madera Farm Credit, and CoBank to contribute $75,000 to Fresno State University. This contribution was used to establish an endowment to support Multicultural Scholars in Agriculture. Future contributions to this endowment fund may be made by each of the participating organizations. This was a five-year commitment, 2013–2017.

Wheat Innovation Center: $150,000 has been donated to develop the Kansas Wheat Innovation Center at Kansas State University through the Kansas Farm Credit Alliance. This donation was rolled out over five years, 2013–2017.

Colorado State University Center for Agricultural Education: American AgCredit coordinated with CoBank, Farm Credit of Southern Colorado, and Premier Farm Credit to donate $1.025 million for construction of a modern Center for Agricultural Education at Colorado State University that will train new generations of agricultural teachers and leaders. This $100,000 commitment was rolled out over five years, 2013–2017.

UC Davis Small and Ethnic Farm Market Tour Project: American AgCredit teamed up with CoBank, Farm Credit West, Fresno Madera Farm Credit, and Farm Credit Services of Colusa Glenn to contribute $70,000 to the UC Davis Small and Ethnic Farm Market Tour Project. The project is run by the UC Sustainable Agriculture Research and Education Program (SAREP) and introduces Small farmers to conventional distributors interested in offering a line of locally grown food. Contributions started in 2013 and the program is reviewed annually for future contributions.

YBS PROGRAM SAFETY AND SOUNDNESS

American AgCredit offers diverse and accessible financing options for qualified farmers and ranchers within our territory. The YBS Program provides alternate financing and guarantee options for farmers and ranchers who are just getting started, as well as small or part-time operations. To better serve YBS customers, special lending qualifications and requirements allow Young, Beginning, and Small farmers and ranchers access to financing, leasing, and other services for which they might not otherwise qualify.

Procedures have been established to streamline the delivery of these unique and other small loans utilizing credit scoring through the new Express Loan Program. Loans will continue to be made on a sound basis, with proper emphasis on the fundamentals of sound credit. Loans made under this program meet all our requirements for eligibility and scope of financing, interest rates, and length of term. Co-makers and guarantors (financially responsible family members or other individuals) and secondary collateral are utilized when available and appropriate to minimize risk. Excessively ambitious growth plans are restricted and loans are closely monitored on a regular basis.

OFFICE LOCATIONS

ADMINISTRATIVE OFFICE 400 Aviation Boulevard, Suite 100 • Santa Rosa, CA 95403 • (800) 800-4865 • AgLoan.com

CALIFORNIA

Alturas
403 E. Highway 395
Alturas, CA 96101
(530) 233-4304

Eureka
5560 S. Broadway Street
Eureka, CA 95503
(707) 445-8871

Merced
711 W. 19th Street
Merced, CA 95340
(209) 384-1050

Oakdale
700 N. Yosemite Avenue
Oakdale, CA 95361
(209) 847-0353

Ontario
3633 E. Inland Empire Blvd.
Suite 530
Ontario, CA 91764
(909) 947-2371

Palm Desert
74-199 El Paseo Drive
Suite 101
Palm Desert, CA 92260
(760) 340-5671

Petaluma
1345 Redwood Way
Petaluma, CA 94954
(707) 793-9023

Roseville
2140 Professional Drive
Suite 110
Roseville, CA 95661
(916) 784-1060

St. Helena
1101 Vintage Avenue
St. Helena, CA 94574
(707) 963-9437

Salinas
924 E. Blanco Road
Salinas, CA 93901
(831) 424-1756

Santa Rosa
400 Aviation Blvd.
Suite 100
Santa Rosa, CA 95403
(800) 800-4865

Stockton
2345 E. Earhart Avenue
Stockton, CA 95206
(209) 944-7478

Temecula
42429 Winchester Road
Temecula, CA 92590
(951) 296-0175

Tulelake
448 Main Street
Tulelake, CA 96134
(530) 667-4236

Turlock
3201 W. Monte Vista Avenue
Turlock, CA 95380
(209) 667-5101

Ukiah
455 E. Gobbi Street
Ukiah, CA 95482
(707) 462-6531

Yreka
809 Fourth Street
Yreka, CA 96097
(530) 842-1304

COLORADO

Durango
850 2nd Avenue
Durango, CO 81301
(800) 678-6828

Grand Junction
2452 F Road
Suite 101
Grand Junction, CO 81505
(800) 962-2482

Greeley
4505 29th Street
Greeley, CO 80634
(800) 799-6545

Montrose
1540 E. Niagara Road
Montrose, CO 81401
(800) 654-8272

KANSAS

Concordia
904 Broadway Street
Concordia, KS 66901
(785) 243-4689

Dodge City
1501 Soule Street
Dodge City, KS 67801
(620) 227-8293

Garden City
1606 East Kansas Avenue
Garden City, KS 67846
(620) 275-4281

Great Bend
5634 10th Street
Great Bend, KS 67530
(620) 792-2211

Hutchinson
1902 E. 23rd Street
Hutchinson, KS 67502
(620) 663-3305

Liberal
2451 North Kansas Avenue
Liberal, KS 67901
(620) 624-0171

Pratt
706 S. Main Street
Pratt, KS 67124
(620) 672-7406

Salina
925 W. Magnolia Road
Salina, KS 67401
(785) 825-4641

Scott City
1422 South Main
Scott City, KS 67871
(620) 872-5391

Wichita
4105 N. Ridge Road
Wichita, KS 67205
(316) 721-1100

NEVADA

Elko
978 Commercial Street
Elko, NV 89801
(775) 738-8496

Fallon
1440 W. Williams Avenue
Fallon, NV 89406
(775) 423-3136

Reno
255 W. Peckham Lane
Reno, NV 89509
(775) 825-7282

OKLAHOMA

Ponca City
1909 E. Lake Road
Ponca City, OK 74602
(580) 765-5690

OREGON

Lake Oswego
5000 Meadows Road
Suite 365
Lake Oswego, OR 97035
(503) 639-7563

All owned office buildings and land are pledged to CoBank as collateral for the note payable.

AMERICAN AGCREDIT

MONEY FOR AGRICULTURE