FOCUS ON FUNDAMENTALS

Strength and Stability for Farm Credit Associations

AGRIBANK DISTRICT 2018 QUARTERLY REPORT
MARCH 31, 2018
AGRIBANK, FCB AND DISTRICT ASSOCIATIONS

AgriBank
FARM CREDIT BANK

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Management's Discussion and Analysis

AgriBank, FCB and District Associations

(Unaudited)

The following commentary is a review of the combined financial condition and results of operations of AgriBank, FCB (AgriBank) and District Associations which are part of the Farm Credit System (the System). This information should be read in conjunction with the accompanying Combined Financial Statements, the Notes to the Combined Financial Statements and the 2017 Annual Report.

AgriBank is a funding Bank that supports and is primarily owned by 14 Farm Credit Associations. AgriBank and the 14 Associations are collectively referred to as the District. The District has over $120 billion in assets. The District covers America's Midwest, a 15-state area stretching from Wyoming to Ohio and Minnesota to Arkansas. With about half of the nation's cropland located in the AgriBank District and over 100 years of experience, AgriBank and District Associations have significant expertise in providing financial products and services for rural communities and agriculture.

Forward-Looking Information

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in the 2017 Annual Report. AgriBank and District Associations undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Financial Overview

Net income increased $115.2 million, or 25.6 percent to $565.5 million for the three months ended March 31, 2018 compared to the same period one year ago. This increase was mainly attributable to increased non-interest income primarily due to an Allocated Insurance Reserve Account (AIRA) refund, and to a lesser extent, increased net interest income due mainly to increased loan volume across the District. Refer to the Results of Operations section for further discussion.

Loan portfolio credit quality remains sound despite a slight decline during the first quarter of 2018 and robust capital levels ensure AgriBank and District Associations are well-positioned to manage the cyclicality that is characteristic of the agricultural market. Refer to the Loan Portfolio and Funding, Liquidity and Shareholders' Equity sections for further discussion.

Economic Conditions

Interest Rate Environment
U.S. economic activity is expected to continue advancing at a moderate pace, and the U.S. economy is forecasted to grow at 2.8 percent in 2018. U.S. economic growth is expected to be driven by consumer and investment spending. Consumer spending has remained strong due to consumer confidence, which is at elevated levels. Investment spending is expected to increase in 2018 due to the Tax Cuts and Jobs Act legislation that was passed in late 2017.

The Federal Open Market Committee (FOMC) of the Federal Reserve is expected to continue the process of normalizing the level of interest rates and continues winding down its balance sheet. After the 25 basis point (bp) rate increase in March 2018, the target range for the federal funds rate stands at 1.50 to 1.75 percent. The path for the federal funds rates is expected to remain data-dependent and, according to Federal Reserve communications, anticipated economic conditions will warrant only gradual increases in policy rates. The consensus forecast of economists suggests that the FOMC will increase the federal funds rate by an additional 50 bp before the end of 2018 to a target range of 2.00 to 2.25 percent. The U.S. Treasury yield curve has flattened due to the Federal Reserve's increases to short-term rates and a decline in inflation expectations, which has constrained long-term rates from moving significantly higher. Economists expect U.S. Treasury rates to move higher by the end of 2018 with the 2-year and 10-year rates approaching 2.70 and 3.15 percent, respectively.

AgriBank manages interest rate risk consistent with policies established by the AgriBank Board of Directors and limits established by AgriBank's Asset/Liability Committee (ALCO) (refer to Interest Rate Risk Management section of the 2017 Annual Report).

Agricultural Conditions
The U.S. Department of Agriculture's Economic Research Service (USDA-ERS) has forecasted U.S. net farm income to decrease $4.3 billion, or 6.7 percent, to $59.5 billion for 2018, from the latest 2017 estimate of $63.8 billion. As forecasted, 2018 net farm income would result in the lowest level since 2006 in nominal terms. The decline in the forecasted 2018 net farm income is largely driven by increased expenses, primarily due to higher labor costs and interest expense.

U.S. farm sector working capital has declined in recent years and is expected to continue to decline in 2018, perpetuated by diminished levels of cash and other short-term assets, sustained low commodity prices and growing short term debt.

While 2018 net farm income and working capital are expected to decline, a healthy U.S. economy is expected to support domestic demand for most agricultural commodities in the foreseeable future. The primary area of risk will remain the export component of the demand for U.S. agricultural commodities, with a stronger dollar and ongoing uncertainty surrounding the future of U.S. trade policy. Major cash crops in the United States are projected to remain at elevated supply levels following strong harvests in recent years. In addition to cash crops, pork, broilers and dairy are most heavily dependent upon exports and most susceptible to foreign trade-related disruptions in 2018. Continued low feed costs along with higher market prices in most major animal protein categories, and some new processing capacity in specific protein sectors should continue to drive increased production, giving rise to increased supply and creating price challenges for producers.

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

Industry Conditions

There have been no changes in industry conditions from those observed at December 31, 2017. For analysis of industry conditions, refer to the Agricultural Conditions section of Management's Discussion and Analysis of the 2017 Annual Report.

Land Values

The AgriBank District continues to monitor agricultural land values. AgriBank conducts an annual Benchmark Survey, completed by licensed real estate appraisers, of a sample of benchmark farms selected to represent the lending footprint of District Associations. The District's most recent real estate market value survey based on the twelve-month period ending June 30, 2017 indicated that the District real estate value changes ranged from a negative 5.8 percent to positive 7.9 percent. AgriBank will conduct the next Benchmark Survey for the period ending June 30, 2018. Land value increases continue to be most common in areas heavily influenced by livestock operations, off-farm income and areas with crop production other than the major crops of corn, soybeans and wheat. Conversely, modest declines in values were concentrated primarily in areas of corn, soybean and wheat production.

The USDA 2017 land value survey, based primarily on agricultural producer opinions, indicated a 0.7 percent increase in farmland values and stable cropland values in the AgriBank District. While recent slight increases in values have been observed by the USDA, agriculture land values in the District have generally stabilized or trended downward since 2013. Land values in the District are expected to remain stable or soften over the next year, primarily due to anticipated continued low levels of net farm income in 2018 and beyond and, to a lesser extent, expected interest rate increases.

Loan Portfolio

Components of Loans

(in thousands)	March 31, 2018	December 31, 2017
Accrual loans:		
Real estate mortgage	**$57,090,130**	$57,159,353
Production and intermediate-term	**23,444,025**	26,101,406
Agribusiness	**12,936,551**	11,313,418
Rural residential real estate	**2,664,222**	2,713,168
Other	**4,599,570**	4,439,645
Nonaccrual loans	**810,361**	745,684
Total loans	**$101,544,859**	$102,472,674

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

District loans totaled $101.5 billion at March 31, 2018, a $927.8 million, or 0.9 percent, decrease from December 31, 2017. Total loans decreased primarily due to repayments on production and intermediate-term loans across the District following draws made prior to year-end for tax planning purposes, partially offset by an increase in agribusiness volume. Agribusiness volume increased due primarily to growth in capital markets lending.

Credit quality across the District declined to 91.8 percent of the portfolio classified in the acceptable category, compared to 92.1 percent at December 31, 2017. The increase in adverse credit quality, delinquencies and related allowance for loan losses, compared to December 31, 2017, was primarily due to certain borrowers that continue to be impacted by low net farm income. Substandard and doubtful loans, collectively called adverse loans, are loans AgriBank and District Associations have identified as showing some credit weakness outside typical credit standards. Adversely classified loans were 4.6 percent at March 31, 2018, compared to 4.3 percent at December 31, 2017 and are expected to continue to increase as the District moves through this agriculture efficiency cycle.

Components of Risk Assets

(in thousands)	March 31, 2018	December 31, 2017
Nonaccrual loans	**$810,361**	$745,684
Accruing restructured loans	**84,089**	91,876
Accruing loans 90 days or more past due	**49,320**	10,003
Total risk loans	**943,770**	847,563
Other property owned	**9,903**	12,295
Total risk assets	**$953,673**	$859,858
Risk loans as a % of total loans	**0.93%**	0.83%
Nonaccrual loans as a % of total loans	**0.80%**	0.73%
Delinquencies as a % of total loans	**0.77%**	0.55%

Note: Accruing loans include accrued interest receivable.

Risk assets have increased from December 31, 2017, but remain at acceptable levels. At March 31, 2018, 56.8 percent of nonaccrual loans were current as to principal and interest compared to 59.8 percent at December 31, 2017. The increase in risk assets was driven primarily by declines in net farm income for certain borrowers within the District. Based on current forecasts for net farm income in certain agricultural production sectors, risk assets are expected to continue to rise.

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

Allowance Coverage Ratios

	March 31, 2018	December 31, 2017
Allowance as a % of:		
Loans	**0.44%**	0.43%
Nonaccrual loans	**54.76%**	58.48%
Total risk loans	**47.02%**	51.45%
Adverse assets to capital and allowance for loan losses	**22.80%**	22.04%

The allowance for loan losses is an estimate of losses on loans in the portfolio as of the financial statement date. AgriBank and District Associations determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions. The allowance for loan losses increased from December 31, 2017, to $443.8 million as of March 31, 2018 primarily as a result of increases in risk loans, adverse credit quality and industry related reserves, which are primarily due to deterioration in credit quality throughout the District. The management of AgriBank and each District Association, respectively, believe the allowances for loan losses are reasonable in relation to the risk in their respective portfolios at March 31, 2018.

Funding, Liquidity and Shareholders' Equity

AgriBank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Access to the unsecured debt capital markets remains the District's primary source of liquidity. The System continues to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. During the three months ended March 31, 2018, investor demand for System-wide debt securities remained favorable.

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

AgriBank manages intermediate and longer-term liquidity needs through the composition of the liquidity investment portfolio, which is structured to meet both regulatory requirements and operational demands. Specifically, AgriBank provides at least 15 days of liquidity coverage from cash, overnight investments and U.S. Treasury securities less than three years in maturity. Other short-term money market investments, as well as government and agency mortgage-backed securities (MBS), are positioned to cover regulatory requirements for 30- and 90-day intervals. Additionally, a supplemental liquidity buffer provides days coverage in excess of 90 days from money market instruments greater than 90 days in maturity and asset-backed securities (ABS). At March 31, 2018, AgriBank held qualifying assets in excess of each incremental level to meet the liquidity coverage intervals.

AgriBank's liquidity policy and Farm Credit Administration (FCA) regulations require maintaining minimum liquidity on a continuous basis of 120 days and 90 days, respectively. The days of liquidity measurement refers to the number of days that maturing debt is covered by liquid investments. As of March 31, 2018, AgriBank had sufficient liquidity to fund all debt maturing within 156 days.

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

Total shareholders' equity at March 31, 2018 was $22.5 billion, a $464.0 million increase from December 31, 2017. Shareholders' equity increased primarily due to comprehensive income for the period, partially offset by earnings reserved for patronage distributions.

At March 31, 2018, AgriBank and each District Association exceeded the regulatory minimum capital ratios. Refer to Note 4 in the accompanying Combined Financial Statements for further discussion of capital ratios.

Results of Operations

District net income for the three months ended March 31, 2018 was $565.5 million, a 25.6 percent increase, compared to the same period in 2017. The annualized return on average assets was 1.9 percent and 1.6 percent for the three month periods ended March 31, 2018 and 2017, respectively.

Changes in Significant Components of Net Income

(in thousands)			Increase in
For the three months ended March 31,	**2018**	2017	Net Income
Net interest income	**$752,802**	$723,369	$29,433
Provision for credit losses	**13,193**	19,349	6,156
Non-interest income	**130,802**	57,863	72,939
Non-interest expense	**295,234**	298,888	3,654
Provision for income taxes	**9,715**	12,736	3,021
Net income	**$565,462**	$450,259	$115,203

The District's provision for credit losses for the three months ended March 31, 2018 was $13.2 million, compared to $19.3 million for the same period in 2017. Low crop prices and current economic conditions have resulted in continued low net farm income for certain borrowers across the District, which has driven additional provisions during the quarter ended March 31, 2018. Refer to the Loan Portfolio section for further discussion.

The increase in non-interest income was primarily due to the $65.9 million AIRA distribution received from the Farm Credit System Insurance Corporation (FCSIC) during the first quarter of 2018. The AIRA was recently established by the FCSIC when premiums collected increased the level of the insurance fund beyond the required 2 percent of insured debt. Refer to the 2017 Annual Report for additional information about the FCSIC.

Changes in Net Interest Income

(in thousands)

For the three months ended March 31,		**2018 vs 2017**	
Increase (decrease) due to:	**Volume**	**Rate**	**Total**
Interest income:			
Loans	**$33,575**	**$87,390**	**$120,965**
Investments	**2,724**	**23,009**	**25,733**
Other earning assets	**27**	**35**	**62**
Total interest income	**36,326**	**110,434**	**146,760**
Interest expense:			
Systemwide debt securities and other	**(8,915)**	**(108,412)**	**(117,327)**
Net change in net interest income	**$27,411**	**$2,022**	**$29,433**

Net interest income (NII) for the three months ended March 31, 2018 increased $29.4 million, or 4.1 percent, compared to the same period in 2017. Net interest income increased primarily due to increases in loan volume compared to the prior year.

Information regarding the year-to-date average daily balances (ADBs) and annualized average rates earned and paid on the portfolio follows:

(in thousands)

For the three months ended March 31,		**2018**			2017	
	ADB	**Rate**	**NII**	ADB	Rate	NII
Interest earning assets:						
Accrual loans	**$100,674,526**	**4.40%**	**$1,107,971**	$97,511,041	4.04%	$985,018
Nonaccrual loans	**740,698**	**6.00%**	**11,117**	692,611	7.57%	13,105
Investment securities and federal funds	**17,870,069**	**1.87%**	**83,523**	17,095,495	1.35%	57,790
Other earning assets	**39,248**	**4.62%**	**453**	36,775	4.25%	391
Total earning assets	**$119,324,541**	**4.03%**	**$1,203,064**	$115,335,922	3.66%	$1,056,304
Interest bearing liabilities	**97,376,668**	**1.85%**	**450,262**	94,895,505	1.40%	332,935
Interest rate spread	**$21,947,873**	**2.18%**		$20,440,417	2.26%	
Impact of equity financing		**0.34%**			0.25%	
Net interest margin		**2.52%**			2.51%	
Net interest income			**$752,802**			$723,369

Interest rate spread decreased eight basis points over the same period last year. The decrease in spread has been substantially driven by spread compression in the production and intermediate term sector due to competitive pressures across the district. Equity financing represents the benefit of non-interest bearing funding, primarily shareholders' equity, and was up compared to the prior year due to higher equity volume and a higher level of interest rates.

Certification

The undersigned have reviewed the March 31, 2018 Quarterly Report of AgriBank, FCB and District Associations, which has been prepared under the oversight of the AgriBank Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate and complete to the best of the District's knowledge and belief.

Matthew D. Walther
Chair of the Board
AgriBank, FCB
May 10, 2018

Jeffrey R. Swanhorst
Chief Executive Officer
AgriBank, FCB
May 10, 2018

Jeffrey L. Moore
Chief Financial Officer
AgriBank, FCB
May 10, 2018

Combined Statements of Condition

AgriBank, FCB and District Associations

(unaudited) *(in thousands)*	**March 31, 2018**	December 31, 2017
Assets		
Loans	**$101,544,859**	$102,472,674
Allowance for loan losses	**443,779**	436,059
Net loans	**101,101,080**	102,036,615
Investment securities - AgriBank, FCB	**14,770,533**	14,386,455
Investment securities - District Associations	**2,307,680**	2,146,458
Cash	**307,132**	571,445
Federal funds	**663,000**	676,300
Accrued interest receivable	**986,156**	1,160,514
Premises and equipment, net	**526,055**	516,331
Deferred tax assets, net	**12,015**	10,076
Assets held for lease, net	**207,928**	221,373
Derivative assets	**20,679**	9,036
Other property owned	**9,903**	12,295
Cash collateral posted with counterparties	**27,242**	31,734
Other assets	**320,050**	363,058
Total assets	**$121,259,453**	$122,141,690
Liabilities		
Bonds and notes	**$97,393,375**	$98,313,944
Accrued interest payable	**350,292**	288,978
Derivative liabilities	**16,494**	34,752
Deferred tax liabilities, net	**37,912**	38,649
Accounts payable	**85,902**	196,485
Patronage and dividends payable	**143,629**	549,617
Post-employment liability	**409,951**	410,749
Cash collateral posted by counterparties	**2,600**	--
Other liabilities	**274,900**	228,152
Total liabilities	**98,715,055**	100,061,326
Commitments and contingencies (Note 6)		
Shareholders' equity		
Perpetual preferred stock	**350,000**	350,000
Capital stock and participation certificates	**293,455**	294,949
Additional paid-in capital	**2,084,988**	2,084,988
Allocated surplus	**479,613**	523,252
Unallocated surplus	**19,825,374**	19,356,250
Accumulated other comprehensive loss	**(553,687)**	(593,556)
Noncontrolling interest	**64,655**	64,481
Total shareholders' equity	**22,544,398**	22,080,364
Total liabilities and shareholders' equity	**$121,259,453**	$122,141,690

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

Combined Statements of Comprehensive Income

AgriBank, FCB and District Associations

(unaudited)
(in thousands)

	Three months	
For the period ended March 31,	**2018**	2017
Interest income		
Loans	**$1,119,438**	$998,380
Investment securities and other earning assets	**83,626**	57,924
Total interest income	**1,203,064**	1,056,304
Interest expense	**450,262**	332,935
Net interest income	**752,802**	723,369
Provision for credit losses	**13,193**	19,349
Net interest income after provision for credit losses	**739,609**	704,020
Non-interest income		
Financially related services	**24,848**	24,735
Mineral income	**14,613**	10,247
Loan prepayment and fee income	**14,410**	15,465
Allocated insurance reserve accounts income	**65,941**	--
Miscellaneous income and other gains, net	**10,990**	7,416
Total non-interest income	**130,802**	57,863
Non-interest expense		
Salaries and employee benefits	**179,691**	175,682
Other operating expenses	**83,554**	79,140
Occupancy expense	**12,074**	11,926
Farm Credit System insurance expense	**19,915**	32,140
Total non-interest expense	**295,234**	298,888
Income before income taxes	**575,177**	462,995
Provision for income taxes	**9,715**	12,736
Net income	**$565,462**	$450,259
Other comprehensive (loss) income		
Not-other-than-temporarily-impaired investments available-for-sale	**$(30,058)**	$8,649
Derivatives and hedging activity	**58,917**	4,748
Employee benefit plans activity	**11,010**	8,969
Total other comprehensive (loss) income	**39,869**	22,366
Comprehensive income	**$605,331**	$472,625

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

Combined Statements of Changes in Shareholders' Equity

AgriBank, FCB and District Associations

(unaudited) *(In thousands)*	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in Capital	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total
Balance at December 31, 2016	$350,000	$272,034	$ --	$531,150	$20,145,063	$(566,831)	$60,647	$20,792,063
Noncontrolling interest equity investment							(1,722)	(1,722)
Net income					450,259			450,259
Other comprehensive income						22,366		22,366
Patronage					(51,024)			(51,024)
Surplus allocated under nonqualified patronage program				65,117	(65,117)			--
Redemption of surplus allocated under nonqualified patronage program				(95)	12			(83)
Perpetual preferred stock dividends					(5,985)			(5,985)
Capital stock/participation certificates issued		19,602						19,602
Capital stock/participation certificates retired		(14,265)						(14,265)
Balance at March 31, 2017	$350,000	$277,371	$ --	$596,172	$20,473,208	$(544,465)	$58,925	$21,211,211
Balance at December 31, 2017	$350,000	$294,949	$2,084,988	$523,252	$19,356,250	$(593,556)	$64,481	$22,080,364
Noncontrolling interest equity investment							**174**	**174**
Net income					**565,462**			**565,462**
Other comprehensive income						**39,869**		**39,869**
Patronage					**(90,353)**			**(90,353)**
Redemption of surplus allocated under nonqualified patronage program				**(43,639)**				**(43,639)**
Perpetual preferred stock dividends					**(5,985)**			**(5,985)**
Capital stock/participation certificates issued		**9,088**						**9,088**
Capital stock/participation certificates retired		**(10,582)**						**(10,582)**
Balance at March 31, 2018	**$350,000**	**$293,455**	**$2,084,988**	**$479,613**	**$19,825,374**	**$(553,687)**	**$64,655**	**$22,544,398**

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

Combined Statements of Cash Flows

AgriBank, FCB and District Associations

(unaudited)
(in thousands)

For the three months ended March 31,	2018	2017
Cash flows from operating activities		
Net income	**$565,462**	$450,259
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation on premises, equipment and assets held for lease	**22,464**	25,384
Loss (gain) on sales of premises, equipment and assets held for lease	**331**	(1,382)
Provision for credit losses	**13,193**	19,349
Loss on other property owned, net	**1,607**	2,186
Loss (gain) on derivative activities	**1,250**	(1,492)
Amortization of discounts on debt and deferred debt issuance costs, net	**12,545**	26,245
Amortization of (discounts) premiums on loans and investments, net	**(15,376)**	778
Insurance refund related to FCS Financial Assistance Corporation stock	**(3,376)**	--
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable	**174,358**	167,114
Decrease in other assets	**41,114**	140,161
Increase in accrued interest payable	**61,314**	48,089
Decrease in other liabilities	**(56,057)**	(94,582)
Net cash provided by operating activities	**818,829**	782,109
Cash flows from investing activities		
Decrease in loans, net	**924,465**	660,551
Proceeds from sales of other property owned	**4,043**	2,585
Purchases of investment securities	**(1,440,586)**	(852,481)
Proceeds from maturing investment securities	**877,329**	1,389,457
Proceeds from sale of (purchases of) assets held for lease, net	**2,039**	(2,020)
Purchases of premises and equipment, net	**(21,113)**	(11,244)
Proceeds from Insurance refund related to FCS Financial Assistance Corporation stock	**3,376**	--
Net cash provided by investing activities	**349,553**	1,186,848
Cash flows from financing activities		
Bonds and notes issued	**25,783,953**	42,287,150
Bonds and notes retired	**(26,708,701)**	(43,949,235)
Decrease in cash collateral posted with counterparties, net	**4,492**	--
Increase in cash collateral posted by counterparties	**2,600**	3,664
Variation margin settled on cleared derivatives, net	**18,946**	(2,050)
Patronage distributions paid	**(421,480)**	(319,461)
Nonqualified patronage distributions paid	**(118,500)**	--
Redemption of surplus under nonqualified patronage program	**--**	(83)
Capital stock/participation certificates (retired) issued, net	**(1,494)**	5,337
Preferred stock dividends paid	**(5,985)**	(5,985)
Increase (decrease) in noncontrolling interest	**174**	(1,722)
Net cash used in financing activities	**(1,445,995)**	(1,982,385)
Net decrease in cash and federal funds	**(277,613)**	(13,428)
Cash and federal funds at beginning of period	**1,247,745**	1,151,060
Cash and federal funds at end of period	**$970,132**	$1,137,632
Supplemental schedule of non-cash investing and financing activities		
(Decrease) increase in shareholders' equity from investment securities	**$(30,058)**	$8,649
Increase in shareholders' equity from employee benefits	**11,010**	8,969
Loans transferred to other property owned	**3,275**	4,100
Patronage and preferred stock dividends accrued	**143,629**	57,168
Supplemental non-cash fair value changes related to hedging activities		
(Increase) decrease in derivative assets	**$(28,347)**	$2,857
Decrease in derivative liabilities	**(20,954)**	(3,431)
Decrease in bonds from derivative activity	**(8,366)**	(5,666)
Increase in shareholders' equity from cash flow derivatives	**58,917**	4,748
Supplemental information		
Interest paid	**$376,421**	$258,599
Taxes paid, net	**155**	605

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

Notes to Combined Financial Statements

AgriBank, FCB and District Associations

(Unaudited)

NOTE 1

Organization and Significant Accounting Policies

AgriBank, FCB (AgriBank) and District Associations (the District) comprise one of the four Districts of the Farm Credit System (the System), a nationwide system of cooperatively owned Banks and Associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes. AgriBank and its District Associations are collectively referred to as the District. At March 31, 2018, the District had 14 Agricultural Credit Associations (ACA). Each parent ACA has wholly owned Federal Land Credit Association and Production Credit Association subsidiaries. AgriBank serves as the intermediary between the financial markets and the retail lending activities of the District Associations.

A description of the organization and operation of the District, significant accounting policies followed, combined financial condition and results of operations as of and for the year ended December 31, 2017 are contained in the 2017 Annual Report. There have been no significant changes in District accounting policies since December 31, 2017. These unaudited first quarter 2018 Combined Financial Statements should be read in conjunction with the Annual Report. The results for the three months ended March 31, 2018 do not necessarily indicate the results to be expected for the year ended December 31, 2018.

All significant transactions and balances between AgriBank and District Associations have been eliminated in combination. The accompanying Combined Financial Statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to accounting principles generally accepted (GAAP) in the United States of America and prevailing practices within the financial services industry. The preparation of Combined Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Combined Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts in prior year’s Combined Financial Statements have been reclassified to conform to current year presentation.

Recently Issued or Adopted Accounting Pronouncements

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

Standard and effective date	Description	Adoption status and financial statement impact
In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 "Revenue from Contracts with Customers." This guidance was effective for public business entities on January 1, 2018.	This guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of contracts within the District are excluded from the scope of this new guidance.	AgriBank and District Associations adopted this guidance on January 1, 2018, using the modified retrospective approach, as the majority of revenues at each institution are not subject to the new guidance. The adoption of the guidance did not have a material impact on the combined financial condition, combined results of operations or cash flows.
In March 2017, the FASB issued ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." This guidance was effective for public business entities on January 1, 2018.	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	AgriBank and District Associations adopted this guidance on January 1, 2018. The adoption of the guidance did not impact the statements of financial condition or cash flows. 2017 non-service cost components of net benefit cost were reclassified from salaries and employee benefits to other operating expenses on the Combined Statements of Comprehensive Income. This retroactive adjustment was not considered to be material. There were no changes to the financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities." This guidance was effective for public business entities on January 1, 2018.	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure in the financial statements.	AgriBank and District Associations adopted this guidance on January 1, 2018. The adoption of this guidance did not impact the combined financial condition, combined results of operations or cash flows. Financial statement disclosures related to the methods and significant assumptions used to estimate fair value for financial instruments measured at amortized cost on the combined statement of condition are no longer required and will be excluded upon adoption of this guidance in the 2018 Annual Report.

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

NOTE 2

Loans and Allowance for Loan Losses

Loans by Type

(in thousands)	March 31, 2018 Amount	%	December 31, 2017 Amount	%
Real estate mortgage	**$57,527,766**	**56.6%**	$57,593,060	56.2%
Production and intermediate-term	**23,690,965**	**23.3%**	26,358,352	25.7%
Agribusiness	**12,990,020**	**12.8%**	11,331,799	11.1%
Rural residential real estate	**2,696,763**	**2.7%**	2,745,807	2.7%
Other	**4,639,345**	**4.6%**	4,443,656	4.3%
Total loans	**$101,544,859**	**100.0%**	$102,472,674	100.0%

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

Participations

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

Participations Purchased and Sold

(in thousands)	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
As of March 31, 2018	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	**$1,270,608**	**$385,732**	**$3,103,758**	**$56,896**	**$4,374,366**	**$442,628**
Production and intermediate-term	**2,005,663**	**483,451**	**3,432,243**	**22,163**	**5,437,906**	**505,614**
Agribusiness	**4,925,537**	**1,398,084**	**1,085,011**	**93,105**	**6,010,548**	**1,491,189**
Rural residential real estate	**66**	**--**	**8,122**	**--**	**8,188**	**--**
Other	**3,058,568**	**190,370**	**9,151**	**--**	**3,067,719**	**190,370**
Total loans	**$11,260,442**	**$2,457,637**	**$7,638,285**	**$172,164**	**$18,898,727**	**$2,629,801**

(in thousands)	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
As of December 31, 2017	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$1,358,833	$294,947	$2,897,972	$64,503	$4,256,805	$359,450
Production and intermediate-term	1,813,161	498,247	3,810,822	35,208	5,623,983	533,455
Agribusiness	4,730,254	1,185,808	688,395	116,840	5,418,649	1,302,648
Rural residential real estate	79	--	11,117	--	11,196	--
Other	2,682,523	128,476	14,155	--	2,696,678	128,476
Total loans	$10,584,850	$2,107,478	$7,422,461	$216,551	$18,007,311	$2,324,029

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

Portfolio Performance

One credit quality indicator used in the District is the FCA Uniform Loan Classification System which categorizes loans into five categories. The categories are defined as follows:

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

Credit Quality of Loans

(in thousands) As of March 31, 2018	Acceptable		Special mention		Substandard/Doubtful		Total	
Real estate mortgage	**$53,325,804**	**91.7%**	**$2,069,589**	**3.6%**	**$2,714,137**	**4.7%**	**$58,109,530**	**100.0%**
Production and intermediate-term	**20,980,409**	**87.4%**	**1,333,217**	**5.6%**	**1,666,748**	**7.0%**	**23,980,374**	**100.0%**
Agribusiness	**12,762,640**	**97.9%**	**105,215**	**0.8%**	**172,898**	**1.3%**	**13,040,753**	**100.0%**
Rural residential real estate	**2,540,021**	**93.7%**	**59,964**	**2.2%**	**110,008**	**4.1%**	**2,709,993**	**100.0%**
Other	**4,484,450**	**96.3%**	**119,140**	**2.6%**	**50,506**	**1.1%**	**4,654,096**	**100.0%**
Total loans	**$94,093,324**	**91.8%**	**$3,687,125**	**3.6%**	**$4,714,297**	**4.6%**	**$102,494,746**	**100.0%**

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

Note: Accruing loans include accrued interest receivable.

AgriBank and District Associations had no loans categorized as loss at March 31, 2018 or December 31, 2017.

Aging Analysis of Loans

(in thousands) As of March 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Accruing loans 90 days or more past due
Real estate mortgage	$198,460	$130,836	$329,296	$57,780,234	$58,109,530	$22,736
Production and intermediate-term	246,717	149,848	396,565	23,583,809	23,980,374	20,995
Agribusiness	6,036	9,669	15,705	13,025,048	13,040,753	1,945
Rural residential real estate	15,158	8,272	23,430	2,686,563	2,709,993	364
Other	10,289	5,317	15,606	4,638,490	4,654,096	3,280
Total loans	$476,660	$303,942	$780,602	$101,714,144	$102,494,746	$49,320

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

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands)	March 31, 2018	December 31, 2017
Nonaccrual loans:		
Current as to principal and interest	$460,400	$446,173
Past due	349,961	299,511
Total nonaccrual loans	810,361	745,684
Accruing restructured loans	84,089	91,876
Accruing loans 90 days or more past due	49,320	10,003
Total risk loans	$943,770	$847,563
Volume with specific reserves	$222,788	$158,808
Volume without specific reserves	720,982	688,755
Total risk loans	$943,770	$847,563
Specific reserves	$63,901	$47,075

Note: Accruing loans include accrued interest receivable.

Income on Risk Loans

(in thousands) For the three months ended March 31,	2018	2017
Income on accrual risk loans	$1,566	$1,520
Income on nonaccrual loans	11,116	13,105
Total income on risk loans	$12,682	$14,625
Average risk loans	$863,674	$821,304

Risk Loans by Type

(in thousands)	**March 31, 2018**	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	**$437,636**	$433,708
Production and intermediate-term	**246,940**	256,946
Agribusiness	**53,469**	18,381
Rural residential real estate	**32,541**	32,639
Other	**39,775**	4,010
Total nonaccrual loans	**$810,361**	$745,684
Accruing restructured loans:		
Real estate mortgage	**$61,315**	$62,231
Production and intermediate-term	**17,624**	24,483
Agribusiness	**3,132**	3,173
Rural residential real estate	**1,976**	1,989
Other	**42**	--
Total accruing restructured loans	**$84,089**	$91,876
Accruing loans 90 days or more past due:		
Real estate mortgage	**$22,736**	$1,119
Production and intermediate-term	**20,995**	6,953
Agribusiness	**1,945**	--
Rural residential real estate	**364**	563
Other	**3,280**	1,368
Total accruing loans 90 days or more past due	**$49,320**	$10,003
Total risk loans	**$943,770**	$847,563

Note: Accruing loans include accrued interest receivable.

All risk loans are considered to be impaired loans.

Additional Impaired Loan Information by Loan Type

(in thousands)	As of March 31, 2018 Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	For the three months ended March 31, 2018 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$42,408**	**$54,151**	**$13,082**	**$41,557**	**$ --**
Production and intermediate-term	**95,593**	**112,742**	**24,879**	**98,702**	**--**
Agribusiness	**44,228**	**47,656**	**17,984**	**16,951**	**--**
Rural residential real estate	**2,705**	**3,389**	**1,044**	**2,819**	**--**
Other	**37,854**	**38,086**	**6,912**	**2,413**	**--**
Total	**$222,788**	**$256,024**	**$63,901**	**$162,442**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$479,279**	**$553,800**	**$ --**	**$464,095**	**$6,023**
Production and intermediate-term	**189,966**	**255,196**	**--**	**189,642**	**5,048**
Agribusiness	**14,318**	**16,288**	**--**	**10,299**	**1,259**
Rural residential real estate	**32,176**	**41,342**	**--**	**32,287**	**312**
Other	**5,243**	**5,145**	**--**	**4,909**	**40**
Total	**$720,982**	**$871,771**	**$ --**	**$701,232**	**$12,682**
Total impaired loans:					
Real estate mortgage	**$521,687**	**$607,951**	**$13,082**	**$505,652**	**$6,023**
Production and intermediate-term	**285,559**	**367,938**	**24,879**	**288,344**	**5,048**
Agribusiness	**58,546**	**63,944**	**17,984**	**27,250**	**1,259**
Rural residential real estate	**34,881**	**44,731**	**1,044**	**35,106**	**312**
Other	**43,097**	**43,231**	**6,912**	**7,322**	**40**
Total	**$943,770**	**$1,127,795**	**$63,901**	**$863,674**	**$12,682**

(in thousands)	As of December 31, 2017 Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	For the three months ended March 31, 2017 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$45,373	$56,603	$13,638	$42,857	$ --
Production and intermediate-term	99,230	114,006	27,116	90,233	--
Agribusiness	9,399	11,334	4,352	4,733	--
Rural residential real estate	3,134	3,781	1,156	3,716	--
Other	1,672	1,672	813	2,246	--
Total	$158,808	$187,396	$47,075	$143,785	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$451,685	$526,404	$ --	$423,966	$6,455
Production and intermediate-term	189,152	258,321	--	196,972	6,436
Agribusiness	12,155	19,028	--	10,086	1,104
Rural residential real estate	32,057	41,311	--	34,608	469
Other	3,706	3,670	--	11,887	161
Total	$688,755	$848,734	$ --	$677,519	$14,625
Total impaired loans:					
Real estate mortgage	$497,058	$583,007	$13,638	$466,823	$6,455
Production and intermediate-term	288,382	372,327	27,116	287,205	6,436
Agribusiness	21,554	30,362	4,352	14,819	1,104
Rural residential real estate	35,191	45,092	1,156	38,324	469
Other	5,378	5,342	813	14,133	161
Total	$847,563	$1,036,130	$47,075	$821,304	$14,625

[1]The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through merger and may also reflect a previous direct charge-off of the investment.

[2]Unpaid principal balance represents the contractual principal balance of the loan.

AgriBank and District Associations had no material commitments to lend additional money to borrowers whose loans were classified as risk loans as of March 31, 2018.

Troubled Debt Restructurings

Included within loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within District allowance for loan losses.

TDR Activity

(in thousands) **For the three months ended March 31, 2018**	**Pre-modification Outstanding Recorded Investment[1]**	**Post-modification Outstanding Recorded Investment[1]**
TDRs:		
Real estate mortgage	**$1,779**	**$1,780**
Production and intermediate-term	**2,106**	**2,108**
Agribusiness	**82**	**82**
Total loans	**$3,967**	**$3,970**

(in thousands) For the three months ended March 31, 2017	Pre-modification Outstanding Recorded Investment[1]	Post-modification Outstanding Recorded Investment[1]
TDRs:		
Real estate mortgage	$4,776	$4,772
Production and intermediate-term	15,272	16,068
Agribusiness	940	942
Rural residential real estate	4	--
Total loans	$20,992	$21,782

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

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

TDRs that Subsequently Defaulted within the Previous 12 Months

(in thousands)	Recorded Investment	
For the three months ended March 31,	**2018**	2017
TDRs that subsequently defaulted:		
Real estate mortgage	**$ --**	$240
Production and intermediate-term	**782**	2,101
Agribusiness	**376**	67
Total	**$1,158**	$2,408

TDRs Outstanding

(in thousands)	March 31, 2018	December 31, 2017
Accrual Status		
Real estate mortgage	**$61,315**	$62,231
Production and intermediate-term	**17,624**	24,483
Agribusiness	**3,132**	3,173
Rural residential real estate	**1,976**	1,989
Other	**42**	--
Total TDRs in accrual status	**$84,089**	$91,876
Nonaccrual Status		
Real estate mortgage	**$22,424**	$22,841
Production and intermediate-term	**8,295**	9,307
Agribusiness	**2,425**	2,351
Rural residential real estate	**1,394**	1,396
Total TDRs in nonaccrual status	**$34,538**	$35,895
Total TDRs	**$118,627**	$127,771

AgriBank and District Associations had no material commitments to lend to borrowers whose loans have been modified as TDRs as of March 31, 2018.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

For the three months ended March 31,	2018	2017
Balance at beginning of period	**$436,059**	$386,754
Provision for loan losses	**11,062**	21,327
Charge-offs	**(6,327)**	(7,157)
Recoveries	**2,985**	5,165
Balance at end of period	**$443,779**	$406,089

The allowance for loan losses increased to $443.8 million at March 31, 2018, reflecting $11.1 million of provision for loan losses (not including provision for credit losses of $2.2 million for unfunded commitments), offset by net charge-offs of $3.3 million.

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

(in thousands)	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance as of December 31, 2017	**$196,749**	**$156,184**	**$54,817**	**$8,965**	**$19,344**	**$436,059**
Provision for (reversal of) loan losses	**(6,842)**	**11,610**	**6,197**	**(1,382)**	**1,479**	**11,062**
Charge-offs	**(938)**	**(5,035)**	**(73)**	**(281)**	**--**	**(6,327)**
Recoveries	**739**	**2,088**	**43**	**115**	**--**	**2,985**
Balance as of March 31, 2018	**$189,708**	**$164,847**	**$60,984**	**$7,417**	**$20,823**	**$443,779**
As of March 31, 2018:						
Ending balance: individually evaluated for impairment	**$13,082**	**$24,879**	**$17,984**	**$1,044**	**$6,912**	**$63,901**
Ending balance: collectively evaluated for impairment	**$176,626**	**$139,968**	**$43,000**	**$6,373**	**$13,911**	**$379,878**
Recorded investments in loans outstanding:						
Ending balance as of March 31, 2018:	**$58,109,530**	**$23,980,374**	**$13,040,753**	**$2,709,993**	**$4,654,096**	**$102,494,746**
Ending balance for loans individually evaluated for impairment	**$521,687**	**$285,559**	**$58,546**	**$34,881**	**$43,097**	**$943,770**
Ending balance for loans collectively evaluated for impairment	**$57,587,843**	**$23,694,815**	**$12,982,207**	**$2,675,112**	**$4,610,999**	**$101,550,976**

(in thousands)	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance as of December 31, 2016	$158,779	$154,488	$47,067	$10,220	$16,200	$386,754
Provision for (reversal of) loan losses	10,513	9,583	(960)	468	1,723	21,327
Charge-offs	(981)	(5,744)	(92)	(339)	(1)	(7,157)
Recoveries	631	2,050	2,350	133	1	5,165
Balance as of March 31, 2017	$168,942	$160,377	$48,365	$10,482	$17,923	$406,089
As of December 31, 2017:						
Ending balance: individually evaluated for impairment	$13,638	$27,116	$4,352	$1,156	$813	$47,075
Ending balance: collectively evaluated for impairment	$183,111	$129,068	$50,465	$7,809	$18,531	$388,984
Recorded investments in loans outstanding:						
Ending balance as of December 31, 2017:	$58,282,571	$26,712,610	$11,378,819	$2,761,825	$4,457,448	$103,593,273
Ending balance for loans individually evaluated for impairment	$497,058	$288,382	$21,554	$35,191	$5,378	$847,563
Ending balance for loans collectively evaluated for impairment	$57,785,513	$26,424,228	$11,357,265	$2,726,634	$4,452,070	$102,745,710

Note: Accruing loans include accrued interest receivable.

NOTE 3

Investment Securities

AgriBank Investment Securities

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

AgriBank AFS Investment Securities

(in thousands) As of March 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$6,081,621	$8,134	$91,554	$5,998,201	1.9%
Commercial paper and other	5,657,358	663	745	5,657,276	2.0%
U.S. Treasury securities	3,018,353	12	21,364	2,997,001	1.2%
Asset-backed securities	118,443	--	388	118,055	1.3%
Total	$14,875,775	$8,809	$114,051	$14,770,533	1.8%

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

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

Contractual Maturities of AgriBank AFS Investment Securities

	Year of Maturity				
(in thousands) As of March 31, 2018	One Year or Less	One to Five Years	Five to Ten Years	More Than Ten Years	Total
Mortgage-backed securities	$389	$22,160	$832,371	$5,143,281	$5,998,201
Commercial paper and other	5,657,276	--	--	--	5,657,276
U.S. Treasury securities	1,862,451	1,134,550	--	--	2,997,001
Asset-backed securities	--	118,055	--	--	118,055
Total	$7,520,116	$1,274,765	$832,371	$5,143,281	$14,770,533
Weighted average yield	1.8%	1.5%	1.7%	1.9%	1.8%

The expected average life is 0.3 years for asset-backed securities (ABS) and 4.0 years for mortgage-backed securities (MBS) at March 31, 2018. Expected maturities differ from contractual maturities because borrowers may have the right to prepay obligations.

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

	Less than 12 months		**More than 12 months**	
(in thousands)	**Fair**	**Unrealized**	**Fair**	**Unrealized**
As of March 31, 2018	**Value**	**Losses**	**Value**	**Losses**
Mortgage-backed securities	**$1,699,474**	**$21,411**	**$2,585,431**	**$70,143**
Commercial paper and other	**2,406,540**	**745**	**--**	**--**
U.S. Treasury securities	**762,621**	**7,159**	**2,185,291**	**14,205**
Asset-backed securities	**37,609**	**120**	**80,446**	**268**
Total	**$4,906,244**	**$29,435**	**$4,851,168**	**$84,616**

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

There were no AgriBank AFS investment securities sold during the three months ended March 31, 2018 or 2017.

AgriBank evaluates its investment securities for other-than-temporary impairment (OTTI) on a quarterly basis. AgriBank has determined no securities were in an OTTI loss position at March 31, 2018 or December 31, 2017.

There was no OTTI activity during the three months ended March 31, 2018 or 2017.

District Associations Investment Securities

Periodically, one District Association sells loans held for sale to a third party and purchases back securities collateralized by the loans sold. As the District Association may not hold the investments to maturity, all or a portion of these securities are classified as AFS. The contractual maturities for AFS securities held by the District Association are generally greater than ten years. The District Association held AFS securities with fair value of $34.0 million at March 31, 2018 and held no AFS securities at December 31, 2017. The investments were evaluated for OTTI and no securities were determined to be in an OTTI loss position at March 31, 2018.

The District Association sold no AFS securities during the three months ended March 31, 2018 or 2017.

All other investments held by District Associations are classified as held-to-maturity (HTM).

HTM Investment Securities

(in thousands) As of March 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Government guaranteed instruments	$1,514,273	$5,184	$70,102	$1,449,355	3.1%
Farmer Mac mortgage-backed securities	752,201	1,638	8,286	745,553	4.0%
Agricultural and Rural Community bonds	7,220	2	--	7,222	2.9%
Total	$2,273,694	$6,824	$78,388	$2,202,130	3.4%

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

The investments were evaluated for OTTI. No securities were other-than-temporarily impaired as of March 31, 2018 or December 31, 2017.

NOTE 4

Shareholders' Equity

Regulatory Capital Requirements and Ratios

As of March 31, 2018	AgriBank	District Associations	District Associations weighted average	Regulatory Minimums	Capital Conservation Buffer [1]	Total
Risk adjusted:						
Common equity tier 1 capital ratio	17.8%	14.5% - 22.1%	17.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	18.6%	15.1% - 22.1%	17.1%	6.0%	2.5%	8.5%
Total capital ratio	18.7%	15.5% - 22.4%	17.6%	8.0%	2.5%	10.5%
Permanent capital ratio	18.7%	15.5% - 27.1%	17.3%	7.0%	0.0%	7.0%
Non-risk adjusted:						
Tier 1 leverage ratio	5.6%	15.3% - 23.2%	17.7%	4.0%	1.0%	5.0%
UREE[2] leverage ratio	3.1%	13.9% - 23.4%	17.9%	1.5%	0.0%	1.5%

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

[1] The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in under the FCA capital requirements.

[2] Unallocated retained earnings and equivalents

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.

Protected participation certificates of $204 thousand and $208 thousand are included in Capital Stock and Participation Certificates on the Statements of Changes in Shareholders' Equity as of March 31, 2018 and December 31, 2017, respectively.

NOTE 5

Employee Benefit Plans

AgriBank and District Associations participate in District-wide employee benefit plans. The components of net periodic benefit cost, other than the service cost component, are included in the line item "Other operating expenses" on the Combined Statements of Comprehensive Income.

Components of Net Periodic Benefit Cost

(in thousands)	Pension Benefits		Other Benefits	
For the three months ended March 31,	**2018**	2017	**2018**	2017
Service cost	**$7,570**	$7,134	**$66**	$109
Interest cost	**11,607**	11,726	**168**	256
Expected return on plan assets	**(16,415)**	(15,486)	**--**	--
Amortization of prior service credit	**(904)**	(972)	**--**	(96)
Amortization of net loss (gain)	**12,342**	9,786	**(428)**	(134)
Settlements and termination benefits	**--**	385	**--**	--
Net periodic benefit cost	**$14,200**	$12,573	**$(194)**	$135

Certain employees in the AgriBank District participate in the AgriBank District Retirement Plan, a governmental defined benefit retirement plan covering most of the District. The employers contribute amounts in accordance with the governing body's funding policy to provide the plan with sufficient assets to meet the benefits to be paid to participants. Refer to Note 9 in the 2017 Annual Report for a more complete description of the Employee Benefit Plans.

For the three months ended March 31, 2018, District employers have contributed $3.5 million to fund Pension Benefits. District employers anticipate contributing an additional $90.1 million to fund Pension Benefits in 2018. District employers typically fund 40 percent of their annual contributions to the AgriBank District Retirement Plan in June and the remaining 60 percent in December. The Nonqualified Pension plan is typically funded as benefits are paid.

NOTE 6

Commitments and Contingencies

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

At March 31, 2018, AgriBank and District Associations had various commitments, primarily to extend credit and unexercised commitments related to standby letters of credit, totaling $25.4 billion, $23.2 million of which was included in “Other liabilities” on the Consolidated Statements of Condition at March 31, 2018.

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

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

While primarily liable for its portion of System-wide bonds and notes, AgriBank is jointly and severally liable for the System-wide bonds and notes of the other System Banks. The total bonds and notes of the System at March 31, 2018 was $269.4 billion.

NOTE 7

Fair Value Measurements

AgriBank and District Associations use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Assets and liabilities measured at fair value on a recurring and non-recurring basis consist of federal funds, investments available-for-sale, derivative assets and liabilities, collateral assets and liabilities, impaired loans and other property owned. The fair value is also calculated and disclosed for other financial instruments that are not measured at fair value on the Combined Statements of Condition. These assets and liabilities consist of cash, investments held-to-maturity, loans, bonds and notes, unfunded commitments and commitments to extend credit and letters of credit. Refer to Note 13 in the 2017 Annual Report for descriptions of the valuation methodologies used for asset and liabilities recorded at fair value on a recurring or non-recurring basis and for estimating fair value for financial instruments not recorded at fair value.

A fair value hierarchy is used for disclosure of fair value measurements to maximize the use of observable inputs. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. Refer to Note 2 within the 2017 Annual Report for a more complete description of these input levels.

Recurring Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(in thousands)	Fair Value Measurement Using			Total Fair
As of March 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets:				
Federal funds	**$ --**	**$663,000**	**$ --**	**$663,000**
AgriBank investments available-for-sale:				
Mortgage-backed securities	**--**	**5,998,201**	**--**	**5,998,201**
Commercial paper and other	**--**	**5,657,276**	**--**	**5,657,276**
U.S. Treasury securities	**--**	**2,997,001**	**--**	**2,997,001**
Asset-backed securities	**--**	**118,055**	**--**	**118,055**
Affiliated Association investments available-for-sale:				
Mortgage-backed securities	**--**	**--**	**33,986**	**33,986**
Total investments available-for-sale	**--**	**14,770,533**	**33,986**	**14,804,519**
Cash collateral posted with counterparties	**27,242**	**--**	**--**	**27,242**
Derivative assets	**--**	**20,576**	**103**	**20,679**
Total assets	**$27,242**	**$15,454,109**	**$34,089**	**$15,515,440**
Liabilities:				
Cash collateral posted from counterparties	**$2,600**	**$ --**	**$ --**	**$2,600**
Derivative liabilities	**392**	**16,102**	**--**	**16,494**
Total liabilities	**$2,992**	**$16,102**	**$ --**	**$19,094**

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

One District Association purchased $34.0 million of level 3 AFS investment securities during the three months ended March 31, 2018. There was no material level 3 instrument activity at any time during the three months ended March 31, 2017.

There were no assets or liabilities transferred between levels during the three months ended March 31, 2018 or 2017.

Non-Recurring Measurements

Assets Measured at Fair Value on a Non-recurring Basis

	As of March 31, 2018			
	Fair Value Measurement Using			Total Fair
(in thousands)	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$179,325	$179,325

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

Other Financial Instrument Measurements

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

(in thousands) As of March 31, 2018	Total Carrying Amount	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$307,132	$307,132	$ --	$ --	$307,132
Investments held-to-maturity	2,273,694	--	242,311	1,959,819	2,202,130
Net loans	100,942,193	--	--	99,974,275	99,974,275
Total assets	$103,523,019	$307,132	$242,311	$101,934,094	$102,483,537
Liabilities:					
Bonds and notes	$97,393,375	$ --	$ --	$96,280,554	$96,280,554
Reserve for unfunded loan commitments	23,237	--	--	23,237	23,237
Total liabilities	$97,416,612	$ --	$ --	$96,303,791	$96,303,791
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit	$ --	$ --	$ --	$(31,395)	$(31,395)

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

NOTE 8

Derivative and Hedging Activity

Use of Derivatives

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

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

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

AgriBank's derivative activities are monitored by AgriBank's Asset/Liability Committee (ALCO) as part of the Committee's oversight of AgriBank's asset/liability and treasury functions. AgriBank's hedging strategies are developed within limits established by the board through AgriBank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into AgriBank's overall interest rate risk-management strategies. Refer to Note 14 of the 2017 Annual Report for additional information regarding counterparty risk and risk mitigation practices.

AgriBank Derivative Instruments Activity (in notional amount)

(in millions)	Receive-Fixed Swaps	Pay-Fixed Swaps	Floating-for-Floating	Other Derivatives	Total
As of December 31, 2016	$2,566	$2,088	$3,100	$90	$7,844
Additions	--	80	--	--	80
Maturities/amortization	(100)	--	--	--	(100)
As of March 31, 2017	$2,466	$2,168	$3,100	$90	$7,824
As of December 31, 2017	$2,617	$2,316	$2,700	$88	$7,721
Additions	**200**	**70**	**--**	**--**	**270**
Maturities/amortization	**(200)**	**(50)**	**--**	**--**	**(250)**
As of March 31, 2018	**$2,617**	**$2,336**	**$2,700**	**$88**	**$7,741**

Other derivatives consisted of customer derivative products.

Credit Risk Management

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

To minimize the risk of credit losses, for non-customer bilateral derivatives AgriBank deals only with counterparties that have an investment-grade or better credit rating from a rating agency and AgriBank monitors the credit standing and levels of exposure to individual counterparties. At March 31, 2018, AgriBank does not anticipate nonperformance by any of these counterparties. AgriBank typically enters into master agreements that contain netting provisions. These provisions allows AgriBank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. All such derivative contracts are supported by bilateral collateral agreements with counterparties requiring collateral to be posted in the event certain dollar thresholds of exposure of one party to the other are reached. These thresholds vary depending on the counterparty's current credit rating.

AgriBank Bilateral Interest Rate Swaps

(in thousands)	**March 31, 2018**	December 31, 2017
Notional amount	**$4,062,843**	$4,313,360
Cash collateral posted with counterparties	**$6,550**	$11,150
Cash collateral posted by counterparties	**$2,600**	--

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

AgriBank Centrally Cleared Interest Rate Swaps

(in thousands)	**March 31, 2018**	December 31, 2017
Notional Amount	**$3,677,843**	$3,408,360
Initial margin posted with counterparties	**$18,686**	$18,580

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

One District Association is party to derivative financial instruments called to-be-announced (TBAs) securities to manage exposure to interest rate risk and changes in the fair value of forward loans held for sale and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined. The margin posted with the counterparty was $2.0 million as of March 31, 2018 and December 31, 2017.

Financial Statement Impact of Derivatives

Refer to Notes 2 and 14 of the 2017 Annual Report for additional information regarding the accounting for derivatives.

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

(in thousands)	March 31, 2018 Fair Value Assets	March 31, 2018 Fair Value Liabilities	December 31, 2017 Fair Value Assets	December 31, 2017 Fair Value Liabilities
Derivatives designated as hedging instruments:				
Receive-fixed swaps	**$ --**	**$28,002**	$ --	$18,276
Pay-fixed swaps	**71,113**	**18,820**	34,447	39,615
Floating-for-floating swaps	**--**	**3,491**	--	4,950
Total derivatives designated as hedging instruments	**71,113**	**50,313**	34,447	62,841
Derivatives not designated as hedging instruments:				
Pay-fixed swaps	**4,998**	**--**	3,670	--
Other derivative products	**103**	**4,832**	94	3,278
Total derivatives not designated as hedging instruments	**5,101**	**4,832**	3,764	3,278
Credit valuation adjustments	**(179)**	**--**	(49)	--
Total gross amounts of derivatives	**$76,035**	**$55,145**	$38,162	$66,119
Gross amounts offset in Combined Statements of Condition	**(38,651)**	**(38,651)**	(29,126)	(29,126)
Variation margin settled	**(16,705)**	**--**	--	(2,241)
Net amounts in Combined Statements of Condition	**$20,679**	**$16,494**	$9,036	$34,752

(in thousands)	March 31, 2018	December 31, 2017
Derivative assets, net	**$20,679**	$9,036
Derivative liabilities, net	**(16,494)**	(34,752)
Accrued interest payable on derivatives, net	**(5,856)**	(3,457)
Gross amounts not offset in Combined Statements of Condition:		
Cash collateral posted by counterparties	**(2,600)**	--
Cash collateral posted with counterparties	**27,242**	31,734
Net exposure amounts	**$22,971**	$2,561

The fair value of derivatives includes credit valuation adjustments (CVA). The CVA reflects credit risk of each derivative counterparty to which AgriBank has exposure, net of any collateral posted by the counterparty, and an adjustment for AgriBank's credit worthiness where the counterparty has exposure to AgriBank. The change in the CVA for the period is included in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Fair-Value Hedges: AgriBank recorded $1.4 million of losses related to swaps for the three months ended March 31, 2018, compared to $897 thousand of gains for the same period in 2017. The gains and losses on the derivative instruments are recognized in "Interest expense" on the Combined Statements of Comprehensive Income.

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

(in thousands) **For the three months ended March 31, 2018**	**Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)**
Pay-fixed swaps	**$57,460**
Floating-for-floating swaps	**1,457**
Total	**$58,917**

(in thousands) For the three months ended March 31, 2017	Amount of Gain Recognized in OCI on Derivatives (Effective Portion)
Pay-fixed swaps	$7,462
Floating-for-floating swaps	(2,714)
Total	$4,748

There were no amounts reclassified from accumulated other comprehensive income into income and there was no income recognized for ineffective derivatives for either three month period ended March 31, 2018 or 2017.

Derivatives not Designated as Hedges: For the three months ended March 31, 2018, AgriBank and one District Association recorded $728 thousand of net gains related to swaps and TBAs, compared to $148 thousand of net losses for the same period in 2017. The gains and losses on the derivative instruments are recognized in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

NOTE 9

Accumulated Other Comprehensive Loss

Changes in Components of Accumulated Other Comprehensive (Loss) Income

(in thousands)	Not-other-than-temporarily-impaired Investments	Derivatives and Hedging Activity	Employee Benefit Plans Activity	Total
Balance at December 31, 2016	$(62,873)	$(17,157)	$(486,801)	$(566,831)
Other comprehensive (loss) income before reclassifications	8,649	4,748	--	13,397
Amounts reclassified from accumulated other comprehensive loss	--	--	8,969	8,969
Net other comprehensive (loss) income	8,649	4,748	8,969	22,366
Balance at March 31, 2017	$(54,224)	$(12,409)	$(477,832)	$(544,465)
Balance at December 31, 2017	$(75,184)	$(10,121)	$(508,251)	$(593,556)
Other comprehensive (loss) income before reclassifications	**(30,058)**	**58,917**	--	**28,859**
Amounts reclassified from accumulated other comprehensive loss	--	--	**11,010**	**11,010**
Net other comprehensive (loss) income	**(30,058)**	**58,917**	**11,010**	**39,869**
Balance at March 31, 2018	**$(105,242)**	**$48,796**	**$(497,241)**	**$(553,687)**

Reclassifications Out of Accumulated Other Comprehensive Loss

(in thousands) Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Combined Statements of Comprehensive Income
For the three months ended March 31,	**2018**	2017	
Prior service cost	**$(904)**	$(1,068)	Other operating expenses
Actuarial loss	**11,914**	10,037	Other operating expenses
Total reclassifications	**$11,010**	$8,969	

NOTE 10

AgriBank Only Financial Data

Statements of Condition

(in thousands)	March 31, 2018	December 31, 2017
Net loans	**$87,263,348**	$88,348,876
Other assets	**16,344,698**	16,195,849
Total assets	**$103,608,046**	$104,544,725
Total liabilities	**$97,899,405**	$98,902,843
Total shareholders' equity	**5,708,641**	5,641,882
Total liabilities and shareholders' equity	**$103,608,046**	$104,544,725

Statements of Income

(in thousands) **For the three months ended March 31,**	**2018**	2017
Interest income	**$595,027**	$476,006
Interest expense	**450,279**	332,935
Net interest income	**144,748**	143,071
Provision for loan losses	--	2,000
Other income (expense), net	**1,249**	(11,523)
Net income	**$145,997**	$129,548
Patronage	**$95,469**	$85,437
Preferred stock dividends	**4,297**	4,297

Substantially all patronage is paid to District Associations and is eliminated in combination.

NOTE 11

Subsequent Events

Subsequent events have been evaluated through May 10, 2018, which is the date the Combined Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in the Quarterly Financial Statements or disclosure in the Notes to those Financial Statements.