Better together WITH THE BEST YET TO COME.

COMPEER FINANCIAL™

2017 ANNUAL REPORT

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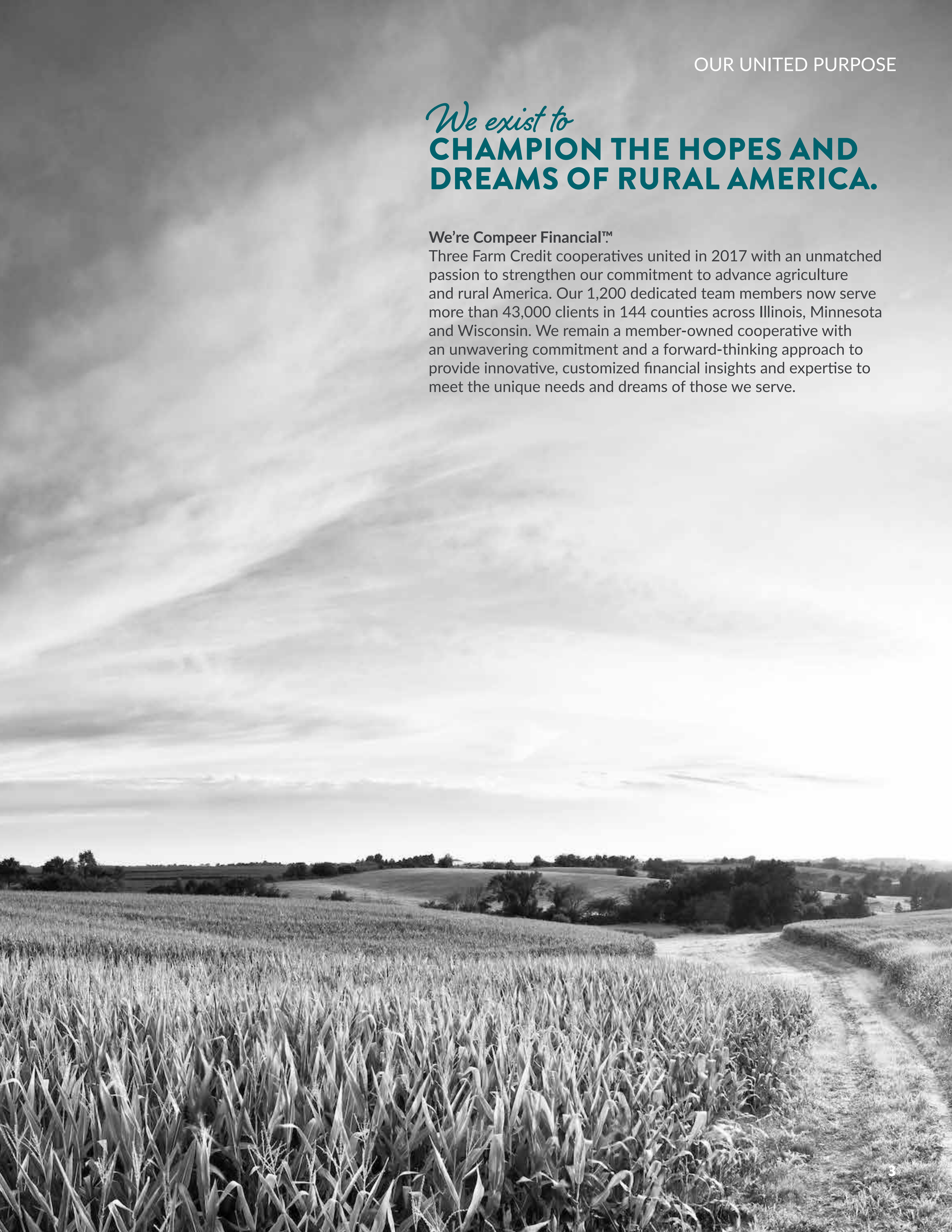


We exist to CHAMPION THE HOPES AND DREAMS OF RURAL AMERICA.

We're Compeer Financial™.
Three Farm Credit cooperatives united in 2017 with an unmatched passion to strengthen our commitment to advance agriculture and rural America. Our 1,200 dedicated team members now serve more than 43,000 clients in 144 counties across Illinois, Minnesota and Wisconsin. We remain a member-owned cooperative with an unwavering commitment and a forward-thinking approach to provide innovative, customized financial insights and expertise to meet the unique needs and dreams of those we serve.

Together WE CHAMPION RURAL LIKE NEVER BEFORE.

COM – PEER // NOUN:
A person of equal rank, status or ability.

February 2016: Our story begins.
Boards from three Farm Credit organizations, 1st Farm Credit Services, AgStar Financial and Badgerland Financial, begin exploring a potential merger.

June 2016: HQ is chosen.
Sun Prairie, Wisconsin is selected as the headquarters of the proposed cooperative.

July 2016: The boards vote.
Directors of the three legacy organizations make the recommendation to move forward with the merger, asking the full boards to vote and support the decision.

August 2016: Leaders are approved.
Rod Hebrink is named CEO Designee of the new Farm Credit cooperative. The three boards approve moving forward with a merger, and name the members who will serve on the board of the merged organization.

November 2016: Our name is announced.
The name and logo of the merged organization announced: Compeer Financial™.

OUR MISSION:
Enriching agriculture and rural America

TERRITORY:
144 counties

1,200 TEAM MEMBERS

February 2017: Proposed merger gets a green light.
The Farm Credit Administration provides preliminary approval of the merger and creation of Compeer Financial.

March 2017: Stockholder Q&A.
Merger Disclosure Documents are mailed to clients, and meetings are held to allow stockholders to learn more and ask questions about the proposed merger.

April 2017: Clients vote.
Clients of 1st Farm Credit Services, AgStar Financial and Badgerland Financial vote to approve the merger and the creation of Compeer Financial.

July 1, 2017: Introducing Compeer Financial.
The merger is official and Compeer Financial's first day serving clients.

November 2017: Patronage is a go.
Farm Credit Administration notifies Compeer Financial it has met a condition of the merger, allowing for the cooperative to initiate its proposed patronage program.

43,213 MEMBER-OWNERS

OUR VISION:
Trusted financial services partner advancing agriculture and rural America

1% of net income DEDICATED TO GIVING

LEADERSHIP

It's about
GUIDING YOU FORWARD BY HAVING YOUR BACK.

Compeer Financial was created to serve agriculture and rural America. With $19.5 billion in assets, Compeer Financial is one of the largest cooperatives in the Farm Credit System. From a nationwide view to a local level, our leaders guide the way to create a cooperative that serves our member-owners. All while putting agriculture and rural America first.

BOARD OF DIRECTORS

(BACK ROW FROM LEFT TO RIGHT)
KAYE COMPART, SPENCER ENNINGA, TIM EVERT, DAN ZIMMERMAN, TERRY EBELING, DAVID PETERS, KEVIN AVES, GREG POLLESCH, GREG NELSON, LORI MEINHOLZ

(FRONT ROW FROM LEFT TO RIGHT)
DAVID KRETZSCHMAR, KATHLEEN HAINLINE, DALE HOLMGREN, STEPHANIE WISE, MICHAEL R. PRATT, ANN BROOME, MARK CADE

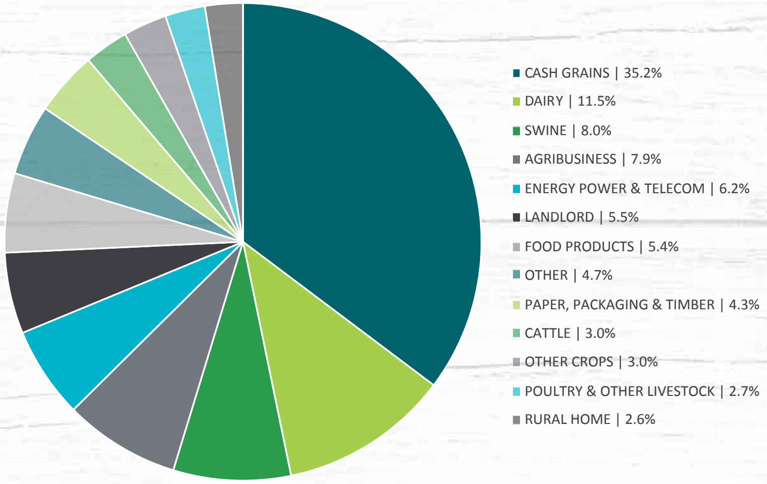
EXECUTIVE LEADERSHIP TEAM

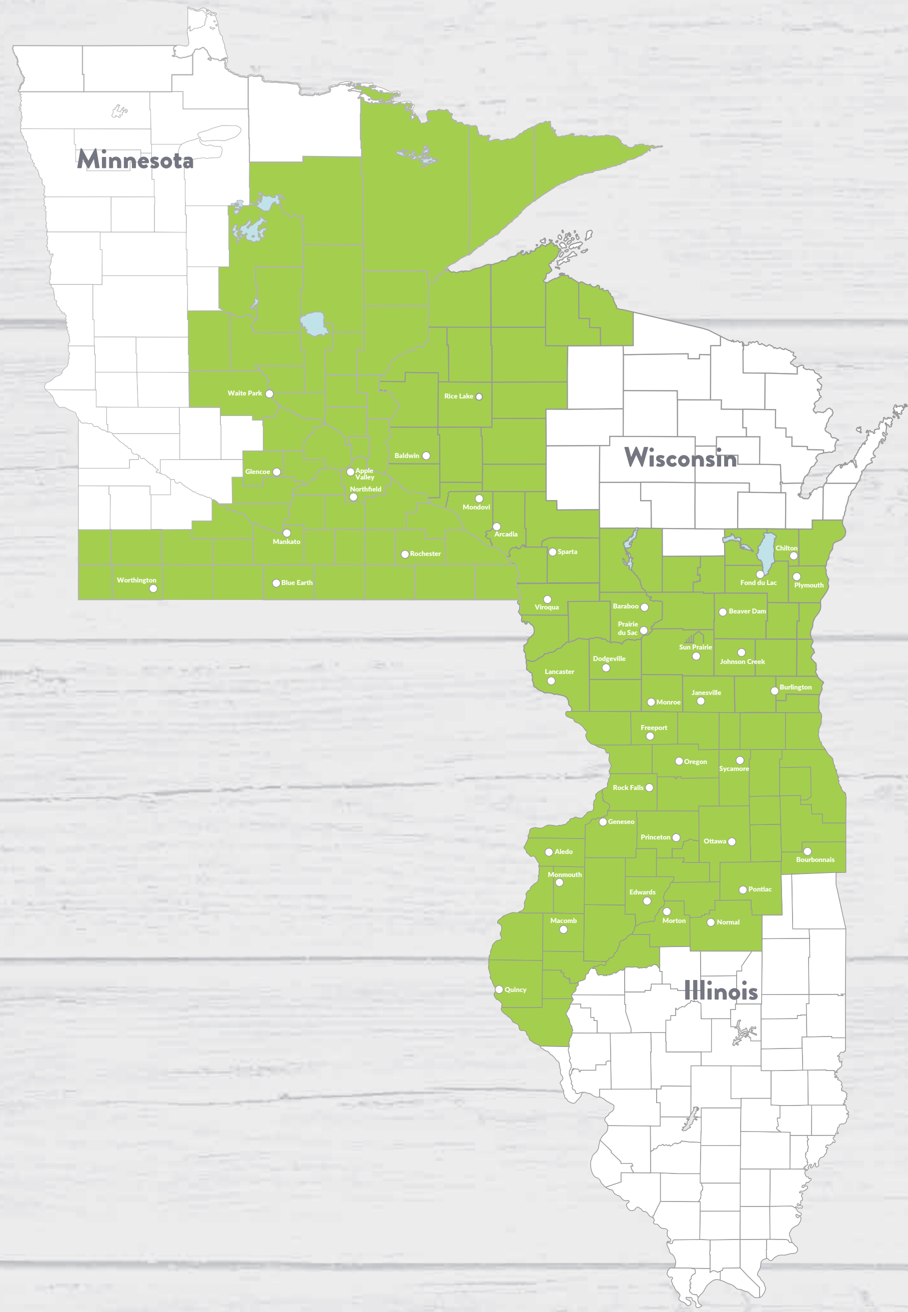
(TOP ROW FROM LEFT TO RIGHT)
ROD HEBRINK | PRESIDENT AND CEO, MATT GINDER, MARK GREENWOOD, JOHN HEMSTOCK, TERRY L. HINDS

(BOTTOM ROW FROM LEFT TO RIGHT)
PAUL KOHLS, JOHN MONSON, TIM TRACY, JASE WAGNER, JERRY WIESE

It's not where we live, IT'S WHERE WE BELONG.

We may have grown in size, but we're the same team members partnering with you to offer services that exceed your expectations. We have an unmatched dedication to advancing agriculture and rural America–and to do it together with you.





It's not how hard we work, IT'S WHO WE DO IT FOR.

Being part of your community and seeing you thrive is at the heart of everything we do. That's why we dedicate time and resources to agriculture youth groups, county fairs, emergency services, healthcare and other programs you depend on.

Giving back to the community.
Compeer Financial is built on the firm foundation of community service begun by our legacy organizations. In 2017, our Board of Directors dedicated 1 percent of net earnings per year to corporate giving.

Giving back to you.

As a member-owned Farm Credit System cooperative, keeping rural America strong is our top priority. That's one of the reasons why we have a patronage program. Our patronage program allows us to share profits, when possible, with our member-owners, creating another benefit to being part of our cooperative. This gives member-owners the ability to reinvest into their farms and businesses, directly impacting local and state economies.

Service is at the heart of EVERYTHING WE DO.

We deliver personalized service regardless of the size of the farm, type of crop grown or livestock raised. With convenience in mind, through visits to fields, barns and homes and by maximizing technology to make the most of every hour in every day.

PRODUCTS | SERVICES

- **AGRICULTURE AND RURAL FINANCING**
- **APPRAISALS**
- **CROP INSURANCE**
- **HOME LOANS**
- **LEASING**
- **AGRIBUSINESS AND MORE**

Being a CHAMPION.

In July 2017,
three Farm Credit cooperatives united with a shared purpose to strengthen our commitment to advance agriculture and to serve rural communities like never before.

When our stockholders voted to create Compeer Financial, that vote was more than just creating a new Farm Credit organization. The vote created an even stronger supporter and advocate for rural America than any of three organizations individually. Compeer Financial pledged to be your champion.

And in the last six months of 2017, we hope you started to see what that means for our clients and communities we serve. This is just the start of the good things to come from your cooperative.

Our merger gave us the ability to start exceeding your expectations, based on the same dedication to service, but with a greater scope of industry knowledge, resources and financial expertise. From our products and services, to our patronage program, to our Fund for Rural America, we have shown there is a strong commitment to be a champion.

Bringing together three successful organizations is challenging, but our dedicated team members have skillfully responded, all while remaining focused and committed to world-class client service. Our team members continue to bring expertise and knowledge to our clients that cannot be matched elsewhere.

In the first six months, the financial results of Compeer Financial have been positive. We've created a diverse portfolio in a wider marketplace, all while sustaining credit quality. Clients also saw the first of many technology changes as Compeer Financial's online banking platform was rolled out. It was just the start of many technological investments the organization will make to better serve our clients.

We believe Compeer Financial is off to a great start, already achieving some of the benefits of the merger, in just six short months. The Board of Directors, leadership and team members of Compeer Financial know that what we achieved in 2017 is just the start of how we will champion rural America.

We hope you continue to choose us as your champion, well into the future, because we are all stronger together.

Rod Hebrink | President and CEO

Mark Cade | Board Chairman

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Compeer Financial, ACA

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Compeer Financial, ACA

(dollars in thousands)

As of December 31	**2017**	2016	2015	2014	2013
Statement of Condition Data					
Loans held to maturity	**$ 17,749,021**	$ 8,152,435	$ 7,572,042	$ 6,899,646	$ 6,363,512
Allowance for loan losses	**48,849**	36,018	27,071	23,655	24,725
Net loans held to maturity	**17,700,172**	8,116,417	7,544,971	6,875,991	6,338,787
Loans held for sale	**30,062**	27,370	35,380	7,899	4,470
Net loans	**17,730,234**	8,143,787	7,580,351	6,883,890	6,343,257
Unrestricted cash	**2,200**	2,200	1,900	--	--
Investment securities	**879,258**	473,248	442,972	481,936	462,424
Investment in AgriBank, FCB	**514,712**	180,812	171,395	142,098	150,016
Other property owned	**954**	840	1,060	3,140	3,315
Other assets	**417,993**	179,780	164,032	161,176	146,591
Total assets	**$ 19,545,351**	$ 8,980,667	$ 8,361,710	$ 7,672,240	$ 7,105,603
Obligations with maturities of one year or less	**$ 16,133,714**	$ 7,665,199	$ 7,035,085	$ 6,434,693	$ 5,950,196
Obligations with maturities greater than one year	**--**	--	99,491	99,369	99,247
Total liabilities	**16,133,714**	7,665,199	7,134,576	6,534,062	6,049,443
Preferred stock	**100,000**	100,000	100,000	100,000	100,000
Capital stock and participation certificates	**34,213**	15,934	16,085	16,177	15,912
Additional paid-in capital	**1,780,603**	--	--	--	--
Allocated surplus	**523,252**	441,122	406,758	371,004	339,360
Unallocated surplus	**980,818**	758,412	704,291	650,915	600,888
Accumulated other comprehensive (loss) income	**(7,249)**	--	--	82	--
Total equity	**3,411,637**	1,315,468	1,227,134	1,138,178	1,056,160
Total liabilities and equity	**$ 19,545,351**	$ 8,980,667	$ 8,361,710	$ 7,672,240	$ 7,105,603

For the year ended December 31	**2017**	2016	2015	2014	2013
Statement of Income Data					
Net interest income	**$ 347,964**	$ 206,793	$ 197,568	$ 187,480	$ 175,272
Provision for (reversal of) loan losses	**13,806**	10,082	5,939	1,084	(3,078)
Other expenses, net	**69,300**	67,474	67,727	69,007	62,220
Net income	**$ 264,858**	$ 129,237	$ 123,902	$ 117,389	$ 116,130
Key Financial Ratios					
For the Year					
Return on average assets	**1.9%**	1.5%	1.6%	1.6%	1.7%
Return on average equity	**11.1%**	10.1%	10.4%	10.7%	11.9%
Net interest income as a percentage of average earning assets	**2.6%**	2.5%	2.7%	2.7%	2.7%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
At Year End					
Equity as a percentage of total assets	**17.5%**	14.6%	14.7%	14.8%	14.9%
Allowance for loan losses as a percentage of loans	**0.3%**	0.4%	0.4%	0.3%	0.4%
Capital ratios effective beginning January 1, 2017:					
Permanent capital ratio	**15.7%**	N/A	N/A	N/A	N/A
Common equity tier 1 ratio	**14.2%**	N/A	N/A	N/A	N/A
Tier 1 capital ratio	**14.7%**	N/A	N/A	N/A	N/A
Total capital ratio	**15.1%**	N/A	N/A	N/A	N/A
Tier 1 leverage ratio	**15.0%**	N/A	N/A	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	14.1%	14.8%	15.7%	15.4%
Total surplus ratio	**N/A**	14.0%	14.5%	15.4%	15.2%
Core surplus ratio	**N/A**	12.1%	12.3%	12.9%	12.5%
Net Income Distributed					
For the Year					
Patronage distributions:[1]					
Allocated surplus	**$ 28,570**	$ 67,070	$ 62,908	$ 60,004	$ 61,598
Other distributions	**1,562**	1,296	868	609	88
Preferred stock dividends	**6,750**	6,750	6,750	6,749	3,132
Other					
Asset pool loans serviced for AgriBank, FCB	**1,807,402**	221,582	256,550	74,040	82,850

[1]Additional information regarding the patronage programs is included in Note 11 to the accompanying Consolidated Financial Statements.

The effect of the merger is reflected in the 2017 balances in the chart above. Additional merger information is included in Note 1.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Compeer Financial, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of Compeer Financial, ACA (the Association) and its subsidiaries, Compeer Financial, FLCA and Compeer Financial, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2018, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 69 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our stockholders' investment. To request free copies of the AgriBank or the AgriBank District financial reports, contact us at:

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(844) 426-6733
www.compeer.com

AgriBank, FCB
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St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and stockholders are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

MERGER ACTIVITY

We are committed to the success of agriculture, rural communities and most importantly, our client-owners. Every day, we partner with our clients to deliver the insights and expert guidance they have come to expect and count on from their financial services provider. To be that trusted advisor, we are consistently looking for ways to better serve our clients and return value to our stockholders. It's a business objective we've been committed to for the long haul and one we believe matches the strides of our clients – constantly evolving and growing to better our operation.

In August 2016, the Boards of Directors of 1st Farm Credit Services, ACA (1st FCS), AgStar Financial Services, ACA (AgStar), and Badgerland Financial, ACA (Badgerland) unanimously voted in favor of recommending a merger to our client-owners. A merger application was filed with our regulator, the FCA, in the third quarter of 2016. On April 7, 2017, our stockholders approved the proposed merger. Effective May 1, 2017, the Board of Directors of 1st FCS, AgStar, and Badgerland approved to operate under joint management where AgStar's CEO, Rod Hebrink, served as CEO of all three associations. The FCA granted final approval in June and the merger was effective July 1, 2017. The merged Association is operating under the name of Compeer Financial, ACA with the headquarters located in Sun Prairie, Wisconsin. The merger of these three organizations strengthens our commitment to the agricultural and rural communities we serve. Visit www.compeer.com for more information.

1st FCS served the northern 42 counties of Illinois. Badgerland served the southern 33 Wisconsin counties; and AgStar served 69 counties across Minnesota and Wisconsin. While our markets differ in some ways, our philosophies and focus on client relationships and commitment to rural communities and agriculture are closely aligned.

The effects of the merger with 1st FCS and Badgerland are included in our financial position, results of operations, cash flows, and related metrics beginning July 1, 2017. Prior year results have not been restated to reflect the impact of the merger. Results of operations, cash flows, and equity reflect the results of AgStar prior to July 1, 2017, and the merged Association after July 1, 2017. Upon the closing of the merger, loans increased by $9.1 billion, assets increased by $9.9 billion, liabilities increased by $7.9 billion, and equity increased by $2.0 billion. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

FORWARD-LOOKING INFORMATION

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political, legal, regulatory, financial markets, international, and economic conditions and developments in the United States (U.S.) and abroad

- Economic fluctuations in the agricultural and farm-related business sectors
- Unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment, and fair value measurements

AGRICULTURAL AND ECONOMIC CONDITIONS

Economic and agricultural conditions changed modestly throughout 2017. The credit portfolio includes several diverse sectors in agriculture with primary industries of grain, dairy, and swine production. Additionally, rural housing, energy, and food processing and distribution comprise significant portfolio segments. Profitability prospects remain challenging, particularly for grain and dairy producers. While many grain clients possess significant equity positions, tight margins are taking their toll on client financial health. Expectation is for financial positions to erode further as lower margins persist into 2018 and beyond.

The United States Department of Agriculture (USDA) projects net farm income for 2017 at $63.2 billion, a $1.7 billion, or 2.7% increase from 2016. This projection follows three years of declining net farm incomes. If realized, the forecasted increase for 2017 would result in a cumulative decline of $60.6 billion, or a 48.9% drop from the 2013 record high net farm income of $123.8 billion.

Within the January 12, 2018, World Agricultural Supply and Demand Estimates (WASDE), the USDA projects 2017/18 U.S. corn production at 14.6 billion bushels, about 26 million bushels above its December projection, yet 3.6% fewer than the estimated 2016/17 production. Projected average yields are a record 176.6 bushels per acre with projected ending stocks at 2.48 billion bushels. The estimate for 2017/18 season-average corn price received by producers is at $2.95 to $3.55 per bushel compared to an estimated $3.36 for the previous crop year. The USDA projection for 2017/18 soybean production is 4.4 billion bushels, 2.2% more than estimated 2016/17 production, with yield per harvested acre at 49.1 bushels. The 2017/18 season-average soybean price is projected at $8.80 to $9.80 per bushel compared to an estimated $9.47 per bushel for the previous crop year.

USDA will release the 2018 prospective plantings report on March 29, 2018. This will provide the first view on the potential 2018/19 crop. Planting intentions will evolve as the export market and South American crop forecasts impact domestic carryout volumes heading into the planting season.

The January 2018 national milk production forecast is up 1.5% from estimated 2017 final production. Production of 218.8 billion pounds is 3.3 billion pounds above estimated 2017 production. Tight processor capacity continues to result in lower basis payments, particularly in segments of the Upper Midwest. The USDA forecasts an average price received by farmers for all milk of $15.80 to $16.60 per hundred weight (cwt) in 2018, significantly weaker than the December forecast levels and significantly below the $17.65 received during 2017. USDA's Farm Service Agency announced an October 2017 Margin Protection Program-Dairy Margin of about $10.00 per cwt, up from $9.67 in August 2017. At a potential dairy margin of $8 or less, government insurance payments are possible depending on the level of coverage chosen by the dairy producer. We expect many dairy operators will be at or below break-even in 2018 unless the spot price of milk materially changes.

Hog margins appear to be break-even to slightly profitable through much of 2018. As of December 1, 2017, there were 73.2 million hogs and pigs on U.S. farms, up 2% from a year ago though down slightly from September, according to the Quarterly Hogs and Pigs report published by the National Agricultural Statistics Service. Hog producers intend to farrow 3.1 million sows during the September to November 2017 quarter, up 2% from the same period a year ago. The protracted strength of the U.S. dollar going into 2017 had a more limited impact on exports than originally expected. USDA pork exports for 2017 were significantly higher compared to 2016. The dollar's decline throughout 2017 and into 2018 provide an export tailwind. However, market participants continue to monitor the debate on the North American Free Trade Agreement.

After a number of years of steady increase, farm land values in much of our service territory saw moderation or even steady decline in the past few years in response to lower commodity prices. For instance, according to a USDA August 2017 survey, cropland values in Illinois declined 1.4% from a year earlier. However, despite continued commodity price weakness, certain areas have seen an early trend of stabilizing. In the same USDA survey, Minnesota increased 1.1%, and Wisconsin increased 9.5%. Nevertheless, given solid net worth positions and conservative borrowing characteristics, we believe that U.S. agriculture is positioned to handle a further decline in land values without enduring significant financial stress and hardship.

The economy continues to generate a number of positive economic signals for the housing market. Home ownership in the U.S. is now 63.9% which is just off 50 year lows. According to the CoreLogic Home Price Index, home prices nationwide increased by 7% year over year in November 2017 and forecasts prices will rise 4.2% over the following 12 months. Additionally, the U.S. Bureau of Labor Statistics reported that the national unemployment remained at 4.1%. The current economy, low interest rates, and housing prices have made the environment favorable for new home buyers.

Some of our core credit objectives include working with clients to promote risk management, ensure high quality financial statements and production reports, encourage disciplined marketing plans, and provide individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

LOANS HELD TO MATURITY

Loan Portfolio

Total loans held to maturity and finance and conditional sales leases (hereinafter collectively referred to as loans) were $17.7 billion at December 31, 2017, an increase of $9.6 billion from December 31, 2016.

Components of Loans

(in thousands)

As of December 31	2017	2016	2015
Accrual loans:			
Real estate mortgage	**$ 8,628,075**	$ 4,027,084	$ 3,652,435
Production and intermediate term	**4,354,632**	1,993,049	2,006,728
Agribusiness	**2,942,806**	1,198,963	919,991
Other	**1,733,044**	872,478	943,991
Nonaccrual loans	**90,464**	60,861	48,897
Total loans	**$ 17,749,021**	$ 8,152,435	$ 7,572,042

The other category is primarily comprised of communication, energy, rural residential real estate, agricultural export finance, and water and waste water related loans as well as finance and conditional sales leases and bonds originated under our mission related investment authority.

The increase in total loans from December 31, 2016, was primarily due to the acquisition of $9.1 billion of net loans due to the merger with 1st FCS and Badgerland, which was partially offset by the sale of participation interest in real estate loans of $446.1 million to the AgriBank Asset Pool program on September 1, 2017. These loan participations were added to the participation pool originally established by AgriBank in 2008. As a result of this transaction, we were required to purchase additional AgriBank stock in order to maintain the required investment equal to 8.0% of the loans we have sold under this program. Our total participation interests in this program were $1.7 billion, $221.6 million, and $256.6 million at December 31, 2017, 2016, and 2015, respectively. The Consumer Mortgage Asset Pool program began during the third quarter of 2017 with an initial sale of $107.8 million of consumer real estate loans on September 1, 2017, which also offset the increase in loans. This program provides a source of funding for consumer mortgage products offered to eligible borrowers. These consumer loans will be originated by Compeer and periodically sold as a 90.0% participation to AgriBank. We are required to hold AgriBank stock equal to 7.6% of the quarter end balance of loans originated in our territory and placed in the Consumer Mortgage Asset Pool program. Our total participation interests in this program were $102.8 million at December 31, 2017.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs and variable and fixed interest rate lease programs to our clients. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

Portfolio Distribution

We are chartered to serve certain counties in Illinois, Minnesota, and Wisconsin. At December 31, 2017, approximately 23.0% of our loan portfolio was within our territory in Illinois, 22.5% was within our territory in Minnesota, 19.2% was within our territory in Wisconsin, 0.8% was in Illinois outside our territory, 1.4% was in Minnesota outside our territory, and 1.3% was in Wisconsin outside our territory. The remainder of our portfolio outside of Illinois, Minnesota, and Wisconsin helps support rural America and to diversify our portfolio risk.

Agricultural Concentrations

As of December 31	2017	2016	2015
Cash grains	**35.2%**	33.1%	34.3%
Dairy	**11.5%**	9.2%	10.2%
Swine	**8.0%**	11.1%	8.9%
Agribusiness	**7.9%**	6.2%	5.5%
Energy power and telecom	**6.2%**	7.6%	7.8%
Landlords	**5.5%**	3.2%	3.2%
Food products	**5.4%**	5.5%	4.5%
Paper, packaging, and timber	**4.3%**	5.5%	5.1%
Cattle	**3.0%**	4.6%	5.2%
Other crops	**3.0%**	2.5%	2.0%
Poultry and other livestock	**2.7%**	1.8%	1.9%
Rural home	**2.6%**	5.5%	6.0%
Other	**4.7%**	4.2%	5.4%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Our production and intermediate term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as clients fund operating needs. In addition, the loan portfolio increased temporarily in December, followed by significant repayments in January, as clients increased their operating lines to purchase production inputs, primarily as part of tax-planning strategies.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2016. Adversely classified loans decreased to 2.4% of the portfolio at December 31, 2017, from 2.9% of the portfolio at December 31, 2016. The decrease in the adversely classified loans was primarily due to the merger with 1st FCS and Badgerland. As of June 30, 2017, 1.5% and 2.2% of the 1st FCS and Badgerland, portfolios, respectively, were adversely classified. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

Most dairy producers experienced reduced margins during 2017 compared to already tight margins in 2016 due to elevated milk production driving lower milk prices. For the year, most operations will be at or below break-even depending upon marketing and production. Dairy margins remain depressed, and the outlook for 2018 is to be below break-even levels for most producers.

Pork production improved over 2016 levels as profitability returned for many producers. Weaker currency valuation drove export markets higher, yielding margin improvement over the year. Volatility will continue to be the norm and margin management is key to ongoing viability. There remain opportunities for clients to lock in positive margins for 2018, and clients' financial positions are expected to improve in 2018.

Crop producers continue to experience years of strong production that outstrips demand. Credit quality in the segment is less favorable than in 2016 as non-adverse declined to 97.4% in 2017. With generally favorable conditions for U.S. corn and soybean production again in 2017, prices remained low. As such, we expect grain producer incomes to be around break-even to moderate losses. Strong equity positions should be maintained, but we continue to expect to see tightening margins pose challenges for some producers during the next 12 to 24 months. Domestic stocks of corn and soybeans remain at high levels. Grain producers in Minnesota, Illinois, and Wisconsin generally experienced a strong production year in 2017.

Conditions the past two to three years have been stable overall, resulting in positive performance generally for agribusinesses. Ethanol assets are part of the energy, power, and telecom segment, and credit quality in this segment remained at sound levels even as margins declined in 2017. Ethanol margins were at or below break-even throughout much of 2017.

In addition, significant steps to manage risk in the portfolio have been taken through enhancement of risk management among clients and continuing efforts on our part to promote financial counseling.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At December 31, 2017, $870.2 million of our loans were, to some level, guaranteed under these government programs. In addition, at December 31, 2017, $490.1 million of our loans were to some level guaranteed through the Federal Agricultural Mortgage Corporation (Farmer Mac) Standby Commitment Program.

Excluded in the ratios and volumes as discussed in this section are our investment securities held-to-maturity. At December 31, 2017, these investment securities totaled $879.3 million, consisting of $775.6 million in mortgage-backed securities (MBS) issued by Farmer Mac or guaranteed by the Small Business Administration (SBA) or by the USDA, $91.5 million in asset-backed securities (ABS), issued and guaranteed by SBA or USDA, and $12.2 million in bonds, which are currently not guaranteed. Additional investment securities information is included in Notes 5 and 17 to the accompanying Consolidated Financial Statements.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2017**	2016	2015
Loans:			
Nonaccrual	**$ 90,464**	$ 60,861	$ 48,897
Accruing restructured	**12,121**	24,417	21,072
Accruing loans 90 days or more past due	**133**	738	124
Total risk loans	**102,718**	86,016	70,093
Other property owned	**954**	840	1,060
Total risk assets	**$ 103,672**	$ 86,856	$ 71,153
Total risk loans as a percentage of total loans	**0.6%**	1.0%	0.9%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.7%	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**38.0%**	54.4%	69.1%
Total delinquencies as a percentage of total loans	**0.7%**	0.6%	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2016, but dropped as a percentage of the portfolio and remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans from December 31, 2016, was primarily due to the acquisition of $54.3 million nonaccrual loans in conjunction with the merger with 1st FCS and Badgerland, which was partially offset by the repayment of a few large nonaccrual loans. Nonaccrual loans remained at an acceptable level at December 31, 2017, 2016, and 2015.

The decrease in accruing restructured loans was primarily the result of refinancing the loans of certain accounts in our communications and dairy portfolios.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We 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.

Allowance Coverage Ratios

As of December 31	**2017**	2016	2015
Allowance as a percentage of:			
Loans	**0.3%**	0.4%	0.4%
Nonaccrual loans	**54.0%**	59.2%	55.4%
Total risk loans	**47.6%**	41.9%	38.6%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**14.6%**	20.6%	11.8%

Note: Risk funds includes permanent capital and allowance for loan losses.

For purchased loans acquired that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans; however, we record a provision for credit losses only when the required allowance exceeds any remaining credit discounts.

The increase in allowance for loan losses from December 31, 2016, which resulted in additional provision for loan losses, was due to increased loan volume. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2017.

Additional loans held to maturity information is included in Notes 3, 14, 15, and 17 to the accompanying Consolidated Financial Statements.

LOANS HELD FOR SALE

We originate loans held for sale under our secondary market program, a rural residential mortgage program designed to provide qualified borrowers with options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor. The volume in this program was $30.1 million, $27.4 million, and $35.4 million at December 31, 2017, 2016, and 2015, respectively. We typically purchase the resulting securities, a portion of which we actively market and sell within 30 days of purchase. Refer to the Investment Securities section for additional information regarding these transactions. Additional loans held for sale information is included in Notes 4 and 17 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans and leases, we held investment securities. We had held-to-maturity investment securities of $879.3 million, $473.2 million, and $443.0 million at December 31, 2017, 2016, and 2015, respectively. Our investment securities primarily include MBS issued by Farmer Mac or guaranteed by SBA or USDA, ABS issued and guaranteed by SBA and USDA, and bonds. The increase in investment securities is primarily due to the acquisition of $342.7 million of investments due to the merger with 1st FCS and Badgerland.

We purchase MBS investments, which may be held-to-maturity or available-for-sale and are included in “Investment securities” on the Consolidated Statements of Condition. Included within our held-to-maturity investment securities portfolio are Farmer Mac MBS of $707.0 million, $329.8 million, and $276.2 million as of December 31, 2017, 2016, and 2015, respectively. Our available-for-sale investments are the resulting securities from our RuraLiving® program. We sold available-for-sale investment securities with total sales proceeds of $105.2 million, $102.8 million, and $53.7 million during 2017, 2016, and 2015, respectively. These sales resulted in a loss of $198 thousand during 2017 and gains of $659 thousand and $355 thousand during 2016 and 2015, respectively, which were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. We had no outstanding available-for-sale investment securities at December 31, 2017, 2016, or 2015.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2017, 2016, and 2015, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Notes 5 and 17 to the accompanying Consolidated Financial Statements.

OTHER INVESTMENTS

In addition to loans, we held non-controlling investments in venture capital equity funds of $10.0 million at December 31, 2017. These investments represent our stake in venture capital equity funds focused on the needs of rural start-up companies. We had no remaining commitment at December 31, 2017. The investments were evaluated for impairment. No impairments were recognized on these investments during 2017. To date, no income has been distributed from the funds. We received no distributions from the funds during the year ended December 31, 2017. We acquired this non-controlling investment in venture capital equity funds as a result of the merger with Badgerland.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $29.5 million, with varying commitment end dates through September 2021. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs totaled $11.8 million, $7.5 million, and $4.2 million at December 31, 2017, 2016, and 2015, respectively.

The investments were evaluated for impairment. For the years ended December 31, 2017, 2016, and 2015, we have not recognized any impairment on these investments.

Additional other investment information is included in Notes 6 and 17 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2017**	2016	2015
Net income	**$ 264,858**	$ 129,237	$ 123,902
Return on average assets	**1.9%**	1.5%	1.6%
Return on average equity	**11.1%**	10.1%	10.4%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio, Investment Securities, and Other Investments sections
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2017**	2016	2015	**2017 vs 2016**	2016 vs 2015
Net interest income	**$ 347,964**	$ 206,793	$ 197,568	**$ 141,171**	$ 9,225
Provision for loan losses	**13,806**	10,082	5,939	**(3,724)**	(4,143)
Patronage income	**90,137**	27,519	18,146	**62,618**	9,373
Other income, net	**58,764**	45,448	41,169	**13,316**	4,279
Operating expenses	**203,507**	135,336	126,344	**(68,171)**	(8,992)
Provision for income taxes	**14,694**	5,105	698	**(9,589)**	(4,407)
Net income	**$ 264,858**	$ 129,237	$ 123,902	**$ 135,621**	$ 5,335

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	**2017 vs 2016**	2016 vs 2015
Changes in volume	**$ 131,484**	$ 19,886
Changes in interest rates	**(1,141)**	(11,140)
Changes in asset securitization	**189**	212
Changes in nonaccrual income and other	**10,639**	267
Net change	**$ 141,171**	$ 9,225

Net interest income included income on nonaccrual loans that totaled $9.2 million, $7.1 million, and $7.2 million in 2017, 2016, and 2015, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.6%, 2.5%, and 2.7% in 2017, 2016, and 2015, respectively. We expect margins may compress further in the future if interest rates continue to rise, competition increases, and growth in our correspondent lending programs continues. We expect our loan and lease products to remain competitive in the market place in 2018.

Provision for Loan Losses

The fluctuation in the provision for loan losses was related to an increase in the allowance for loan losses, due to additional reserves for the increased loan volume. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Patronage Income

We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors. Patronage and equalization distributions for the programs discussed below are declared solely at the discretion of AgriBank's Board of Directors.

Patronage Income

(in thousands)

For the year ended December 31		2017		2016		2015
Wholesale patronage	**$**	**67,135**	$	21,778	$	16,558
Equalization income		**114**		--		--
Asset pool patronage		**21,656**		5,705		1,567
Consumer mortgage asset pool patronage		**317**		--		--
AgDirect partnership distribution		**845**		--		--
Other Farm Credit Institutions		**70**		36		21
Total patronage income	**$**	**90,137**	$	27,519	$	18,146

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates were 45.0 basis points, 25.6 basis points, and 26.0 basis points in 2017, 2016, and 2015, respectively. The increase in the patronage rate in 2017 was primarily due to a change in AgriBank's capital plan effective July 1, 2017. The capital plan was modified to pay out 100% of net earnings beginning in 2017. Previously 50% of net earnings was paid. See the Relationship with AgriBank section for further discussion on patronage income.

Equalization is determined based on the quarterly average balance of stock in excess of our AgriBank required investment. Prior to 2017, we earned equalization on any stock investment in AgriBank required to be held when our growth exceeded a targeted growth rate. The equalization rate is targeted at the average cost of funds for all District associations as a group. No equalization was received in 2016 or 2015.

Since 2008, we have participated in the AgriBank Asset Pool program in which we sell participation interests in certain real estate loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume.

Since September 2017, we have participated in the Consumer Mortgage Asset Pool program in which we sell participation interests in certain consumer mortgage loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable.

We also received a partnership distribution resulting from our participation in the AgDirect trade credit financing program. The AgDirect trade credit financing program is facilitated by another AgriBank District association through a limited liability partnership (AgDirect, LLP), in which we are a partial owner. AgriBank purchases a 100% participation interest in the program loans from AgDirect, LLP. Patronage distributions are paid to AgDirect, LLP, which in turn pays partnership distributions to the participating associations. We received a partnership distribution in an amount that approximated our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees. No partnership distributions were received in 2016 or 2015.

Other Income, Net

The change in other income, net was primarily due to increases in financially related services income and fee and miscellaneous income, net. Financially related services income increased primarily due to crop insurance income recognized from acquired clients. Fee and miscellaneous income, net increased primarily due to loan originations.

We originated rural home loans for resale in the secondary market and sold these loans in the secondary market totaling $48.5 million, $58.0 million, and $57.9 million in 2017, 2016, and 2015, respectively. The fee income from this activity totaled $919 thousand, $1.4 million, and $1.3 million in 2017, 2016, and 2015, respectively. These amounts are included in “Fee and miscellaneous income, net” in the accompanying Consolidated Statements of Comprehensive Income. In addition, we sold loans in the secondary market through our RuraLiving® program totaling $102.2 million, $104.2 million, and $38.9 million in 2017, 2016, and 2015, respectively. The fee income from this activity totaled $484 thousand, $629 thousand, and $139 thousand in 2017, 2016, and 2015, respectively. These amounts are included in “Fee and miscellaneous income, net” in the accompanying Consolidated Statements of Comprehensive Income.

Operating Expenses

The following presents a comparison of operating expenses by major category and the net pre-tax operating rate (total on-going expenses less financially related services income and fees earned, divided by average earning assets).

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	**2017**	2016	2015
Salaries and employee benefits	**$ 131,448**	$ 90,022	$ 87,157
Purchased and vendor services	**8,031**	5,822	5,477
Communications	**2,260**	1,271	1,297
Occupancy and equipment	**17,359**	13,173	11,781
Advertising and promotion	**9,349**	6,318	6,179
Examination	**3,124**	1,911	1,612
Farm Credit System insurance	**16,938**	12,241	8,408
Other	**14,998**	4,578	4,433
Total operating expenses	**$ 203,507**	$ 135,336	$ 126,344
Net pre-tax operating rate	**1.0%**	0.9%	1.0%

The increases in operating expenses were generally due to the increase in the size of the Association as a result of the merger. The most significant increase was salaries and employee benefits expense due to the increased staff size after the merger.

The premium rate charged by FCSIC on accrual loans was 15 basis points for the calendar year 2017. The FCSIC has announced premiums will decrease to 9 basis points for 2018. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Provision for Income Taxes

The variance in provision for income taxes was primarily related to an increase in income attributable to our taxable entity. Patronage distributions reduced our tax liability in 2017, 2016, and 2015. Additional discussion is included in Note 12 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 9 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2017, we had $2.1 billion available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands)

For the year ended December 31	**2017**	2016	2015
Average balance	**$ 11,404,000**	$ 7,114,270	$ 6,368,928
Average interest rate	**2.0%**	1.7%	1.6%

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

On May 30, 2013, we issued $100.0 million of Series A-1 non-cumulative perpetual preferred stock. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to FCA Regulations in effect at the time of issuance, for the continued development of our business, and for general corporate purposes. For regulatory capital purposes, our Series A-1 preferred stock is included in permanent capital, tier 1 capital, and total capital, subject to certain limitations. Dividends on Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of Series A-1 preferred stock is discussed further in Note 11 to the accompanying Consolidated Financial Statements.

In March 2010, we issued $100.0 million of aggregate principal amount of Series A Subordinated Notes (Notes) due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200.0 million for subordinated debt issuance. The Notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. At our option, we may redeem all or some of the Notes on any interest payment date on or after a date 10 years from the closing date. On December 15, 2016, we redeemed all $100.0 million of outstanding subordinated notes at par value, which were redeemable on any interest payment date at any time following FCA notification of certain changes to our regulatory capital requirements.

We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac, a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. We had $490.1 million, $474.4 million, and $470.2 million of our loans in this program at December 31, 2017, 2016, and 2015, respectively. We paid Farmer Mac commitment fees totaling $2.1 million, $2.1 million, and $2.0 million in 2017, 2016, and 2015, respectively.

These amounts are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income. There were no sales of loans to Farmer Mac under this agreement in 2017, 2016, or 2015.

CAPITAL ADEQUACY

Total equity was $3.4 billion, $1.3 billion, and $1.2 billion at December 31, 2017, 2016, and 2015, respectively. Total equity increased $2.1 billion from December 31, 2016, primarily due to capital acquired through the merger with 1st FCS and Badgerland, net income for the year, partially offset by patronage distribution accruals and preferred stock dividends. Accumulated other comprehensive loss is the impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Additional Pension Restoration Plan information is included in Note 13 to the accompanying Consolidated Financial Statements.

The FCA Regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

Regulatory Capital Requirements and Ratios

As of December 31	**2017**	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**14.2%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**14.7%**	6.0%	2.5%*	8.5%
Total capital ratio	**15.1%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.7%**	7.0%	N/A	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**15.0%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**13.8%**	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet stockholder needs and protect stockholder interests, both now and in the future.

Refer to the Funding and Liquidity section for further discussion related to our non-cumulative perpetual preferred stock and subordinated notes. Additional information is included in Notes 10 and 11 to the accompanying Consolidated Financial Statements.

Additional discussion of these regulatory ratios is included in Note 11 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2017, our optimum total capital target was 14.0%, as defined in our 2018 capital plan.

Upon the merger, all allocated surplus issued by 1st FCS and Badgerland became allocated surplus in the merged Association. The allocated surplus held by AgStar patrons remains outstanding as allocated surplus of the merged Association. With the exception of allocated surplus designated as permanent allocations, all allocated surplus is eligible to be redeemed in the future, if approved by the Board of Directors subject to compliance with Compeer’s Bylaws. Redemptions of permanent allocations shall not be eligible to be redeemed. In 2017, we made net nonqualified patronage allocations of $28.6 million in accordance with the merger capital equalization plan. The Board of Directors authorized the redemption of nonqualified patronage allocations of $100.8 million, $35.0 million, and $28.2 million in 2017, 2016, and 2015, respectively. In 2017, the Board of Directors authorized the redemption of $25.8 million of nonqualified equities issued to AgStar patrons and $75.0 million of nonqualified equities issued to former members of 1st FCS and Badgerland. In addition, the Board of Directors authorized the payment of $1.6 million, $1.3 million, and $868 thousand of dividends on approved transactions in 2017, 2016, and 2015, respectively. The timing and amounts of all future patronage redemptions and dividend payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding our patronage distributions is included in Notes 11 and 12 to the accompanying Consolidated Financial Statements.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio, Investment Securities**,** and Other Investments sections for further discussion of the changes in assets. Additional equity information is included in Note 11 to the accompanying Consolidated Financial Statements. Refer to Note 11 in our Annual Report for the year ended December 31, 2016, for a more complete description of the ratios effective as of December 31, 2016, and 2015. We were in compliance with the minimum required capital ratios as of December 31, 2016, and 2015.

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.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 9 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset Liability Committee.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate.

As of December 31, 2017, we were required to hold AgriBank stock equal to 8.0% and 7.6% of the quarter end balance in the AgriBank Asset Pool program and Consumer Mortgage Asset Pool program, respectively.

At December 31, 2017, our investment in AgriBank was $514.7 million, of which, $223.9 million consisted of stock representing distributed AgriBank surplus and $290.8 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

As an AgDirect, LLP partnering association, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank. Specifically, the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program's outstanding participation loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter.

Patronage

AgriBank has amended its capital plan effective July 1, 2017, to provide for adequate capital at AgriBank under the new capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or stock. A key part of these changes involves maintaining capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

We receive different types of discretionary patronage from AgriBank. Beginning in 2017, patronage income earned may be paid in cash and AgriBank stock. Patronage income for 2017, 2016, and 2015 was paid in the form of cash. AgriBank's Board of Directors sets the level of:

- Wholesale patronage which includes:
  - Patronage on our note payable with AgriBank
  - Equalization patronage based on our excess stock in AgriBank
- Patronage based on the balance and net earnings of loans in the AgriBank Asset Pool program
- Patronage based on the balance and net earnings of loans in the Consumer Mortgage Asset Pool program
- Partnership distribution based on our share of the net earnings of the loans in the AgDirect trade credit financing program, adjusted for required return on capital and servicing and origination fees

Purchased Services

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services.

The total cost of services we purchased from AgriBank was $3.2 million, $2.2 million, and $1.9 million in 2017, 2016, and 2015, respectively.

During 2016, District associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity allows District associations and AgriBank to develop and maintain long-term, cost effective technology and business services. The service entity would be owned by certain District associations and AgriBank and will be named SunStream Business Services (SunStream). An application to form the service entity was submitted in May 2017 to the FCA for approval.

Impact on Stockholders' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our stockholders' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

ProPartners Financial: We participate in ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing through agribusinesses that sell crop inputs. ProPartners is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the ProPartners volume. Each association's allocation is established based on mutual agreement of the owners. We had $361.6 million, $158.2 million, and $163.3 million of ProPartners volume at December 31, 2017, 2016, and 2015, respectively. We also had $481.0 million of available commitment on ProPartners loans at December 31, 2017.

As the facilitating association for ProPartners, we provide, and are compensated for, various support functions. This includes human resources, accounting, payroll, reporting, and other finance functions. We also serve as the primary originating association for ProPartners participations and sales.

Capital Markets Group: We participate in the Capital Markets Group (CMG) with two other AgriBank District associations. The CMG focuses on generating revenue and loan volume for the financial benefit of all three participating associations. Management for each association has direct decision-making authority over the loans purchased and serviced for their respective association. The business arrangement provides additional means for diversifying each participant's portfolio, helps reduce concentration risk, and positions the participants for continued growth.

Federal Agricultural Mortgage Corporation: We have a financial relationship with Farmer Mac to provide a standby commitment program for the repayment of principal and interest on certain loans. Refer to the Funding and Liquidity section for further discussion. We also purchase mortgage-backed security investments from Farmer Mac. Refer to the Investment Securities section for further discussion.

Additionally, we are an approved mortgage loan central servicer for Farmer Mac. Total loan volume being serviced was $234.7 million, $381.2 million, and $244.3 million as of December 31, 2017, 2016, and 2015, respectively. Income from this servicing was $467 thousand, $436 thousand, and $383 thousand for the years ended December 31, 2017, 2016, and 2015, respectively.

BGM Technology Collaboration: From the date of our merger through December 31, 2017, we participated in the BGM Technology Collaboration (BGM) with certain other AgriBank District associations to facilitate the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. BGM operations are governed by representatives of each participating association. The expenses of BGM are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

Farm Credit Leasing: We have an agreement with Farm Credit Leasing (FCL), a System entity specializing in leasing products and providing industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers. CoBank also provides certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes a $9.25 million back-up cash management settlement facility. As part of this relationship, our equity investment in CoBank was $1.1 million, $985 thousand, and $919 thousand at December 31, 2017, 2016, and 2015, respectively.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2017, 2016, and 2015, our investment in Foundations was $154 thousand, $83 thousand, and $83 thousand, respectively. The total cost of services we purchased from Foundations was $816 thousand, $486 thousand, and $422 thousand in 2017, 2016, and 2015, respectively.

Rural Business Investment Company: We and other Farm Credit Institutions are among the limited partners for RBICs. Refer to the Other Investments section for further discussion.

Unincorporated Business Entities (UBEs)

In certain circumstances we may establish separate entities to acquire and manage complex collateral, primarily for legal liability purposes.

Rural Funding, LLC: We have a limited liability company established for the purpose of facilitating bond transactions with other financial institutions called Rural Funding, LLC. We do not receive any management fees from the limited liability company.

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $18.1 million, $3.8 million, and $1.9 million at December 31, 2017, 2016, and 2015, respectively.

Programs

We are involved in a number of programs designed to improve our credit delivery, related services, and marketplace presence.

RuraLiving®: RuraLiving is a rural residential mortgage program designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor.

Equipment Financing: We have entered into agreements with certain dealer networks to provide alternative service delivery channels to clients. These trade credit opportunities create more flexible and accessible financing options to clients through dealer point-of-purchase financing programs. We also participate in the AgDirect trade credit financing program. Refer to the UBEs section for further discussion on this program.

Farm Cash Management: We offer Farm Cash Management to our clients. Farm Cash Management links clients' revolving lines of credit with an AgriBank investment bond to optimize clients' use of funds.

FCC Services: We have an agreement with FCC Services to provide various risk and insurance management, vehicle purchases, and training services. Additionally, we have a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement. Included in "Other assets" in the Consolidated Statements of Condition is $7.0 million, net, to help support our total relationship. In net, we paid $1.3 million in each 2017, 2016, and 2015 to FCC Services for insurances, memberships, training, and losses under the loss/gain sharing agreement.

Mission Related Investments: The public mission of the System has always been to provide financing to agriculture and rural areas. Our primary focus has always been and will remain financing production agriculture. Because of the changing needs of rural America, we have placed additional emphasis on investing in rural communities and businesses by creating Mission Financing. We had outstanding bonds of $128.1 million, $122.3 million, and $192.6 million at December 31, 2017, 2016, and 2015, respectively. This business unit makes investments in rural America through the purchase of bonds, focusing on rural businesses, health care, and housing facilities. We continue to have minority investments in a few small-scale local economic development corporations and have outstanding investments of $28 thousand, $44 thousand, and $72 thousand in local economic development corporations at December 31, 2017, 2016, and 2015, respectively.

Fleet Management: We offer fleet management services to small and mid-sized agribusinesses. Depending on the program selected, services range from customized vehicle ordering, combined with lease financing, to full service program options of providing fuel cards, maintenance management, 24/7 emergency roadside assistance, license renewal services, fleet reporting, and vehicle disposal service. Additionally, we make available customized vehicle ordering and leasing options to Farm Credit Institutions. At the end of 2017, we have ordered vehicles for 25 System entities. We have manufacturer's fleet codes for the following brands: Ford, General Motors, Chrysler, Toyota, Nissan, Mazda, and Subaru.

Business Units

Agri-Access®: We have entered into agreements with certain financial institutions to provide correspondent lending programs under the trade name Agri-Access, which operates as a unit of Compeer. Agri-Access focuses primarily on purchasing participations in agricultural real estate loans and leases. Agri-Access also services loan portfolios for other institutional investors. These financial services firms are dispersed throughout the United States. The main Agri-Access contact office is located in Des Moines, Iowa. We also have a contact office in Boise, Idaho. Further information can be obtained at www.agri-access.com.

Core Solutions Team: We provide operating, term, and real estate loans, leases, crop insurance, life insurance, accounting, tax, and consulting services to approximately 32,000 core market clients and producers who are typically in the grain, dairy, and swine industries. This structure enables our team to collaborate with other professionals with specialized knowledge, depending on the client's specific goals and unique needs.

Our industry specialists possess broad, extensive knowledge and experience in their areas of expertise, providing financing to commercial producers, agribusinesses, and processors, primarily focused in swine, dairy, and bio-energy.

Our accounting, consulting, and tax team provides business management and professional services such as financial reporting and management, project and business analysis, and family transition consulting. Services are provided across all commodities with particular expertise in the dairy, swine, and cash grain industry segments.

Rural Living Solutions: Our home mortgage services team provides home financing options for rural residents living in the country or in communities with populations of 2,500 or less. The focal points of this segment are mortgages to buy, build, or refinance residences or acreages. Title insurance, appraisal services, and home equity loans are also offered.

Capital Markets: The Capital Markets team focuses on relationships with commercial banks, Farm Credit Institutions, and other lending partners to buy loan participations and partner in syndicated loan transactions. This specialized team provides a national marketing vehicle to gain improved access to the agribusiness and commercial producer loan market, and provides portfolio diversity, earnings, and market intelligence to the organization. This team partners with two other AgriBank District associations to form the Capital Markets Group.

Mission Financing: The Mission Financing team is devoted to supporting community and economic development, infrastructure needs, revitalization projects, and emerging agribusinesses in rural America. Mission Financing invests in projects through the purchase of bonds issued by local communities, organizations, or businesses, focusing on investing in critical access hospitals, assisted-living facilities, rural rental multi-family housing, business expansions, and other similar enterprises. In December 2014, an alliance was formed with CoBank to fund rural facilities across the United States. This alliance will help promote jobs, economic benefits and enhance the quality of life in rural communities. This alliance will partner with other Farm Credit Institutions and local community banks to provide attractive and reliable short and long term financing options to fully fund projects of significant size.

REPORT OF MANAGEMENT

We prepare the Consolidated Financial Statements of Compeer Financial, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

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

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

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

Mark W. Cade

Mark Cade
Chairperson of the Board
Compeer Financial, ACA

Rodney W. Hebrink
President and Chief Executive Officer
Compeer Financial, ACA

Jase L. Wagner
Chief Financial Officer
Compeer Financial, ACA

March 2, 2018

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Compeer Financial, ACA (the Association) 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 2013 framework in Internal Control — Integrated Framework, 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.

Rodney W. Hebrink
President and Chief Executive Officer
Compeer Financial, ACA

Jase L. Wagner
Chief Financial Officer
Compeer Financial, ACA

March 2, 2018

REPORT OF AUDIT COMMITTEE

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of Compeer Financial, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent 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 Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for 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 Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2017, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2017.

Kathleen Hainline

Kathleen Hainline
Chairperson of the Audit Committee
Compeer Financial, ACA

Mark Cade
Terry Ebeling
Larry Fischer
Michael Pratt

March 2, 2018

Report of Independent Auditors

To the Board of Directors of Compeer Financial, ACA,

We have audited the accompanying Consolidated Financial Statements of Compeer Financial, 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, changes in equity and 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.

Auditors' 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 Compeer Financial, ACA and its subsidiaries as of December 31, 2017, 2016, and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 2, 2018

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA

(in thousands)

As of December 31	**2017**	2016	2015
ASSETS			
Loans held to maturity	**$ 17,749,021**	$ 8,152,435	$ 7,572,042
Allowance for loan losses	**48,849**	36,018	27,071
Net loans held to maturity	**17,700,172**	8,116,417	7,544,971
Loans held for sale	**30,062**	27,370	35,380
Net loans	**17,730,234**	8,143,787	7,580,351
Unrestricted cash	**2,200**	2,200	1,900
Investment securities	**879,258**	473,248	442,972
Assets held for lease, net	**41,368**	36,598	38,396
Accrued interest receivable	**151,801**	64,904	58,734
Investment in AgriBank, FCB	**514,712**	180,812	171,395
Premises and equipment, net	**65,148**	17,633	18,072
Other property owned	**954**	840	1,060
Deferred tax assets, net	**1,139**	--	--
Other assets	**158,537**	60,645	48,830
Total assets	**$ 19,545,351**	$ 8,980,667	$ 8,361,710
LIABILITIES			
Note payable to AgriBank, FCB	**$ 15,847,060**	$ 7,590,254	$ 6,949,764
Subordinated debt	**--**	--	99,491
Accrued interest payable	**78,959**	31,954	26,805
Deferred tax liabilities, net	**--**	125	3,614
Patronage distribution payable	**122,000**	--	--
Other liabilities	**85,695**	42,866	54,902
Total liabilities	**16,133,714**	7,665,199	7,134,576
Contingencies and commitments (Note 15)			
EQUITY			
Preferred stock	**100,000**	100,000	100,000
Capital stock and participation certificates	**34,213**	15,934	16,085
Additional paid-in capital	**1,780,603**	--	--
Allocated surplus	**523,252**	441,122	406,758
Unallocated surplus	**980,818**	758,412	704,291
Accumulated other comprehensive loss	**(7,249)**	--	--
Total equity	**3,411,637**	1,315,468	1,227,134
Total liabilities and equity	**$ 19,545,351**	$ 8,980,667	$ 8,361,710

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Compeer Financial, ACA

(in thousands)

For the year ended December 31		**2017**		2016		2015
Interest income	**$**	**578,166**	$	338,266	$	306,898
Interest expense		**230,202**		131,473		109,330
Net interest income		**347,964**		206,793		197,568
Provision for loan losses		**13,806**		10,082		5,939
Net interest income after provision for loan losses		**334,158**		196,711		191,629
Other income						
Patronage income		**90,137**		27,519		18,146
Net operating lease income		**1,768**		1,352		1,760
Financially related services income		**28,208**		18,742		19,746
Fee and miscellaneous income, net		**28,788**		25,354		19,663
Total other income		**148,901**		72,967		59,315
Operating expenses						
Salaries and employee benefits		**131,448**		90,022		87,157
Farm Credit System insurance		**16,938**		12,241		8,408
Other operating expenses		**55,121**		33,073		30,779
Total operating expenses		**203,507**		135,336		126,344
Income before income taxes		**279,552**		134,342		124,600
Provision for income taxes		**14,694**		5,105		698
Net income	**$**	**264,858**	$	129,237	$	123,902
Other comprehensive loss						
Investment securities available for sale:						
Not-other-than-temporarily-impaired investments	**$**	**--**	$	--	$	(82)
Total other comprehensive loss		**--**		--		(82)
Comprehensive income	**$**	**264,858**	$	129,237	$	123,820

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Compeer Financial, ACA
(in thousands)

	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in Capital	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Equity
Balance as of December 31, 2014	$ 100,000	$ 16,177	$ --	$ 371,004	$ 650,915	$ 82	$ 1,138,178
Net income	--	--	--	--	123,902	--	123,902
Other comprehensive loss	--	--	--	--	--	(82)	(82)
Net surplus allocated under nonqualified patronage program	--	--	--	62,908	(62,908)	--	--
Redemption of prior year allocated patronage	--	--	--	(27,154)	--	--	(27,154)
Preferred stock dividend	--	--	--	--	(6,750)	--	(6,750)
Other distribution	--	--	--	--	(868)	--	(868)
Capital stock and participation certificates issued	--	1,337	--	--	--	--	1,337
Capital stock and participation certificates retired	--	(1,429)	--	--	--	--	(1,429)
Balance as of December 31, 2015	100,000	16,085	--	406,758	704,291	--	1,227,134
Net income	--	--	--	--	129,237	--	129,237
Net surplus allocated under nonqualified patronage program	--	--	--	67,070	(67,070)	--	--
Redemption of prior year allocated patronage	--	--	--	(32,706)	--	--	(32,706)
Preferred stock dividend	--	--	--	--	(6,750)	--	(6,750)
Other distribution	--	--	--	--	(1,296)	--	(1,296)
Capital stock and participation certificates issued	--	1,357	--	--	--	--	1,357
Capital stock and participation certificates retired	--	(1,508)	--	--	--	--	(1,508)
Balance as of December 31, 2016	100,000	15,934	--	441,122	758,412	--	1,315,468
Net income	**--**	**--**	**--**	**--**	**264,858**	**--**	**264,858**
Other comprehensive loss and other	**--**	**--**	**--**	**--**	**--**	**(7,249)**	**(7,249)**
Transfer of allocated surplus to unallocated surplus	**--**	**--**	**--**	**(41,286)**	**41,286**	**--**	**--**
Net surplus allocated under nonqualified patronage program - merger capital equalization plan	**--**	**--**	**--**	**28,570**	**(28,570)**	**--**	**--**
Redemption of allocated patronage	**--**	**--**	**--**	**(101,584)**	**144**	**--**	**(101,440)**
Preferred stock dividend	**--**	**--**	**--**	**--**	**(6,750)**	**--**	**(6,750)**
Other distribution	**--**	**--**	**--**	**--**	**(1,562)**	**--**	**(1,562)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**--**	**(47,000)**	**--**	**(47,000)**
Allocated surplus acquired in connection with merger	**--**	**--**	**--**	**196,430**	**--**	**--**	**196,430**
Equity issued in connection with merger	**--**	**18,555**	**1,780,603**	**--**	**--**	**--**	**1,799,158**
Capital stock and participation certificates issued	**--**	**1,846**	**--**	**--**	**--**	**--**	**1,846**
Capital stock and participation certificates retired	**--**	**(2,122)**	**--**	**--**	**--**	**--**	**(2,122)**
Balance as of December 31, 2017	**$ 100,000**	**$ 34,213**	**$ 1,780,603**	**$ 523,252**	**$ 980,818**	**$ (7,249)**	**$ 3,411,637**

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Compeer Financial, ACA

(in thousands)

For the year ended December 31	**2017**	2016	2015
Cash flows from operating activities			
Net income	**$ 264,858**	$ 129,237	$ 123,902
Depreciation on premises and equipment	**6,187**	4,377	4,245
Gain on sale of premises and equipment, net	**(309)**	(391)	(537)
Depreciation on assets held for lease	**8,195**	8,983	9,127
(Gain) loss on disposal of assets held for lease, net	**(81)**	28	(153)
(Increase) decrease in loans held for sale	**(2,692)**	8,010	(27,481)
Amortization of premiums on loans and investment securities	**1,867**	2,217	2,862
Amortization of debt issuance cost	**--**	509	122
Net accretion of yield related to loans and notes payable acquired in merger	**9,679**	--	--
Net accretion of yield related to investments acquired in merger	**(35)**	--	--
Provision for loan losses	**13,806**	10,082	5,939
Stock patronage received from Farm Credit Institutions	**(164)**	(66)	(123)
Gain on other property owned, net	**(82)**	(255)	(484)
Loss on derivative activities	**680**	226	709
Loss (gain) on sale of investments	**198**	(659)	(355)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(20,695)**	(6,626)	(4,268)
(Increase) decrease in other assets	**(32,425)**	(9,846)	485
Increase in accrued interest payable	**7,999**	5,149	2,438
Decrease in other liabilities	**(14,684)**	(16,517)	(8,822)
Net cash provided by operating activities	**242,302**	134,458	107,606
Cash flows from investing activities			
Increase in loans, net	**(493,311)**	(581,765)	(675,063)
Purchases of investment in AgriBank, FCB, net	**(58,835)**	(9,417)	(29,296)
Purchases of investment in other Farm Credit Institutions, net	**(1,621)**	(1,866)	(1,907)
Purchases of invesment securities	**(276,780)**	(312,343)	(96,585)
Proceeds from maturing invesment securities	**106,242**	177,480	78,977
Proceeds from the sale of available for sale investment securities	**105,204**	102,822	53,670
Purchases of derivatives, net	**(550)**	(406)	(741)
Purchases of assets held for lease, net	**(12,884)**	(7,213)	(5,804)
Proceeds from sales of other property owned	**1,188**	1,697	3,835
Purchases of premises and equipment, net	**(7,646)**	(3,547)	(4,392)
Decrease (increase) in restricted cash	**5,154**	1,037	(2,274)
Net cash used in investing activities	**(633,839)**	(633,521)	(679,580)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**444,326**	640,490	609,082
Subordinated notes retired	**--**	(100,000)	--
Patronage distributions paid	**(45,348)**	(34,002)	(28,022)
Preferred stock dividend paid	**(6,750)**	(6,750)	(6,750)
Capital stock and participation certificates retired, net	**(691)**	(375)	(436)
Net cash provided by financing activities	**391,537**	499,363	573,874
Net change in cash	**--**	300	1,900
Cash at beginning of year	**2,200**	1,900	--
Cash at end of year	**$ 2,200**	$ 2,200	$ 1,900

CONSOLIDATED STATEMENTS OF CASH FLOWS

Compeer Financial, ACA

(in thousands)

For the year ended		2017		2016		2015
Supplemental schedule of non-cash activities						
Stock financed by loan activities	**$**	**1,032**	$	646	$	820
Stock applied against loan principal		**606**		412		464
Stock applied against interest		**11**		10		12
Interest transferred to loans		**1,753**		446		421
(Decrease) increase in equity from investment securities		**--**		--		(82)
Loans transferred to other property owned		**653**		1,580		1,557
Patronage distributions payable to members		**122,000**		--		--
Financed sales of other property owned		**--**		358		286
Decrease (increase) in payable to Farmer Mac not yet settled		**5,154**		1,037		(2,274)
Impact of merger transactions:						
Assets acquired		**9,909,432**		--		--
Liabilities assumed		**7,913,844**		--		--
Equity issued		**1,995,588**		--		--
Supplemental information						
Interest paid	**$**	**183,197**	$	126,324	$	106,892
Taxes paid, net		**14,786**		6,020		3,433

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Compeer Financial, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Association

Compeer Financial, ACA (the Association) and its subsidiaries, Compeer Financial, FLCA and Compeer Financial, PCA (subsidiaries) are lending institutions of the Farm Credit System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible member stockholders for qualified agricultural purposes in the counties of Aitkin, Anoka, Benton, Blue Earth, Brown, Carlton, Carver, Cass, Chisago, Cook, Cottonwood, Crow Wing, Dakota, Dodge, Faribault, Fillmore, Freeborn, Goodhue, Hennepin, Houston, Isanti, Itasca, Jackson, Kanabec, Lake, LeSueur, McLeod, Martin, Mille Lacs, Morrison, Mower, Murray, Nicollet, Nobles, Olmsted, Pine, Pipestone, Ramsey, Rice, Rock, St. Louis, Scott, Sherburne, Sibley, Stearns, Steele, southern Todd, Wabasha, Waseca, Washington, Watonwan, Winona, and Wright counties in the state of Minnesota; Adams, Boone, Brown, Bureau, Carroll, Cook, DeKalb, DuPage, Fulton, Grundy, Hancock, Henderson, Henry, Jo Daviess, Kane, Kankakee, Kendall, Knox, Lake, LaSalle, Lee, Livingston, Marshall, Mason, McDonough, McHenry, McLean, Mercer, Ogle, Peoria, Pike, Putnam, Rock Island, Schuyler, Stark, Stephenson, Tazewell, Warren, Whiteside, Will, Winnebago, and Woodford in the state of Illinois; and Adams, Ashland, Barron, Bayfield, Buffalo, Burnett, Calumet, Chippewa, Columbia, Crawford, Dane, Dodge, Douglas, Dunn, Eau Claire, Fond du Lac, Grant, Green, Green Lake, Iowa, Iron, Jackson, Jefferson, Juneau, Kenosha, La Crosse, Lafayette, Marquette, Milwaukee, Monroe, Ozaukee, Pepin, Pierce, Polk, Racine, Richland, Rock, Rusk, St. Croix, Sauk, Sawyer, Sheboygan, Trempealeau, Vernon, Walworth, Washburn, Washington, Waukesha, and Winnebago counties in the state of Wisconsin.

We borrow from AgriBank, FCB (AgriBank) and provide financing and related services to our clients. Our ACA holds all the stock of the FLCA and PCA subsidiaries and provides lease financing options for agricultural production or operating purposes. The FLCA makes secured long-term agricultural real estate, rural home, and part-time farmer mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate-term loans and holds certain types of investments. We also service certain loans.

We offer various risk management services, including credit life, term life, credit disability, title, crop hail, and multi-peril crop insurance for clients and those eligible to borrow. We also offer services, such as farm records services, fee appraisals, cash management, farm business consulting, producer education, auction clerking, title search, fleet management services, income tax planning and preparation services, and retirement and succession planning to our clients.

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2018, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 69 customer-owned cooperative lending institutions (associations). AgriBank, a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2018, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Merger Activity

Effective July 1, 2017, 1st Farm Credit Services, ACA (1st FCS) and Badgerland Financial, ACA (Badgerland) merged into AgStar Financial Services, ACA (AgStar). AgStar acquired 100% of the assets and liabilities of 1st FCS and Badgerland. The merged Association operates under the name Compeer Financial, ACA (Compeer) and is headquartered in Sun Prairie, Wisconsin. The primary reason for the merger was to increase portfolio diversification, expand and sustain the essential infrastructure of human capital necessary to the delivery of excellent customer service and value, gain operating efficiencies of a larger association, and increase our capital base to meet the lending needs of our clients. The effects of the merger are included in the Association's results of operations, statement of condition, average balances and related metrics beginning July 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 Statements of Condition reflects the merged balances as of December 31, 2017. The Consolidated Statements of Comprehensive Income, the Consolidated Statements of Changes in Equity, and the Consolidated Statements of Cash Flows reflect the results of AgStar prior to July 1, 2017, and the merged Association after July 1, 2017. Information in the Notes to the Consolidated Financial Statements for 2017 reflects balances of the merged Association as of December 31, or in the case of transactional activity, AgStar prior to July 1, 2017, and the merged Association for the period July 1, 2017, to December 31, 2017.

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. The common stock shares of 1st FCS and Badgerland were converted in the merger into common stock shares of Compeer with identical rights and attributes. For this reason the conversion of 1st FCS and Badgerland stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each 1st FCS and Badgerland share were converted into one share of Compeer stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Compeer 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, Compeer undertook a process to identify and estimate the acquisition-date fair value of 1st FCS and Badgerland's equity interests instead of the acquisition-date fair value of Compeer's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from 1st FCS and Badgerland, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results.

The merger was accounted for as a business combination under the acquisition method of accounting. Pursuant to these rules, AgStar acquired the assets and assumed the liabilities of 1st FCS and Badgerland at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($2.0 billion) 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 $2.0 billion was recorded in stockholders' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to 1st FCS and Badgerland's net assets as of the acquisition date. There were no subsequent changes to the initial fair value measurements through December 31, 2017.

Condensed Statement of Net Assets Acquired

(in thousands)

As of July 1, 2017	1st FCS	Badgerland	Total
Assets			
Net loans	$ 5,068,181	$ 4,044,377	$ 9,112,558
Accrued interest receivable	45,307	22,659	67,966
Other assets	560,876	168,032	728,908
Total assets	$ 5,674,364	$ 4,235,068	$ 9,909,432
Liabilities			
Notes payable	$ 4,529,652	$ 3,282,949	$ 7,812,601
Accrued interest payable	22,733	16,273	39,006
Other liabilities	25,152	37,085	62,237
Total liabilities	$ 4,577,537	$ 3,336,307	$ 7,913,844
Fair value of net assets acquired	$ 1,096,827	$ 898,761	$ 1,995,588

Fair value adjustments to 1st FCS and Badgerland's assets and liabilities included a $22.1 million decrease to loans and a $12.0 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. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans not considered to be purchased credit-impaired, which totaled $9.3 billion at July 1, 2017. Refer to Note 2 for further discussion on purchased credit-impaired loans.

We recorded merger expenses of $1.4 million and $241 thousand during 2017 and 2016, respectively. These amounts are included in "Other operating expenses" in the Consolidated Statements of Comprehensive Income.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us 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 Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Compeer Financial, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans Held to Maturity: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, unamortized premiums or discounts on purchased loans, and unamortized adjustments to fair value on loans acquired through the merger. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

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

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

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

Purchased Credit-Impaired (PCI) Loans: Purchased loans acquired through a merger with evidence of credit deterioration since their origination and when it is probable that we will not collect all contractually required principal and interest payments are PCI loans. PCI loans are written down at acquisition to estimated fair value and an accretable yield may be established. The excess of cash flows expected to be collected over the carrying value is referred to as the accretable yield and is recognized in interest income using the effective yield method over the remaining life of the loan.

Evidence of credit quality deterioration as of the purchase date may include statistics such as past due and nonaccrual status. Acquired loans that meet our definition of risk loans are generally considered to be credit-impaired and are accounted for as individual loans. Accounting for PCI loans involves estimating fair value at acquisition using the cash flows expected to be collected. As we generally are unable to estimate the timing and amount of future cash flows, measurement is based on the net realizable value of the collateral underlying these loans.

Loans Held for Sale: Loans held for sale include rural residential mortgages originated for sale. We elected the fair value option for all loans held for sale. Loans are valued on an individual basis and gains or losses are recorded in "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. Direct loan origination costs and fees for loans held for sale are recognized in income at origination. Interest income on loans held for sale is calculated based upon the note rate of the loan and is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in our loan portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

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

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

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in “Provision for loan losses” in the Consolidated Statements of Comprehensive Income, recoveries, and charge-offs.

For purchased loans acquired that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans; however, we record a provision for credit losses only when the required allowance exceeds any remaining credit discounts. The remaining differences between the purchase price and the unpaid principal balance at the date of acquisition are recorded in interest income over the life of the loans.

Investment Securities: We are authorized to purchase and hold certain types of investments. Those investments for which we have the positive intent and ability to hold to maturity have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income in the period of impairment. The non-credit related component is recognized in other comprehensive income and amortized over the remaining life of the security as an increase in the security’s carrying amount.

Other investment securities may not necessarily be held-to-maturity and, accordingly, have been classified as available-for-sale. These investments are reported at fair value, and unrealized holding gains and losses on investments that are not other-than-temporarily impaired are netted and reported as a separate component of equity in “Accumulated Other Comprehensive Income” in the Consolidated Statements of Condition. Changes in the fair value of investment securities are reflected as direct charges or credits to other comprehensive income, unless the security is deemed to be other-than-temporarily impaired. When other-than-temporary impairment exists and we do not intend to sell the impaired debt security, nor are we more likely than not to be required to sell the security before recovery, we separate the loss into credit-related and non-credit-related components. If a security is deemed to be other-than-temporarily impaired, the security is written down to fair value, the credit-related component is recognized through earnings and the non-credit-related component is recognized in other comprehensive income.

Purchased premiums and discounts are amortized over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Other Investments: The carrying amount of investments in venture capital funds in which we are a limited partner and hold a non-controlling interest is at cost. The investment is included in “Other assets” in the Consolidated Statements of Condition. The investments are assessed for impairment. If impairment exists, losses are included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income in the year of impairment. Income on the investments is limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investments, these distributions are applied to reduce the carrying value of the investments and are not recognized as income.

The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold non-controlling interests, are accounted for under the equity method. The investments are included in “Other assets” in the Consolidated Statements of Condition. The investments are assessed for impairment. If impairment exists, losses are included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income in the year of impairment.

Leases: We have finance, conditional sales, and operating leases. Under finance and conditional sales leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance lease income to earnings using the interest method. The carrying amount of finance and conditional sales leases is included in “Loans held to maturity” in the Consolidated Statements of Condition and represents lease rent and residual receivables net of the unearned income. Under operating leases, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual value. We recognize operating lease revenue evenly over the term of the lease in “Net operating lease income” in the Consolidated Statements of Comprehensive Income. We charge depreciation and other expenses against revenue as incurred. The amortized cost of operating leases is included in “Assets held for lease, net” in the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income and improvements are capitalized.

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

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

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

Certain employees also participate in the AgriBank District nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Beginning in 2017, the pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Statements of Condition.

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

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

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

Income Taxes: The ACA and PCA accrue federal and certain state income taxes. The ACA and PCA are exempt from Minnesota state income tax. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors that is expected to be paid in the following year. Nonqualified patronage distributions do not qualify as a deduction from our taxable income, and the client receiving it does not record it as taxable income, until it is redeemed at some future date. The redemption of nonqualified patronage distributions is at the discretion of the Board of Directors.

Commitments to Extend Credit: Unfunded commitments for residential mortgages intended to be held for sale are considered derivatives and recorded in the Consolidated Statements of Condition at fair value with changes in fair value recorded in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. All other unfunded loan commitments are not considered derivatives. Reserves for credit exposure on all other unfunded credit commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition.

Derivatives: We are party to derivative financial instruments called “to be announced” securities (TBAs) to manage exposure to interest rate risk and changes in the fair value of investments available for sale, loans held for sale, and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined.

In accordance with Financial Accounting Standards Board (FASB) guidance on “Accounting for Derivative Instruments and Hedging Activities”, derivatives are recorded on the Consolidated Statements of Condition as Other assets or Other liabilities on a net basis, measured at fair value. These derivatives are designed as hedging instruments and, accordingly, changes in fair value are accounted for as gains or losses through earnings in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. Losses resulting from counterparty risk are accounted for as a component of other comprehensive income, in the equity section of the Consolidated Statements of Condition.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve would be recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss would be recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income. However, no such reserve was considered necessary as of December 31, 2017, 2016, or 2015.

Cash: For purposes of reporting cash flow, cash includes cash on hand and deposits in banks.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

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

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

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

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

Recently Issued or Adopted Accounting Pronouncements

We 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 our business. Our financial results are closely related to the performance of the combined Farm Credit System, therefore, we typically adopt accounting pronouncements on the public effective date or aligned with other System institutions, whichever is earlier.

Standard	Description	Effective date and financial statement impact
In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 "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 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 guidance. The guidance sets forth the requirement for new and enhanced disclosures.	We have adopted the new standard effective January 1, 2018, using the modified retrospective approach, as the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity, 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 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.	The guidance is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted with certain restrictions. However, we have no plans to early adopt. We are currently evaluating the impact of the guidance on our results of operations and financial statement disclosures. The guidance will have no impact on the financial condition or cash flows.

Standard	Description	Effective date and financial statement impact
In January 2016, the FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities.”	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 of financial statements.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017, for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 “Leases.”	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.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2018, including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019, and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. However, we have no plans to early adopt. We have determined after preliminary review, this guidance will impact the combined financial condition, results of operations, and financial statement disclosures, and will have no impact on combined cash flows. We have initiated development and modification of certain procedures to adopt this guidance.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.”	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.	The guidance is effective for non-U.S. Securities Exchange Commission filers for annual reporting periods beginning after December 15, 2020, including interim periods within those annual periods. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. However, we have no plans to early adopt. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

NOTE 3: LOANS HELD TO MATURITY AND ALLOWANCE FOR LOAN LOSSES

As a result of the merger we acquired $9.1 billion in loans, of which 94.9% were categorized as having acceptable credit quality and 99.3% were current in payment status. A portion of the acquired loans were considered to be credit-impaired. The contractual principal and estimated fair value of these loans as of the date of the merger was $14.4 million and $9.9 million respectively. No accretable yield was recognized in conjunction with the acquisition of these loans. As of December 31, 2017, the contractual principal of purchased credit-impaired loans totaled $14.7 million and the recorded investment was $10.4 million.

Loans by Type

(dollars in thousands)	**2017**		2016		2015	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 8,668,049**	**48.9%**	$ 4,054,633	49.7%	$ 3,675,008	48.5%
Production and intermediate term	**4,389,478**	**24.7%**	2,019,030	24.8%	2,020,921	26.7%
Agribusiness	**2,953,661**	**16.6%**	1,200,684	14.7%	920,347	12.2%
Other	**1,737,833**	**9.8%**	878,088	10.8%	955,766	12.6%
Total	**$ 17,749,021**	**100.0%**	$ 8,152,435	100.0%	$ 7,572,042	100.0%

The other category is primarily comprised of communication, energy, rural residential real estate, agricultural export finance, and water and waste water related loans as well as finance and conditional sales leases and bonds originated under our mission related investment authority.

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

As of December 31, 2017, volume plus commitments to our ten largest borrowers totaled an amount equal to 4.0% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. In addition, a certain portion of our loans are guaranteed by the Federal Agricultural Mortgage Corporation (Farmer Mac) or U.S. government agencies. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the FCA Regulations or General Financing Agreement (GFA) limitations.

Participations Purchased and Sold

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(in thousands)	Participations		Participations		Participations		Participations	
As of December 31, 2017	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (1,880,870)**	**$ 504,873**	**$ (205,439)**	**$ 1,450,079**	**$ (21,051)**	**$ 1,954,952**	**$ (2,107,360)**
Production and intermediate term	**--**	**(74,892)**	**206,924**	**(770,614)**	**1,080,712**	**(9,129)**	**1,287,636**	**(854,635)**
Agribusiness	**--**	**(77,405)**	**1,570,191**	**(1,494,068)**	**539,824**	**(16,228)**	**2,110,015**	**(1,587,701)**
Other	**--**	**(17,550)**	**1,171,536**	**(355,680)**	**12,185**	**--**	**1,183,721**	**(373,230)**
Total	**$ --**	**$ (2,050,717)**	**$ 3,453,524**	**$ (2,825,801)**	**$ 3,082,800**	**$ (46,408)**	**$ 6,536,324**	**$ (4,922,926)**

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2016	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (288,589)	$ 261,029	$ (87,784)	$ 1,193,258	$ (17,110)	$ 1,454,287	$ (393,483)
Production and intermediate term	--	(86,216)	10,169	(881,077)	1,113,255	(118)	1,123,424	(967,411)
Agribusiness	--	(44,162)	477,587	(38,441)	364,507	(6,878)	842,094	(89,481)
Other	--	(917)	540,000	--	14,207	--	554,207	(917)
Total	$ --	$ (419,884)	$ 1,288,785	$ (1,007,302)	$ 2,685,227	$ (24,106)	$ 3,974,012	$ (1,451,292)

As of December 31, 2015	AgriBank Participations Purchased	AgriBank Participations Sold	Other Farm Credit Institutions Participations Purchased	Other Farm Credit Institutions Participations Sold	Non-Farm Credit Institutions Participations Purchased	Non-Farm Credit Institutions Participations Sold	Total Participations Purchased	Total Participations Sold
Real estate mortgage	$ --	$ (326,933)	$ 255,474	$ (64,847)	$ 1,039,332	$ (13,409)	$ 1,294,806	$ (405,189)
Production and intermediate term	--	(53,650)	15,620	(891,700)	1,184,955	--	1,200,575	(945,350)
Agribusiness	--	(20,790)	356,847	(29,447)	291,986	(22,767)	648,833	(73,004)
Other	--	(7,556)	542,550	(41,777)	15,998	(25,391)	558,548	(74,724)
Total	$ --	$ (408,929)	$ 1,170,491	$ (1,027,771)	$ 2,532,271	$ (61,567)	$ 3,702,762	$ (1,498,267)

Information in the preceding chart excludes loans entered into under our Mission Related Investment authority.

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

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

We had no loans categorized as loss at December 31, 2017, 2016, or 2015.

Credit Quality of Loans

(dollars in thousands) **As of December 31, 2017**	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	**$ 8,200,416**	**93.8%**	**$ 307,700**	**3.5%**	**$ 234,407**	**2.7%**	**$ 8,742,523**	**100.0%**
Production and intermediate term	**4,065,241**	**91.6%**	**224,080**	**5.0%**	**149,225**	**3.4%**	**4,438,546**	**100.0%**
Agribusiness	**2,910,257**	**98.2%**	**27,844**	**0.9%**	**26,263**	**0.9%**	**2,964,364**	**100.0%**
Other	**1,709,360**	**98.0%**	**6,249**	**0.4%**	**27,680**	**1.6%**	**1,743,289**	**100.0%**
Total	**$ 16,885,274**	**94.4%**	**$ 565,873**	**3.2%**	**$ 437,575**	**2.4%**	**$ 17,888,722**	**100.0%**

As of December 31, 2016	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 3,844,164	94.0%	$ 116,011	2.8%	$ 131,021	3.2%	$ 4,091,196	100.0%
Production and intermediate term	1,867,608	91.7%	88,035	4.3%	81,030	4.0%	2,036,673	100.0%
Agribusiness	1,189,413	98.8%	4,621	0.4%	9,598	0.8%	1,203,632	100.0%
Other	828,007	94.1%	36,453	4.1%	15,898	1.8%	880,358	100.0%
Total	$ 7,729,192	94.1%	$ 245,120	3.0%	$ 237,547	2.9%	$ 8,211,859	100.0%

As of December 31, 2015	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 3,564,761	96.2%	$ 85,808	2.3%	$ 56,311	1.5%	$ 3,706,880	100.0%
Production and intermediate term	1,962,292	96.3%	33,079	1.6%	43,275	2.1%	2,038,646	100.0%
Agribusiness	891,229	96.6%	14,207	1.5%	17,267	1.9%	922,703	100.0%
Other	916,462	95.7%	20,813	2.2%	20,517	2.1%	957,792	100.0%
Total	$ 7,334,744	96.2%	$ 153,907	2.0%	$ 137,370	1.8%	$ 7,626,021	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2017**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 38,159**	**$ 13,367**	**$ 51,526**	**$ 8,690,997**	**$ 8,742,523**	**$ --**
Production and intermediate term	**30,306**	**26,566**	**56,872**	**4,381,674**	**4,438,546**	**133**
Agribusiness	**56**	**3,182**	**3,238**	**2,961,126**	**2,964,364**	**--**
Other	**4,563**	**1,538**	**6,101**	**1,737,188**	**1,743,289**	**--**
Total	**$ 73,084**	**$ 44,653**	**$ 117,737**	**$ 17,770,985**	**$ 17,888,722**	**$ 133**

As of December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 11,554	$ 10,614	$ 22,168	$ 4,069,028	$ 4,091,196	$ 97
Production and intermediate term	8,608	10,844	19,452	2,017,221	2,036,673	577
Agribusiness	1,359	55	1,414	1,202,218	1,203,632	--
Other	2,920	2,117	5,037	875,321	880,358	64
Total	$ 24,441	$ 23,630	$ 48,071	$ 8,163,788	$ 8,211,859	$ 738

As of December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 12,952	$ 4,039	$ 16,991	$ 3,689,889	$ 3,706,880	$ 27
Production and intermediate term	3,409	6,890	10,299	2,028,347	2,038,646	28
Agribusiness	98	--	98	922,605	922,703	--
Other	3,366	1,549	4,915	952,877	957,792	69
Total	$ 19,825	$ 12,478	$ 32,303	$ 7,593,718	$ 7,626,021	$ 124

Note: Accruing loans include accrued interest receivable.

All loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

Risk Loans

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

Risk Loan Information

(in thousands) As of December 31	**2017**	2016	2015
Nonaccrual loans:			
Current as to principal and interest	**$ 34,409**	$ 33,128	$ 33,773
Past due	**56,055**	27,733	15,124
Total nonaccrual loans	**90,464**	60,861	48,897
Accruing restructured loans	**12,121**	24,417	21,072
Accruing loans 90 days or more past due	**133**	738	124
Total risk loans	**$ 102,718**	$ 86,016	$ 70,093
Volume with specific allowance	**$ 21,481**	$ 8,731	$ 4,785
Volume without specific allowance	**81,237**	77,285	65,308
Total risk loans	**$ 102,718**	$ 86,016	$ 70,093
Total specific allowance	**$ 8,811**	$ 3,218	$ 2,230

For the year ended December 31	**2017**	2016	2015
Income on accrual risk loans	**$ 1,056**	$ 1,278	$ 1,321
Income on nonaccrual loans	**9,208**	7,101	7,198
Total income on risk loans	**$ 10,264**	$ 8,379	$ 8,519
Average recorded risk loans	**$ 94,513**	$ 85,864	$ 76,997

Note: Accruing loans include accrued interest receivable. In addition, risk loans include purchased credit-impaired loans.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31	**2017**	2016	2015
Real estate mortgage	**$ 39,973**	$ 27,551	$ 22,573
Production and intermediate term	**34,846**	25,980	14,193
Agribusiness	**10,855**	1,721	356
Other	**4,790**	5,609	11,775
Total	**$ 90,464**	$ 60,861	$ 48,897

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2017 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the year ended December 31, 2017 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ 2,223**	**$ 2,282**	**$ 292**	**$ 2,035**	**$ --**
Production and intermediate term	**9,946**	**11,074**	**4,001**	**9,434**	**--**
Agribusiness	**7,380**	**8,006**	**3,609**	**3,693**	**--**
Other	**1,932**	**1,951**	**909**	**2,097**	**--**
Total	**$ 21,481**	**$ 23,313**	**$ 8,811**	**$ 17,259**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 49,350**	**$ 73,700**	**$ --**	**$ 45,171**	**$ 3,988**
Production and intermediate term	**25,555**	**51,173**	**--**	**24,238**	**6,013**
Agribusiness	**3,475**	**3,682**	**--**	**2,522**	**--**
Other	**2,857**	**3,935**	**--**	**5,323**	**263**
Total	**$ 81,237**	**$ 132,490**	**$ --**	**$ 77,254**	**$ 10,264**
Total impaired loans:					
Real estate mortgage	**$ 51,573**	**$ 75,982**	**$ 292**	**$ 47,206**	**$ 3,988**
Production and intermediate term	**35,501**	**62,247**	**4,001**	**33,672**	**6,013**
Agribusiness	**10,855**	**11,688**	**3,609**	**6,215**	**--**
Other	**4,789**	**5,886**	**909**	**7,420**	**263**
Total	**$ 102,718**	**$ 155,803**	**$ 8,811**	**$ 94,513**	**$ 10,264**

	As of December 31, 2016 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the year ended December 31, 2016 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 2,676	$ 2,714	$ 260	$ 2,830	$ --
Production and intermediate term	3,855	4,250	2,036	3,852	--
Agribusiness	76	76	40	31	--
Other	2,124	2,157	882	1,305	--
Total	$ 8,731	$ 9,197	$ 3,218	$ 8,018	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 39,738	$ 63,026	$ --	$ 42,027	$ 5,244
Production and intermediate term	24,023	45,829	--	24,000	2,024
Agribusiness	1,645	2,039	--	679	12
Other	11,879	14,119	--	11,140	1,099
Total	$ 77,285	$ 125,013	$ --	$ 77,846	$ 8,379
Total impaired loans:					
Real estate mortgage	$ 42,414	$ 65,740	$ 260	$ 44,857	$ 5,244
Production and intermediate term	27,878	50,079	2,036	27,852	2,024
Agribusiness	1,721	2,115	40	710	12
Other	14,003	16,276	882	12,445	1,099
Total	$ 86,016	$ 134,210	$ 3,218	$ 85,864	$ 8,379

	As of 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 loan losses:					
Real estate mortgage	$ 1,423	$ 1,513	$ 370	$ 1,548	$ --
Production and intermediate term	2,297	2,458	1,459	2,580	--
Agribusiness	--	--	--	980	--
Other	1,065	1,092	401	955	--
Total	$ 4,785	$ 5,063	$ 2,230	$ 6,063	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 38,357	$ 61,954	$ --	$ 41,704	$ 6,291
Production and intermediate term	15,811	38,058	--	17,760	1,771
Agribusiness	356	586	--	437	12
Other	10,784	13,554	--	11,033	445
Total	$ 65,308	$ 114,152	$ --	$ 70,934	$ 8,519
Total impaired loans:					
Real estate mortgage	$ 39,780	$ 63,467	$ 370	$ 43,252	$ 6,291
Production and intermediate term	18,108	40,516	1,459	20,340	1,771
Agribusiness	356	586	--	1,417	12
Other	11,849	14,646	401	11,988	445
Total	$ 70,093	$ 119,215	$ 2,230	$ 76,997	$ 8,519

Impaired loans include purchased credit-impaired loans.

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.

Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2017.

Troubled Debt Restructurings (TDRs)

Included within our loans are 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 our allowance for loan losses.

TDR Activity

(in thousands)

For the year ended December 31	**2017**		2016		2015	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 117**	**$ 201**	$ --	$ --	$ 766	$ 535
Production and intermediate term	**980**	**895**	806	827	1,072	1,074
Agribusiness	**--**	**--**	69	69	--	--
Total	**$ 1,097**	**$ 1,096**	$ 875	$ 896	$ 1,838	$ 1,609

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment 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.

The primary types of modification included deferral of principal and extension of maturity.

We had TDRs in the production and intermediate term loan category of $147 thousand, $163 thousand, and $32 thousand that defaulted during the years ended December 31, 2017, 2016, and 2015, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	2017	2016	2015
Accrual status:			
Real estate mortgage	**$ 11,598**	$ 14,765	$ 17,193
Production and intermediate term	**523**	1,322	3,879
Agribusiness	**--**	--	--
Other	**--**	8,330	--
Total TDRs in accrual status	**$ 12,121**	$ 24,417	$ 21,072
Nonaccrual status:			
Real estate mortgage	**$ 1,335**	$ 1,399	$ 4,929
Production and intermediate term	**1,751**	3,004	5,582
Agribusiness	**91**	67	--
Other	**69**	84	8,407
Total TDRs in nonaccrual status	**$ 3,246**	$ 4,554	$ 18,918
Total TDRs:			
Real estate mortgage	**$ 12,933**	$ 16,164	$ 22,122
Production and intermediate term	**2,274**	4,326	9,461
Agribusiness	**91**	67	--
Other	**69**	8,414	8,407
Total TDRs	**$ 15,367**	$ 28,971	$ 39,990

The decrease in TDRs outstanding from December 31, 2016, was primarily due to communication loans, which are included in the other loan category, being refinanced at market terms during the first quarter of 2017. In addition, the borrower was no longer experiencing financial difficulty.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $1.7 million at December 31, 2017.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	2017	2016	2015
Balance at beginning of year	**$ 36,018**	$ 27,071	$ 23,655
Provision for loan losses	**13,806**	10,082	5,939
Loan recoveries	**1,451**	1,355	870
Loan charge-offs	**(2,426)**	(2,490)	(3,393)
Balance at end of year	**$ 48,849**	$ 36,018	$ 27,071

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

(in thousands)	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	**$ 15,810**	**$ 13,632**	**$ 2,649**	**$ 3,927**	**$ 36,018**
Provision for loan losses	**1,781**	**3,393**	**6,041**	**2,591**	**13,806**
Loan recoveries	**243**	**926**	**136**	**146**	**1,451**
Loan charge-offs	**(96)**	**(2,070)**	**--**	**(260)**	**(2,426)**
Balance as of December 31, 2017	**$ 17,738**	**$ 15,881**	**$ 8,826**	**$ 6,404**	**$ 48,849**
Ending balance: individually evaluated for impairment	**$ 292**	**$ 4,001**	**$ 3,609**	**$ 909**	**$ 8,811**
Ending balance: collectively evaluated for impairment	**$ 17,446**	**$ 11,880**	**$ 5,217**	**$ 5,495**	**$ 40,038**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	**$ 8,742,523**	**$ 4,438,546**	**$ 2,964,364**	**$ 1,743,289**	**$ 17,888,722**
Ending balance: individually evaluated for impairment	**$ 51,573**	**$ 35,501**	**$ 10,855**	**$ 4,789**	**$ 102,718**
Ending balance: collectively evaluated for impairment	**$ 8,690,950**	**$ 4,403,045**	**$ 2,953,509**	**$ 1,738,500**	**$ 17,786,004**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2015	$ 10,622	$ 10,549	$ 2,323	$ 3,577	$ 27,071
Provision for loan losses	4,974	4,406	260	442	10,082
Loan recoveries	370	786	66	133	1,355
Loan charge-offs	(156)	(2,109)	--	(225)	(2,490)
Balance as of December 31, 2016	$ 15,810	$ 13,632	$ 2,649	$ 3,927	$ 36,018
Ending balance: individually evaluated for impairment	$ 260	$ 2,036	$ 40	$ 882	$ 3,218
Ending balance: collectively evaluated for impairment	$ 15,550	$ 11,596	$ 2,609	$ 3,045	$ 32,800
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2016	$ 4,091,196	$ 2,036,673	$ 1,203,632	$ 880,358	$ 8,211,859
Ending balance: individually evaluated for impairment	$ 42,414	$ 27,878	$ 1,721	$ 14,003	$ 86,016
Ending balance: collectively evaluated for impairment	$ 4,048,782	$ 2,008,795	$ 1,201,911	$ 866,355	$ 8,125,843

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2014	$ 10,662	$ 8,605	$ 1,498	$ 2,890	$ 23,655
Provision for loan losses	613	3,574	1,041	711	5,939
Loan recoveries	355	434	--	81	870
Loan charge-offs	(1,008)	(2,064)	(216)	(105)	(3,393)
Balance as of December 31, 2015	$ 10,622	$ 10,549	$ 2,323	$ 3,577	$ 27,071
Ending balance: individually evaluated for impairment	$ 370	$ 1,459	$ --	$ 401	$ 2,230
Ending balance: collectively evaluated for impairment	$ 10,252	$ 9,090	$ 2,323	$ 3,176	$ 24,841
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2015	$ 3,706,880	$ 2,038,646	$ 922,703	$ 957,792	$ 7,626,021
Ending balance: individually evaluated for impairment	$ 39,780	$ 18,108	$ 356	$ 11,849	$ 70,093
Ending balance: collectively evaluated for impairment	$ 3,667,100	$ 2,020,538	$ 922,347	$ 945,943	$ 7,555,928

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.

NOTE 4: LOANS HELD FOR SALE

Loans Held for Sale Activity, at Fair Value

(in thousands)

For the year ended December 31	**2017**	2016	2015
Balance at beginning of year	**$ 27,370**	$ 35,380	$ 7,899
Originations	**129,154**	96,798	66,349
Proceeds	**(127,142)**	(104,185)	(38,938)
Fair value adjustments	**680**	(623)	70
Balance at end of year	**$ 30,062**	$ 27,370	$ 35,380

Loans held for sale represent mortgage loans whereby the interest rate is set prior to funding. We are subject to the effects of changes in mortgage interest rates from the date of the interest rate lock commitment through the sale of the loan to a third party investor. As a result, we are exposed to interest rate risk and related price risk during the period from the date of the interest rate lock commitment through the interest rate lock commitment cancellation or expiration date or through the date of sale to a third party investor. To minimize risk we use forward commitments to sell TBAs at specified prices to economically hedge the interest rate risk.

NOTE 5: INVESTMENT SECURITIES

We have held-to-maturity investment securities of $879.3 million, $473.2 million, and $443.0 million at December 31, 2017, 2016, and 2015, respectively. Our investment securities consisted of:

- Mortgage-backed securities (MBS) issued by Farmer Mac or guaranteed by the Small Business Administration (SBA) or by the United States Department of Agriculture (USDA)
- Asset-backed securities (ABS) guaranteed by SBA or USDA
- Municipal revenue bonds and a corporate debt security (Bonds)

The investment securities have been classified as held-to-maturity. MBS are generally longer-term investments and ABS are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA and USDA guaranteed investments may be comprised of either MBS or ABS. All of our held-to-maturity investment securities, except $12.2 million, $6.9 million, and $4.9 million, were fully guaranteed by Farmer Mac, SBA, or USDA at December 31, 2017, 2016, and 2015, respectively.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of December 31, 2017**		Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	Weighted Average Yield
MBS	**$**	**775,599**	**$**	**695**	**$**	**(10,906)**	**$**	**765,388**	**3.8%**
ABS		**91,490**		**17**		**(1,538)**		**89,969**	**2.3%**
Bonds		**12,169**		**--**		**(49)**		**12,120**	**5.5%**
Total	**$**	**879,258**	**$**	**712**	**$**	**(12,493)**	**$**	**867,477**	**3.6%**

As of December 31, 2016		Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	Weighted Average Yield
MBS	$	431,592	$	951	$	(12,223)	$	420,320	3.8%
ABS		34,784		--		(2,105)		32,679	1.7%
Bonds		6,872		2		(255)		6,619	6.3%
Total	$	473,248	$	953	$	(14,583)	$	459,618	3.6%

As of December 31, 2015		Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	Weighted Average Yield
MBS	$	396,433	$	1,542	$	(9,213)	$	388,762	3.6%
ABS		41,603		1		(2,376)		39,228	1.9%
Bonds		4,936		--		(251)		4,685	6.4%
Total	$	442,972	$	1,543	$	(11,840)	$	432,675	3.5%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $23.7 million, $15.7 million, and $14.6 million in 2017, 2016, and 2015, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of December 31, 2017**		Amortized Cost
Less than one year	**$**	**6,827**
One to five years		**38,600**
Five to ten years		**52,272**
More than ten years		**781,559**
Total	**$**	**879,258**

A summary of held-to-maturity investments in an unrealized loss position presented by the length of time the investments have been in continuous unrealized loss position follows:

(in thousands)	Less than 12 months		Greater than 12 months	
		Unrealized		Unrealized
As of December 31, 2017	Fair Value	Losses	Fair Value	Losses
MBS	**$ 438,480**	**$ (3,416)**	**$ 256,692**	**$ (7,490)**
ABS	**61,565**	**(515)**	**15,493**	**(1,023)**
Bonds	**7,233**	**(33)**	**4,887**	**(16)**
Total	**$ 507,278**	**$ (3,964)**	**$ 277,072**	**$ (8,529)**

	Less than 12 months		Greater than 12 months	
		Unrealized		Unrealized
As of December 31, 2016	Fair Value	Losses	Fair Value	Losses
MBS	$ 121,060	$ (3,912)	$ 206,792	$ (8,311)
ABS	4,492	(342)	27,650	(1,763)
Bonds	--	--	4,661	(255)
Total	$ 125,552	$ (4,254)	$ 239,103	$ (10,329)

	Less than 12 months		Greater than 12 months	
		Unrealized		Unrealized
As of December 31, 2015	Fair Value	Losses	Fair Value	Losses
MBS	$ 100,500	$ (2,221)	$ 152,190	$ (6,992)
ABS	10,221	(538)	27,360	(1,838)
Bonds	4,665	(251)	--	--
Total	$ 115,386	$ (3,010)	$ 179,550	$ (8,830)

Unrealized losses greater than 12 months associated with held-to-maturity investment securities are not considered to be other-than-temporary due to the 100% guarantee of the principal by Farmer Mac, SBA, or USDA. However, the premiums paid to purchase the investment are not guaranteed and are amortized over the maturity of each loan on a straight-line basis as a reduction of interest income. Repayment of principal is assessed at least quarterly, and any remaining unamortized premium is taken as a reduction to interest income if principal repayment is unlikely, or when a demand for payment is made for the guarantee. At December 31, 2017, the majority of the $12.5 million unrealized loss greater than 12 months represents unamortized premium.

We had no outstanding available-for-sale investment securities at December 31, 2017, 2016, or 2015.

Additional Available-for-Sale Investment Securities Information

(in thousands) For the year ended December 31	**2017**	2016	2015
Proceeds from sales	**$ 105,204**	$ 102,822	$ 53,670
Realized (losses) gains on sales, net	**(198)**	659	355

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2017, 2016, and 2015, we have not recognized any impairment on our investment portfolio.

NOTE 6: OTHER INVESTMENTS

We held non-controlling investments in venture capital equity funds of $10.0 million at December 31, 2017. These investments represent our stake in venture capital equity funds focused on the needs of rural start-up companies. We had no remaining commitment at December 31, 2017. To date, no income has been distributed from the funds. We received no distributions from the funds during the year ended December 31, 2017. We acquired this non-controlling investment in venture capital equity funds as a result of the merger with Badgerland.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $29.5 million, with varying commitment end dates through September 2021. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs totaled $11.8 million, $7.5 million, and $4.2 million at December 31, 2017, 2016, and 2015, respectively.

The investments were evaluated for impairment. For the years ended December 31, 2017, 2016, and 2015, we have not recognized any impairment on these investments.

NOTE 7: INVESTMENT IN AGRIBANK

As of December 31, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate if the District is also growing above a targeted growth rate.

As of December 31, 2017, we were also required by AgriBank to maintain an investment equal to 8.0% and 7.6% of the quarter end balance of the participation interests in loans sold to AgriBank under the AgriBank Asset Pool program and Consumer Mortgage Asset Pool program, respectively.

Investment in AgriBank

(in thousands)

As of December 31		**2017**		2016		2015
Required stock investment	**$**	**489,688**	$	180,812	$	171,395
Purchased excess stock investment		**25,024**		--		--
Total investment	**$**	**514,712**	$	180,812	$	171,395

Excess stock investment is recorded when the required investment in AgriBank, the AgriBank Asset Pool program, and the Consumer Mortgage Asset Pool program is lower than our total investment. Effective July 1, 2017, AgriBank modified its capital plan. Among other plan changes, the plan optimizes capital at the Bank by distributing all available Bank earnings in the form of patronage, either in cash or stock. During the first half of 2017 and in 2016 and 2015, the Bank's capital plan distributed 50 percent of Bank earnings in cash. Additionally, beginning in 2017, AgriBank is retiring stock on an annual basis.

NOTE 8: ASSETS HELD FOR LEASE, NET

We hold property for agricultural leasing, primarily farm equipment and facilities.

Net Operating Lease Income and Property Held for Lease by Major Category

(in thousands)

For the year ended December 31		**2017**		2016		2015
Net operating lease income	**$**	**1,768**	$	1,352	$	1,760

As of December 31		**2017**		2016		2015
Farm/vehicle equipment	**$**	**38,239**	$	33,332	$	39,946
Facilities		**25,163**		23,702		20,018
Subtotal		**63,402**		57,034		59,964
Less: accumulated depreciation		**22,034**		20,436		21,568
Assets held for lease, net	**$**	**41,368**	$	36,598	$	38,396

Expected Future Minimum Rentals

(in thousands)		Operating Leases
2018	$	8,614
2019		6,598
2020		5,117
2021		3,710
2022		2,640
Thereafter		2,431
Total minimum future rentals	$	29,110

NOTE 9: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral.

Note Payable Information

(dollars in thousands)

As of December 31		**2017**		2016		2015
Line of credit	**$**	**18,000,000**	$	8,500,000	$	7,400,000
Outstanding principal under the line of credit		**15,859,202**		7,590,254		6,949,764
Interest rate		**2.1%**		1.8%		1.6%

Our note payable matures September 30, 2018, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2017, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 10: SUBORDINATED DEBT

In March 2010, we issued $100.0 million of aggregate principal amount of Series A Subordinated Notes (Notes), due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200.0 million for subordinated debt issuance. At our option, we may redeem all or some of the Notes, on any interest payment date on or after a date 10 years from the closing date (March 2010). This debt is subordinate to all other creditor debt, including general creditors, and senior to all classes of stock. Our subordinated debt is not considered System debt and is not an obligation of, nor guaranteed by any System entity. Further, payments on the subordinated Notes are not insured by the FCSIC. On December 15, 2016, we redeemed all $100.0 million of outstanding subordinated notes at par value, which were redeemable on any interest payment date at any time following FCA notification of certain changes to our regulatory capital requirements.

NOTE 11: EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each client is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the client's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all clients to whom a lease is issued and of all non-stockholder clients who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The client acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by clients.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	**2017**	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**14.2%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**14.7%**	6.0%	2.5%*	8.5%
Total capital ratio	**15.1%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.7%**	7.0%	N/A	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**15.0%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**13.8%**	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System banks and associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earnings and equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications, to align with the new regulations.

Risk-adjusted assets have been defined by the FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes, which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments with terms at origination of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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.

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at December 31, 2017.

Refer to Note 11 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016, and 2015. We were in compliance with the minimum required capital ratios as of December 31, 2016, and 2015.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value, except the Series A-1 preferred stock, which is $1,000 par value.

	Number of Shares		
As of December 31	**2017**	2016	2015
Class B common stock (at-risk)	**6,565,626**	2,954,404	2,970,136
Class E participation certificates (at-risk)	**276,963**	232,327	246,831
Series A-1 preferred stock	**100,000**	100,000	100,000

On July 1, 2017, 1st FCS and Badgerland merged into AgStar and formed Compeer. All members of 1st FCS and Badgerland received capital stock and participation certificates in Compeer in exchange for their stock, which was then canceled. This exchange was made at the stock's par value and 3.7 million shares of capital stock and participation certificates were issued.

Under our bylaws, we are also authorized to issue Class C and Class D common stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

On May 30, 2013, we issued $100.0 million of Series A-1 non-cumulative perpetual preferred stock. This series may be held or transferred in blocks having an aggregate par value of not less than $250,000 and an investor must hold at least 250 shares. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to FCA Regulations in effect at the time of issuance, for the continued development of our business, and for general corporate purposes.

Dividends on the Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the 15th day of February, May, August, and November, beginning on August 15, 2013. Dividends accrue at a fixed annual rate of 6.75% from the date of issuance through August 14, 2023, and beginning on August 15, 2023, will accrue at an annual rate equal to the 3-month USD LIBOR rate, reset quarterly, plus 4.58%. The Series A-1 preferred stock is not mandatorily redeemable at any time. However, the Series A-1 preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on August 15, 2023. In addition, the Series A-1 preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. Series A-1 preferred stockholders do not have any voting rights, but may appoint two board observers after six unpaid dividend payments.

The Series A-1 preferred stock is junior to any subordinated debt, existing and future debt obligations, and to any series of preferred stock we may issue in the future with priority rights. Series A-1 preferred stock is senior to outstanding Class B, C, or D common stock, Class E participation certificates, and patronage equities. The Series A-1 preferred stock has a preference as to dividends and on liquidation or dissolution over all other classes of equities.

Only holders of Class B common stock have voting rights. Our bylaws allow us to pay dividends on any classes of stock. However, no stock dividends have been declared to date other than the Series A-1 preferred stock dividends.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2017, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, to holders of Series A-1 preferred stock,
- second, to holders of Class B, C, and D common stock and Class E participation certificates pro rata to all such stock,
- third, to member stockholders who have received capital through patronage transactions pro rata to all such capital, and
- lastly, any remaining assets shall be distributed to current and former member stockholders based on relative patronage transactions.

In the event of impairment, losses will be absorbed by unallocated capital reserves, patronage equities, or the concurrent impairment of all classes of stock, in a manner deemed to be fair and equitable by the Board of Directors, provided that no shares of Series A-1 preferred stock will be impaired until all classes of junior stock have been impaired in their entirety.

All classes of stock and participation certificates, other than Series A-1 preferred stock, are transferable to other clients who are eligible to hold such class of stock or participation certificates. Transfers of Class B common stock are subject to the approval of the Board of Directors. Transfers of Class C or D common stock or Class E participation certificates are only allowed if we meet the regulatory minimum capital requirements. Series A-1 preferred stock may only be transferred to qualified institutional buyers and institutional accredited investors, as those terms are defined by the Securities Act of 1933, as amended, and only in accordance with the terms and limitations of the Series A-1 preferred stock offering documents.

Patronage Distributions

In 2016, our Board of Directors passed a resolution, which modified the form of patronage that can be allocated and/or distributed. Patronage can be allocated and/or distributed in the form of cash, qualified written notices of allocations, and/or nonqualified written notices of allocation. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

We accrued patronage distributions of $122.0 million at December 31, 2017, for our cash patronage and nonqualified patronage programs. The cash patronage distributions of $47.0 million are expected to be paid in cash during the next fiscal year. The redemptions of $75.0 million of the nonqualified equities issued to former members of 1st FCS and Badgerland are expected to be paid in the first quarter after year end. No patronage distributions were accrued at December 31, 2016, and 2015.

Upon the merger, all allocated surplus issued by 1st FCS and Badgerland became allocated surplus in the merged Association. The allocated surplus held by AgStar patrons remains outstanding as allocated surplus of the merged Association. With the exception of allocated surplus designated as permanent allocations, all allocated surplus is eligible to be redeemed in the future, if approved by the Board subject to compliance with Compeer's Bylaws. Redemptions of permanent allocations shall not be eligible to be redeemed. In 2017, we made net nonqualified patronage allocations of $28.6 million in accordance with the merger capital equalization plan. We made net nonqualified patronage allocations of $67.1 million and $62.9 million at December 31, 2016 and 2015, respectively. Patronage equities have no voting rights, are redeemed at the sole discretion of the Board of Directors and are transferable only if specifically authorized by the Board of Directors.

The Board of Directors authorized the redemption of nonqualified patronage allocations of $100.8 million in 2017, which included $25.8 million of nonqualified equities issued to AgStar patrons and $75.0 million of nonqualified equities issued to former members of 1st FCS and Badgerland. The Board of Directors authorized the redemption of nonqualified patronage allocations of $35.0 million and $28.2 million in 2016 and 2015, respectively.

The timing and amounts of all future patronage redemptions and dividend payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding the tax impact of our patronage distributions is included in Note 12.

The Board of Directors authorized the payment of $1.6 million, $1.3 million, and $868 thousand of dividends on approved transactions in 2017, 2016, and 2015, respectively.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts. We do not foresee any events that would result in this prohibition in 2018.

Information regarding the authorization to redeem nonqualified patronage equities subsequent to December 31, 2017, is included in Note 18.

NOTE 12: INCOME TAXES

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 35%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association's tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, have been valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation is recognized in our provision for income taxes for the year ended December 31, 2017.

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31	**2017**	2016	2015
Current:			
Federal	**$ 10,981**	$ 8,273	$ 3,624
State	**782**	322	190
Total current	**$ 11,763**	$ 8,595	$ 3,814
Deferred:			
Federal	**$ 2,513**	$ (3,409)	$ (2,978)
State	**418**	(81)	(138)
Total deferred	**2,931**	(3,490)	(3,116)
Provision for income taxes	**$ 14,694**	$ 5,105	$ 698
Effective tax rate	**5.3%**	3.8%	0.6%

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

(in thousands)

For the year ended December 31	**2017**	2016	2015
Federal tax at statutory rates	**$ 97,843**	$ 47,020	$ 43,610
State tax, net	**643**	95	57
Patronage distributions	**(12,314)**	(8,525)	(8,538)
Effect of non-taxable entity	**(71,540)**	(34,387)	(32,706)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	**727**	--	--
Other	**(665)**	902	(1,725)
Provision for income taxes	**$ 14,694**	$ 5,105	$ 698

Tax Related Matters

A tax reduction was recorded to the 2017 tax provision reflecting the qualified patronage distributed subsequent to year end. Further, tax reductions were recorded reflecting the 2007 and 2006 nonqualified patronage retired in the fourth quarters of 2016 and 2015, respectively. These reductions are reflected in the above table in the "Patronage distributions" adjustments.

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31	**2017**	2016	2015
Allowance for loan losses	**$ 6,153**	$ 7,239	$ 5,193
Postretirement benefit accrual	**974**	536	510
Merger fair value adjustment	**3,501**	--	--
Deferred fee income, net	**581**	1,168	897
Accrued incentive	**1,064**	1,366	1,654
Leasing related, net	**(5,276)**	(8,400)	(11,396)
Accrued patronage income not received	**(2,429)**	(906)	(481)
Accrued pension asset	**(2,884)**	(779)	--
Depreciation	**(110)**	(177)	(190)
Other assets	**204**	81	451
Other liabilities	**(639)**	(253)	(252)
Deferred tax assets (liabilities), net	**$ 1,139**	$ (125)	$ (3,614)
Gross deferred tax assets	**$ 12,477**	$ 10,390	$ 8,705
Gross deferred tax liabilities	**$ (11,338)**	$ (10,515)	$ (12,319)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2017, 2016, or 2015.

We have not provided for deferred income taxes on approximately $115.9 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Also, we have not provided deferred income taxes on $8.8 million of patronage allocations in the form of AgriBank stock distributed in 2002 to the ACA and PCA. The Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $1.1 billion as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to stockholders in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2017. In addition, we believe we are no longer subject to income tax examinations for years prior to 2014.

NOTE 13: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and District Associations 2017 Annual Report (District financial statements).

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

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or the final average pay formula. New benefits-eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	**2017**	2016	2015
Unfunded liability	**$ 352,516**	$ 374,305	$ 453,825
Projected benefit obligation	**1,371,013**	1,269,625	1,255,259
Fair value of plan assets	**1,018,497**	895,320	801,434
Accumulated benefit obligation	**1,184,550**	1,096,913	1,064,133

For the year ended December 31	**2017**	2016	2015
Total plan expense	**$ 44,730**	$ 53,139	$ 63,800
Our allocated share of plan expenses	**9,063**	7,056	8,759
Contributions by participating employers	**90,000**	90,000	62,722
Our allocated share of contributions	**22,907**	11,808	8,619

The unfunded liability 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 accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

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. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

Benefits paid to participants in the District were $103.7 million in 2017. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2018 is $90.0 million. Our allocated share of these pension contributions is expected to be $24.6 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 the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands)

As of December 31	**2017**	2016	2015
Our unfunded liability	**$ 13,376**	$ 2,858	$ 5,054
Projected benefit obligation for the Combined District	**37,190**	28,514	31,650
Accumulated benefit obligation for the Combined District	**29,844**	22,778	26,323

For the year ended December 31	**2017**	2016	2015
Total plan expense	**$ 8,336**	$ 5,767	$ 3,776
Our allocated share of plan expenses	**4,627**	3,004	595
Our cash contributions	**2,508**	5,200	216

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. Beginning in 2017, the recognition of the unfunded liability includes the impact of prior service cost and unamortized gain/loss. The increase in the liability was offset against accumulated other comprehensive loss and had no impact to net income. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of plan expenses is included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

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

Retiree Medical Plan Information

(in thousands)

For the year ended December 31	**2017**	2016	2015
Postretirement benefit expense	**$ 231**	$ 157	$ 275
Our cash contributions	**365**	144	139

Postretirement benefit costs are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee’s compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

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

Employer contribution expenses for the defined contribution plan, included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income, were $5.5 million, $3.8 million, and $3.6 million in 2017, 2016, and 2015, respectively. These expenses were equal to our cash contributions for each year.

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

NOTE 14: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2017, involved more than a normal risk of collectability.

Related Party Loans and Leases Information

(in thousands)

As of December 31		2017		2016		2015
Total related party loans and leases	**$**	**37,959**	$	13,194	$	22,510
For the year ended December 31		**2017**		2016		2015
Advances to related parties	**$**	**20,081**	$	8,804	$	18,787
Repayments by related parties		**18,207**		8,605		18,063

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

As discussed in Note 9, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $3.2 million, $2.2 million, and $1.9 million in 2017, 2016, and 2015, respectively.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). Our investment was $154 thousand, $83 thousand, and $83 thousand at December 31, 2017, 2016, and 2015, respectively. The total cost of services purchased from Foundations was $816 thousand, $486 thousand, and $422 thousand in 2017, 2016, and 2015, respectively.

We have an agreement with CoBank to provide certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes a $9.25 million back-up cash management settlement facility.

NOTE 15: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be 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 loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2017, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $5.1 billion. Additionally, we had $70.8 million of issued standby letters of credit and $8.1 million of other commitments as of December 31, 2017. Refer to Note 17 for additional discussion regarding standby letters of credit.

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

We are a limited partner in RBICs and hold non-controlling investments in venture capital equity funds. Refer to Notes 5 and 6 for additional discussion regarding these commitments.

NOTE 16: DERIVATIVES

We use forward commitments to sell TBAs at specified prices to economically hedge the interest rate risk on investments available-for-sale, loans held for sale, and interest rate lock commitments. Changes in fair value subsequent to inception are based on changes in the fair value of the underlying loan and for commitments to originate loans and changes in the probability that the loan will fund within the terms of the commitment. Changes in the probability that the loan will fund within the terms of the commitment are affected primarily by changes in interest rates and the passage of time.

As of December 31, 2017, we had $44.8 million of forward commitments to sell, hedging $30.1 million of mortgage loans held for sale and $12.9 million of unfunded mortgage loan commitments. We began hedging available-for-sale investments during 2015, however there were no available-for-sale investments outstanding at December 31, 2017, 2016, or 2015. As of December 31, 2016, we had $34.5 million of forward commitments to sell, hedging $27.4 million of mortgage loans held for sale and $13.0 million of unfunded mortgage loan commitments. As of December 31, 2015, we had $42.7 million of forward commitments to sell, hedging $35.4 million of mortgage loans held for sale and $8.9 million of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives and are recognized at fair value. On the TBAs, we had gains of $1.2 million, $1.3 million, and $315 thousand and losses of $1.9 million, $1.5 million, and $1.0 million relating to net fair value adjustments and sales in 2017, 2016, and 2015, respectively. These amounts were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

NOTE 17: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

Recurring

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

Loans held for sale: The loans held for sale portfolio is held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had loans held for sale of $30.1 million, $27.4 million, and $35.4 million as of December 31, 2017, 2016, and 2015, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans of $212 thousand and $155 thousand in 2017 and 2015, respectively and fair value losses of $468 thousand in 2016 were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Investment securities available-for-sale: Investment securities available-for-sale are held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar securities with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had no outstanding available-for-sale investment securities at December 31, 2017, 2016, or 2015. During the year ended December 31, 2017, 2016, and 2015 we sold available-for-sale investment securities with total sales proceeds of $105.2 million, $102.8 million, and $53.7 million, resulting in a loss of $198 thousand in 2017 and a gain of $659 thousand and $355 thousand in 2016 and 2015, respectively, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Derivatives: If an active market exists, the fair value of our derivative financial instruments called TBAs is based on currently quoted market prices. We had TBAs with a notional value of $44.8 million, $34.5 million, and $42.7 million as of December 31, 2017, 2016, and 2015, respectively, which were used to manage exposure to interest rate risk and changes in the fair value of loans held for sale and the interest rate lock commitments that are determined prior to funding. We also used these instruments to hedge the changes in fair value related to investment securities available-for-sale. These derivatives were recorded on a net basis using Level 1 fair value inputs. Net losses related to TBAs sold, combined with fair value gains on the TBAs, resulted in a net loss of $680 thousand, $225 thousand, and $709 thousand in 2017, 2016, and 2015, respectively. These were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Non-Recurring

We may also be required, from time to time, to measure certain assets at fair value on a non-recurring basis. The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a non-recurring basis:

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 13,304**	**$ 13,304**
Other property owned	**--**	**--**	**1,130**	**1,130**

As of December 31, 2016	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ 821	$ 4,969	$ 5,790
Other property owned	--	--	1,022	1,022

As of December 31, 2015	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ 1,493	$ 1,190	$ 2,683
Other property owned	--	--	1,473	1,473

Other Financial Instrument Measurements

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Note 7, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, measured at carrying amounts and not measured at fair value on the Consolidated Statements of Condition, for which it is practical to estimate that value, follows:

Net non-impaired loans held to maturity: Because no active market exists for our loans, the fair value of loans that are not individually specifically impaired is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made or repriced to borrowers with similar credit risk. In addition, loans are valued using the Farm Credit interest rate yield curve, prepayment rates, contractual loan information, credit classification, and collateral values. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio less marketable outside the System.

Investment securities held to maturity: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates adjusted for credit risk.

Other investments: Given the limited information available related to the expected return of our non-controlling interest in venture capital funds and the RBICs and current earnings do not indicate impairment or projected losses, fair value was estimated at cost. These investments are included in “Other assets” in the Consolidated Statements of Conditions.

Note payable to AgriBank, FCB: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Subordinated debt: We estimate the fair value of the subordinated debt by discounting the expected future cash requirements using current interest rates.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

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

(in thousands)

As of December 31	**2017**		2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net non-impaired loans held to maturity	**$ 17,687,502**	**$ 17,595,685**	$ 8,110,904	$ 8,090,387	$ 7,542,416	$ 7,567,903
Investment securities held to maturity	**879,258**	**867,477**	473,248	459,618	442,972	432,675
Other investments	**21,798**	**21,798**	7,455	7,455	4,216	4,216
Financial liabilities:						
Note payable to AgriBank, FCB	**$ 15,847,060**	**$ 15,783,400**	$ 7,590,254	$ 7,567,186	$ 6,949,764	$ 6,959,752
Subordinated debt	**--**	**--**	--	--	99,491	108,900
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**$ (6,541)**		$ (3,086)		$ (3,273)

NOTE 18: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 2, 2018, which is the date the Consolidated Financial Statements were available to be issued.

On January 2, 2018, the Board of Directors authorized the redemption of nonqualified patronage equities of $43.6 million to former AgStar, 1st FCS, and Badgerland patrons, which will be a reduction of allocated surplus.

There have been no other material subsequent events that would require recognition in our 2017 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Compeer Financial, ACA
(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Illinois		
Aledo	Owned	Branch
Bloomington	Leased	Commercial Unit
Bourbonnais	Leased	Branch
Carthage	Leased	Contact Office
Edwards	Owned	Branch
Freeport	Owned	Branch
Geneseo	Owned	Branch
Lewiston	Leased	Contact Office
Macomb	Owned	Branch
Monmouth	Owned	Branch
Morton	Owned	Branch
Mt. Sterling	Leased	Contact Office
Naperville	Leased	Branch
Normal	Owned	Corporate Facility
Normal	Leased	Branch
Oregon	Owned	Branch
Ottawa	Owned	Branch
Pontiac	Leased	Branch
Princeton	Owned	Branch
Quincy	Owned	Branch
Rock Falls	Leased	Branch
Rushville	Leased	Contact Office
Stronghurst	Leased	Contact Office
Sycamore	Leased	Branch
Woodstock	Leased	Contact Office
Minnesota		
Apple Valley	Leased	Branch
Blue Earth	Leased	Branch
Duluth	Leased	Contact Office
Glencoe	Owned	Branch
Mankato	Owned	Branch
Mankato	Leased	Corporate Facility
Northfield	Leased	Branch
Rochester	Leased	Branch
Sauk Centre	Leased	Contact Office
St. Paul	Leased	Commercial Unit
Waite Park	Owned	Branch
Worthington	Leased	Branch/Contact Office

Location	Description	Usage
Wisconsin		
Arcadia	Owned	Branch
Baldwin	Owned	Branch
Baraboo	Owned	Branch
Beaver Dam	Owned	Branch
Burlington	Owned	Branch
Chilton	Owned	Branch
Darlington	Leased	Contact Office
Dodgeville	Owned	Branch
Fond du Lac	Owned	Branch
Janesville	Owned	Branch
Johnson Creek	Owned	Branch
Lancaster	Owned	Branch
Mondovi	Owned	Branch
Monroe	Leased	Branch
Mt. Horeb	Leased	Contact Office
Plymouth	Owned	Branch
Prairie du Sac	Owned	Branch
Rice Lake	Owned	Branch
Sparta	Owned	Branch
Sun Prairie	Owned	Corporate Headquarters
Viroqua	Leased	Branch
Other		
Boise, ID	Leased	Contact Office
Des Moines, IA	Leased	Contact Office
Spokane, WA	Leased	Commercial Unit

Legal Proceedings

Information regarding legal proceedings is discussed in Note 15 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2017.

Additional Regulatory Capital Disclosure

Pursuant to FCA Regulation 620.5, the permanent capital ratio, total surplus ratio, and core surplus ratios were 13.9%, 13.7%, and 10.9% as of December 31, 2012, respectively. Refer to the Consolidated Five Year Summary of Selected Financial Data for capital ratio calculations for the past five years.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 11 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 9, 10, 11, 12, 13, 15, and 17 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of the Consolidated Financial Statements in this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

Board of Directors

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

- The **Audit and Finance Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of our internal audit program, the independence of the outside auditors, the processes for monitoring compliance with laws and regulations, and the code of ethics. The Audit and Finance Committee also oversees the adequacy of management's action with respect to recommendations arising from auditing activities.
- The **Compensation and Governance Committee** addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing board policies, and oversees and provides overall direction and/or recommendations for compensation, benefits, and human resource performance management programs.
- The **Enterprise Risk Committee** oversees the integration of risk management activities throughout our organization. Committee members review ongoing risk assessments of current and emerging risks to ensure adequate planning and resources are directed at managing the identified risks. The Committee also establishes and promotes an effective risk culture throughout our organization.

Board of Directors as of December 31, 2017, including business experience during the last five years

Name	Term	Principal occupation and other business affiliations
Mark Cade Chairperson	July 2017 - August 2020	**Principal occupation:** Self-employed beef and grain farmer
Dale Holmgren Vice Chairperson	October 2016 - August 2020	**Principal occupation:** Self-employed grain and livestock farmer **Other affiliations:** President: Svin Hus, Inc., a swine operation
Kevin Aves	July 2017 - December 2017	**Principal occupation:** Self-employed corn, soybean, and wheat farmer **Other affiliations:** Trustee and Treasurer: Kirkland Community Fire District
Theresa Ann Broome Outside Director	October 2015 - August 2019	**Principal occupation:** Self-employed Human Resources Consultant **Other affiliations:** President: Sienna Group, HR Consulting
Kaye Compart	October 2015 - August 2018	**Principal occupation:** Self-employed swine and seedstock producer **Other affiliations:** Director: Nicollet Area Community Foundation, Nicollet, MN, a fundraising organization
Terry Ebeling	October 2016 - August 2019	**Principal occupation:** Self-employed grain farmer

Name	Term	Principal occupation and other business affiliations
Spencer Enninga	October 2014 - December 2017	**Principal occupation:** President: Enninga Farms, Inc., a grain and livestock operation Seed sales representative
Timothy Evert	July 2017 - August 2019	**Principal occupation:** President: Evert Farms, Inc, a custom heifer raising and crop farm Partner: United Dreams Dairy, LLC, a dairy farm
Kathleen Hainline Outside Director	July 2017 - December 2017	**Principal occupation:** Consultant: agriculture risk management
David Kretzschmar	October 2014 - December 2017	**Principal occupation:** Self-employed dairy and grain farmer President: Kretzschmar Holsteins, Inc., a dairy operation
Lori Meinholz	July 2017 - August 2018	**Principal occupation:** Partner: Blue Star Dairy Farms, a dairy operation
Gregory Nelson	October 2014 - December 2017	**Principal occupation:** Self-employed grain and livestock farmer
David H. Peters	July 2017 - December 2017	**Principal occupation:** Self-employed wheat, soybean, and corn farmer **Other affiliations:** Director: Manteno Farmers Elevator, grain warehousing and merchandising Treasurer: Kankakee County Soil and Water Conservation District Trustee: Manteno Township Fire Protection District
Gregory Pollesch, CPA Outside Director	July 2017 - August 2019	**Principal occupation:** Director and President: Galloway Company, a sweetened condensed milk and ice cream mix manufacturer (President beginning January 2016) **Other affiliations:** Director: Wisconsin Dairy Products Association, an industry trade group
Michael Pratt	July 2017 - August 2018	**Principal Occupation:** Self-employed corn, soybean, and seed corn farmer
Stephanie Wise	July 2017 - August 2018	**Principal occupation:** Corn, soybean, and popcorn farming operation Owner: Gripp Farm Nutrients, LLC, agribusiness/fertilizer Owner: Bright Prairies, LLC, general merchandise Executive Vice President: First Midwest Bank (prior to April 2013) **Other affiliations:** Director: Farm Credit Foundations, a pension and benefits service provider
Dan Zimmerman	July 2017 - August 2018	**Principal occupation:** Vice President: Ever Green Growers Inc., a farming and elevator business Partner: Golden Grain, LLC, a farming operation **Other affiliations:** Director: Farm Credit Foundations, a pension and benefits service provider

As of January 1, 2018, the composition of our Board of Directors has changed. The Director position terms held by Spencer Enninga and David Kretzschmar expired. Daniel Erickson and Larry Fischer were elected to the Board of Directors with terms expiring in December 2022. In addition, Kathleen Hainline was reappointed to the Board with a term expiring in December 2021, Gregory Nelson, Kevin Aves, and David Peters were re-elected to the Board with terms expiring in December 2018, 2019, and 2020, respectively.

Pursuant to our bylaws, Directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Effective July 1, 2017, the Board of Directors' per diem rate changed from $400 to $450 per day plus travel time compensation for each meeting attended. The Board of Directors regular monthly meetings are normally two days in length. In addition, they hold two, three-day planning sessions annually. Effective July 1, 2017, the per month retainer fee for each Director increased from $1,200 to $1,600 per month, with the exception of the Board chairperson, the Board vice chairperson, and the Board committee chairperson retainers. The Board chairperson retainer increased from $1,700 to $2,000 per month. The Board vice chairperson and committee chairperson for the Audit and Finance Committee, Compensation and Governance Committee, and Enterprise Risk Committee retainers increased from $1,300 to $1,700 per month. Each Director is eligible for a variable retainer fee based on companywide financial and business objectives. The award is calculated as a percentage of the Director's annual per diem compensation. The performance criteria include return on equity, operating revenue growth, adverse assets to risk funds ratio, net operating rate, client satisfaction, and client loyalty. Under the terms of the plan, no payments are made in the event our return on equity or adverse assets to risk funds ratio fall outside specified threshold levels. The percentage used in the award calculation depends on the actual results for each performance criteria.

Information in the chart below reflects compensation paid to each director who served during 2017. For individuals on the former AgStar Board a full year of compensation is reflected, unless otherwise noted, and for those who began service at the merger date, six months of compensation is reflected.

Name	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2017[1]
Kevin Aves	12	2	$ 1,350	Compensation and Governance	$ 16,710
Wesley Beck[2]	9	10	400	Audit and Finance	27,037
Eunice Biel[2]	8	9	400	Compensation and Governance	24,861
David Bollman[2]	9	10	400	Compensation and Governance	27,057
Theresa Ann Broome	21	19	1,750	Compensation and Governance	49,543
Mark Cade	12	7	1,350	Audit and Finance	21,035
Kaye Compart	20	28	1,750	Compensation and Governance	51,784
Terry Ebeling	21	25	1,750	Audit and Finance	44,621
Spencer Enninga	20	26	400	Enterprise Risk	46,101
			1,350	Audit and Finance	
Timothy Evert	11	3	1,350	Compensation and Governance	16,077
Joyce Fernando[2]	5	1	400	Audit and Finance	16,652
Larry Fischer[2]	9	7	400	Audit and Finance	23,748
Kathleen Hainline	12	1	1,350	Audit and Finance	16,516
Dale Holmgren	20	29	1,750	Enterprise Risk	49,067
Steve Johnson[3]	--	--	--		5,979
Kevin Koppendrayer[2]	9	12	400	Audit and Finance	26,923
David Kretzschmar	21	18	1,750	Enterprise Risk	45,703
William McCue[3]	--	--	--		5,073
Lori Meinholz	12	--	1,350	Enterprise Risk	15,083
Gregory Nelson	20	19	1,750	Enterprise Risk	42,067
David H. Peters	12	5	1,350	Enterprise Risk	17,836
Gregory Pollesch	11	1	1,350	Compensation and Governance	15,194
Michael Pratt	12	--	1,350	Audit and Finance	15,242
Rick Sommers[2]	6	5	--		15,695
Stephanie Wise	12	1	1,350	Compensation and Governance	15,839
Dan Zimmerman	12	5	1,350	Audit and Finance	17,501
					$ 668,944

[1] Compensation in 2017 includes taxable fringe benefits, if applicable and variable retainer earned during 2016 and paid in 2017.

[2] No longer on the Board at December 31, 2017.

[3] No longer on the Board at December 31, 2017, compensation represents variable retainer earned during 2016 and paid in 2017.

Senior Officers

Senior Officers as of December 31, 2017, including business experience during the last five years

Name and Position	Business experience and other business affiliations
Rodney W. Hebrink President and Chief Executive Officer	**Business experience:** President and Chief Executive Officer since July 2017 President and Chief Executive Officer of AgStar Financial Services, ACA from July 2014 to June 2017 Executive Vice President and Chief Financial Officer of AgStar Financial Services, ACA from October 2011 to July 2014 **Other business affiliations:** Board Member of Farm Credit Foundations, a pension and benefits service provider Board Member of Minnesota AgriGrowth Council President of Rural Funding, LLC
Jase L. Wagner Chief Financial Officer	**Business experience:** Chief Financial Officer since July 2017 Senior Vice President and Chief Financial Officer of AgStar Financial Services, ACA from October 2014 to June 2017 Vice President and Managing Director, Agri-Access from January 2014 to October 2014 Vice President of Capital Management of AgStar Financial Services, ACA from April 2010 to January 2014

Name and Position	Business experience and other business affiliations
Matt Ginder Chief Core Markets Officer	**Business experience:** Chief Core Markets Officer since July 2017 Executive Vice President - Marketplace Delivery of 1st Farm Credit Services, ACA from January 2010 to June 2017 **Other business affiliations:** Appointed Trustee on the Village Board of Goodfield, IL, government
Mark Greenwood Chief Diversified Markets Officer	**Business experience:** Chief Diversified Markets Officer since July 2017 SVP Relationship Management, AgStar Financial Services, ACA from May 2015 to June 2017 President, The Maschhoff's Inc. from November 2014 to April 2015 VP Industry Specialist, AgStar Financial Services, ACA from March 1997 to November 2014 **Other business affiliations:** Treasurer and Secretary of Swine Health Information Commission
John Hemstock Chief Talent and Technology Officer	**Business experience:** Chief Talent and Technology Officer since July 2017 SVP Talent and Business Technology Strategies, AgStar Financial Services, ACA from October 2014 to June 2017 SVP Brand and Talent Strategies, AgStar Financial Services, ACA from October 2011 to October 2014
Terry L. Hinds Chief Risk Officer	**Business experience:** Chief Risk Officer since July 2017 Chief Lending Officer - Diversified Markets of 1st Farm Credit Services, ACA from May 2006 to June 2017 **Other business affiliations:** Board Member of FARM Illinois, non-profit
Paul Kohls Chief Lending Operations and General Counsel	**Business experience:** Chief Lending Operations and General Counsel since July 2017 Senior Vice President, General Counsel and Secretary of AgStar Financial Services, ACA from January 2012 to June 2017
John Monson Chief Mission and Marketing Officer	**Business experience:** Chief Mission and Marketing Officer since July 2017 SVP Marketplace Strategies, AgStar Financial Services, ACA from October 2014 to June 2017 SVP Investments in Rural America, AgStar Financial Services, ACA from November 2006 to October 2014
Tim Tracy Chief Credit Officer	**Business experience:** Chief Credit Officer since July 2017 SVP and Chief Risk Officer, AgStar Financial Services, ACA from October 2011 to June 2017
Jerry Wiese Chief Information Officer	**Business experience:** Chief Information Officer since July 2017 Chief Information Officer, Vice President Information Technology of Badgerland Financial, ACA From September 2012 to June 2017

Information related to compensation paid to senior officers is provided in our Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at our office.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 14 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

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

The total directors' travel, subsistence, and other related expenses were $326 thousand, $197 thousand, and $196 thousand in 2017, 2016, and 2015, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2018, or at any time during 2017.

Client Privacy

The FCA Regulations protect clients' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our clients not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to stockholders and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2017 were $314 thousand for financial statement audit services. In addition, we incurred fees of $6 thousand for tax (compliance) services, as well as, $21 thousand for merger related preclearance services, which were both approved by the audit committee. In addition, in the normal course of business, $3 thousand was paid for accounting research software. There were no other audit, tax, or non-audit related services paid in 2017.

Financial Statements

The Report of Management, Report on Internal Control Over Financial Reporting, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements, and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, sex, creed, religion, national origin, age, disability, marital status, familial status, sexual orientation, public assistance status, veteran status, genetic information, pregnancy or any other status protected by law. We comply with all federal, state, and local equal opportunity employment regulations. All personnel decisions and processes relating to our employees and job applicants are conducted in an environment free of discrimination and harassment. We are committed to recruiting, hiring, providing standard benefits, training, and promoting without regard to the above listed factors.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Compeer Financial, ACA
(Unaudited)

We have specific programs in place to serve the credit related needs of young, beginning and small farmers and ranchers (YBS) in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Young, Beginning, and Small (YBS) Farmer Demographics

Using the 2012 USDA Ag census as the source for demographic data, there are over 130,000 farms in the Compeer Financial, ACA (Compeer) territory. Of those, 11.6% are young farmers, 21.7% are beginning farmers, and 80.1% are small farmers.

Mission Statement

Our YBS program is essential to our mission of enriching agriculture and rural America by making financing programs and financial services available to the YBS farmers who represent the future of agriculture in Illinois, Minnesota, and Wisconsin. Providing financing programs, financial services, educational opportunities and outreach programs to this segment helps ensure the next generation of farmers is successful.

2017 YBS Highlights

The creation of Compeer gave us the opportunity to create a new YBS program by pulling together the best practices of the three former associations. The result is a program that gives our Financial Officers the ability to utilize more flexible underwriting standards and discounted interest rates when working with YBS farmers. Financial Officers are also able to make a limited number of “character loans” each year to YBS farmers who demonstrate extraordinary potential for success but lack some of the financial strengths we would like to see. The new program features both internal and external steering committees that will provide feedback on Compeer’s YBS program, guide changes to meet client needs, and help assess the effectiveness of the program.

Ongoing informal mentoring and financial counseling is provided as a normal course of business to YBS farmers. Closely linked to the mentoring is the offering of related services, including but not limited to crop insurance, farm records and tax prep services, financial planning and management services, and real estate appraisal services.

The new YBS program includes a Beginning with Compeer grant program that gives any beginning farmer living in our territory the opportunity to receive a small grant to improve their farm management skills. The program also includes targeted loan programs for YBS farmers who are building broiler barns or hog finishing facilities to produce under contractual arrangements.

The new YBS programs builds on the educational efforts of all three former associations such as the Groundbreakers Conference in former AgStar, the variety of collaborative educational activities in former Badgerland, and the donor-advised community funding efforts in former 1st FCS territory. The program has a strong emphasis on outreach to farmers operating in local and regional food systems (“Emerging Markets”), minority farmers, and military veterans who are becoming farmers after completing their military service.

Compeer is continuing its commitment to support rural youth in our territory through individual scholarships as well as sponsorships of 4-H, FFA, Ag in the Classroom programs, farm conferences, and numerous other activities.

Quantitative Goals

Since the merger went into effect on July 1, 2017, the goals for 2017 were set by each former organization and are listed below, along with the combined 2017 Compeer results for the YBS demographic.

2017 Goals
(dollars in millions)

		Total Number of Loans	Total Volume of Loans	Total Number of New Loans	Total Volume of New Loans
1st FCS	Young Farmers	8.0%	N/A	8.0%	5.0%
	Beginning Farmers	15.0%	N/A	15.0%	5.0%
	Small Farmers	40.0%	N/A	40.0%	20.0%
AgStar	Young Farmers	17.5%	11.0%	15.0%	10.5%
	Beginning Farmers	21.5%	14.5%	17.0%	12.5%
	Small Farmers	41.0%	15.0%	37.0%	10.5%
Badgerland	Young Farmers	7,213	$ 881	3,484	$ 239
	Beginning Farmers	8,275	$ 957	3,924	$ 259
	Small Farmers	16,341	$ 998	8,038	$ 265

Compeer 2017 Results
(dollars in millions)

	Total Number of Loans		Total Volume of Loans		Total Number of New Loans		Total Volume of New Loans	
	#	%	$	%	#	%	$	%
Young Farmers	19,158	18.7%	3,120	12.9%	6,479	16.9%	859	9.0%
Beginning Farmers	22,360	22.8%	4,007	16.5%	7,539	19.6%	1,158	12.1%
Small Farmers	42,966	41.9%	3,839	15.8%	14,938	38.9%	939	9.8%

Compeer 2018 Goals

	Total Number of Loans	Total Volume of Loans	Total Number of New Loans	Total Volume of New Loans
Young Farmers	19.0%	12.5%	17.25%	11.0%
Beginning Farmers	22.5%	15.0%	20.0%	14.3%
Small Farmers	41.5%	16.0%	39.0%	10.5%

Safety and Soundness of Program

The Association's Young, Beginning, and Small Farmer program has established standards and guidelines to provide for extension of sound and constructive credit, consistent with our business objectives. The program has also established lending limits for new loan extension under the program and should the Association credit quality fall below minimum guidelines, the program calls for the Board of Directors to review the program for changes or possible suspension. At this time the association's credit quality is well above minimum guidelines outlined in the program.

FUNDS HELD PROGRAM

Compeer Financial, ACA

(Unaudited)

Purpose

Compeer Financial, ACA (the Association) offers a Funds Held Program (Funds Held) that provides certain borrowers with the opportunity to make advance payments on designated loans in compliance with FCA Regulation 614.4175.

Objective

The Association offers this program for the benefit and convenience of borrowers who desire to make advance payments.

The following terms and conditions apply to all Funds Held unless the loan agreement or related documents between the Association and customer provide for other limitations. The Association may change these terms and conditions at any time by providing prior notice to affected clients.

Advance Payment Application

Advance payments received on a loan participating in Funds Held before the loan has been billed will normally be placed in Funds Held as of the date received, to be applied against the next installment or other related charges on the installment due date. This is subject to any rights that we may have to apply such payments in a different manner as specified in loan documents governing designated loans.

Payments received on a loan participating in Funds Held after the loan has been billed will be directly applied to the installment due on the loan or other related charges and will not earn interest.

If a special prepayment of principal is desired, Borrowers must so specify at the time funds are remitted.

Funds Held may not exceed the outstanding balance on the related loan(s), and may be limited by prepayment or other restrictions.

Interest on Funds Held

Interest will accrue on Funds Held at a rate determined by the Association, but the rate may never exceed the interest rate charged on the related loan. Interest on Funds Held (exclusive of funds applied directly to billed amounts) will normally accrue from the date of receipt of the funds until the date the funds are applied to the loan against an installment due or other related charges. The Association may change the interest rate from time to time, and may provide for a different interest rate for different categories of loans. Currently, funds in the account earn a rate of interest equal to 3.0% less than the loan rate.

Withdrawal of Funds

Funds in a funds held account may be withdrawn or transferred, upon request, on one or more occasions by any party authorized to withdraw funds from the account for an eligible loan purpose in lieu of increasing the client's loan. Withdrawals from funds held is limited to 24 withdrawals per year. The minimum withdrawal amount is the lesser of $100 or the remaining balance. Upon death of a client who has funds held balances, the association does not set up death beneficiaries or "payable on death" designations to distribute funds held balances.

Uninsured Account and Liquidation

Funds Held is not a depository account and is not insured. In the event of Association liquidation, all borrowers having funds in Funds Held shall be notified in accordance with FCA Regulation 627.2735. The notice shall advise that the funds ceased earning interest when the receivership was instituted, and the funds will be applied against the outstanding indebtedness of any loans of such borrower unless, within 15 days of such notice, the borrower directs the receiver to otherwise apply such funds in the manner provided for in existing loan documents.

Termination

If we terminate Funds Held, account balances will be applied to the loan balance, and any remaining excess funds will be refunded to the Borrower.

Agriculture is who we are and why
WE CHAMPION RURAL EVERY DAY.

COMPEER.COM | #CHAMPIONRURAL

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