2017 FINANCIAL INFORMATION

COBANK DISTRICT

CoBANK

District Financial Information

CoBank, ACB and Affiliated Associations

Introduction and District Overview

CoBank, ACB (CoBank, the Bank, we, our, or us) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to support agriculture, rural infrastructure and rural communities across the United States. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise. CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA).

We are cooperatively owned by our U.S. customers. Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; Agricultural Credit Associations (Associations), which are regulated, farmer-owned financial institutions and members of the System; and other businesses that serve agriculture and rural communities. The Associations originate and service long-term real estate mortgage loans as well as short- and intermediate-term loans for agricultural and other purposes to full and part-time farmers. Associations may also make loans to, among others, processing and marketing entities, farm-related businesses, and rural residents for home purchase and improvement. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

We are chartered by the FCA to serve the Associations that provide credit and related financial services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. We collectively refer to these entities as our affiliated Associations. Associations do not participate in the issuance of Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities). Therefore, we are the primary funding source for our affiliated Associations. As of December 31, 2017, we have 22 affiliated Associations serving customers in 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. Accordingly, the financial information of affiliated Associations is not included in the consolidated financial statements presented in CoBank’s 2017 Annual Report to Shareholders (the Annual Report). However, because of the interdependent manner in which CoBank and our affiliated Associations operate, we believe that presenting combined Bank and Association financial information is meaningful for purposes of additional analysis.

CoBank and its affiliated Associations operate under a debtor-creditor relationship evidenced by a General Financing Agreement (GFA) entered into separately with each Association. The GFA sets forth the business relationship between us and each Association and also references certain requirements contained in the Farm Credit Act and FCA regulations. The Associations’ respective boards of directors are expected to establish and monitor the necessary policies and procedures to comply with all FCA regulations. In all other respects, the lending relationship with the Associations is substantially similar to that with our other borrowers.

We make loans to the Associations, which, in turn, make loans to their eligible borrowers. We have senior secured interests in substantially all of the Associations’ assets, which extend to the underlying collateral of the Associations’ loans to their customers. Loans outstanding to our affiliated Associations totaled $43.0 billion at December 31, 2017. During 2017, $100.7 billion of advances on loans were made to our affiliated Associations and repayments totaled $99.1 billion.

We have no direct access to Association capital. Our bylaws permit our Board of Directors to set the target equity level for Association investment in the Bank within a range of 4 to 6 percent of the one-year historical average of Association borrowings. In 2017, the required investment level was 4 percent. There are no capital sharing agreements between us and our affiliated Associations.

The Financial Highlights, Management’s Discussion and Analysis and the Condensed Combined Balance Sheets and Income Statements included on the following pages present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the “District.” As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

District Financial Information

CoBank, ACB and Affiliated Associations

Financial Highlights

($ in Thousands)

As of December 31,	2017	2016	2015
Total Loans	**$ 109,377,684**	$ 104,778,598	$ 98,382,641
Less: Allowance for Loan Losses	**884,027**	855,319	745,522
Net Loans	**108,493,657**	103,923,279	97,637,119
Total Assets	**140,234,801**	136,536,716	127,644,371
Total Shareholders' Equity	**18,432,074**	17,339,280	16,127,219

Year Ended December 31,	2017	2016	2015
Net Interest Income	**$ 2,866,786**	$ 2,750,262	$ 2,570,513
Provision for Loan Losses	**69,021**	112,397	28,452
Net Fee Income	**143,221**	138,713	128,114
Net Income	**1,968,447**	1,697,810	1,667,019
Net Interest Margin	**2.12 %**	2.14 %	2.22 %
Return on Average Assets	**1.44**	1.29	1.40
Return on Average Total Shareholders' Equity	**10.87**	9.87	10.43
Average Loans	**$ 106,014,065**	$ 101,163,012	$ 92,245,347
Average Earning Assets	**134,996,293**	128,754,803	115,611,119
Average Assets	**136,719,937**	131,180,853	118,832,383

Management's Discussion and Analysis of District Results of Operations and Financial Condition

District average loan volume increased 5 percent to $106.0 billion in 2017 compared to $101.2 billion in 2016. The increase in average loan volume primarily reflected growth in real estate mortgage, production and intermediate-term, and agribusiness loans.

District net income grew to $1,968 million in 2017, a $270.6 million increase compared to 2016. This increase included the benefit of $142.3 million in net deferred tax adjustments at the Bank resulting from the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. Excluding the impact of these adjustments, District net income increased $128.3 million to $1,826 million in 2017 compared to $1,698 million in 2016. This increase primarily resulted from greater net interest income and a lower provision for loan losses. These items were somewhat offset by an increase in operating expenses and lower noninterest income in 2017.

District net interest income increased 4 percent to $2,867 million in 2017 from $2,750 million in 2016. The increase in net interest income was primarily driven by growth in average loan volume. The District's overall net interest margin declined to 2.12 percent in 2017 as compared to 2.14 percent in 2016. The reduction of net interest margin included the impact of slightly lower overall loan spreads, reflective of continued strong competition for the business of customers, as well as lower fair value accretion income at CoBank.

The District recorded a provision for loan losses of $69.0 million in 2017, compared to $112.4 million in 2016. CoBank recorded a provision for loan losses of $42.0 million in 2017 compared to $63.0 million in 2016. The provisions in both periods at CoBank largely reflect growth in overall loan volume and slight deterioration in credit quality in the agribusiness portfolio. The Associations recorded a net combined provision for loan losses of $27.0 million in 2017, compared to a net combined provision of $49.4 million in 2016. The net combined 2017 provision for loan losses at the Associations was primarily due to provisions at several Associations resulting from continued slight deterioration in credit quality. The net combined 2016 provision for loan losses at the Associations was primarily due to provisions recorded at several Associations resulting from higher loan volume as well as deterioration in credit quality driven by drought, commodity price volatility and other concerns impacting specific industries.

Noninterest income decreased $14.6 million to $291.5 million in 2017 from $306.1 million in 2016. Noninterest income is primarily composed of fee income, patronage income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. The lower level of noninterest income was driven by a $23.2 million increase in losses on early extinguishments of debt, net of prepayment income, primarily due to activity at CoBank. The Bank extinguishes debt to offset the current and prospective impact of prepayments in loan and investment portfolios and to maintain a desired mix of interest-earning assets and interest-bearing liabilities. In 2017, CoBank took advantage of market opportunities to buy back higher-cost debt, which will reduce interest expense in future periods. Other noninterest income decreased by $8.6 million to $98.4 million in 2017 primarily due to the impact of proceeds received in 2016 related to the disposition of warrants at CoBank which had been obtained in lending transactions. These items were partially offset by an increase in patronage income of $7.1 million during 2017 due to an increase in patronage received from other System institutions on loan participations sold by CoBank. In addition, gains recognized on sales of investment securities increased by $4.8 million. In 2017, CoBank sold investment securities with a combined book value of $1.6 billion for gains totaling $9.4 million. During 2016, sales of investment securities at CoBank with a combined book value of $879.5 million resulted in gains totaling $4.6 million. Fee income increased $4.5 million during 2017 due to a higher level of arrangement and other fee income at CoBank.

Total District operating expenses increased 2 percent to $1,103 million in 2017 from $1,082 million in 2016. Higher operating expenses included an increase in employee compensation expense of $22.3 million to $605.6 million during 2017 driven by a higher overall number of employees. Information services expense increased $9.1 million in 2017 compared to 2016 primarily due to greater expenditures at CoBank and certain Associations to enhance service offerings, technology platforms and digital banking capabilities. General and administrative expenses increased by $4.1 million primarily resulting from higher levels of contributions and commitments at CoBank to charitable, educational and other organizations that benefit the residents, communities and industries in rural America. These items were somewhat offset by a decrease in Farm Credit Insurance Fund (Insurance Fund) premium expense of $11.8 million in 2017 compared to 2016. The decrease is due to lower premium rates, somewhat offset by growth in loan volume. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation (Insurance Corporation) and were 15 basis points of adjusted insured debt obligations for all of 2017 compared to 16 basis points in the first half of 2016 and 18 basis points during the second half of 2016. The Insurance Corporation announced a premium rate of 9 basis points of average outstanding adjusted insured debt obligations for the first half of 2018. Changes in the premium rate generally result from increases or decreases in the overall level of System assets and related debt obligations, the amount of assets in the Insurance Fund and the Insurance Corporation's growth projections of these balances. Farm Credit System related expenses increased $2.3 million reflecting a greater level of FCA expenses. Occupancy and equipment expenses increased $2.3 million due to higher costs relating to improvements and maintenance at certain Associations. Purchased services increased by $2.5 million and other operating expenses decreased by $10.7 million primarily due to a change in expense classification at one Association. The decrease in other operating expenses also resulted from lower travel and entertainment expenses at CoBank reflecting non-recurring costs incurred in 2016.

Income tax expense decreased $145.6 million to $18.2 million in 2017 from $163.8 million in 2016. The income tax expense at the District predominantly relates to CoBank as a substantial majority of the business activities at Associations are exempt from federal income tax. The significant decrease in income tax expense included the benefit of $142.3 million in net deferred tax adjustments recorded at CoBank resulting from the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with accounting principles generally accepted in the United States of America (GAAP), the change to the lower corporate tax rate led to a remeasurement of deferred tax liabilities and deferred tax assets in the period of enactment (2017). The $142.3 million net adjustment includes a $253.5 million benefit from the remeasurement of deferred tax liabilities somewhat offset by a $111.2 million expense from the remeasurement of deferred tax assets. CoBank's deferred tax liabilities primarily relate to timing differences generated by its leasing subsidiary, while its deferred tax assets relate to the allowance for credit losses and employee benefit plans. Excluding the impact of the $142.3 million adjustment, income tax expense was $160.5 million in 2017 compared to $163.8 million in 2016.

As a result of the change in federal corporate tax rate, which is effective in 2018, it is anticipated that the ongoing effective tax rate for CoBank will be lower by approximately 35 percent beginning in 2018.

Loan Portfolio

The following table presents the District's outstanding loans classified in accordance with the FCA's loan types.

($ in Thousands)

District Loans by Loan Type

December 31,	2017	2016	2015
Real Estate Mortgage	**$ 32,344,144**	$ 30,616,520	$ 28,720,815
Non-affiliated Associations	**4,859,323**	4,523,774	4,291,104
Production and Intermediate-term	**15,306,715**	14,620,321	13,866,604
Agribusiness:			
Loans to Cooperatives	**14,565,105**	12,791,227	11,790,613
Processing and Marketing Operations	**8,179,923**	8,866,980	8,225,584
Farm Related Businesses	**1,600,016**	1,599,249	1,701,660
Communications	**4,086,271**	3,837,402	4,042,813
Rural Power	**16,658,551**	16,553,489	15,207,910
Water/Wastewater	**1,767,950**	1,657,205	1,447,650
Agricultural Export Finance	**5,268,391**	5,154,302	4,642,753
Rural Residential Real Estate	**848,362**	906,596	899,763
Lease Receivables	**3,761,678**	3,537,075	3,375,203
Other	**131,255**	114,458	170,169
Total	**$ 109,377,684**	$ 104,778,598	$ 98,382,641

District loan volume increased $4.6 billion to $109.4 billion at December 31, 2017, compared to $104.8 billion at December 31, 2016. The increase was primarily due to an increase in real estate mortgage loans driven by growth at several Associations as well as a greater level of agribusiness loan volume at CoBank. The increase in agribusiness loan volume was primarily due to higher levels of seasonal financing at many grain and farm supply cooperatives resulting from greater levels of grain ownership. Production and intermediate-term loans also contributed to the increase in loan volume driven by growth in lending in the forest products, dairy, cattle/beef production and a variety of other industries.

District Financial Information
CoBank, ACB and Affiliated Associations

Portfolio Diversification

The following tables present the District's combined loan portfolio by primary business/commodity and geographic distribution, as a percent of total loans for the periods presented.

Distribution by Primary Business / Commodity

	2017	2016	2015
Fruits, Nuts and Vegetables	**15 %**	14 %	14 %
Farm Supply, Grain and Marketing	**13**	12	11
Dairy	**9**	9	9
Electric Distribution	**8**	8	8
Cattle	**6**	6	6
Forest Products	**6**	6	6
International Lending	**5**	5	5
Other Farm Credit Entities	**4**	4	4
Field Crops Except Grains	**4**	5	5
Livestock, Fish and Poultry	**4**	4	4
Farm Related Business Services	**3**	4	4
Generation and Transmission	**3**	4	4
Leasing	**3**	3	3
Rural Home	**2**	2	3
Local Telephone Exchange Carriers	**2**	1	1
Nursery, Greenhouse	**1**	1	1
Other	**12**	12	12
Total	**100 %**	100 %	100 %

Geographic Distribution

	2017	2016	2015
California	**22 %**	22 %	21 %
Kansas	**6**	6	6
Texas	**6**	6	7
New York	**4**	4	4
Washington	**4**	4	4
Colorado	**3**	4	4
Idaho	**3**	3	3
Oregon	**3**	3	3
Oklahoma	**3**	3	3
Minnesota	**3**	2	2
Illinois	**2**	2	2
Iowa	**2**	2	2
Other (less than 2 percent each for the current year)	**34**	34	34
Total States	**95 %**	95 %	95 %
Latin America	**2**	2	2
Europe, Middle East and Africa	**1**	1	1
Other International	**2**	2	2
Total International	**5 %**	5 %	5 %
Total	**100 %**	100 %	100 %

Loan Quality

The following table presents loans, classified by management at the various District entities pursuant to the FCA's Uniform Loan Classification System, as a percent of total loans.

District Loan Quality

December 31,	2017		2016		2015	
Acceptable	**94.35**	**%**	95.31	%	96.39	%
Special Mention	**3.20**		2.67		2.00	
Substandard	**2.44**		2.00		1.60	
Doubtful	**0.01**		0.02		0.01	
Loss	**-**		-		-	
Total	**100.00**	**%**	100.00	%	100.00	%

While overall loan quality within the District remains favorable, certain entities within the District experienced credit quality deterioration in 2017 resulting from commodity price volatility and stress in specific industries. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") as a percent of total loans was 2.45 percent at December 31, 2017, compared to 2.02 percent at December 31, 2016. This increase was driven by slight deterioration in credit quality primarily impacting real estate mortgage, agribusiness as well as production and intermediate-term loans.

The increase in Special Mention loans during 2017 was primarily driven by the downgrade in the credit quality classification of CoBank's participation in a wholesale loan made by Farm Credit Bank of Texas to one of its affiliated Associations. Pursuant to regulatory requirements, wholesale loans are classified using the same credit rating methodology as is used with commercial loans. Our loans to Associations are collateralized by substantially all of the Association assets. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their retail loan portfolios. While the downgrade reflects control weaknesses at that Association, as a result of the collateralization and other mitigants described above, no losses are anticipated related to that wholesale loan. As of December 31, 2017, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any wholesale loans.

Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's retail loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply, grain marketing, electric distribution, and generation and transmission sectors.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled $614.5 million as of December 31, 2017 compared to $637.7 million at December 31, 2016. Nonaccrual loans increased by a net $31.8 million during 2017 driven by a net $39.6 million increase at CoBank resulting from credit quality deterioration impacting a small number of power and communications customers. Nonaccrual loans at Associations decreased by a net $7.8 million primarily due to payoff activity. Accruing restructured loans decreased by $55.8 million to $40.5 million in 2017 primarily due to a communications loan at CoBank which was restructured at market terms and no longer considered an impaired loan. Total accruing loans 90 days or more past due totaled $8.1 million at December 31, 2017, compared to $8.0 million at December 31, 2016. Nonperforming assets represented 0.56 percent of total District loan volume and other property owned at December 31, 2017, compared to 0.61 percent at December 31, 2016. Nonaccrual loan volume, the largest component of nonperforming assets, represented 0.51 percent of total loans at December 31, 2017 compared to 0.50 percent of total loans at December 31, 2016.

The following table displays the District's nonperforming assets for the periods presented.

($ in Thousands)

Nonperforming Assets			
December 31,	**2017**	**2016**	**2015**
Nonaccrual Loans:			
Real Estate Mortgage	**$ 227,649**	$ 246,832	$ 196,925
Production and Intermediate-term	**100,681**	89,060	81,534
Agribusiness	**141,838**	138,356	70,985
Communications	**10,639**	-	71,983
Agricultural Export Finance	**4,091**	-	-
Rural Power	**23,218**	-	-
Rural Residential Real Estate	**2,013**	3,531	4,903
Lease Receivables	**43,755**	44,329	17,433
Total Nonaccrual Loans	**553,884**	522,108	443,763
Accruing Restructured Loans:			
Real Estate Mortgage	**19,607**	27,886	34,403
Production and Intermediate-term	**18,700**	20,883	19,415
Agribusiness	**21**	-	-
Communications	**-**	45,144	-
Rural Residential Real Estate	**2,174**	2,351	2,425
Total Accruing Restructured Loans	**40,502**	96,264	56,243
Accruing Loans 90 Days or More Past Due:			
Real Estate Mortgage	**1,723**	5,185	2,333
Production and Intermediate-term	**1,416**	1,778	1,979
Agribusiness	**3,526**	210	-
Rural Residential Real Estate	**723**	-	197
Lease Receivables	**670**	804	547
Total Accruing Loans 90 Days or More Past Due	**8,058**	7,977	5,056
Total Nonperforming Loans	**602,444**	626,349	505,062
Other Property Owned	**12,062**	11,332	15,579
Total Nonperforming Assets	**$ 614,506**	$ 637,681	$ 520,641
Nonaccrual Loans as a Percentage of Total Loans	**0.51 %**	0.50 %	0.45 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	**0.56**	0.61	0.53
Nonperforming Assets as a Percentage of Capital	**3.33**	3.68	3.23

The following tables present an aging of past due loans in the District for the periods presented.

($ in Thousands)

Aging of Past Due Loans

	December 31, 2017					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 64,345	$ 80,065	$ 144,410	$ 32,559,239	$ 32,703,649	$ 1,723
Production and Intermediate-term	51,053	62,384	113,437	15,306,173	15,419,610	1,416
Agribusiness	7,062	12,639	19,701	24,417,410	24,437,111	3,526
Communications	2	-	2	4,099,011	4,099,013	-
Rural Power	-	-	-	16,730,893	16,730,893	-
Water/Waste Water	-	-	-	1,778,048	1,778,048	-
Agricultural Export Finance	-	-	-	5,283,839	5,283,839	-
Rural Residential Real Estate	6,856	1,377	8,233	842,857	851,090	723
Lease Receivables	41,406	7,591	48,997	3,713,481	3,762,478	670
Non-affiliated Associations	-	-	-	4,867,557	4,867,557	-
Other	79	-	79	131,497	131,576	-
Total	$ 170,803	$ 164,056	$ 334,859	$ 109,730,005	$ 110,064,864	$ 8,058

($ in Thousands)

Aging of Past Due Loans

	December 31, 2016					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 87,240	$ 134,852	$ 222,092	$ 30,706,743	$ 30,928,835	$ 5,185
Production and Intermediate-term	55,008	54,510	109,518	14,610,072	14,719,590	1,778
Agribusiness	8,308	15,635	23,943	23,309,496	23,333,439	210
Communications	-	-	-	3,848,157	3,848,157	-
Rural Power	-	-	-	16,624,010	16,624,010	-
Water/Waste Water	-	-	-	1,666,042	1,666,042	-
Agricultural Export Finance	-	-	-	5,168,136	5,168,136	-
Rural Residential Real Estate	6,623	1,168	7,791	901,741	909,532	-
Lease Receivables	18,922	8,452	27,374	3,510,200	3,537,574	804
Non-affiliated Associations	-	-	-	4,528,507	4,528,507	-
Other	-	-	-	114,696	114,696	-
Total	$ 176,101	$ 214,617	$ 390,718	$ 104,987,800	$ 105,378,518	$ 7,977

($ in Thousands)

Aging of Past Due Loans

	December 31, 2015					
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	$ 54,185	$ 61,321	$ 115,506	$ 28,871,190	$ 28,986,696	$ 2,333
Production and Intermediate-term	31,072	24,444	55,516	13,896,350	13,951,866	1,979
Agribusiness	10,880	8,196	19,076	21,769,468	21,788,544	-
Communications	-	24,913	24,913	4,026,744	4,051,657	-
Rural Power	-	-	-	15,264,122	15,264,122	-
Water/Waste Water	-	-	-	1,455,953	1,455,953	-
Agricultural Export Finance	-	-	-	4,655,393	4,655,393	-
Rural Residential Real Estate	6,845	2,020	8,865	894,015	902,880	197
Lease Receivables	13,209	2,418	15,627	3,360,021	3,375,648	547
Non-affiliated Associations	-	-	-	4,294,025	4,294,025	-
Other	-	-	-	170,512	170,512	-
Total	$ 116,191	$ 123,312	$ 239,503	$ 98,657,793	$ 98,897,296	$ 5,056

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled $134.6 million at December 31, 2017.

Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at December 31, 2017 totaled $884.0 million compared to $855.3 million at December 31, 2016. Changes in the allowance included an overall provision for loan losses of $69.0 million, which is described on page 3, net charge-offs of $43.2 million, a $6.3 million net transfer from the reserve for unfunded commitments, and a $3.4 million reduction due to Association mergers. Gross charge-offs in 2017 were $49.1 million, of which $30.9 million related to one of CoBank's agribusiness customers which experienced significant financial distress in 2017. The remaining $18.2 million primarily related to net charge-offs recorded across Associations.

The following presents detailed changes in the allowance for loan losses in the District for the periods presented.

District Financial Information

CoBank, ACB and Affiliated Associations

($ in Thousands)

Changes in Allowance for Loan Losses

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Association Merger Impact	Balance at December 31, 2017
Real Estate Mortgage	**$ 125,268**	**$ (2,594)**	**$ 610**	**$ 8,322**	**$ (2,511)**	**$ (1,244)**	**$ 127,851**
Production and Intermediate-term	**156,333**	**(8,957)**	**3,105**	**21,391**	**896**	**(1,771)**	**170,997**
Agribusiness	**336,588**	**(35,117)**	**905**	**34,793**	**6,117**	**(283)**	**343,003**
Communications	**40,564**	**-**	**45**	**8,778**	**827**	**(25)**	**50,189**
Rural Power	**124,026**	**-**	**308**	**(13,017)**	**810**	**(85)**	**112,042**
Water/Waste Water	**11,724**	**-**	**-**	**(196)**	**82**	**(4)**	**11,606**
Agricultural Export Finance	**14,216**	**-**	**420**	**1,681**	**94**	**(8)**	**16,403**
Rural Residential Real Estate	**4,497**	**(220)**	**35**	**(637)**	**-**	**(2)**	**3,673**
Lease Receivables and Other	**42,103**	**(2,258)**	**512**	**7,906**	**-**	**-**	**48,263**
Total	**$ 855,319**	**$ (49,146)**	**$ 5,940**	**$ 69,021**	**$ 6,315**	**$ (3,422)**	**$ 884,027**

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Association Merger Impact	Balance at December 31, 2016
Real Estate Mortgage	$ 105,155	$ (1,274)	$ 804	$ 15,146	$ 5,999	$ (562)	$ 125,268
Production and Intermediate-term	129,219	(18,000)	4,388	39,551	1,519	(344)	156,333
Agribusiness	271,873	(4,980)	1,619	57,965	10,113	(2)	336,588
Communications	53,345	(324)	1,135	(13,827)	235	-	40,564
Rural Power	121,405	-	847	2,831	(1,057)	-	124,026
Water/Waste Water	10,646	-	-	1,180	(102)	-	11,724
Agricultural Export Finance	11,293	-	54	2,960	(91)	-	14,216
Rural Residential Real Estate	5,666	(265)	3	(907)	-	-	4,497
Lease Receivables and Other	36,920	(2,614)	299	7,498	-	-	42,103
Total	$ 745,522	$ (27,457)	$ 9,149	$ 112,397	$ 16,616	$ (908)	$ 855,319

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers (to) from Reserve for Unfunded Commitments	Association Merger Impact	Balance at December 31, 2015
Real Estate Mortgage	$ 111,585	$ (1,901)	$ 1,356	$ 1,979	$ (2,696)	$ (5,168)	$ 105,155
Production and Intermediate-term	142,835	(9,817)	10,225	(7,854)	1,631	(7,801)	129,219
Agribusiness	284,727	(12,297)	2,799	(15,034)	11,817	(139)	271,873
Communications	54,432	-	606	(998)	(695)	-	53,345
Rural Power	98,149	(5,596)	434	41,376	(12,958)	-	121,405
Water/Waste Water	9,813	-	20	1,988	(1,174)	(1)	10,646
Agricultural Export Finance	8,924	-	163	2,259	(53)	-	11,293
Rural Residential Real Estate	6,216	(430)	153	(273)	-	-	5,666
Lease Receivables and Other	32,576	(1,075)	422	5,009	-	(12)	36,920
Total	$ 749,257	$ (31,116)	$ 16,178	$ 28,452	$ (4,128)	$ (13,121)	$ 745,522

District Capital Resources

Combined District shareholders' equity at December 31, 2017 totaled $18.4 billion, a net increase of $1.1 billion as compared to $17.3 billion at December 31, 2016. The increase primarily resulted from District net income of $1,968 million, the net issuance of common stock of $83.1 million and an increase in Association preferred stock of $14.5 million. These factors were somewhat offset by accrued patronage of $768.3 million, additional other comprehensive loss of $102.3 million and preferred stock dividends of $94.3 million.

On April 8, 2016, CoBank issued $375.0 million of Series I non-cumulative perpetual preferred stock. Dividends on Series I preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable semi-annually at a fixed annual rate equal to 6.25 percent from the date of issuance up to, but excluding, October 1, 2026. Thereafter, dividends will accrue at an annual rate equal to the 3-month USD LIBOR plus 4.66 percent and will be payable quarterly.

The components of the District's accumulated other comprehensive loss are detailed in the following table.

($ in Thousands)

Accumulated Other Comprehensive Loss

December 31,	2017	2016	2015
Unrealized (Losses) Gains on Investment Securities	**$ (121,149)**	$ (13,054)	$ 48,754
Net Pension Adjustment	**(351,097)**	(369,209)	(342,188)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	**(49,981)**	(37,707)	(40,157)
Accumulated Other Comprehensive Loss	**$ (522,227)**	$ (419,970)	$ (333,591)

The increase in the District's total accumulated other comprehensive loss in 2017 primarily relates to the change in unrealized gains/losses on investment securities at CoBank driven by market interest rate fluctuations.

The following table presents regulatory capital and leverage ratios for CoBank and the range of ratios at the affiliated Associations.

Regulatory Capital and Leverage Ratios

As of December 31, 2017

	Common Equity Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Tier 1 Leverage Ratio	Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	Permanent Capital Ratio
CoBank	11.67%	13.97%	15.24%	7.26%	2.96%	14.29%
Calculated Buffer	7.17%	7.97%	7.24%	3.26%	n/a	n/a
Associations	13.33 - 29.45%	13.33 - 29.45%	13.95 - 30.70%	14.37 - 27.50%	15.99 - 27.10%	14.30 - 33.32%
Calculated Buffers	8.83 - 24.95%	7.33 - 23.45%	5.95 - 22.70%	10.37 - 23.50%	n/a	n/a
Regulatory Minimum	4.5%	6.0%	8.0%	4.0%	1.5%	7.0%
Required Buffer	2.5% [1]	2.5% [1]	2.5% [1]	1.0%	n/a	n/a

[1] The capital conservation buffer will be phased in over three years, reaching its full value of 2.5 percent in 2020.

The FCA adopted final rules relating to regulatory capital requirements for the System in 2016, which became effective January 1, 2017. The ratios in the table above include those prescribed in the new regulations. As depicted in the table above, at December 31, 2017, CoBank and all affiliated Associations exceeded the FCA's regulatory minimum capital ratios and any required buffers. Although aggregated in the District's condensed financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide Debt Securities are applicable only to System banks and do not include Associations. CoBank has no access to Association capital beyond their required investment in the Bank. There are no capital sharing agreements between CoBank and its affiliated Associations.

Association Mergers and Other Matters

Effective January 1, 2015, Frontier Farm Credit (Frontier), one of our affiliated Associations, and Farm Credit Services of America (FCSAmerica), an Association affiliated with AgriBank, FCB, formed a strategic alliance. As part of the alliance, Frontier and FCSAmerica have integrated their day-to-day business operations, systems and leadership teams while continuing to exist as separate Associations. Each Association has its own board, with representatives participating in a coordinating committee to facilitate board governance between the two organizations. CoBank continues to serve as the funding bank for Frontier.

Effective November 1, 2015, Farm Credit Services Southwest became a wholly-owned subsidiary of Farm Credit West, ACA, another of our affiliated Associations.

Effective January 1, 2016, two affiliated Associations, Farm Credit Services of East Central Oklahoma, ACA, and Chisholm Trail Farm Credit, ACA, merged to form Oklahoma AgCredit, ACA.

In June 2016, a lawsuit was commenced by the filing of a complaint in the United States District Court Southern District of New York against CoBank by a number of investors (the "Plaintiffs") who had held CoBank's 7.875 percent Subordinated Notes due in 2018 (the "Notes"). The Notes were redeemed at par plus accrued interest by CoBank in April 2016 due to the occurrence of a "Regulatory Event" (as defined under the terms of the Notes). The Plaintiffs have asserted a breach of contract claim and a breach of implied covenant of good faith and fair dealing claim alleging that CoBank impermissibly redeemed the Notes. The Plaintiffs have requested damages in an amount to be determined at trial, reasonable attorneys' fees and any other such relief as the court may deem just and proper. CoBank filed its answer in September 2016 and discovery concluded in January 2018. CoBank intends to vigorously defend against these allegations. The likelihood of any outcome of this proceeding cannot be determined at this time.

Effective January 1, 2017, two of our affiliated Associations, Farm Credit of Southwest Kansas, ACA, and American AgCredit, ACA, merged and are doing business as American AgCredit, ACA. During 2016, these two entities operated under a joint management agreement pursuant to which the President and Chief Executive Officer (CEO) of American AgCredit, ACA, served as the CEO of both Associations.

Effective October 1, 2017, one of our affiliated Associations, Farm Credit of Ness City, FLCA (Ness City), merged into another of our affiliated Associations, High Plains Farm Credit, ACA (High Plains). During 2017, the two entities operated under a joint management agreement pursuant to which the CEO, Chief Financial Officer and Chief Credit Officer of High Plains jointly served in these positions for Ness City.

District Financial Information
CoBank, ACB and Affiliated Associations

Condensed Combined Balance Sheets
(unaudited)

($ in Thousands)

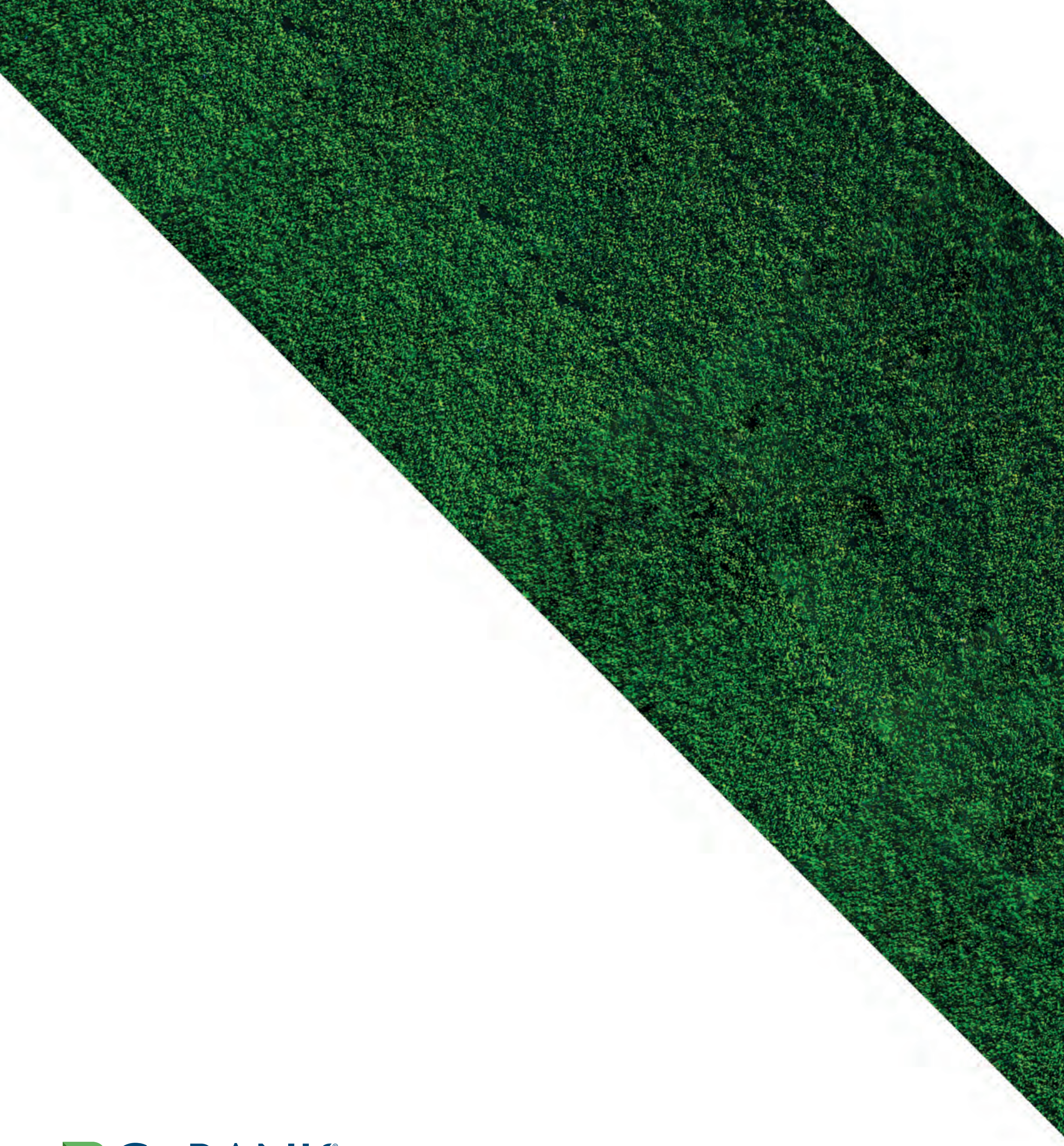
As of December 31,	2017	2016	2015
Assets			
Total Loans	**$ 109,377,684**	$ 104,778,598	$ 98,382,641
Less: Allowance for Loan Losses	**884,027**	855,319	745,522
Net Loans	**108,493,657**	103,923,279	97,637,119
Cash and Cash Equivalents	**1,548,892**	1,877,756	3,311,777
Federal Funds Sold and Other Overnight Funds	**1,035,000**	750,000	-
Investment Securities	**26,980,570**	27,903,362	24,670,926
Interest Rate Swaps and Other Financial Instruments	**171,148**	204,434	294,856
Accrued Interest Receivable and Other Assets	**2,005,534**	1,877,885	1,729,693
Total Assets	**$ 140,234,801**	$ 136,536,716	$ 127,644,371
Liabilities			
Bonds and Notes	**$ 119,386,740**	$ 116,071,661	$ 108,052,092
Subordinated Debt	**-**	498,820	902,685
Interest Rate Swaps and Other Financial Instruments	**86,732**	162,413	112,509
Reserve for Unfunded Commitments	**134,587**	141,539	158,186
Accrued Interest Payable and Other Liabilities	**2,194,668**	2,323,003	2,291,680
Total Liabilities	**121,802,727**	119,197,436	111,517,152
Shareholders' Equity			
Preferred Stock Issued by Bank	**1,500,000**	1,500,000	1,125,000
Preferred Stock Issued by Associations	**532,649**	518,113	552,145
Common Stock	**1,541,275**	1,458,138	1,382,758
Paid In Capital	**1,319,232**	1,083,693	1,028,135
Unallocated Retained Earnings	**14,061,145**	13,199,306	12,372,772
Accumulated Other Comprehensive Loss	**(522,227)**	(419,970)	(333,591)
Total Shareholders' Equity	**18,432,074**	17,339,280	16,127,219
Total Liabilities and Shareholders' Equity	**$ 140,234,801**	$ 136,536,716	$ 127,644,371

District Financial Information
CoBank, ACB and Affiliated Associations

Condensed Combined Statements of Income
(unaudited)

($ in Thousands)

Year Ended December 31,	2017	2016	2015
Interest Income			
Loans	**$ 4,074,363**	$ 3,555,419	$ 3,141,004
Investment Securities, Federal Funds Sold and Other Overnight Funds	**543,983**	442,725	368,051
Total Interest Income	**4,618,346**	3,998,144	3,509,055
Interest Expense	**1,751,560**	1,247,882	938,542
Net Interest Income	**2,866,786**	2,750,262	2,570,513
Provision for Loan Losses	**69,021**	112,397	28,452
Net Interest Income After Provision for Loan Losses	**2,797,765**	2,637,865	2,542,061
Noninterest Income			
Net Fee Income	**143,221**	138,713	128,114
Patronage Income	**63,695**	56,608	43,825
Prepayment Income	**18,877**	34,184	32,230
Losses on Early Extinguishment of Debt	**(42,089)**	(34,197)	(37,455)
Gains on Sale of Investment Securities	**9,387**	4,617	22,603
Other-Than-Temporary Impairment Losses on Investment Securities	**-**	(750)	(11,100)
Other, Net	**98,359**	106,956	105,235
Total Noninterest Income	**291,451**	306,131	283,452
Operating Expenses			
Employee Compensation	**605,572**	583,251	547,526
General and Administrative	**75,951**	71,894	71,759
Information Technology	**73,470**	64,406	62,810
Insurance Fund Premium	**141,633**	153,395	104,065
Farm Credit System Related	**31,078**	28,745	24,695
Occupancy and Equipment	**67,153**	64,842	53,726
Purchased Services	**61,923**	59,396	53,348
Other	**45,796**	56,496	63,323
Total Operating Expenses	**1,102,576**	1,082,425	981,252
Income Before Income Taxes	**1,986,640**	1,861,571	1,844,261
Provision for Income Taxes	**18,193**	163,761	177,242
Net Income	**$ 1,968,447**	$ 1,697,810	$ 1,667,019



CoBANK
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