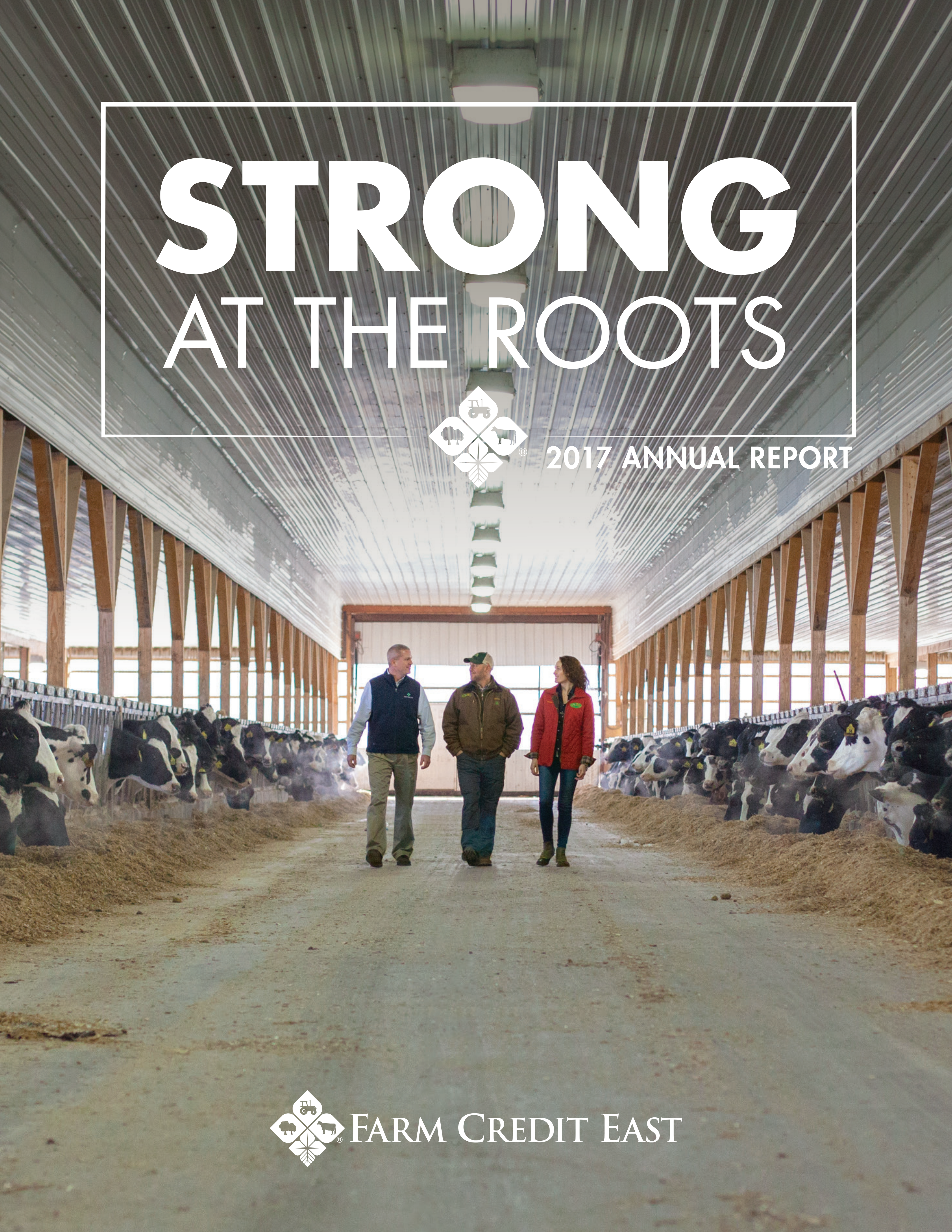
STRONG AT THE ROOTS

2017 ANNUAL REPORT



FARM CREDIT EAST

STRONG
AT THE ROOTS

As we close out 2017 and look forward to 2018, your cooperative remains deeply rooted in serving agriculture, commercial fishing and forest product businesses with the best possible service and products. With strong capital levels and earnings, Farm Credit East has the capacity to be there as customer businesses grow and weather economic cycles. The Board of Directors, management and staff share a commitment to deliver value and are driven by the desire to see customer businesses be successful.

Throughout 2017, your Board of Directors focused on providing the direction that yielded strong results and kept the organization focused on top priorities, such as sustaining financial performance, succession planning and member engagement. Farm Credit East management and staff were committed to tackling business growth challenges by implementing additional credit tools and technology to allow greater focus on marketing and sales.

There is no other credit and financial services organization in the Northeast that better understands rural communities than Farm Credit East. Leveraging our understanding of rural communities and the farm, fishing and forest products businesses that drive their economic vitality continues to be a key component for our future growth.

Many sectors in Northeast agriculture, commercial fishing and forest products continue to face headwinds and very tight margins. While overall economic growth has been positive, global agricultural commodity markets indicate that prices are unlikely to significantly improve in the short term. This has required our customers to focus extensively on cost of production, strong financial management and maintaining stable markets.

Farm Credit East recordkeeping services provide customers with up-to-date financial information and our business consultants provide in-depth analysis to help improve profitability. We continue to focus on delivering services that can help businesses achieve greater success.

In 2017, Farm Credit East conducted a major customer survey referred to as the "Voice of the Customer." We appreciate the more than 1,250 customers that participated in this survey. Your input will help us to determine areas for improvement in the future.

Overall, our satisfaction scores were very high. While each customer is different, the survey confirms that the following are the most important customer experience touch points. We will continue to place a strong emphasis on each of these items, while looking for ways to enhance our service and deliver greater value going forward.

- An on-going customer relationship in which our lending and financial services staff understands your business and business goals.
- Our commitment to customer business success separates us from our competitors.
- Staff that provides high level expertise to your business is essential to serving you.
- The ease of doing business with Farm Credit East is very important and we know this means constant focus on enhanced customer experience.
- Our responsiveness to customer needs differentiates us in the marketplace.

2017 HIGHLIGHTS

Our financial performance reflects a strong earnings engine with $160.1 million in net earnings. Your cooperative continued to grow its lending and financial services income in 2017, while also focusing on operating efficiently.

With strong financial performance, Farm Credit East continued its commitment to pay cash patronage, disbursing $56 million in 2017 based on 2016 results. Farm Credit East will surpass that level in 2018 with a record $60 million paid to members in February.

Those strong earnings allowed the Association to grow its capital to $1.3 billion after paying patronage. This level of capital helps ensure that Farm Credit East is positioned to grow to meet customer needs and withstand the economic cycles that confront customers and the cooperative.

Throughout 2017, our lending and financial services teams worked closely with customers facing difficult financial challenges. This reflects our commitment to relationship lending. An important part of a strong relationship is on-going customer communication so there are no surprises.

Farm Credit East continues to make a strong commitment to employee engagement and training. This helps us to deliver the service and expertise that our customers expect and benefit from.

We expanded our support for the next generation involved in farming, forest products and commercial fishing through a variety of efforts, including special incentives for small, young, beginning and veteran farmers. We also enhanced GenerationNext, a program that helps the next generation to develop the knowledge and skills necessary to take on farm leadership. 2017 was also a record year for our FarmStart program, which made 44 new investments in the businesses of entrepreneurs getting started in agriculture. Additionally, we awarded scholarships to 32 Northeast students to support their higher education endeavors in pursuit of a career in agriculture, forest products or commercial fishing.

We extended our reach to more part-time farmers and rural home and land owners. Our Country Living program now comprises 10 percent of our portfolio and enhances our ability to more fully serve rural Northeast communities.

Our Knowledge Exchange program has established itself over the past decade as a great resource for customer businesses. Through economic and market analysis, coupled with regulatory compliance insights, the program provides information to help customer businesses plan for the future.

The entire team at Farm Credit East is committed to the industries and communities that we serve and work in. Our employees dedicate hours of their time to charitable organizations working with agricultural youth and promotional programs that build a greater understanding of the agriculture, forest products and commercial fishing industries. This is enhanced by employee financial donations through Farm Credit East Cares, matched in part by Farm Credit East with strong support from our Board of Directors. In 2017, Farm Credit East Cares provided $70,000 to more than 60 charitable organizations across the Northeast, and since its 2011 inception, has provided more than $500,000 in support.

Grassroots input continues to be essential to Farm Credit East. In 2017 Farm Credit East's local Customer Service Councils, highlighted elsewhere in this annual report, provided important feedback to help guide the organization. In addition, nearly 2,000 customers attended customer appreciation meetings held by each branch office in the fall of 2017 to learn about their cooperative's success and provide their valuable input.

Strong roots today & tomorrow

Farm Credit East's success is built on the strong roots that the organization has fostered throughout its history. The Farm Credit System was established more than a century ago with the mission to provide high value credit and financial services to support customer success, and that is the mission in which Farm Credit East is still rooted today.

We practice sound lending and have developed targeted financial services focused on the best interests of our customer-owners. We know that our roots will only continue to deepen and strengthen when our customers are successful. That is why you, our customer, are our top priority. This is true today and will be for generations to come.

William J. Lipinski
Chief Executive Officer

Matthew W. Beaton
Chair, Farm Credit East

2017 BOARD OF DIRECTORS

Front Row, seated

Richard P. Janiga / R + D Janiga Enterprises, LLC, East Aurora, N.Y., **Diane D. Souza**, CPA, Outside Director, Little Compton, R.I., **Matthew W. Beaton**, Chair / Sure-Cran Services, Inc. and Beaton's, Inc., Wareham, Mass., **Henry L. Huntington,** Vice Chair / Pleasant View Gardens, Inc., Loudon, N.H., **Lisa P. Sellew** / Prides Corner Farms, Lebanon, Conn., **LouAnne F. King** / Mapleview Dairy, LLC, Madrid, N.Y.

Back Row

Daniel J. Corey / Daniel J. Corey Farms, Monticello, Maine, **Michael N. Brooks** / Dusty Lane Farms, LLC, Elmer, N.J., **Peter J. Barton** / Barton Orchards, Poughquag, N.Y., **Peter R. Call** / My-T Acres, Inc., Batavia, N.Y., **Douglas W. Shelmidine** / Sheland Farms, LLC, Adams, N.Y., **Peter H. Triandafillou** / Huber Resources Corp., Old Town, Maine, **Laurie K. Griffen** / Saratoga Sod Farm, Inc., Stillwater, N.Y., **David "Skip" Hardie** / Walnut Ridge Dairy, LLC, Lansing, N.Y., **John P. Knopf** / Fa-Ba Farms, LLC, Canandaigua, N.Y., **James A. Robbins II** / Robbins Lumber, Inc., Searsmont, Maine, **Tim C. Chan**, Outside Director, Claremont, N.H.

BUELL'S ORCHARD

The Sandness Family

EASTFORD, CT

Founded in 1889 by Henry Buell, Buell's Orchard is now in its fourth generation, and quickly headed into its fifth. The 100 acres in Eastford, Conn., are today owned and managed by Henry's great grandsons, Jeff and Jonathan Sandness. On the rise are Jeff and his wife Patty's son, Greg, along with Jonathan's son, Mark, who are working their way into the business as the fifth generation.

Buell's Orchard's main crop is apples. The family grows mostly semi-dwarf and dwarf trees. The bulk of the apples are sold wholesale to several grocery stores and big chain warehouses.

The Sandness family also reserves some acres for diversified products, such as peaches, blueberries, strawberries, summer vegetables, greenhouse tomatoes, pumpkins and mums. Much of these fresh fruits and vegetables are sold pick-your-own, and Patty also runs a seasonal retail stand at the farm.

Buell's Orchard has also been known for producing its own apple cider for nearly 40 years, and is now one of the largest cider producers in Connecticut. Last spring, Buell's got their new pasteurizing and bottling facility up and running, so they can now press, pasteurize and bottle the cider right on premises.

Since 1981, the family has also hosted a harvest festival over Columbus Day Weekend. "It's our busiest weekend of the year," said Patty Sandness. Thousands of people attend each year to enjoy live music, a chicken BBQ, hayrides, and apple and pumpkin picking. They also offer tours of the cider bottling plant, which Patty says the visitors really enjoy.

The Sandness family first got started with Farm Credit in 1980 when they built their first cider mill. "It's been a wonderful relationship," said Patty. "They understand farming much more than a regular bank. When you have poor years they work with you. They don't just say, 'this is the agreement we had, so this is the payment we want.' They're very understanding."

In 2010, they began having Farm Credit East do their taxes and work with them on financial planning. Patty does the bookkeeping for the orchard, so she's developed a close relationship with her Farm Credit East representatives, Carolyn Huff and Jacob Raleigh. "Carolyn and Jacob are great to work with," said Patty. "Any questions I have, they're there to answer."

"They saved us quite a bit of money when they first started doing our taxes," continued Patty. "Carolyn stays up-to-date on the tax laws, so that we don't end up paying in more money than we should. The financial planning has been extremely helpful for our business."

And with the next generation quickly entering into the business, it won't be long before the Sandness family turns to Farm Credit East for help with generational transfer too. "It hasn't happened yet, but it's in the works," joked Patty.

PLEASANT RIVER LUMBER

Jason and Chris Brochu

DOVER-FOXCROFT, MAINE

In 2004, Pleasant River Lumber purchased its first sawmill. Adrian Brochu, along with his brothers Luke and Guy, had operated a mill with Canadian partners since the 1970s, but as that partnership neared its tenure, the brothers still had an appetite to be in the lumber industry. So, together with the next generation of Brochus and a couple additional partners, Pleasant River Lumber purchased its first mill.

Today, the business is managed by that next generation, brothers Chris and Jason, along with their father and two partners. In addition to owning and managing timberland, Pleasant River Lumber operates four sawmills that produce more than 235 million board feet of spruce dimensional lumber and eastern white pine annually. In 2016, they also purchased their own trucking company. Pleasant River Lumber's products are shipped predominately along the Eastern seaboard, from Maine through the Virginias.

"When it came time to open our own mill, Farm Credit East was a natural fit," said Jason Brochu. "Our loan officer, Scott Kenney, put together that first lending package for us to purchase the mill and he has grown with us ever since."

"Farm Credit East has been instrumental in our growth, providing guidance along the way – a true partner." Jason continued. "Scott can analyze things for us from a different point of view that compliments the information we receive from our own internal accounting team."

Jason and Chris noted that the importance and strength of their relationship with Farm Credit East was exemplified in 2009, during the worst collapse the industry has ever seen. "Farm Credit understands the industry and the ups and downs that come with it," said Chris. "We've experienced some pretty low downturns, and Farm Credit stood by us when most other lenders would not have."

"Scott and his team are creative in putting deals together for us, and help us to communicate," said Jason. "Farm Credit East has been key in allowing us to do the things we've done, and also the success of those endeavors."

F&S PRODUCE COMPANY INC.

Sam Pipitone
ROSENHAYN, NJ

F&S Produce is a fresh-cut fruit and vegetable processor servicing Northeast customers, such as food retailers, food service and industrial customers, within a 500 mile radius. The company currently processes more than 100 million pounds of produce annually, sourcing locally when available. It also offers quick frozen produce and specialty prepared refrigerated foods and purees.

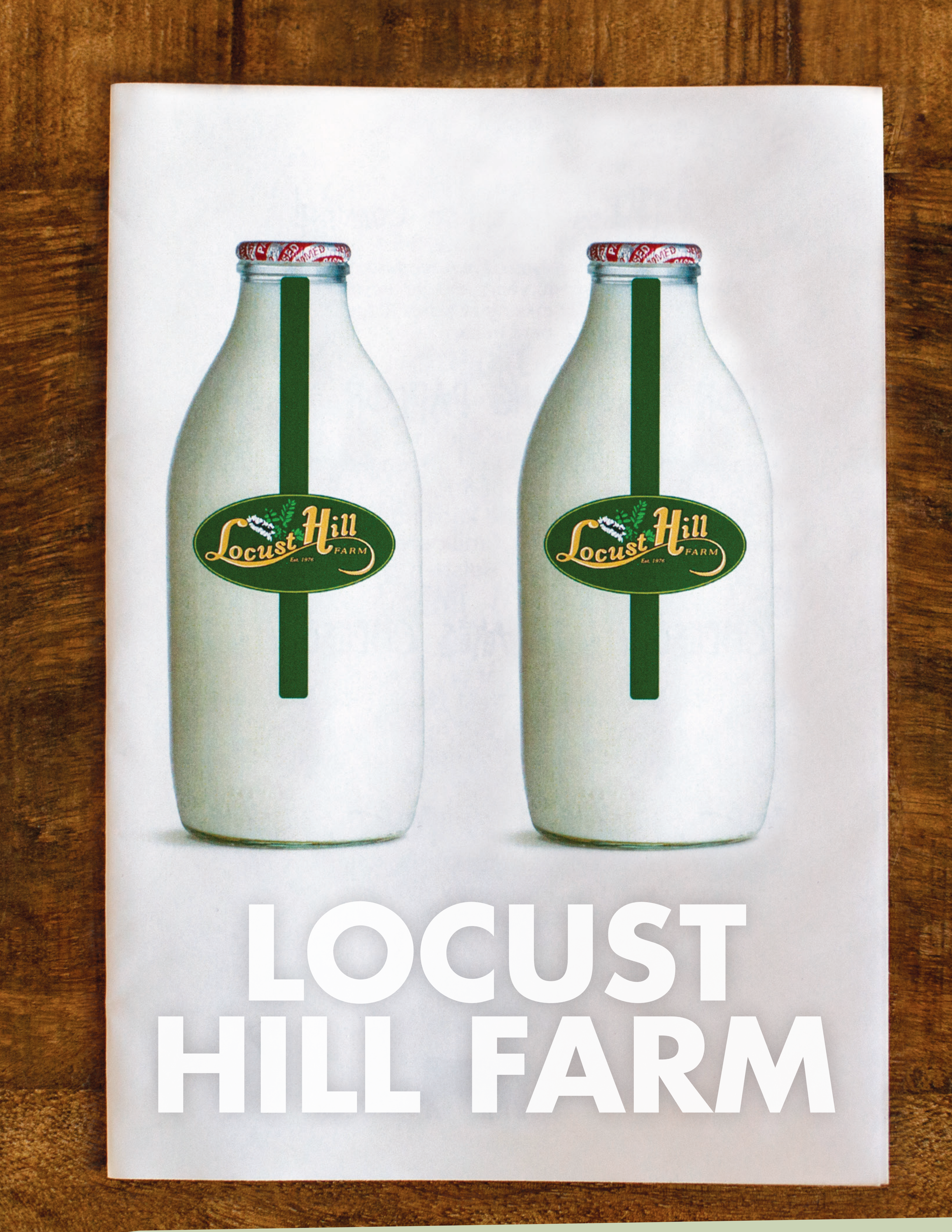
F&S began operating in a 20,000 square foot facility back in the 1980s. Today, it operates out of two processing plants with a combined 125,000 square feet of production area, so to suffice it to say, the business has grown considerably over the past few decades. Most recently, F&S Produce purchased a 500,000 square foot facility in Vineland, NJ, and looks forward to consolidating its retail fruit and vegetable operations into this one facility by year-end.

Owner, Sam Pipitone, got started with Farm Credit about 10 years after the business opened. "I initially had conventional lines of credit from other banks, but then we reached out to Farm Credit. They were able to support us and it's been a great relationship," said Sam. In the years since, F&S has also used Farm Credit East for long-term financing of its farmland and other agricultural ventures.

"Farm Credit East works closely with our CFO on the financial aspects of the business," said Sam. "They understand what we are looking to achieve and offer guidance throughout the process in terms of their lending abilities. They've been an integral part of helping us evaluate the necessary steps, and how big of a step we're able to take to grow the business."

F&S Produce has also enjoyed the perks of cooperative ownership, such as patronage dividends. "Dividends are awesome and would not be available to us in a conventional lending program," said Sam. "They provide a nice influx of cash, which in most cases we've reinvested into the business to continue to grow. We look forward to dividends being available to us to keep us competitive in the marketplace."

Above all, Sam notes one of the greatest benefits of working with Farm Credit East has been the relationships he's formed. "Sure, it's a business to business relationship, but it's also a people relationship with people who are very knowledgeable about the industry," said Sam. "I enjoy getting to know the people in my local office, not just in a business environment, but also socializing with them through various opportunities."


Locust Hill
FARM
Est. 1976
Locust Hill
FARM
Est. 1976
LOCUST
HILL FARM

The Alford Family

MANNSVILLE, NY

Renee and her husband Timothy began Locust Hill Farm in 1975. When they first started out, they had 39 cows and 165 acres. They've continually grown since that time and today have close to 3,000 cows, 2,800 heifers and upwards of 5,500 crop acres growing corn silage and hay. Just this past year, they converted the business to an LLC to bring in the members of the business's next generation – their two daughters Jessica and Amanda, and their husbands, Bruce and Brian, respectively.

Along with helping out when needed around the farm, both daughters are learning the ropes in the office — a job that had previously been done exclusively by Renee. Their daughters' husbands, on the other hand, did not have any background or experience in agriculture. "Both of our sons-in-laws come from the city, Pittsburgh and Rochester, so we weren't sure how their roles in the business would develop," explained Renee. "But they've done amazing things and their outside knowledge has been a great asset."

Renee explained that they've both learned a lot about crops and the dairy. Brian handles crop management, CAFO regulations and has been integral in a number of construction and expansion projects the dairy has taken on.

Bruce has a background in computer network engineering. "There is nothing we do that is not linked with computers, so it's helpful to have someone with IT experience to help operate our modern dairy," said Renee. "He's also very analytical and can quickly run through analyses giving us an edge to evaluate options when making important decisions."

The Alfords began their current relationship with Farm Credit in 2008 when proposing an expansion. "We had previously been with a local bank that closed their ag department," said Renee. "We moved to another bank that then had financial difficulty, so we turned to Farm Credit."

"We've enjoyed working with the Burrville office," continued Renee. "People make the difference and working with the staff in Burrville has been a very good experience and right for our business. They are in tune with agricultural trends and rising opportunities."

In 2015, the Alfords built another dairy with a double 30 parallel parlor. When both facilities are at capacity, they'll be able to milk close to 4,000 cows.

Additionally, several years ago when their tax preparer retired, they brought their tax planning and preparation business over to their trusted financial partner — Farm Credit East. "Our tax consultant, Mark Kellogg, has been very enjoyable to work with," said Renee. "He makes it easy for us to understand the tax law and how it applies to our business. Any time we've had an issue, Mark has handled it promptly and easily."

STRONG ROOTS START WITH GRASSROOTS

Farm Credit East Customer Service Councils

In keeping with Farm Credit East's strategic vision of retaining a strong grassroots network, each Farm Credit East branch office has a customer service council (CSC).

They are composed of a cross section of stockholders and other members of the agricultural, commercial fishing and forest products community, and provide an important two-way communication with Farm Credit East leadership on customers' concerns and on matters relating to the Association.

This input is critical to the Association's vision of remaining a grassroots organization that is responsive to customer-owners. Service on one of these councils also cultivates interest in future service as a Farm Credit East director.

Functions of Customer Service Councils

Customer Service Councils meet three times annually. Among the functions of the councils are:

- **FEEDBACK.** CSCs provide Farm Credit East regular feedback on local farm business conditions and emerging business opportunities and challenges. The councils are also called upon to provide feedback on existing and proposed Farm Credit East financial services and credit products. At times, CSCs identify topics for Knowledge Exchange webinars.

- **BOARD OF DIRECTORS.** Each CSC designates local Nominating Committee member(s) and alternate(s), and when the CSCs meet each fall, they discuss and suggest director candidates to their Nominating Committee member. The Nominating Committee then meets in January to select candidates to run for the Board of Directors.

- **TWO-WAY COMMUNICATION.** CSC members receive updates on developments at the branch office level. They also report on news from other farm organizations and on local issues and concerns that may impact customers.

- **ADVOCACY.** Often CSC meeting agendas include a public policy report to update customers on legislative and regulatory issues. When appropriate, CSC members are asked to contact elected officials on issues and concerns impacting Farm Credit East customers and the industries we serve and/or Farm Credit East's ability to serve these customers and industries.

- **FARM CREDIT UNIVERSITY.** CSC members take part in an educational program that provides an in-depth review of Farm Credit East and the Farm Credit System. Topics include: Farm Credit Funding; Governance; Lending Philosophy; Financial Services; Risk Management; and Congress and the Farm Credit Administration. This greater understanding of Farm Credit East and its governance positions CSC members to explore future directorship opportunities.

Customer Service Council Members

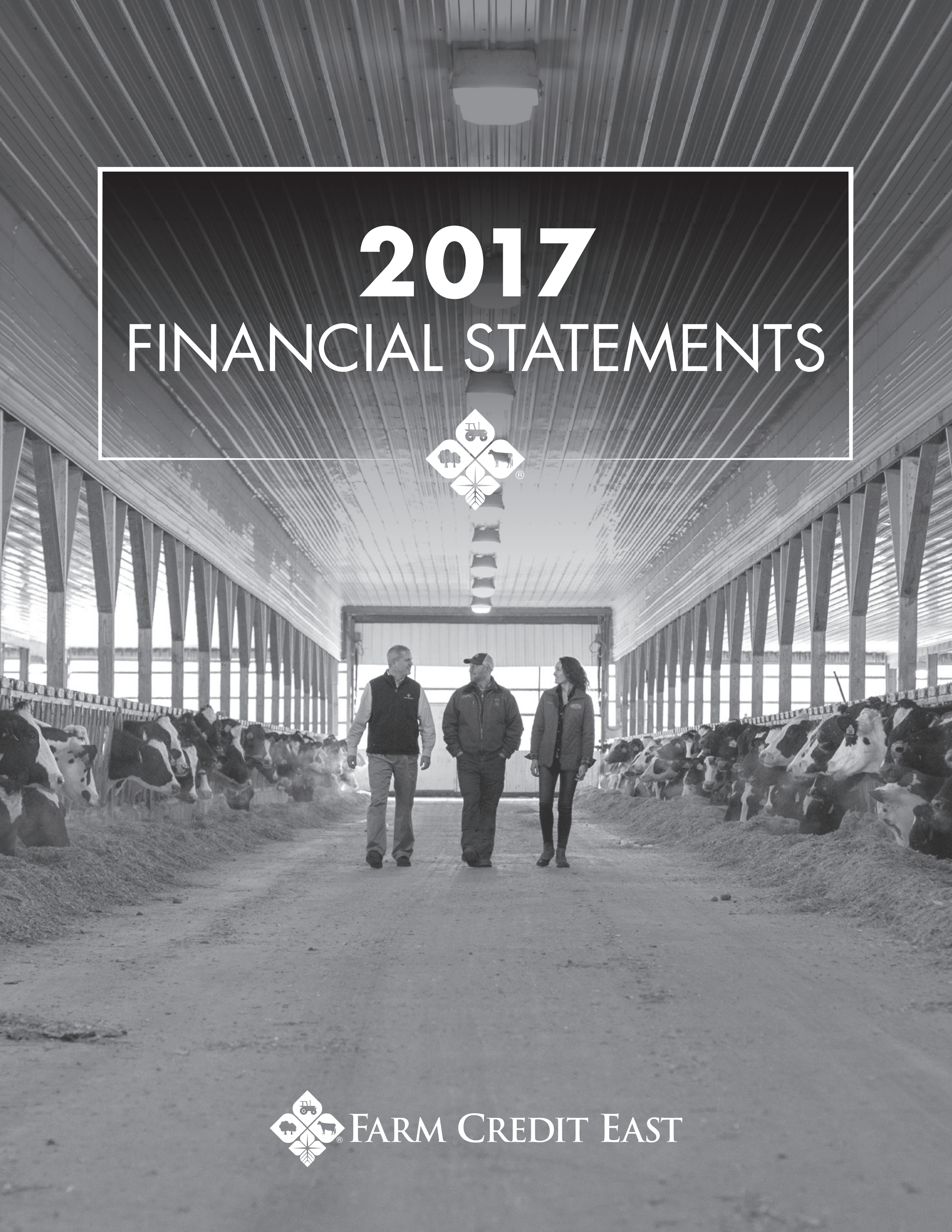
Customer Service Councils are typically comprised of 10 to 12 Farm Credit East members per office representing diversity in geography, operation type and size, gender, and age. Council members are appointed by the branch manager in consultation with the local board member and approved by the regional manager. At times, a non-Farm Credit East member, such as a farm-related business or farm organization representative, may be appointed to provide a more diverse perspective.

Members typically serve three-year terms and may be reappointed.

Farm Credit East board members also actively participate in CSC meetings to hear customer input and to provide a Board perspective.

If you're interested in being a part of your local Customer Service Council, please contact your local branch office manager for more information.

Middletown, N.Y. branch office summer customer service council meeting.



2017 FINANCIAL STATEMENTS

FARM CREDIT EAST

Consolidated Five-Year Summary of Selected Financial Data

(dollars in thousands)	2017	2016	2015	2014	2013*
BALANCE SHEET DATA					
Loans	$ 6,605,200	$ 6,288,175	$ 6,094,507	$ 5,788,644	$ 4,982,420
Less: Allowance for loan losses	75,751	77,583	76,361	74,039	72,616
Net loans	6,529,449	6,210,592	6,018,146	5,714,605	4,909,804
Cash	48,736	22,581	14,463	17,959	11,683
Investment in CoBank, ACB	224,509	216,249	207,106	196,441	164,000
Other property owned	1,447	766	1,946	2,913	6,147
Other assets	106,837	91,332	84,645	78,689	72,067
Total assets	$ 6,910,978	$ 6,541,520	$ 6,326,306	$ 6,010,607	$ 5,163,701
Obligations with maturities of one year or less	$147,009	$133,252	$115,361	$103,821	$80,303
Obligations with maturities greater than one year	5,414,435	5,161,666	5,050,959	4,827,439	4,152,555
Total liabilities	5,561,444	5,294,918	5,166,320	4,931,260	4,232,858
Capital stock and participation certificates	14,808	14,338	14,124	13,913	12,855
Additional paid-in capital	229,198	229,198	229,198	229,198	164,369
Allocated retained earnings	-	-	-	6,048	-
Unallocated retained earnings	1,157,496	1,057,428	962,070	871,829	776,796
Accumulated other comprehensive loss	(51,968)	(54,362)	(45,406)	(41,641)	(23,177)
Total members' equity	1,349,534	1,246,602	1,159,986	1,079,347	930,843
Total liabilities and members' equity	$ 6,910,978	$ 6,541,520	$ 6,326,306	$ 6,010,607	$ 5,163,701
STATEMENT OF COMPREHENSIVE INCOME DATA					
Net interest income	$ 197,405	$ 185,442	$ 177,679	$ 174,099	$ 146,523
Provision for loan losses	-	-	3,000	-	7,000
Noninterest expenses, net	36,056	32,681	28,876	25,218	21,799
Provision for income taxes	1,281	1,403	2,562	2,848	1,163
Net income	$ 160,068	$ 151,358	$ 143,241	$ 146,033	$ 116,561
Comprehensive income	$ 162,462	$ 142,402	$ 139,476	$ 127,562	$ 130,100
KEY FINANCIAL RATIOS					
Return on average assets	2.41%	2.38%	2.36%	2.55%	2.38%
Return on average members' equity	12.24%	12.40%	12.64%	13.81%	13.09%
Net interest income as a percentage of average earning assets	3.11%	3.05%	3.07%	3.19%	3.14%
Members' equity as a percentage of total assets	19.53%	19.06%	18.34%	17.96%	18.07%
Debt to members' equity	4.12:1	4.25:1	4.45:1	4.57:1	4.54:1
Net (charge-offs) recoveries as a percentage of average loans	0.00%	(0.01%)	(0.02%)	0.03%	0.04%
Allowance for credit losses as a percentage of loans and accrued interest receivable	1.31%	1.37%	1.43%	1.47%	1.68%
Common Equity Tier 1 (CET1) Capital	17.34%	n/a	n/a	n/a	n/a
Tier 1 Capital	17.34%	n/a	n/a	n/a	n/a
Total Capital	18.59%	n/a	n/a	n/a	n/a
Tier 1 Leverage	18.20%	n/a	n/a	n/a	n/a
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	19.97%	n/a	n/a	n/a	n/a
Permanent capital ratio	17.53%	17.16%	16.35%	16.23%	16.22%
Net income distribution					
Patronage dividends:					
Cash	$ 60,000	$ 56,000	$ 53,000	$ 51,000	$ 42,000

* Information presented prior to 2014 does not include Farm Credit of Maine.

Management's Discussion and Analysis

The following discussion summarizes the financial position and results of operations of Farm Credit East, ACA (Farm Credit East or the Association) as of December 31, 2017 with comparisons to prior years. The commentary includes material known trends, commitments, events, or uncertainties that have impacted or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee.

Farm Credit East's Annual and Quarterly reports to stockholders are available on the Association's website, **farmcrediteast.com** or can be obtained free of charge by calling the Association's main office at 860-741-4380. Annual reports are available 75 days after year end and quarterly reports are available 40 days after each calendar quarter end.

Dollar amounts are in thousands unless otherwise noted.

Business Overview

Farm Credit East is a lending institution of the Farm Credit System (the System). We are one of 69 associations in the System which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to provide sound and dependable credit to American farmers, ranchers and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region covering the entire states of Connecticut, Maine, Massachusetts, Rhode Island and New Jersey, six counties of New Hampshire and all of New York except two counties. The Association makes short and intermediate term loans for agricultural production and long term real estate mortgage loans. Additionally, we provide other related services to our borrowers, such as financial recordkeeping, payroll, tax return preparation, tax planning, farm accounting software, fee appraisals, farm business consulting, leasing, credit life insurance and multi-peril crop insurance, as an agent. Our success begins with our extensive agricultural experience and knowledge of the market.

As part of the System, the Association obtains the funding for its lending and operations from CoBank, ACB (CoBank). CoBank is a cooperative of which Farm Credit East is an owner and member. The Association, along with other Farm Credit System (FCS) entities, also purchases payroll and other human resource services from CoBank. The Association is materially affected by CoBank's financial condition and results of operations. To obtain a free copy of the CoBank Annual Report to Stockholders, please contact us at one of our offices or by accessing CoBank's website at www.cobank.com. We purchase technology and other operational services from Farm Credit Financial Partners, Inc (FPI). We are an owner of FPI, along with other FPI customers.

Year in Review

Farm Credit East benefits from serving a diverse portfolio of loans from the farm, forest and fishing industries, each of which has its own unique set of economic drivers. The operating climate for 2017 reflected this diversity. Consumer sensitive industries such as greenhouse, nursery, farm retail, fresh market vegetables, fresh market fruit and wineries generally benefited from an improving nonfarm economy. Rising consumer purchasing power and reduced unemployment were good news along with the continued trend toward "buy local". Commodity industries such as dairy, cash grains, some forest products and cranberries continued to face significant headwinds during 2017 due to an imbalance in supply and demand. Competition from other global suppliers and growing world stocks of storable commodities all led to lower producer prices in these industries. Most producers benefited from a stable cost climate for purchased inputs, although wages, health care costs and other services continued to be pressure points. Interest rates continued to rise with the Federal Reserve raising its benchmark rate by three times during 2017.

Farm Credit East experienced another year of strong financial performance in 2017. Loan volume increased 5.0 percent to $6.6 billion as of December 31, 2017 with average loan volume increasing 4.6 percent. Net income grew to $160.1 million in 2017, an $8.7 million increase compared to 2016. The 5.8 percent increase resulted primarily from higher net interest income and higher patronage income offset by an increase in operating expenses. From its 2017 earnings, Farm Credit East declared a $60.0 million patronage dividend which will be distributed in cash in 2018.

Overall loan quality measures for Farm Credit East remains strong. At December 31, 2017, 3.7 percent of loans were classified as adverse assets, compared to 3.4 percent at

December 31, 2016. Nonaccrual loans decreased to $35.6 million at December 31, 2017 from $53.2 million a year ago. The Association's allowance for credit losses totaled $86.8 million at December 31, 2017 or 1.3 percent of total loans.

Association capital levels remain well in excess of regulatory minimums. As of December 31, 2017, members equity totaled $1.3 billion and our permanent capital and total regulatory capital ratios were 17.5 percent and 18.6 percent respectively at December 31, 2017, both well in excess of the regulatory minimums of 7.0 percent and 8.0 percent.

The National Economy

The United States economy continues to pick up steam. Growth in the U.S. gross domestic product (GDP) averaged 2.6 percent for 2017, according to the Department of Commerce's most recent estimates. This represents a significant acceleration of economic growth from 1.5 percent in 2016. GDP growth is projected to continue to strengthen through 2018.

America's expanding economy is having a number of impacts; one of the more significant is the tightening of the labor market. The official unemployment rate fell from 4.8 percent in January of 2017, to 4.1 percent in December as job growth averaged a healthy 171,000 per month for 2017. Many employers report having to look more aggressively for workers as the nation approaches full employment. Over the year, average hourly earnings rose by 2.5 percent.

The improved economy was also reflected in consumer spending and sentiment. The Consumer Confidence Index was at 123.1 in December, only slightly below November's 17-year high of 128.6. This compares to a value of 113.7 at the end of 2016. That high level of consumer confidence has translated into increased consumer spending, a key component of the overall economy. Overall consumer spending increased by 5.3 percent in December, year-over-year.

Inflation has picked up somewhat, as might be expected with a more robust economy. Consumer price inflation, including food and energy, increased to 2.1 percent for 2017, slightly above the Federal Reserve's target of two percent. In response to this and a tightening job market, the Fed made three interest rate moves over the course of the year, bringing the Federal Funds rate to 1.50 percent resulting in a prime rate of 4.50 percent as of December 2017. Projections indicate that the Fed could make two or three 1/4-point rate increases in 2018.

The housing market remains relatively strong. While still well below peak levels, housing starts averaged 1.2 million for 2017, in line with last year's average. The S&P/Case-Shiller 20-City Home Price Index rose by 6.6 percent from November 2016 to November 2017.

In welcome news for exporters, the U.S. dollar declined in value somewhat against foreign currencies in 2017. The dollar had a trade-weighted index value of 88.9 in December compared to 95.4 one year earlier, representing a decline of just under 7 percent. While this should help support agricultural exports, improving economic conditions in the U.S. relative to other major trading partners will likely limit the dollar's drop in value.

Globally, economic growth is expected to continue its momentum going into 2018. The overall world economy is projected to grow by 3.0 percent in 2018. Advanced economies are expected to show increased growth at 2.1 percent, while emerging markets are cooling off, and expected to grow by 3.8 percent, lower than in the past. China, long a leader in global economic growth, is projected to see growth slow from 4.2 percent in 2017 to 3.9 percent in 2018.

Slowing growth in the developing world, along with rising agricultural productivity, has contributed to a global glut of commodities. While trends of population growth and a growing middle class in the developing world support a long-term bullish outlook for U.S. agriculture, in the near term, many commodities markets are expected to remain soft. USDA long-term projections indicate reduced farm income through at least the next crop year before global food and biofuel demand equalizes with supply, and farm incomes begin to slowly rise.

New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Act of 2017 (TCJA) were enacted in late 2017, effective January 1, 2018. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent. While the Association did not recognize a net expense from the decrease in the federal corporate tax rate in its 2017 financial results and anticipates that our ongoing income tax expense will be lower going forward, the full impact of the TCJA is difficult to predict and may not be fully known for several years. Changes that could affect the Association's business and our customers include, but are not limited to, modifications to deductions surrounding interest expense and equipment purchases and deductions impacting agricultural producers who sell their products to cooperatives.

The Farm Economy

Net farm income in the Northeast region is estimated to have increased slightly in 2017, but is forecast to decline in 2018. Nationally, net farm income has declined by half since 2013, from $124 billion in 2013, to a low of $62 billion in 2016. 2017 net farm income is estimated by USDA at $63 billion.

Agricultural Outlook

Dairy: Northeast dairy farms continue to show a wide range of operating results, with many farms managing to remain profitable, while others struggle after several years of low milk prices. Most are expected to end 2017 slightly above break-even. An increase in milk prices has been beneficial to many farms, but in 2018, milk prices are expected to decline again.

Despite relatively weak milk prices, national milk production continued to increase in 2017, which has prolonged the supply/demand imbalance and caused marketing challenges in some regions.

Cash Field Crops: This category includes corn for grain, soybeans, hay, wheat and some small grains. 2017 was a good growing year for much of the country, which means ample supplies. Cash field growers in general should be modestly above break-even for 2017, depending on their individual yields and marketing strategies.

Commodity prices have significantly declined from several years ago. Pricing for corn is around $3.20/bu. Markets remain soft for soybeans and wheat. Input costs, namely fertilizer, have decreased slightly. In general, margins have been narrowed due to the lower market prices.

Timber and Forest Products: The forest products industry encompasses a variety of business types, and their economics sometimes do not track together. We are currently seeing a divergence in financial performance within the industry, driven heavily by the regional impact of a significant number of pulp and paper mill closings in Maine.

Lumber prices have shown significant increases in the last year. Tight supplies around the country have kept order files long and price movement upward. Some of this may be tied to strong housing demand as well as rebuilding efforts from natural disasters in 2017. Sawmills continue to struggle with the limited markets and significant price reductions for residuals, but recent lumber price improvements have more than offset this shortfall.

Biomass generation plants have struggled due to low energy prices. Consequently three biomass plants in Maine ceased power production in mid-2016. Maine has seen four pulp and paper mills close in the last two years, and one idle half of its capacity. This has impacted both pulpwood prices and sawmill residuals negatively.

Loggers in Northern Maine have faced substantial challenges. Many contractors have been unable to harvest sufficient volumes of wood to generate positive cash flows, with some idling their operations. Contractors in Southern New England and New York have generally fared better.

Livestock: This is a very diverse sector ranging from beef or other protein producers, both full- and part-time, as well as equine, which itself can be broken down into racing/breeding, and boarding and training enterprises.

Most livestock product prices are expected to fall in 2018 due to larger supply. Recreational equine markets are supported principally by local recreational demand and nonfarm income, and have been tracking upward along with the general economy.

The NY horse racing industry has been doing well. Prices for NY thoroughbreds are at all-time highs, which is positive for breeding farms and the industry at large.

Fruit: This is a diverse category consisting of fresh market and processing apples, blueberries, grapes for juice, farm wineries, peaches, cranberries, and small fruits.

Apples: New York's 2017 apple production is estimated at 28 million bushels, or 1.20 billion pounds, better than last year, although the yield varied by region. Despite some severe weather during the growing season, New York's Hudson Valley and some other regions harvested a large crop. Prices have generally held up well.

Juice Grapes: Favorable growing conditions led to an above average crop in the East for the second year in a row. New York produced 350 million pounds of juice grapes this year, two percent more than in 2016, and nearly 21 percent more than in 2015. While juice grape prices have been low for years, smaller harvests in Washington and Michigan could strengthen grower prices somewhat.

Wine: New York wineries reported a somewhat slow spring for sales, but stronger performance over the summer. There are some concerns that the craft beverage market is starting to become saturated with an increasing number of wineries as well as farm distilleries and breweries entering the market. In many parts of the Northeast, it has been a good growing season for wine grapes.

Small Fruits: Excellent prices have been reported for highbush blueberries in New Jersey due to freezes in other growing regions. Meanwhile, in Maine, the wild blueberry market is oversupplied with prices at a 10-year low. A wet spring made for a difficult year for other berries.

Cranberries: The cranberry market continues to struggle with oversupply, and open market prices are extremely low, well below cost of production. Cranberry growers who belong to a cooperative and receive returns based on value-added marketing are better positioned than those who sell commodity berries on the open market.

Manufacturing, Marketing & Processing: Value-added businesses that process, market and/or otherwise add value to raw agricultural commodities are eligible for financing when they are owned by eligible borrowers, or when organized as a cooperative and financed by CoBank under its lending authorities. In addition to directly financing such eligible borrowers, Farm Credit East purchases loan participations through CoBank, other System entities and commercial banks in such eligible businesses.

Businesses range in size from small farm-based specialty food processors to large marketing cooperatives. These loans encompass diverse businesses including sawmills, dairy processing, fruit juice, canned & frozen vegetables, preparation of fresh vegetables & fruits, and seafood processing. There is a wide range of economic drivers and financial performance among these companies. These businesses are a critical component of the farm, forest and fishing economy as they create markets for commodities, value-added opportunities for producers and jobs and economic activity in local communities, often in rural areas.

Greenhouse and Nursery: Greenhouse and Nursery growers throughout the Northeast generally reported an average-to-good 2017 season. Spring 2017 was cool and rainy, but most growers were able to recover the bulk of lost sales. Growers have reported that demand and pricing trended slightly higher this season, particularly in nursery crops. Landscapers have been very busy. Energy costs have remained moderate, helping keep greenhouse production costs in line.

For garden centers and retail growers, results have been more varied. The rainy spring and tough competition from chain stores made 2017 challenging. Shortages of some plant materials, particularly caliper-sized trees, are being experienced, however this situation will largely resolve itself over the next couple of seasons as new plantings come up to size. As with other agricultural sectors, labor supply continues to be a major issue.

Aquatic / Fishing: The Maine lobster industry is coming off of several good years, with high catch levels and strong prices. However in 2017, a cold spring, high bait prices, and a stormy summer have combined for a somewhat disappointing season. Dock prices along with catch levels were down for the first half of the season. Scallop prices in 2017 were down slightly from last year, due to exceptional catch levels. For groundfish, prices have held steady, and the catch has been good on the species they are allowed to land.

Loan Portfolio

Loan outstanding were $6.6 billion at December 31, 2017 an increase of $317.0 million, or 5.0 percent from the December 31, 2016 balance of $6.3 billion. The combined period to period growth was driven primarily by our branch based farm loan portfolio which grew $189.0 million, or 4.3 percent, as strong demand for agricultural products benefited our producers. Our residential country living mortgage program grew $86.2 million, or 13.6 percent, as reasonably strong demand continued in our Local Service Area (LSA) for this product and our capital markets group grew $45.7 million, or 3.7 percent.

Loans and accrued interest by type are reflected in the following table:

December 31	2017		2016		2015	
Real estate mortgage	$ 3,067,210	46.3%	$ 2,868,157	45.5%	$ 2,771,584	45.3%
Production and intermediate	2,441,441	36.8	2,316,248	36.7	2,243,538	36.7
Agribusiness	954,114	14.4	979,907	15.5	958,392	15.7
Rural infrastructure	85,982	1.3	87,264	1.4	81,633	1.4
Rural residential real estate	56,766	0.9	55,960	0.9	57,831	0.9
Other	22,910	0.3	-	0.0	-	0.0
Total Loans	$ 6,628,423	100.0%	$ 6,307,536	100.0%	$ 6,112,978	100.0%

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size.

The Association purchases loan participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition we sell a portion of certain large loans to other System and non-System entities to reduce risk and comply with lending limits we have established. Our volume of participations purchased and sold as of December 31 are reflected in the following table.

December 31	2017	2016	2015
Purchased participations	$ 1,092,584	$ 999,186	$ 965,440
Sold participations	$ 780,536	$ 772,359	$ 754,478

Loans are originated and serviced within the LSA in New York, New Jersey, Maine and throughout Southern New England. The geographic distribution of loans follows. As previously mentioned, we purchase loan participations outside our territory – which are included in other states in the following table.

December 31	2017	2016	2015
New York	48%	48%	48%
New Jersey	12	12	12
Maine	7	7	8
Massachusetts	6	6	6
Connecticut	6	6	6
Rhode Island, New Hampshire and other states	21	21	20
Total	100%	100%	100%

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

December 31	2017	2016	2015
Dairy	23.1%	22.7%	21.7%
Cash Field	10.5	10.6	10.7
Timber	10.0	11.0	11.3
Livestock	9.5	9.1	9.2
Fruit	8.9	8.8	8.7
Processing and Marketing	8.0	8.3	8.6
Aquatic	4.4	3.7	3.7
Farm Services	3.6	3.7	3.9
Greenhouse	3.5	3.8	4.1
Nursery	3.5	3.8	4.1
Vegetables	3.2	3.2	3.0
Potato	3.1	3.3	2.9
All Other	8.7	8.0	8.1
Total	100%	100%	100%

Credit Commitments

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 agreement contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2017.

	Less than 1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
Commitments to extend credit	$ 1,237,041	$ 507,669	$ 180,056	$ 24,127	$ 1,948,893
Standby letters of credit	19,183	2,660	-	238	22,081
Commercial letters of credit	1,482	24,015	4,731	6,213	36,441
Total commitments	$ 1,257,706	$ 534,344	$ 184,787	$ 30,578	$ 2,007,415

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, accruing restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. High Risk assets consist of impaired loans and other property owned. The following table summarizes high risk assets and delinquency information:

December 31	2017	2016	2015
Nonaccrual	$ 35,600	$ 53,172	$ 59,883
Accruing loans 90 Days or more past due	1,821	2,632	2,759
Accruing restructured loans	643	68	72
Total Impaired Loans	$ 38,064	$ 55,872	$ 62,714
Other Property Owned	1,447	766	1,946
Total High Risk Assets	$ 39,511	$ 56,638	$ 64,660
Impaired Loans to Total Loans	0.58%	0.89%	1.03%
High Risk Assets to Total Loans	0.60%	0.90%	1.06%
Nonaccrual Loans to Total Loans	0.54%	0.85%	0.98%
Delinquencies as a % of performing loans	0.21%	0.28%	0.23%

The reduction in high risk assets was largely due to a lower level of nonaccrual loans in our portfolio. Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of all principal and/or interest. Nonaccrual loans totaled $35.6 million a decrease of $17.6 million from the end of 2016. The reduction is primarily a result of several large credit relationships paying out or being reinstated to accrual status. These decreases were somewhat offset by credit quality deterioration impacting a small number of customers in dairy, processing and marketing and logging who were transferred into nonaccrual during the year.

Other property owned is comprised of real or personal property that has been acquired through foreclosure or deed in lieu of foreclosure. At December 31, 2017 other property owned totaled $1.4 million, an increase of $0.6 million from the end of 2016. The increase during 2017 reflects four properties acquired during the year totaling $0.7 million which were offset by one property disposed of totaling $0.1 million. Other property owned was $1.9 million at December 31, 2015. The Association is actively marketing all other property owned assets and intends to dispose of all properties in an orderly and timely fashion.

For additional loan type information, see Note 3 to the consolidated financial statements “Loans, Loan Quality and Allowance for Credit Losses”.

Credit Quality Conditions and Measurements in the Loan Portfolio

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS) which is used by all System institutions. The following table presents statistics based on UCS classified as a percent of total loans and related accrued interest.

December 31	2017	2016	2015
Acceptable	93.54%	92.29%	93.93%
Special mention	2.77	4.33	3.07
Substandard/doubtful	3.69	3.38	3.00
Total	100.00%	100.00%	100.00%

During 2017 loans classified Acceptable and Special Mention improved by 1.3 percent and 1.5 percent of total loans respectively, due to better overall financial performance with loans to dairy, cash grains and some forest products customers. The level of adversely classified loans (“Substandard”, “Doubtful” and “Loss”) as a percent of total loans and related accrued interest increased slightly from 3.4 percent a year ago to 3.7 percent at December 31, 2017. While overall loan quality measures remain strong at December 31, 2017, we do expect some deterioration as we enter 2018 due to lower commodity prices and other factors impacting our customers.

Credit Risk Management

Credit risk arises from the inability of an obligor to meet its repayment obligation and exists in our outstanding loans, unfunded loan commitments and letters of credit. We manage credit risk associated with our lending activities through an assessment of the credit risk profile of each individual borrower based on an analysis of the borrower’s credit history, repayment capacity, financial position and collateral. Repayment capacity focuses on the borrower’s ability to repay the loan based on cash flows from operations or other sources of income. The Association also manages credit risk by establishing limits for single borrower hold positions and industry concentrations based on underlying risks. The geographic and commodity diversity in the loan portfolio, coupled with disciplined underwriting reduces the potential for significant credit losses.

To further manage portfolio risk, the Association is a Preferred Lender under the USDA’s Farm Service Agency guarantee program and as of December 31, 2017 has guarantees totaling $238.0 million. In addition, the Association has loan guarantees with State agencies totaling $16.3 million. The Association also participates in the Farmer Mac Long Term Standby Commitment to Purchase Program and as of December 31, 2017, commitments totaling $20.2 million were in this program.

Allowance for Credit Losses

The allowance for loan losses reflects an adjustment to the carrying value of our total loan portfolio for inherent credit losses related to outstanding balances. We provide line of credit financing to customers to cover short-term and variable needs. As a result, Farm Credit East has significant unfunded commitments for which we maintain a separate reserve. This reserve is reported as a liability on the Association's consolidated balance sheet. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the allowance for credit losses (ACL).

The ACL reflects our assessment of the risk of probable and estimable loss related to outstanding balances and unfunded commitments in our loan portfolio. The ACL is maintained at a level consistent with this assessment, considering such factors as loss experience, portfolio quality, portfolio concentrations, current and historical production conditions, modeling imprecision, our mission and economic and environmental factors specific to our portfolio segments.

The ACL is based on regular evaluation of our loan portfolio. Our methodology consists of analysis of specific individual loans and evaluation of the remaining portfolio. Senior level staff approves specific loan reserve related activity. The Audit Committee of the Board of Directors reviews and approves the allowance for credit losses on a quarterly basis. The allowance for credit losses at each period end was considered by management to be adequate.

Comparative allowance coverage, as a percentage of key loan categories, are reflected in the following table.

December 31	2017	2016	2015
Components:			
Allowance for loan losses	$ 75,751	$ 77,583	$ 76,361
Reserve for unfunded commitments	11,044	8,932	10,859
Allowance for Credit Losses (ACL)	$ 86,795	$ 86,515	$ 87,220
ACL as a percentage of:			
Total loans	1.31%	1.38%	1.43%
Nonaccrual loans	243.81%	162.71%	145.65%
Impaired loans	228.02%	154.85%	139.08%

The allowance for credit losses increased slightly as net recoveries of $0.3 million were recorded during 2017. There were no additions or reversals to the ACL during 2017 or 2016. There was a $3.0 million provision during 2015.

For further discussion regarding the allowance for credit losses, refer to Note 3 to the consolidated financial statements, "Loans, Loan Quality and Allowance for Credit Losses".

Results of Operations

Net income was $160.1 million for the twelve months ending December 31, 2017 an increase of $8.7 million, or 5.8 percent, from $151.4 million for 2016. Net income was $143.2 million for the twelve months ending December 31, 2015. Our strong earnings primarily reflect higher net interest income and higher patronage income, offset by higher operating expenses. The following table reflects key performance results *($ in millions)*:

For the Year Ended December 31	2017	2016	2015
Net income	$ 160.1	$ 151.4	$ 143.2
Net interest income	$ 197.4	$ 185.4	$ 177.7
Net interest margin	3.11%	3.05%	3.07%
Return on average assets	2.41%	2.38%	2.36%
Return on average members equity	12.24%	12.40%	12.64%

Changes in the significant components impacting the results of operations are summarized in the following table *($ in millions)*:

Increase (decrease) due to:	2017 versus 2016	2016 versus 2015
Net interest income	$ 12.0	$ 7.8
Provision for loan losses	0.0	3.0
Noninterest income	1.8	3.6
Noninterest expenses	(5.2)	(7.4)
Provision for income taxes	0.1	1.2
Total	$ 8.7	$ 8.2

Net Interest Income

Net interest income increased $12.0 million or 6.5% to $197.4 million in 2017, compared to $185.4 million in 2016. Net interest income was $177.7 million for the twelve months ending December 31, 2015. The following table quantifies the changes in net interest income ($ *in millions*):

Changes in net interest income due to:	2017 versus 2016	2016 versus 2015
Volume	$ 5.1	$ 5.6
Nonaccrual and other income	1.7	(1.0)
Rates and margin	6.9	3.8
Hedging activity	(1.7)	(0.6)
Total	$ 12.0	$ 7.8

The Association's average loan rate was 4.45 percent in 2017, up from 4.03 percent in 2016 while the Association's average cost of debt funding increased by similar amounts to 1.76 percent in 2017 compared to 1.31 percent in 2016. The average interest rate spread was 2.69 percent for 2017 down slightly from 2.72 percent in 2016. The decline in overall spread from 2016 was due primarily to competitive pressure seen in our lending territory, loan volume growth with larger loans with lower risk profiles and slightly higher debt cost. Of the $12.0 million increase from 2016, $5.1 million was due to increased debt funded loan volume. Collection of nonaccrual and other interest income increased by $1.7 million over 2016. The increased return on equity offset by slightly lower margin over cost of funding was $6.9 million while the Association's hedging strategy contributed $1.7 million to net interest income, a $1.7 million decrease from 2016.

Information regarding the average daily balances and average rates earned and paid on our portfolio are presented in the following table:

For the Year Ended December 31	2017	2016	2015
Net interest income	$ 197,405	$ 185,442	$ 177,679
Average balances:			
Average interest earning loans	$ 6,352,757	$ 6,075,120	$ 5,788,094
Average interest bearing liabilities	$ 5,233,586	$ 5,049,174	$ 4,848,278
Average yields and rates:			
Interest earning loan yield	4.45%	4.03%	3.86%
Rate paid on interest bearing liabilities	1.76%	1.31%	1.11%
Interest rate spread	2.69%	2.72%	2.75%
Net interest margin (interest income as a percentage of average interest earning loans)	3.11%	3.05%	3.07%

Provision for Loan Losses/(Loan Loss Reversals)

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio. The allowance for loan losses covers the funded portion of loans outstanding, while the reserve for unfunded commitments covers losses on unfunded lending commitments.

Farm Credit East did not record a provision for loan losses or loan loss reversal in 2017. This is primarily due to a lower level of nonaccruals and a slightly improved credit quality recognized during the year which was counterbalanced by loan growth. The Association recognized no provision for loan losses in 2016 and a $3.0 million provision for loan losses in 2015.

Noninterest income

Noninterest income increased $1.8 million, or 3.1 percent, to $59.8 million for the twelve months ended December 31, 2017 as compared to $58.0 million in 2016. Noninterest income is primarily composed of patronage income, financially related services income, loan fees and compensation on participation loans. Noninterest income totaled $54.4 million for the twelve months ending December 31, 2015.

Patronage income from CoBank is a significant part of the Association's noninterest income. Patronage income is based on the average balance of the Association's note payable to CoBank. For the year ended December 31, 2017, CoBank patronage income totaled $23.5 million an increase of $0.8 million from $22.7 million in 2016. The patronage rates paid by CoBank on the Association's note payable were 45 basis points in 2017, 2016 and 2015. Patronage income from CoBank was $21.8 million for the twelve months ending December 31, 2015.

The Association also receives patronage income from CoBank and other Farm Credit entities that purchased interests in loans originated by the Association. For the twelve months ended December 31, 2017, this revenue totaled $6.1 million compared to $5.3 million in 2016 and $4.3 million in 2015.

Noninterest income also includes fees for financially related services, loan fees, compensation on participation loans and other noninterest income. These noninterest income sources totaled $30.2 million for the twelve months ending December 31, 2017 an increase of $0.2 million, or 0.7 percent from 2016. Financially related services fee income is the largest component with $25.4 million in revenue for the year ended December 31, 2017 an increase of $0.4 million, or 1.6 percent, compared to 2016. Our continued marketing efforts for financially related services have resulted in more customers utilizing our farm records, business consulting, appraisal, and tax services. These other noninterest income items were $23.5 million for the twelve months ending December 31, 2015.

Noninterest expense

Noninterest expense totaled $95.8 million for the twelve months ending December 31, 2017 an increase of $5.2 million, or 5.7 percent, from $90.7 million in 2016. Noninterest expense was $83.3 million for the twelve months ending December 31, 2015.

Salaries and employee benefits is the primary component of noninterest expense and totaled $60.2 million for the twelve months ended December 31, 2017, an increase of $4.4 million from $55.8 million for the twelve months ending December 31, 2016. The increase is primarily a result of higher retirement plan expenses of $1.4 million and increased health insurance expenses of $0.3 million combined with annual merit and incentive compensation increases and slightly higher staffing levels. Salary and employee benefits were $51.9 million for the twelve months ending December 31, 2015.

Information technology services were $11.0 million for the twelve months ended December 31, 2017, an increase of $1.9 million from the twelve months ended December 31, 2016. The increase is primarily a result of higher expenses for new software, digital and cyber security initiatives. Insurance fund premiums were $7.2 million in 2017, a decrease of $0.7 million from December 31, 2016. Insurance fund premium rates are set by the Farm Credit System Insurance Corporation and were 15 basis points of adjusted insured debt obligations during 2017. The rates were 17 basis points in 2016. Noninterest expenses also include occupancy and equipment expense, other operating expenses and other property owned expenses.

Provision for Income Taxes

The provision for income taxes decreased $0.1 million to $1.3 million for the twelve months ending December 31, 2017. The decrease is a result of lower income attributable to our taxable entity non patronage business. The effective tax rate was 0.8 percent for the year ended December 31, 2017, as compared to 0.9 percent for 2016. The Association's effective tax rate is significantly less than the applicable federal and state statutory income tax rates due to tax deductible patronage distributions and our tax exempt business activities. For the twelve months ending December 31, 2015 the provision for income taxes was $2.6 million.

The TCJA was enacted in late 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 (GAAP), the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). Management's position is that none of the deferred tax benefits will be realized in future periods and accordingly a valuation allowance is provided against net deferred tax assets. Accordingly, no net tax benefit was recognized.

For additional information, see Note 9 "Income Taxes" to the consolidated financial statements.

Patronage Distributions

The Association has a patronage program that allows it to distribute its available net earnings to its stockholders. The patronage program consists of a qualified cash distribution and a non-qualified distribution. This program provides for the application of net earnings in the manner described in our Bylaws. When determining the amount and method of patronage to be distributed, the Board considers the setting aside of funds to increase retained earnings to meet capital adequacy standards established by Farm Credit regulations, to meet our internal capital adequacy standards to support competitive pricing at targeted earnings levels, and for reasonable reserves. Patronage is distributed in accordance with cooperative principles, as determined by the Board and in accordance with Association by-laws. The distributions are sent to eligible customers shortly after the end of the year. For the year ended December 31, 2017, the Association declared a $60.0 million qualified patronage dividend which will be distributed 100 percent in cash in 2018. For the years ended December 31, 2016 and 2015, the Association declared a $56.0 million and $53.0 million in qualified patronage dividends respectively which were distributed 100 percent in cash in February of the following year.

Liquidity and Funding Sources

The Association's primary source of funding is CoBank. Funds are obtained through borrowing on a revolving line of credit governed by a General Financing Agreement. At December 31, 2017, the Association's notes payable to CoBank totaled $5.4 billion which is a $0.2 billion increase from $5.2 billion at December 31, 2016. The Association's note payable was $5.0 billion at December 31, 2015.

The line of credit available to the Association is formula-driven based on Association loan volume and credit quality. Because of the funding relationship with CoBank, the Association does not maintain large balances in cash or other liquid investments. Substantially all of the Association's assets are pledged as security to CoBank. The Association is in full compliance with its financing agreement with CoBank and has capacity under the agreement to borrow funds needed to meet anticipated loan demand.

The Association minimizes its interest rate risk by funding loans with debt from CoBank that has similar pricing characteristics as the assets being funded. As a result, the Association is not subject to substantial interest rate risk. The Association's loan portfolio consisted of the following breakdown by pricing type:

December 31	2017	2016	2015
Pricing Type:			
Variable rate loans	51.6%	55.5%	57.1%
Indexed loans (Prime, ARM, LIBOR)	16.1%	17.0%	16.0%
Fixed rate loans	32.3%	27.5%	26.9%

The interest rates charged to the Association on debt, by and large, have the same pricing characteristics as the loans funded. For example, fixed rate loans are funded with fixed rate debt with the same term. The Association's goal is to fund fixed and indexed rate loans with 100 percent matching debt to the extent possible.

The Association's equity is invested in variable rate loans. The yield on equity funded loans is the average variable portfolio rate. As rates rise or fall, earnings on equity funded loans go up and down. The Association also uses interest rate contracts (swaps) with CoBank to better manage its equity investment in variable rate loans. When rates are low, the Association earns more on its interest rate contracts, offsetting lower earnings on its equity position and serving to stabilize net interest income. (Conversely, when rates rise, the Association will earn less on its contracts and more on its equity position). The average length of the Association's contracts is 18 months. The effect of this hedging strategy diminishes if rates stay stable for two or more years.

The swaps also extend the duration of the Association's equity position resulting in increased earnings from the normal yield curve and some change in the value of equity due to changes in interest rates. The Association's interest rate hedging program is summarized in the following table ($ *in millions*):

December 31	2017	2016	2015
Swap notional amount	$ 970.0	$ 946.0	$ 908.0
Derivative Liabilities	$ (7.0)	$ (3.7)	$ (0.4)
Cash Settlements	$ 0.8	$ 3.5	$ 3.2

For additional information, see Note 14 to the consolidated financial statements "Fair Value Measurements".

Members' Equity

Total members' equity totaled $1.3 billion at December 31, 2017. Members' equity at December 31, 2016 and 2015 was comprised of unallocated retained earnings of $1.2 billion, additional paid-in capital of $229.2 million, customer capital stock and participation certificates of $14.8 million and accumulated other comprehensive loss of $52.0 million.

Capital Plan and Regulatory Requirements

The Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved as part of the Association's annual Business Plan.

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

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

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

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

- A CET1 Capital Ratio of 4.5 percent;
- A Tier 1 Capital Ratio (CET 1 capital plus additional tier 1 capital) of 6 percent; and
- A Total Capital Ratio (tier 1 plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 capital divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.

The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirement. If capital ratios fall below the regulatory minimum plus buffer amounts, cash patronage distributions and discretionary senior officer bonuses are restricted or prohibited without prior FCA approval. The

New Capital Regulations establish a three-year phase-in of the capital conservation buffer beginning January 1, 2017. There is no phase in of the leverage buffer.

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

	2017	FCA Minimum with Buffer
Common Equity Tier 1 Capital Ratio (CET1)	17.34%	7.00%
Tier 1 Capital Ratio	17.34%	8.50%
Total Regulatory Capital Ratio (TRC)	18.59%	10.50%
Tier 1 Leverage Ratio	18.20%	5.00%
URE Leverage Ratio	19.97%	1.50%
Permanent Capital	17.53%	7.00%

Prior years' capital ratios are as follows:

	Total Surplus Ratio	Core Surplus Ratio
2016	16.93%	16.93%
2015	16.12%	16.12%
2014	15.99%	15.95%
2013	15.96%	15.96%
2012	15.36%	15.36%

For additional information, see Note 7 to the consolidated financial statements "Members' Equity".

Capital Adequacy and Business Planning

In conjunction with the annual business plan and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes target levels for capital and capital ratio minimum baselines. The capital adequacy plan assesses the capital level necessary for financial viability and to provide growth. Effective January 1, 2018, the Board established capital ratio baselines under the New Capital Regulations as follows:

	2018 Target	Policy Minimum	FCA Minimum with Buffer
Common Equity Tier 1 Capital Ratio (CET1)	17.62%	12.00%	7.00%
Tier 1 Capital Ratio	17.62%	13.50%	8.50%
Total Regulatory Capital Ratio (TRC)	18.87%	15.50%	10.50%
Tier 1 Leverage Ratio	18.46%	6.00%	5.00%
URE Leverage Ratio	20.33%	2.50%	1.50%
Permanent Capital	17.81%	12.00%	7.00%

Regulatory Matters

As of December 31, 2017, the Association had no enforcement actions in effect and FCA took no enforcement actions on the Association during the year.

Critical Accounting Estimates

Management's discussion and analysis of the financial condition and results of operations are based on the Association's consolidated financial statements, which we prepare in accordance with accounting principles generally accepted in the United States of America. In preparing these financial statements, we make estimates and assumptions. Our financial position and results of operations are affected by these estimates and assumptions, which are integral to understanding reported results.

Note 2 to the accompanying consolidated financial statements contains a summary of our significant accounting policies. Of these policies, we consider certain ones critical to the presentation of our financial condition, as they require us to make complex or subjective judgments that affect the value of certain assets and liabilities. Some of these estimates relate to matters that are inherently uncertain. Most accounting policies are not, however, considered critical. Our critical accounting policies relate to determining the level of our allowance for credit losses and the valuation of our derivative instruments with no ready markets. Management has reviewed these critical accounting policies with the Audit Committee of the Board of Directors.

Business Outlook

We are currently in the midst of a cyclical downturn in many agricultural commodity markets. Producers will have to weather a period of soft prices for crops and animal proteins, including dairy.

Things look better for the general U.S. economy. GDP growth for 2018 is expected about 2.5 percent. While still low by historical standards, interest rates have begun to rise and several more rate hikes are expected in 2018. The improving job market is likely to boost workers' earnings, and grow consumer spending Business investment is poised to increase as companies carry out investment and expansion plans that have been deferred in the recent past and companies should benefit from lower tax rates due to the recently passed tax reform law.

Global economic growth is appears to be improving, though geopolitical events are always a risk

Thus, the overall outlook for Northeast producers is mixed. Continued positive economic growth in the U.S. will be good for domestic demand for agricultural products, though global supply and demand imbalances will continue to put downward pressure on commodity prices.

Forward-Looking Statements

Certain information included in this report contains 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 "believes," "could," "estimates," "anticipates," "may," "should," "will," or other variations of these terms or similar expressions are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience, historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to fluctuations in the economy, the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market, and the actions taken by the Federal Reserve in implementing monetary policy.

Report of Management

The consolidated financial statements of Farm Credit East, ACA (the Association) are prepared by management, who is 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 as appropriate in the circumstances. The consolidated financial statements, in the opinion of management, fairly present the financial position of Farm Credit East. Other financial information included in this 2017 annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association's internal auditors and risk management staff perform audits of the accounting records, review accounting systems and internal controls and recommend improvements as appropriate. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, our independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The chief executive officer, as delegated by the Board of Directors, has overall responsibility for the Association's system of internal controls and financial reporting, subject to the review of the Audit Committee of the Board of Directors. The Audit Committee consults regularly with management and meets periodically with the independent auditors and internal auditors to review the scope and results of their examinations. The Audit Committee reports regularly to the Board of Directors. Both the independent auditors and the internal auditors have direct access to the Audit Committee.

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

William J. Lipinski
Chief Executive Officer

Matthew W. Beaton
Chair of the Board

Andrew N. Grant
Chief Financial Officer

March 6, 2018

Report on Internal Control over Financial Reporting

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2017. In making the assessment, management used the 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.

William J. Lipinski
Chief Executive Officer

Andrew N. Grant
Chief Financial Officer

March 6, 2018

Report of Audit Committee

The consolidated financial statements were prepared under the oversight of the Audit Committee (Committee). The Committee is composed of five members from the Farm Credit East, ACA (Association) Board of Directors. In 2017, the Committee met five times in person and held one conference call. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Association's Internal Control Policy and the Audit Committee Scope of Responsibility. In addition, the Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as our independent auditors for 2017.

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

In this context, the Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2017, with management. The Committee also receives from PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee approves all non-audit services provided by PwC. In 2017 PwC was engaged for tax services and the Committee concluded these services were not incompatible with maintaining the auditors' independence.

Based on the foregoing review and discussions, and relying thereon, the Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2017 and for filing with the FCA.

John P. Knopf

John P. Knopf
Audit Committee Chair

Other Committee Members:
Tim C. Chan
Laurie K. Griffen
Douglas W. Shelmidine
Peter Triandafillou

March 6, 2018

pwc

Report of Independent Auditors

To the Board of Directors of Farm Credit East, ACA

We have audited the accompanying consolidated financial statements of Farm Credit East, ACA and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in members' 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 Company'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 Company'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 Farm Credit East, 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

Hartford, Connecticut
March 6, 2018

PricewaterhouseCoopers LLP, 185 Asylum Street, Suite 2400, Hartford, CT 06103
T: (860) 241 7000, F: (860) 241 7590, www.pwc.com/us

Consolidated Balance Sheets

December 31 (dollars in thousands)	2017	2016	2015
ASSETS			
Loans	$ 6,605,200	$ 6,288,175	$ 6,094,507
Less: Allowance for loan losses	75,751	77,583	76,361
Net loans	6,529,449	6,210,592	6,018,146
Cash	48,736	22,581	14,463
Accrued interest receivable	23,266	19,467	18,683
Investment in CoBank, ACB	224,509	216,249	207,106
Premises and equipment, net	25,479	20,063	19,500
Other property owned	1,447	766	1,946
Other assets	58,092	51,802	46,462
Total Assets	$ 6,910,978	$ 6,541,520	$ 6,326,306
LIABILITIES			
Notes payable to CoBank, ACB	$ 5,414,435	$ 5,161,666	$ 5,050,959
Patronage distributions payable	60,000	56,000	53,000
Accrued interest payable	9,185	6,258	5,010
Reserve for unfunded commitments	11,044	8,932	10,859
Other liabilities	66,780	62,062	46,492
Total Liabilities	5,561,444	5,294,918	5,166,320
MEMBERS' EQUITY			
Capital stock and participation certificates	14,808	14,338	14,124
Additional paid-in capital	229,198	229,198	229,198
Unallocated retained earnings	1,157,496	1,057,428	962,070
Accumulated other comprehensive loss	(51,968)	(54,362)	(45,406)
Total Members' Equity	1,349,534	1,246,602	1,159,986
Total Liabilities and Members' Equity	$ 6,910,978	$ 6,541,520	$ 6,326,306

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Year Ended December 31 (dollars in thousands)	2017	2016	2015
INTEREST INCOME			
Loans	$ 286,608	$ 247,207	$ 226,640
Other	568	440	484
Total interest income	287,176	247,647	227,124
INTEREST EXPENSE			
Notes payable to CoBank, ACB	89,764	62,201	49,441
Other	7	4	4
Total interest expense	89,771	62,205	49,445
Net interest income	197,405	185,442	177,679
Provision for loan losses	-	-	3,000
Net interest income after provision for loan losses	197,405	185,442	174,679
NONINTEREST INCOME			
Patronage income	29,602	28,016	26,101
Financially related services income	25,380	24,992	23,523
Compensation on participation loans, net	2,374	2,503	2,665
Loan fees	2,406	2,468	2,077
Other income	9	7	28
Total noninterest income	59,771	57,986	54,394
NONINTEREST EXPENSE			
Salaries and employee benefits	60,224	55,765	51,939
Information technology services	11,016	9,116	7,619
Insurance Fund premiums	7,197	7,876	5,819
Occupancy and equipment	3,706	3,420	3,352
Other operating expenses	13,684	14,490	14,541
Total noninterest expenses	95,827	90,667	83,270
Income before income taxes	161,349	152,761	145,803
Provision for income taxes	1,281	1,403	2,562
Net Income	$ 160,068	$ 151,358	$ 143,241
OTHER COMPREHENSIVE INCOME (LOSS)			
Net change in retirement plan liabilities	6,562	(5,592)	(4,961)
Net change in cash flow hedges	(4,168)	(3,364)	1,196
Other Comprehensive Income (Loss)	2,394	(8,956)	(3,765)
Comprehensive Income	$ 162,462	$ 142,402	$ 139,476

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Additional Paid-in Capital	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Members' Equity
Balance at December 31, 2014	**$ 13,913**	**$ 229,198**	**$ 6,048**	**$ 871,829**	**$(41,641)**	**$1,079,347**
Comprehensive Income (Loss)	-	-	-	143,241	(3,765)	139,476
Capital stock and participation certificates issued	1,110	-	-	-	-	1,110
Capital stock and participation certificates retired	(899)	-	-	-	-	(899)
Allocated retained earnings retired	-	-	(6,048)	-	-	(6,048)
Patronage Distribution	-	-	-	(53,000)	-	(53,000)
Balance at December 31, 2015	**$ 14,124**	**$ 229,198**	**$ -**	**$ 962,070**	**$(45,406)**	**$1,159,986**
Comprehensive Income (Loss)	-	-	-	151,358	(8,956)	142,402
Capital stock and participation certificates issued	1,142	-	-	-	-	1,142
Capital stock and participation certificates retired	(928)	-	-	-	-	(928)
Patronage Distribution	-	-	-	(56,000)	-	(56,000)
Balance at December 31, 2016	**$ 14,338**	**$ 229,198**	**$ -**	**$ 1,057,428**	**$ (54,362)**	**$1,246,602**
Comprehensive Income (Loss)	-	-	-	160,068	2,394	162,462
Capital stock and participation certificates issued	1,392	-	-	-	-	1,392
Capital stock and participation certificates retired	(922)	-	-	-	-	(922)
Patronage Distribution	-	-	-	(60,000)	-	(60,000)
Balance at December 31, 2017	**$ 14,808**	**$ 229,198**	**$ -**	**$ 1,157,496**	**$(51,968)**	**$1,349,534**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Year Ended December 31 (dollars in thousands)	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 160,068	$ 151,358	$ 143,241
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,559	2,539	2,524
Provision for loan losses	-	-	3,000
Increase in accrued interest receivable	(4,835)	(1,631)	(856)
Increase in accrued interest payable	2,927	1,248	556
Decrease in other liabilities	9,224	4,687	5,219
Increase in other assets	(2,880)	(4,220)	(3,858)
Loss (gain) from sales of other property owned	14	-	(750)
Gain from sales of premises and equipment	(243)	(228)	(40)
Total adjustments	6,766	2,395	5,795
Net cash provided by operating activities	166,834	153,753	149,036
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	(318,596)	(192,802)	(307,138)
Increase in investment in CoBank	(8,260)	(9,143)	(10,665)
Increase in investments	(3,410)	(1,120)	(929)
Expenditures for premises and equipment	(8,055)	(3,172)	(3,889)
Proceeds from sales of other property owned	80	2,383	3,058
Proceeds from sales of premises and equipment	323	299	348
Net cash used in investing activities	(337,918)	(203,555)	(319,215)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Advances on notes payable under financing agreement with CoBank, ACB	5,563,657	4,700,744	5,689,374
Repayment of notes payable to CoBank, ACB	(5,310,888)	(4,590,038)	(5,465,854)
Capital stock and participation certificates issued	1,392	1,142	1,110
Capital stock and participation certificates retired	(922)	(928)	(899)
Patronage distributions paid	(56,000)	(53,000)	(57,048)
Net cash provided by financing activities	197,239	57,920	166,683
Net increase (decrease) in cash and cash equivalents	26,155	8,118	(3,496)
Cash and cash equivalents at beginning of year	22,581	14,463	17,959
Cash and cash equivalents at end of year	$ 48,736	$ 22,581	$ 14,463
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:			
Accrued interest transferred to loans	$ 1,036	$ 847	$ 744
Loans transferred to other property owned	775	1,203	1,341
Cash patronage distribution declared	60,000	56,000	53,000

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

(dollars in thousands except as noted)

NOTE 1 – Organization and Operations

Organization

Farm Credit East, ACA, an Agricultural Credit Association (ACA) and its subsidiaries, Farm Credit East FLCA, a Federal Land Credit Association (FLCA), and Farm Credit East PCA, a Production Credit Association (PCA), (collectively called "the Association"), is a member-owned cooperative which provides credit and financially related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in the counties of Belknap, Carroll, Hillsborough, Merrimack, Rockingham, and Strafford in the State of New Hampshire; all counties in the State of New York except Clinton and Essex, and in the States of Connecticut, Maine, Massachusetts, Rhode Island and New Jersey.

The Association is a lending institution of the Farm Credit System (the System), a nationwide system of cooperatively owned Banks and Associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2017, the System was comprised of three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB) and sixty nine affiliated Associations. CoBank, ACB (CoBank or ACB) is Farm Credit East's funding bank.

CoBank, its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the "District". CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations. The CoBank District consists of CoBank, 22 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA), and AgVantis. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the ACA or PCA make short and intermediate-term loans for agricultural production or operating purposes.

The Association, along with other System Institutions, owns Farm Credit Financial Partners, Inc. (FPI) which provides technology and other operational services to its owners.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The FCA examines the activities of System Associations to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to insure the timely payment of principal and interest on system wide debt obligations (insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the Insurance Corporation of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank has been required to pay premiums, which may be passed onto the Associations, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

Operations

The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses.

The Association provides additional services to borrowers such as financial recordkeeping, payroll, tax return preparation, tax planning, farm accounting software, fee appraisals, farm business consulting, and leasing. The Association also offers credit life insurance and multi-peril crop insurance to its borrowers, as an agent.

Upon request, stockholders of the Association will be provided with a CoBank Annual Report to Stockholders, which includes the combined financial statements of CoBank and its related Associations. The Association's financial condition may be impacted by factors which affect CoBank. CoBank's Annual Report to Stockholders discusses the material aspects of its financial condition, changes in financial condition, and results of operations. In addition, the CoBank Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation. The lending and financial services performed by CoBank are described in Note 1 of CoBank's Annual Report to Stockholders.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Actual results could differ may differ from those estimates. Significant estimates are discussed in these footnotes to consolidated financial statements, as applicable. Certain amounts in prior year's financial statements have been reclassified to conform to current financial statement presentation.

The following are the Association's significant accounting policies:

Loans

Long-term real estate mortgage loans generally have maturities ranging from 5 to 40 years. Substantially all short-term and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

In the normal course of business, the Association purchases loan participations from System entities and other financial institutions to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. The Association also manages its lending credit exposures by selling loans to System entities and other financial institutions. Such transactions include the transfer of participating interests, as defined pursuant to GAAP. These transactions are accounted as sales and, accordingly, the assets transferred are not recognized in the consolidated balance sheet.

Impaired loans are loans for which it is probable that principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest accrued as the result of past due status, is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) and/or charged-off against the allowance for loan losses (if accrued in the prior year). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, the Association's general practice is to apply and record on its financial records any payments received on nonaccrual loans in the following sequence: (1) to existing principal which includes outstanding principal, accounts receivable and accrued interest receivable as of the date of transfer into nonaccrual status plus any additional advances made since the loan was placed in nonaccrual status; (2) to recover any charged-off amount; and (3) to interest income. Nonaccrual loans may, at times, be maintained on a cash basis. Generally cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered prior charge-off associated with it. Nonaccrual loans may be returned to accrual status when principal and interest are current and reinstatement is supported by a period of sustained performance in accordance with the contractual terms of the note and/or loan agreement and the loan is not classified "doubtful" or "loss".

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

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

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

Allowance for Loan Losses and Reserve for Unfunded Commitments

The allowance for loan losses reflects an adjustment to the value of our total loan portfolio for inherent credit losses related to outstanding balances. We also maintain a separate reserve for unfunded commitments which is reported as a liability on the Association's consolidated balance sheet. The reserve for unfunded commitments represents an additional reserve for binding commitments to extend credit. The Association had $2.0 billion of commitments to extend credit at December 31, 2017. The amount of allowance for loan losses and reserve for unfunded commitments can fluctuate based on the seasonal nature of borrowings in the agriculture industry. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the "allowance for credit losses". At December 31, 2017, the allowance for credit losses totaled $86.8 million, of which $75.8 million related to the allowance for loan losses and $11.0 million related to the reserve for unfunded commitments.

The allowance for credit losses is maintained at a level management considers sufficient to absorb losses inherent in the loan portfolio and in unfunded commitments. The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio characteristics and composition, collateral values, loan quality, current production conditions and economic conditions, and prior loan loss experience. The allowance for credit losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time.

The allowance for credit losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model as previously discussed.

Investment in CoBank, ACB

The Association's investment in CoBank is in the form of Class A stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock.

Other Property Owned

Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost 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. Income and expenses from operations and carrying value adjustments are included in other property owned expenses, net in the consolidated Statement of Comprehensive Income.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements above certain thresholds are capitalized.

Employee Benefit Plans

Substantially all employees of the Association may be eligible to participate in various retirement plans. Association employees (except the former Maine employees who are participants in the noncontributory defined contribution plan) hired prior to January 1, 2007 participate in a qualified defined benefit pension plan, which is noncontributory and covered substantially all employees. The net expense for this plan is recorded as employee benefit expense. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes.

Effective January 1, 2007, the Association closed the existing defined benefit pension plan to new participants. All employees hired on or after January 1, 2007 are participants in a noncontributory defined contribution plan. Participants in this plan receive a fixed percentage of their eligible wages, based on years of service, to an investment account maintained for the employee. Costs for this plan are expensed as funded and recorded as employee benefit expense.

Association employees are also eligible to participate in an employee savings plan (Thrift Plan). The Association matches a certain percentage of employee contributions with costs being expensed as funded. These costs are recorded as employee benefit expense.

The Association provides certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service and are classified as employee benefit expense. However, substantially all participants pay the full premiums associated with these benefits.

The Association recognizes in its consolidated balance sheet an asset for a retirement plan's overfunded status or a liability for a retirement plan's underfunded status. The Association also measures the Plan's assets and obligations that determine its funded status as of the end of the fiscal year and recognizes those changes in other comprehensive income, net of tax.

Income Taxes

As previously described, Farm Credit East, ACA operates two wholly owned subsidiaries. Farm Credit East, FLCA is exempt from federal and other income taxes as provided in the Farm Credit Act. Farm Credit East, ACA and its subsidiary Farm Credit East, PCA are subject to Federal and State income tax. All entities are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income. Operating expenses are allocated to each subsidiary based on estimated relative service.

Deferred taxes are recorded on the tax effect of all temporary differences. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been provided by the Association on patronage stock distributions from the former Farm Credit Bank of Springfield (FCB) prior to January 1, 1993, the adoption date of the FASB guidance on income taxes. Management's intent is (1) to permanently invest these and other undistributed earnings in CoBank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to Association borrowers through qualified patronage allocations. CoBank is the successor to the FCB.

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

Patronage Income from CoBank, ACB

The Association records patronage refunds from CoBank, ACB on the accrual basis.

Derivative Instruments and Hedging Activity

The Association is party to derivative financial instruments, primarily interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions. Derivatives are recorded on the balance sheet as assets and liabilities at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or accumulated other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative are recorded in earnings and will generally be offset by changes in the hedged item's fair value. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in accumulated other comprehensive income (loss). The gains and losses on the derivative that are deferred and reported in accumulated other comprehensive income (loss) will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings.

The Association formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) a portion of our long-term variable loans on the balance sheet or (2) firm commitments or forecasted transactions. The Association also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Association uses regression analysis (or statistical analysis) to assess the effectiveness of its hedges. The Association discontinues hedge accounting prospectively when the Association determines that 1) a derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; 2) the derivative expires or is sold, terminated, or exercised; 3) it is no longer probable that the forecasted transaction will occur; 4) a hedged firm commitment no longer meets the definition of a firm commitment; or 5) management determines that designating the derivative as a hedging instrument is no longer appropriate. The accounting guidance provides for various remedies in the event hedge accounting is discontinued. Due to the structure of the Association's current swap transactions, management has no reason to believe that hedge accounting qualifications will not be met and believes the transactions will continue to be recorded in the manner described in Note 15 of these consolidated financial statements.

Cash

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

Fair Value Measurement

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

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to the Association's deferred compensation plan and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds, and fixed-income securities that are actively traded are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 14 of these consolidated financial statements.

Off-Balance Sheet Credit Exposures

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

Pilot Investment Program and Mission Related Investments

On July 1, 2005 the Farm Credit Administration approved a pilot investment program for the Association designed to provide an opportunity for the Association to invest in Western New York agriculture. The approval provided for the ability to purchase investments in a securitized pool of agricultural loans from Rural Investments, LLC for a period of up to one year. On August 26, 2005 the Association entered into an agreement with Rural Investments, LLC (Rural Investments) a special purpose entity created by the Association and GSS Holdings, Inc. to hold loans sold by a commercial lender. Rural Investments was formed specifically to own and securitize the loans and subsequently sell the security to the Association as an investment. Rural Investments sole member is GSS Holdings, Inc. a Delaware special purpose entity created to own Rural Investments. The Association is the manager and through agreement controls Rural Investments and all its activities. All benefits and risks accrue to the Association as manager. The FLCA holds the investment security certificate.

The investment is carried at the lower of cost or fair market value. A valuation to determine fair market value is performed monthly by management, taking into account cash flows and the underlying loans contained in the investment. Income is recorded on investments only as it relates to underlying loans contained in the security that would be classified as accruing had the Association owned the loans. Interest is accrued and credited to interest income based upon the daily investment value. Any difference between amortized cost and actual borrower balances on the underlying loans is accreted to interest income as payments are received over the life of the investment. Any reduction in value recognized through the ongoing fair market value determination is recorded as a current charge and will directly impact the income statement at the time of recognition. No valuation allowance is maintained. Income is not recognized on the underlying loans contained in the investment for loans that would be considered impaired if the loans were owned by the Association. The Association's practice is to apply and record payments received on impaired underlying loans in the following sequence:

1. To existing principal until all principal is paid, and then
2. To interest income

Underlying loans contained in the investment may be returned to accrual status once performance criteria are met. Upon reinstatement, previously unrecognized income will be recognized as payments are received over the remaining life of the investment.

The Association may also hold additional investments in accordance with mission-related and other investment programs, approved by the FCA. These programs allow the Association to make investments that further the System's mission to serve rural America. The Association held mission related investments which are classified as loans totaling $7.4 million, $8.6 million and $8.9 million at December 31, 2017, 2016 and 2015, respectively. The Association also held equity investments in FarmStart, LLP and AgDirect, LLP totaling $4.9 million, $3.4 million and $2.1 million that is accounted for on the equity method of accounting and is classified in Other assets at December 31, 2017, 2016 and 2015, respectively.

Recently Issued or Adopted Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

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

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on the System's financial condition and its results of operations.

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

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

NOTE 3 – Loans, Loan Quality and Allowance for Credit Losses

Loans Outstanding

Loans outstanding by loan type are shown below.

December 31	2017		2016		2015	
Real estate mortgage	$ 3,056,162	46.3%	$ 2,858,897	45.6%	$ 2,762,868	45.3%
Production and intermediate	2,432,909	36.8	2,309,299	36.7	2,236,709	36.7
Agribusiness	951,001	14.4	977,095	15.5	955,666	15.7
Rural infrastructure	85,653	1.3	87,073	1.3	81,584	1.4
Rural residential real estate	56,596	0.9	55,811	0.9	57,680	0.9
Other	22,879	0.3	-	0.0	-	0.0
Total Loans	$ 6,605,200	100.0%	$ 6,288,175	100.0%	$ 6,094,507	100.0%

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2017 which are also included in the table above:

	CoBank, ACB Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 17,267	$ 44,537	$ 178,228	$ 11,379	$ -	$ 43	$ 195,495	$ 55,959
Production and intermediate	57,185	146,366	305,829	109,042	14,693	-	377,707	255,408
Agribusiness	322,120	225,133	84,656	237,575	-	2,558	406,776	465,266
Rural infrastructure	85,800	-	-	-	-	-	85,800	-
Other	26,806	3,903	-	-	-	-	26,806	3,903
Total Loans	$ 509,178	$ 419,939	$ 568,713	$ 357,996	$ 14,693	$ 2,601	$ 1,092,584	$ 780,536

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the Association has obtained credit enhancements by entering into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under long-term standby commitments was $20.2 million, $31.0 million and $38.7 million at December 31, 2017, 2016 and 2015 respectively. Fees paid to Farmer Mac for such commitments totaled $0.2 million for both the years ended December 31, 2017, 2016 and 2015 respectively. These amounts are classified as noninterest expense. In addition to Farmer Mac, the Association has credit enhancements with federal and state agencies totaling $254.3 million, $248.5 million and $257.8 million at December 31, 2017, 2016 and 2015 respectively.

Credit Quality

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

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

December 31, 2017	Acceptable	OAEM	Substandard/ Doubtful	Total
Real estate mortgage	43.1%	1.6%	1.6%	46.3%
Production and Intermediate term	34.3	1.1	1.5	36.9
Agribusiness	13.7	0.1	0.6	14.4
Rural infrastructure	1.3	0.0	0.0	1.3
Rural residential real estate	0.8	0.0	0.0	0.8
Other	0.3	0.0	0.0	0.3
Total	93.5%	2.8%	3.7%	100.0%

December 31, 2016	Acceptable	OAEM	Substandard/ Doubtful	Total
Real estate mortgage	41.8%	2.0%	1.7%	45.5%
Production and Intermediate term	33.9	1.9	0.9	36.7
Agribusiness	14.7	0.2	0.7	15.6
Rural infrastructure	1.1	0.2	0.0	1.3
Rural residential real estate	0.8	0.0	0.1	0.9
Total	92.3%	4.3%	3.4%	100.0%

December 31, 2015	Acceptable	OAEM	Substandard/ Doubtful	Total
Real estate mortgage	42.5%	1.2%	1.6%	45.3%
Production and Intermediate term	34.9	1.1	0.7	36.7
Agribusiness	14.5	0.6	0.7	15.8
Rural infrastructure	1.1	0.2	0.0	1.3
Rural residential real estate	0.9	0.0	0.0	0.9
Total	93.9%	3.1%	3.0%	100.0%

Impaired Loans

Impaired 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 payments received on impaired loans are applied in a similar manner as for nonaccrual loans, as described in Note 2.

The following table presents information relating to impaired loans:

December 31	2017	2016	2015
Nonaccrual loans:			
Current as to principal and interest	$ 5,144	$ 9,591	$ 31,961
Past due	30,456	43,581	27,922
Total nonaccrual loans	$ 35,600	$ 53,172	$ 59,883
Impaired accruing loans:			
Restructured accruing loans	$ 643	$ 68	$ 72
Accruing loans 90 days or more past due	1,821	2,632	2,759
Total impaired accruing loans	$ 2,464	$ 2,700	$ 2,831
Total impaired loans	$ 38,064	$ 55,872	$ 62,714

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

December 31	2017	2016	2015
Nonaccrual loans:			
Real estate mortgage	$ 19,231	$ 39,693	$ 42,080
Production and intermediate term	14,534	9,804	16,718
Agribusiness	1,248	3,325	734
Rural residential real estate	587	350	351
Total nonaccrual loans	$ 35,600	$ 53,172	$ 59,883
Accruing restructured loans:			
Real estate mortgage	$ 581	$ -	$ -
Production and intermediate term	63	68	$ 73
Total accruing restructured loans	$ 644	$ 68	$ 73
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 1,595	$ 1,991	$ 1,840
Production and intermediate term	280	839	1,098
Total accruing loans 90 days or more past due	$ 1,875	$ 2,830	$ 2,938
Total impaired loans	$ 38,119	$ 56,070	$ 62,894
Other property owned	$ 1,447	$ 766	$ 1,946
Total high risk assets	$ 39,566	$ 56,836	$ 64,840

The following tables present additional impaired loan information and related amounts in the allowance for loan losses. The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment. The unpaid principal balance represents the borrower's contractual principal balance on the loan.

	As of December 31, 2017			For the Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 6,021	$ 6,340	$ 1,095	$ 4,671	$ 57
Production and intermediate term	5,282	6,308	1,080	5,103	29
Agribusiness	588	871	257	232	(1)
Rural residential real estate	338	375	58	190	(5)
Total	$ 12,229	$ 13,894	$ 2,490	$ 10,196	$ 80
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 15,341	$ 20,043	$ -	$ 26,583	$ 1,219
Production and intermediate term	9,586	16,654	-	10,091	433
Agribusiness	660	1,020	-	655	50
Rural residential real estate	248	483	-	272	11
Total	$ 25,835	$ 38,200	$ -	$ 37,601	$ 1,713
Total Impaired loans:					
Real estate mortgage	$ 21,362	$ 26,383	$ 1,095	$ 31,254	$ 1,276
Production and intermediate term	14,868	22,962	1,080	15,194	462
Agribusiness	1,248	1,891	257	887	49
Rural residential real estate	586	858	58	462	6
Total	$ 38,064	$ 52,094	$ 2,490	$ 47,797	$ 1,793

	As of December 31, 2016			For the Year Ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 5,284	$ 5,733	$ 1,352	$ 4,706	$ (15)
Production and intermediate term	3,389	3,811	648	2,967	(28)
Agribusiness	2,834	2,917	444	623	(114)
Rural residential real estate	44	69	44	46	-
Total	$ 11,551	$ 12,530	$ 2,488	$ 8,342	$ (157)
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 36,309	$ 54,478	$ -	$ 37,933	$ 660
Production and intermediate term	7,216	16,680	-	10,734	130
Agribusiness	490	833	-	568	59
Rural residential real estate	306	512	-	283	11
Total	$ 44,321	$ 72,503	$ -	$ 49,518	$ 860
Total Impaired loans:					
Real estate mortgage	$ 41,593	$ 60,211	$ 1,352	$ 42,639	$ 645
Production and intermediate term	10,605	20,491	648	13,701	102
Agribusiness	3,324	3,750	444	1,191	(55)
Rural residential real estate	350	581	44	329	11
Total	$ 55,872	$ 85,033	$ 2,488	$ 57,860	$ 703

	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	$ 7,147	$ 8,498	$ 1,005	$ 5,791	$ (3)
Production and intermediate term	3,429	4,208	773	2,604	(54)
Agribusiness	208	220	159	128	(5)
Rural residential real estate	47	70	47	49	-
Total	$ 10,831	$ 12,996	$ 1,984	$ 8,572	$ (62)
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 36,697	$ 52,219	$ -	$ 36,055	$ 943
Production and intermediate term	14,356	23,790	-	12,968	300
Agribusiness	526	816	-	1,168	89
Rural residential real estate	304	492	-	294	12
Total	$ 51,883	$ 77,317	$ -	$ 50,485	$ 1,344
Total Impaired loans:					
Real estate mortgage	$ 43,844	$ 60,717	$ 1,005	$ 41,846	$ 940
Production and intermediate term	17,785	27,998	773	15,572	246
Agribusiness	734	1,036	159	1,296	84
Rural residential real estate	351	562	47	343	12
Total	$ 62,714	$ 90,313	$ 1,984	$ 59,057	$ 1,282

Interest income on nonaccrual loans that would have been recognized under the original terms of the loans are as follows:

Year ended December 31	2017	2016	2015
Interest income which would have been recognized under the original loan terms	$ 4,397	$ 5,349	$ 5,572
Less: interest income recognized	1,621	561	1,143
Forgone interest income	$ 2,776	$ 4,788	$ 4,429

Commitments on Impaired loans

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired for the years presented.

Loan Delinquencies

The following table provides an age analysis of past due loans as of December 31, 2017, 2016 and 2015:

December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans 90 days or More Past Due
Real estate mortgage	$ 8,796	$ 16,234	$ 25,030	$ 3,031,132	$ 3,056,162	$ 1,550
Production and intermediate term	3,636	13,477	17,113	2,415,796	2,432,909	271
Agribusiness	62	1,243	1,305	949,696	951,001	-
Rural infrastructure	-	-	-	85,653	85,653	-
Rural residential real estate	160	265	425	56,171	56,596	-
Other	-	-	-	22,879	22,879	-
Total Loans	$ 12,654	$ 31,219	$ 43,873	$ 6,561,327	$ 6,605,200	$ 1,821

December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans 90 days or More Past Due
Real estate mortgage	$ 10,011	$ 32,207	$ 42,218	$ 2,816,679	$ 2,858,897	$ 1,900
Production and intermediate term	4,647	9,901	14,548	2,294,751	2,309,299	732
Agribusiness	313	3,264	3,577	973,518	977,095	-
Rural infrastructure	-	-	-	87,073	87,073	-
Rural residential real estate	455	207	662	55,149	55,811	-
Total Loans	$ 15,426	$ 45,579	$ 61,005	$ 6,227,170	$ 6,288,175	$ 2,632

December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans 90 days or More Past Due
Real estate mortgage	$ 8,500	$ 18,624	$ 27,124	$ 2,735,744	$ 2,762,868	$ 1,764
Production and intermediate term	4,273	8,544	12,817	2,223,892	2,236,709	995
Agribusiness	409	660	1,069	954,597	955,666	-
Rural infrastructure	-	-	-	81,584	81,584	-
Rural residential real estate	431	171	602	57,078	57,680	-
Total Loans	$ 13,613	$ 27,999	$ 41,612	$ 6,052,895	$ 6,094,507	$ 2,759

Troubled Debt Restructuring

A restructuring of a loan constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Concessions granted may include interest rate reductions or in limited circumstances, principal may be forgiven. The following tables presents additional information regarding troubled debt restructurings (whether accrual or nonaccrual in each year) that occurred during the period.

	Year Ended December 31, 2017		Year Ended December 31, 2016		Year Ended December 31, 2015	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Real estate mortgage	$ 441	$ 441	$ 130	$ 130	$ 242	$ 155
Total	$ 441	$ 441	$ 130	$ 130	$ 242	$ 155

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

Subsequent to their restructuring, no troubled debt restructurings subsequently defaulted. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2017. There were $0.1 million commitments to lend to borrowers whose loans have been modified as TDRs at December 31, 2016 and 2015.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan tables.

	Loans Modified as TDRs			TDRs in Nonaccrual Status*		
	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2017	December 31, 2016	December 31, 2015
Real estate mortgage	$ 678	$ 13,240	$ 15,109	$ 97	$ 13,240	$ 15,109
Production and intermediate term	269	308	7,459	207	240	7,387
Total	$ 947	$ 13,548	$ 22,568	$ 304	$ 13,480	$ 22,496

* Represents the portion of loans modified as TDRs (first column) that are in nonaccrual status

Allowance for Credit Losses

The following tables present the changes in the components of our allowance for credit losses and the details of the ending balances. The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commitments.

December 31, 2017	Real Estate Mortgage	Production and Intermediate	Agribusiness	Rural infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses							
Beginning balance	$ 32,719	$ 22,639	$ 19,321	$ 2,642	$ 262	$ -	$ 77,583
Charge-offs	(225)	(567)	(251)	-	-	-	(1,043)
Recoveries	373	943	7	-	-	-	1,323
Provision for loan losses	(9,450)	9,126	1,165	(1,195)	174	180	-
Transfers (to) from reserve for unfunded commitments	318	(1,796)	(667)	83	(27)	(23)	(2,112)
Ending balance	$ 23,735	$ 30,345	$ 19,575	$ 1,530	$ 409	$ 157	$ 75,751
Reserve for Unfunded Commitments							
Beginning balance	$ 3,731	$ 2,616	$ 2,245	$ 314	$ 26	$ -	$ 8,932
Transfers (to) from allowance for loan losses	(318)	1,796	667	(83)	27	23	2,112
Ending balance	$ 3,413	$ 4,412	$ 2,912	$ 231	$ 53	$ 23	$ 11,044
Allowance for Credit Losses	$ 27,148	$ 34,757	$ 22,487	$ 1,761	$ 462	$ 180	$ 86,795
Allowance for Credit Losses							
Ending balance, allowance for credit losses related to loans:							
Individually evaluated for impairment	$ 1,095	$ 1,080	$ 257	$ -	$ 58	$ -	$ 2,490
Collectively evaluated for impairment	26,053	33,677	22,230	1,761	404	180	84,305
Total	$ 27,148	$ 34,757	$ 22,487	$ 1,761	$ 462	$ 180	$ 86,795
Loans							
Ending balance for loans:							
Individually evaluated for impairment	$ 6,021	$ 5,282	$ 588	$ -	$ 338	$ -	$ 12,229
Collectively evaluated for impairment	3,050,141	2,427,627	950,413	85,653	56,258	22,879	6,592,971
Total	$ 3,056,162	$ 2,432,909	$ 951,001	$ 85,653	$ 56,596	$ 22,879	$ 6,605,200

December 31, 2016	Real Estate Mortgage	Production and Intermediate	Agribusiness	Rural infrastructure	Rural Residential Real Estate	Total
Allowance for Loan Losses						
Beginning balance	$ 28,619	$ 25,884	$ 17,929	$ 3,598	$ 331	$ 76,361
Charge-offs	(518)	(553)	(78)	-	-	(1,149)
Recoveries	268	163	13	-	-	444
Provision for loan losses	4,049	(3,905)	1,108	(1,168)	(84)	-
Transfers (to) from reserve for unfunded commitments	301	1,050	349	212	15	1,927
Ending balance	$ 32,719	$ 22,639	$ 19,321	$ 2,642	$ 262	$ 77,583
Reserve for Unfunded Commitments						
Beginning balance	$ 4,032	$ 3,666	$ 2,594	$ 526	$ 41	$ 10,859
Transfers (to) from allowance for loan losses	(301)	(1,050)	(349)	(212)	(15)	(1,927)
Ending balance	$ 3,731	$ 2,616	$ 2,245	$ 314	$ 26	$ 8,932
Allowance for Credit Losses	$ 36,450	$ 25,255	$ 21,566	$ 2,956	$ 288	$ 86,515

Allowance for Credit Losses						
Ending balance, allowance for credit losses related to loans:						
Individually evaluated for impairment	$ 1,352	$ 648	$ 444	$ -	$ 44	$ 2,488
Collectively evaluated for impairment	35,098	24,607	21,122	2,956	244	84,027
Total	$ 36,450	$ 25,255	$ 21,566	$ 2,956	$ 288	$ 86,515
Loans						
Ending balance for loans:						
Individually evaluated for impairment	$ 5,284	$ 3,389	$ 2,834	$ -	$ 44	$ 11,551
Collectively evaluated for impairment	2,853,613	2,305,910	974,261	87,073	55,767	6,276,624
Total	$ 2,858,897	$ 2,309,299	$ 977,095	$ 87,073	$ 55,811	$ 6,288,175

December 31, 2015	Real Estate Mortgage	Production and Intermediate	Agribusiness	Rural infrastructure	Rural Residential Real Estate	Total
Allowance for Loan Losses						
Beginning balance	$ 30,387	$ 24,186	$ 16,789	$ 2,311	$ 366	$ 74,039
Charge-offs	(1,299)	(999)	-	-	-	(2,298)
Recoveries	537	56	577	20	-	1,190
Provision for loan losses	(1,515)	2,658	477	1,422	(42)	3,000
Transfers (to) from reserve for unfunded commitments	509	(17)	86	(155)	7	430
Ending balance	$ 28,619	$ 25,884	$ 17,929	$ 3,598	$ 331	$ 76,361
Reserve for Unfunded Commitments						
Beginning balance	$ 4,541	$ 3,649	$ 2,680	$ 371	$ 48	$ 11,289
Transfers (to) from allowance for loan losses	(509)	17	(86)	155	(7)	(430)
Ending balance	$ 4,032	$ 3,666	$ 2,594	$ 526	$ 41	$ 10,859
Allowance for Credit Losses	$ 32,651	$ 29,550	$ 20,523	$ 4,124	$ 372	$ 87,220

Allowance for Credit Losses						
Ending balance, allowance for credit losses related to loans:						
Individually evaluated for impairment	$ 1,005	$ 773	$ 159	$ -	$ 47	$ 1,984
Collectively evaluated for impairment	31,646	28,777	20,364	4,124	325	85,236
Total	$ 32,651	$ 29,550	$ 20,523	$ 4,124	$ 372	$ 87,220
Loans						
Ending balance for loans:						
Individually evaluated for impairment	$ 7,147	$ 3,429	$ 208	$ -	$ 47	$ 10,831
Collectively evaluated for impairment	2,755,721	2,233,280	955,458	81,584	57,633	6,083,676
Total	$ 2,762,868	$ 2,236,709	$ 955,666	$ 81,584	$ 57,680	$ 6,094,507

NOTE 4 – Investment in CoBank, ACB

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

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements or its joint and several liability under the Act and regulations.

The Association owns 6.95 percent of the issued stock of the ACB as of December 31, 2017. As of that date, the ACB's assets totaled $129.2 billion and members' equity totaled $9.1 billion. The ACB earned net income of $1,125.3 million during 2017.

NOTE 5 – Premises and Equipment

Premises and equipment consists of the following:

December 31	2017	2016	2015
Land	$ 1,212	$ 1,212	$ 1,081
Buildings and improvements	26,596	25,485	25,099
Furniture and equipment	6,948	6,370	6,284
Autos	5,202	4,867	4,691
Construction in progress	6,004	1,470	135
Premises and equipment at cost	$ 45,962	$ 39,404	$ 37,290
Less: accumulated depreciation	20,483	19,341	17,790
Total premises and equipment, net	$ 25,479	$ 20,063	$ 19,500

NOTE 6 – Notes Payable to CoBank, ACB

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2017. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.76 percent for the year ended December 31, 2017. The weighted average interest rate was 1.31 percent for the year ended December 31, 2016 and 1.11 percent for the year ended December 31, 2015.

CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2017, the Association's notes payable are within the specified limitations.

NOTE 7 – Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below. Members' equity is described and governed by the Association's capitalization policies. Farm Credit East's capitalization policies are specified in the Bylaws and in the Capitalization Plan approved by the Board of Directors. Copies of the Association's Bylaws and Capitalization Plan are available to members at any time.

Capital stock and participation certificates

In accordance with the Farm Credit Act, and the Association's capitalization Bylaws and Capitalization Plan, each Association borrower, as a condition of borrowing, is required at the time the loan is made, to invest in Class B Stock for agricultural loans or Class B Participation Certificates for country home and farm related business loans. Association Bylaws require that borrowers acquire capital stock or participation certificates, as a condition of borrowing, at least the lesser of $1,000 or 2 percent of the amount of the loan, and not more than 10 percent of the amount of the loan.

Pursuant to the Association Capitalization Plan, the Association Board has determined that Class B stock and Class B participation certificates shall be issued as follows:

For all loans (except where indicated below) Class B stock and Class B participation certificates shall be issued equal to one thousand dollars per customer as a condition of borrowing from this Association. For purposes of borrower stock, a customer is defined as the primary borrower on a loan. The intent of this policy is for each primary customer to have one thousand dollars of stock, regardless of the number of loans or balance on those loans to that customer. Stock shall be purchased at the beginning of a customer's relationship and will not be retired until all loans to that customer are paid in full and there are no funds available for advances.

Exceptions to this policy are:

- At the time of the Farm Credit East mergers (in 2010 and 2014), certain customers with less than one thousand dollars of stock were "grandfathered" at the stock level at conversion. Grandfathered customer stock will be frozen at converted levels until all loans are repaid, at which time the stock will be retired, or increased to one thousand dollars at the time of a future advance or credit action
- Certain small borrowers (customers with total commitment less than ten thousand dollars initially) will be issued at 10 percent of the initial commitment, consistent with By-Law limitations
- Certain interests in loans sold to other financial institutions
- Loans to be sold into the secondary market

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. All stock and participation certificates are retired at the discretion of the Association's Board of Directors after considering the capitalization plan as well as regulatory and other requirements.

Regulatory capitalization requirements and restrictions

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. Effective January 1, 2017, new regulatory capital requirements for Banks and Associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

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

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum with Buffer*	Ratios as of December 31, 2017
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	4.5%	7.0%	17.34%
Tier 1 Capital	CET1 Capital, non-cumulative perpetual preferred stock	Risk-adjusted assets	6.0%	8.5%	17.34%
Total Capital	Tier 1 Capital, allowance for loan losses[2], common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	8.0%	10.5%	18.59%
Tier 1 Leverage**	Tier 1 Capital	Total assets	4.0%	5.0%	18.20%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	1.5%	—	19.97%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	7.0%	—	17.53%

* The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

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

[1] Equities outstanding 7 or more years

[2] Capped at 1.25% of risk-adjusted assets

[3] Outstanding 5 or more years, but less than 7 years

[4] Outstanding 5 or more years

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

Description of equities

Each owner or joint owners of Class B stock are entitled to a single vote, while Class B participation certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock. At December 31, 2017, the Association had 2,707,680 shares of Class B stock outstanding at a par value of $5 per share, 253,317 shares of Class B participation certificates outstanding at a par value of $5 per share, and 688 shares of Class C stock outstanding at a par value of $5 per share.

Ownership of stock, participation certificates, or allocated surplus is sometimes subject to certain risks that could result in a partial or complete loss. These risks include excessive levels of loan losses experienced by the Association, losses resulting from contractual and statutory obligations, impairment of ACB stock owned by the Association, losses resulting from adverse judicial decisions or other losses that may arise in the course of business. In the event of such impairment, borrowers would remain liable for the full amount of their loans.

Any losses which result in impairment of capital stock and participation certificates would be allocated to such purchased capital on a pro rata basis impairing Class B stock and participation certificates. In the case of liquidation or dissolution of the Association, capital stock, participation certificates and allocated surplus would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets.

Patronage distributions

At the end of each year, the Association's Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage distribution. Patronage dividends are based on one year's operating results and are distributed in the subsequent year. The portion of patronage-sourced net income not distributed in cash is also allocated to patrons in the form of nonqualified written notices of allocation. These nonqualified written notices of allocation are included in unallocated retained earnings. The Board of Directors considers these unallocated earnings to be permanently invested in the Association. The table below summarizes the qualified/cash patronage distributions for the years ending December 31, 2017, 2016 and 2015. These qualified /cash patronage dividends are distributed in February of the subsequent year.

Earnings Year	Cash Distribution
2017	$ 60,000
2016	$ 56,000
2015	$ 53,000

Accumulated Other Comprehensive Income/Loss

Farm Credit East, ACA reports accumulated other comprehensive income (loss) as a component of members' equity, which is reported net of taxes as follows:

December 31	2017	2016	2015
Unrealized losses on cash flow hedges	$ (7,933)	$ (3,765)	$ (401)
Pension and other benefit plans	(44,035)	(50,597)	(45,005)
Total	$ (51,968)	$ (54,362)	$ (45,406)

The following tables present the activity in the accumulated other comprehensive income (loss), net of tax by component:

	Unrealized losses on cash flow hedges, net	Pension and other benefit plans
Balance at December 31, 2016	$ (3,765)	$ (50,597)
Net current period other comprehensive income (loss)	(4,168)	6,562
Balance at December 31, 2017	$ (7,933)	$ (44,035)

	Unrealized losses on cash flow hedges, net	Pension and other benefit plans
Balance at December 31, 2015	$ (401)	$ (45,005)
Net current period other comprehensive income (loss)	(3,364)	(5,592)
Balance at December 31, 2016	$ (3,765)	$ (50,597)

	Unrealized losses on cash flow hedges, net	Pension and other benefit plans
Balance at December 31, 2014	$ (1,597)	$ (40,044)
Net current period other comprehensive income (loss)	1,196	(4,961)
Balance at December 31, 2015	$ (401)	$ (45,005)

NOTE 8 – Patronage Distribution from Farm Credit Institutions

Patronage income recognized from Farm Credit Institutions to the Association is presented below:

Year Ended December 31	2017	2016	2015
CoBank	$ 27,901	$ 26,463	$ 25,402
Other	1,701	1,553	699
Total	$ 29,602	$ 28,016	$ 26,101

Patronage distributions from CoBank relating to the Association's average direct note borrowings are distributed in cash. For CoBank patronage relating to average participated loan volume, a portion is distributed in cash and the remainder in the form of stock. The amount declared by CoBank in December 2017 was accrued and will be paid by CoBank in March 2018. The amount declared in December 2016 and December 2015 were paid in March of the subsequent year.

NOTE 9 – Income Taxes

The provision for income taxes consists of the following:

Year Ended December 31	2017	2016	2015
Current:			
Federal	$ 1,071	$ 1,109	$ 2,101
State	210	294	461
Total current provision for income taxes	$ 1,281	$ 1,403	2,562
Deferred:			
Federal	3,191	(6)	(553)
State	(1,022)	(8)	(114)
Total deferred provision (benefit) from income taxes	2,169	(14)	(667)
(Decrease) increase in deferred tax asset valuation allowance	(2,169)	14	667
Provision for income taxes	$ 1,281	$ 1,403	$ 2,562

The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal tax rate to pretax income as follows:

Year Ended December 31	2017	2016	2015
Federal tax at statutory rate	$ 56,472	$ 53,466	$ 51,031
State tax, net	137	191	300
Effect of nontaxable activities	(42,272)	(34,110)	(32,877)
Patronage distribution	(18,388)	(18,184)	(17,335)
Change in Tax Rates	8,195	-	-
Change in valuation allowance	(2,169)	14	667
Other	(694)	26	776
Provision for income taxes	$ 1,281	$ 1,403	$ 2,562

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

Deferred tax assets and liabilities are comprised of the following:

December 31	2017	2016	2015
Deferred income tax assets:			
Allowance for loan losses	$ 10,835	$ 12,254	$ 13,496
Nonaccrual loan interest	634	714	580
Annual leave	597	875	857
Health reserve	462	464	427
Long term incentive	691	976	885
Deferred compensation	1,168	1,585	1,413
Retirement plans	7,236	11,851	8,245
Postretirement benefits other than pensions	222	360	555
Other	227	261	347
Gross deferred tax assets	22,072	29,340	26,805
Less: valuation allowance	(16,517)	(21,358)	(19,074)
Deferred tax assets, net	5,555	7,982	7,731
Deferred income tax liabilities:			
Bank patronage after December 31, 1992	(447)	(671)	(669)
CoBank patronage	(3,951)	(5,553)	(5,254)
Depreciation	(862)	(1,402)	(1,521)
Deferred gain	(295)	(356)	(287)
Gross deferred tax liability	(5,555)	(7,982)	(7,731)
Net deferred tax asset (liability)	$ -	$ -	$ -

Based on the Association's strategic financial plan, primarily expected future patronage programs and the tax benefits of the FLCA subsidiary, management believes that as of the end of 2017, none of the Association's net deferred tax assets will be realizable in future periods. Accordingly, a valuation allowance is provided against the net deferred tax assets since it has been determined that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized.

The Association has no unrecognized tax benefits for which liabilities have been established for the years ended December 31, 2017, 2016 and 2015. The Association recognizes interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. The amount of interest recognized was $0 and the amount of penalties recognized was $0 for 2017. The total amount of unrecognized tax benefits that, if recognized would affect the effective tax rate is $0. The Association did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The tax years that remain open for federal and state income tax jurisdictions are 2014 and forward.

NOTE 10 – Employee Benefit Plans

The Association has employer-funded, qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007 (except the former Maine employees who are participants in the noncontributory defined contribution plan). Depending on the date of hire, benefits are determined by a formula based on years of service and final average pay. Effective January 1, 2007, the Association closed the remaining qualified defined benefit pension plan to new participants.

The Association also has a noncontributory, unfunded nonqualified supplemental executive retirement plan (SERP) covering the CEO as of December 31, 2017. The Association holds assets in a trust fund related to the SERP; however, such funds remain Association assets and are not included as plan assets in the accompanying disclosures. The defined benefit pension plans and SERP are collectively referred to as Retirement Plans.

The Association has a 401(k) savings plan pursuant to which the Association matches 100 percent of employees' elective contributions up to a maximum employee contribution of 6 percent of compensation. In addition, under this plan, employees hired on or after January 1, 2007 receive additional non-elective employer defined contributions. The Association contributions to the 401(k) savings plan and the employer defined contribution plan, which are recorded as employee compensation expense, were $2.8 million for 2017. The employee compensation expense for December 31, 2016 and 2015 was $2.5 million. For eligible senior managers, including senior officers, there also is a nonqualified deferred compensation plan, which includes benefits not provided under the employee savings plan due to certain Internal Revenue Code limitations.

Eligible retirees also have other postretirement benefits (OPEB), which primarily include access to health care benefits. Most participants pay the full premiums associated with these other postretirement health care benefits. Premiums are adjusted annually.

The following table provides a summary of the changes in the Retirement Plans' projected benefit obligations and fair values of assets over the three-year period ended December 31, 2017 as well as a statement of funded status as of December 31 of each year.

The projected benefit obligation and the accumulated benefit obligation for the Retirement Plans as of year-end are as follows:

Year ended December 31	2017	2016	2015
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$ 144,452	$ 131,323	$ 129,209
Service cost	3,391	3,396	3,388
Interest cost	6,066	5,842	5,174
Plan amendments	-	437	3,921
Actuarial (gain) loss	8,372	8,110	(2,984)
Benefits paid	(4,685)	(4,656)	(7,385)
Projected benefit obligation at end of year	$ 157,596	$ 144,452	$ 131,323
Change in plan assets:			
Fair value of plan assets at beginning of year	$ 114,646	$ 110,579	$ 115,321
Actual return on plan assets	17,990	6,491	568
Employer Contributions	2,300	2,232	2,075
Benefits paid	(4,685)	(4,656)	(7,385)
Fair value of plan assets at end of year	$ 130,251	$ 114,646	$ 110,579
Funded status of the plan:			
Net asset (liability) recognized in the balance sheet	$ (27,345)	$ (29,806)	$ (20,744)
Amounts recognized in accumulated other comprehensive income:			
Unrecognized prior service cost	$ 5,137	$ 6,190	$ 6,759
Unrecognized net actuarial loss	38,090	43,596	36,930
Total Loss	$ 43,227	$ 49,786	$ 43,689

The projected benefit obligation and the accumulated benefit obligation for the Retirement Plans as of year-end are as follows:

December 31	2017	2016	2015
Projected Benefit Obligation:			
Funded plans	$ 151,989	$ 139,694	$ 127,215
Unfunded SERP	5,607	4,758	4,107
Total	$ 157,596	$ 144,452	$ 131,322
Accumulated Benefit Obligation:			
Funded plans	$ 130,618	$ 116,357	$ 105,002
Unfunded SERP	4,695	3,794	2,885
Total	$ 135,313	$ 120,151	$ 107,887

The $130.3 million in fair value of plan assets shown in a previous table relates only to the qualified retirement plans. As depicted in the preceding table, such plans had a projected benefit obligation and an accumulated benefit obligation of $152.0 million and $130.6 million, respectively, as of December 31, 2017.

The Association holds assets in trust accounts related to its SERP plan. Such assets had a fair value of $4.4 million as of December 31, 2017, which is included in “Other Assets” in the accompanying consolidated balance sheet. Unlike the assets related to the qualified plans, those funds remain Association assets and would be subject to general creditors in a bankruptcy or liquidation. Accordingly, they are not included as part of the assets shown in the previous table. As depicted in the preceding table, the SERP plan has a projected benefit obligation and an accumulated benefit obligation of $5.6 million and $4.7 million, respectively, as of December 31, 2017.

The following table represents the components of net periodic benefit cost and other amounts recognized in other comprehensive income as of December 31 as follows:

Year Ended December 31	2017	2016	2015
Net periodic benefit cost			
Service cost	$ 3,391	$ 3,396	$ 3,388
Interest cost	6,066	5,842	5,174
Expected return on plan assets	(6,962)	(7,359)	(7,800)
Amortization of unrecognized:			
Prior service cost	1,052	1,006	410
Actuarial loss	2,851	2,313	2,953
Net periodic benefit cost	$ 6,398	$ 5,198	$ 4,125

Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial (gain) loss	$ (2,656)	$ 8,978	$ 4,248
Prior service cost/(credit)	-	437	3,921
Amortization of:			
Prior service credit	(1,052)	(1,006)	(410)
Net actuarial gain	(2,851)	(2,313)	(2,953)
Total recognized in other comprehensive income	$ (6,559)	$ 6,096	$ 4,806

The Association anticipates that its total pension expense for all retirement plans will be approximately $6.1 million in 2018 compared to $6.4 million in 2017. The Association’s estimated amortization to be included in accumulated other comprehensive income to be approximately $4.3 million in 2018 compared to $3.9 million in 2017.

Assumptions

The Association measures plan obligations and annual expense using assumptions designed to reflect future economic conditions. As the bulk of pension benefits will not be paid for many years, the computations of pension expenses and benefits are based on assumptions about discount rates, estimates of annual increases in compensation levels, and expected rates of return on plan assets.

The weighted-average rate assumptions used in the measurement of the Association's benefit obligations are as follows:

December 31	2017	2016	2015
Discount rate	3.75%	4.30%	4.55%
Rate of compensation increase (qualified plans only)	3.60%	4.75%	4.75%

The weighted-average rate assumptions used in the measurement of our net periodic benefit cost are as follows:

December 31	2017	2016	2015
Discount rate	4.30%	4.55%	4.10%
Expected rate of return on plan assets (qualified plans only)	6.00%	6.63%	7.25%
Rate of compensation increase (qualified plans only)	4.75%	4.75%	4.75%

The discount rates are calculated using a spot yield curve method developed by an independent actuary. The approach maps a high-quality bond yield curve to the duration of the plans' liabilities, thus approximating each cash flow of the liability stream to be discounted at an interest rate specifically applicable to its respective period in time.

The expected rate of return on plan assets is established based on current target asset allocations and the anticipated future returns on those asset classes. The expected rate of return on plan assets assumption is also consistent with the pension plans' long-term interest rate assumption used for funding purposes.

Plan Assets

The asset allocation target ranges for the qualified defined benefit pension plans follow the investment policy adopted by the retirement trust committee. This policy provides for a certain level of committee flexibility in selecting target allocation percentages. The actual asset allocations at December 31, 2017, 2016 and 2015 are shown in the following table, along with the adopted range for target allocation percentages by asset class. The actual allocation percentages reflect the market values at year-end and may vary during the course of the year. Plan assets are generally rebalanced to a level within the target range each year at the direction of the trustees.

	Target Allocation Range	Percentage of Plan Assets at December 31, 2017	2016	2015
Asset Category				
Domestic Equity	40 – 50%	41%	45%	45%
Domestic Fixed Income	30 – 50	35	35	36
International Equity	0 – 10	12	10	9
Emerging Markets Equity and Fixed Income	0 – 10	7	5	5
Hedge Funds	0 – 10	5	5	5
Total	100%	100%	100%	100%

The assets of the qualified defined benefit pension plans consists primarily of investments in various domestic equity, international equity and bond funds. These funds do not contain any significant investments in a single entity, industry, country or commodity, thereby mitigating concentration risk.

The following table presents the major categories of plan assets that are measured at fair value at December 31, 2017 for each of the fair value hierarchy levels as defined in Note 2:

December 31, 2017	Level 1	Level 2	Level 3	NAV(1)	Total
Asset category					
Cash	$ 205	$ -	$ -	$ -	$ 205
Domestic Equity:					
Large-cap growth funds[2]	24,038	-	-	22,658	46,696
Small-cap growth funds[2]	-	-	-	6,506	6,506
International Equity:					
International funds[3]	13,387	-	-	2,741	16,128
Fixed Income:					
Total return funds[4]	28,267	-	-	-	28,267
Bond funds[5]	-	17,554	-	-	17,554
Emerging Markets:					
Equity and fixed income funds[6]	2,802	-	-	6,139	8,941
Hedge Funds[7]	-	-	-	5,954	5,954
Total	$ 68,699	$ 17,554	$ -	$ 43,998	$ 130,251

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

[2]Funds invest primarily in diversified portfolios of common stocks of U.S. companies in various industries, including consumer goods and services, information technology, healthcare, industrial materials, financial services and energy.

[3]Fund invests primarily in a diversified portfolio of equities of non-U.S. companies in various industries, including financial services, information technology, healthcare, telecommunications, energy and consumer goods and services.

[4]Fund invests primarily in a diversified portfolio of investment grade debt securities and cash instruments.

[5]Fund invests primarily in U.S. Treasury debt securities and corporate bonds of U.S. companies primarily in the financial services industry.

[6]Fund invests in equities and corporate debt securities of companies located in emerging international markets. Industries include financial services, consumer goods and services, industrial materials, energy, and information technology. Fund also invests in the sovereign debt of various countries.

[7]Funds invest in diversified portfolios of stocks, bonds and various other financial instruments in a variety of industries including healthcare, financial services, telecommunications, consumer goods and services, and information technology.

Level 1 plan assets are funds with quoted daily net asset values that are directly observable by market participants. The fair value of these funds is the net asset value at close of business on the reporting date. Level 2 plan assets are funds with quoted net asset values that are not directly observable by market participants. A significant portion of the underlying investments in these funds have individually observable market prices, which are utilized by the plan's trustee to determine a net asset value at close of business on the reporting date. Level 3 plan assets are funds with unobservable net asset values and supported by limited or no market activity. There were no purchases or sales of Level 3 plan assets in the current year. No transfers into or out of the three levels of assets occurred in the current year.

Expected Contributions

In 2018 the Association expects to contribute $2.3 million to its defined benefit retirement plans and $0.5 million to its trust fund related to the SERP.

Estimated Future Benefit Payments

The Association expects to make the following benefit payments for its retirement plans, which reflect expected future service, as appropriate.

	Estimated Benefit Payouts
2018 Payouts	$ 8,232
2019 Payouts	7,419
2020 Payouts	10,251
2021 Payouts	8,484
2022 Payouts	8,175
2023 Payouts to 2027 Payouts	47,460

Other Postretirement Benefits

Postretirement benefits other than pensions (primarily health care benefits) are also provided to retirees of the Association. The following table sets forth the funding status and weighted average assumptions used to determine post-retirement health care benefit obligations.

December 31	2017	2016	2015
(Accrued) Postretirement benefit cost	$ (34)	$ (98)	$ (94)
Accumulated postretirement benefit obligation	$ (842)	$ (910)	$ (1,409)
Accumulated other comprehensive loss	$ 808	$ 811	$ 1,315
Net periodic expense	$ 124	$ 194	$ 193
Discount rate	3.75%	4.30%	4.55%
Ultimate healthcare trend rate	4.50%	4.50%	4.50%

Substantially all postretirement healthcare plans have no plan assets and are funded on a current basis by employer contributions and retiree premium payments.

The Association anticipates its postretirement benefits expense will be approximately $0.1 million in 2018 compared to $0.1 million in 2017.

NOTE 11 – Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with directors and senior officers of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Loan information to related parties is shown below.

December 31	2017	2016	2015
New loans/advances	$ 90,948	$ 125,839	$ 41,438
Repayments	75,325	122,969	34,709
Other	(106,457)	139,609	(5,747)
Ending balance	$ 96,751	$ 187,585	$ 45,106

Other changes to the related party loan balance represent changes in the composition of Association directors and/or senior officers during 2017. In the opinion of management, none of these loans outstanding at December 31, 2017 involved more than a normal risk of collectability and none of these loans are in nonaccrual status.

As of December 31, 2017, the Association's investment in Financial Partners, Inc. (FPI) was $4.8 million which is included in other assets. FPI provides accounting, information technology, and other services to the Association on a fee basis. Fees paid to FPI for the years ended December 31, 2017, 2016 and 2015 were $11.0 million, $9.1 million and $7.6 million respectively.

As of December 31, 2017, the Association's investment in Rural Investments, LLC was $0.4 million which is included in other assets. Interest income recorded related to Rural Investments was $0.2 million for the year ended December 31, 2017 and $0.1 million for the years ended December 31, 2016 and 2015.

As of December 31, 2017, the Association's investment in FarmStart, LLP was $1.7 million which is included in other assets. Income recorded related to FarmStart was $60 thousand for the year ended December 31, 2017. Losses recorded for the years ended December 31, 2016 and 2015 were $28 thousand.

Effective January 1, 2015, Farm Credit East joined AgDirect, LLP. As of December 31, 2017, the Association's investment in AgDirect, LLP is $3.2 million which was included in other assets. Income recorded related to AgDirect, LLP for the year ended December 31, 2017 was $88 thousand.

As of December 31, 2017, the Association's investment in Crop Growers LLP was $0. Crop Growers provides multi-peril crop insurance as an agent. Net income recorded related to Crop Growers for the years ended December 31, 2017, 2016 and 2015 were $3.9 million, $1.9 million and $2.3 million respectively.

As of December 31, 2017, Farm Credit East had equity ownership interests in the following Unincorporated Business Entities (UBE) which were all formed for the purpose of acquiring and holding other property owned. During 2017, there was no activity in these UBE's.

Name	Ownership %
RHBarnes RD, LLC	100%
Farm Credit East Rochester/Plymouth REO, LLC	100%
Eastern Greenhouses, LLC	100%

NOTE 12 – Regulatory Enforcement Matters

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

NOTE 13 – Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit, commercial letters of credit and standby letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2017, $1.9 billion of commitments to extend credit, $36.4 million of commercial letters of credit and $22.1 million of standby letters of credit were outstanding.

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

There are no actions pending against the Association in which claims for monetary damages are asserted.

NOTE 14 – Fair Value Measurements

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

Sensitivity to Changes in Significant Unobservable Inputs

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

Quantitative Information about Recurring and Nonrecurring Fair Value Measurements

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

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
2017				
Assets held in trust	$ 11,294	$ -	$ -	$ 11,294
2016				
Derivative assets	$ -	$ 243	$ -	$ 243
Assets held in trust	$ 8,766	$ -	$ -	$ 8,766
2015				
Derivative assets	$ -	$ 665	$ -	$ 665
Assets held in trust	$ 6,907	$ -	$ -	$ 6,907
Liabilities:				
2017				
Derivative liabilities	$ -	$ 6,967	$ -	$ 6,967
2016				
Derivative liabilities	$ -	$ 3,939	$ -	$ 3,939
2015				
Derivative liabilities	$ -	$ 1,066	$ -	$ 1,066

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

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
2017				
Impaired loans	$ -	$ -	$ 35,575	$ 35,575
Other Property Owned	$ -	$ -	$ 1,582	$ 1,582
Rural Investments, LLC	$ -	$ -	$ 465	$ 465
2016				
Impaired loans	$ -	$ -	$ 53,383	$ 53,383
Other Property Owned	$ -	$ -	$ 833	$ 833
Rural Investments, LLC	$ -	$ -	$ 842	$ 842
2015				
Impaired loans	$ -	$ -	$ 60,731	$ 60,731
Other Property Owned	$ -	$ -	$ 2,172	$ 2,172
Rural Investments, LLC	$ -	$ -	$ 1,044	$ 1,044

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized below:

December 31	2017			2016			2015		
	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:									
Loans, net	$6,529,449	$6,544,083	Level 3	$6,210,592	$6,209,866	Level 3	$6,018,146	$6,023,019	Level 3
Cash	$ 48,736	$ 48,736	Level 1	$ 22,581	$ 22,581	Level 1	$ 14,463	$ 14,463	Level 1
Financial liabilities:									
Notes payable to ACB	$5,414,435	$ 5,405,361	Level 3	$5,161,666	$ 5,155,582	Level 3	$5,050,959	$ 5,055,032	Level 3

Valuation Techniques

As more fully discussed in Note 2 – Summary of Significant Accounting Policies, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used for the Association's assets and liabilities subject to fair value measurement.

Cash

The carrying value of cash is a reasonable estimate of fair value.

Assets Held in Trust

Assets held in trust funds related to deferred compensation and supplemental retirement plans and are classified within Level 1. These assets include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

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

Other Property Owned

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

Impaired Loans

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

Notes payable to CoBank, ACB

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the note payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Rural Investments, LLC

For these investments, the fair value is based upon the underlying loans contained in the investment. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral is less than the principal balance of the investment a loss is realized.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the Association's derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps. Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3 of the valuation hierarchy. The Association does not have any derivatives classified within Level 3.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

NOTE 15 – Derivative Instruments and Hedging Activities

The Association maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Association's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets or liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, the Association's interest income and interest expense of hedged variable-rate assets, will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Association's gains and losses on the derivative instruments that are linked to these hedged assets. The Association considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The Association enters into interest rate swaps to stabilize net interest income on variable priced loan assets, to the extent they are funded with equity. Under interest rate swap arrangements, the Association agrees with other parties (CoBank) to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The Association's interest-earning assets, to the degree they are funded with debt, are matched with similarly priced and termed liabilities. Volatility in net interest income, comes from equity funded, variable priced assets. To the degree that variable priced assets are funded with equity, interest rate swaps in which the Association pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the Association's net interest income.

By using derivative instruments, the Association exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Association's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Association, thus creating a repayment risk for the Association. When the fair value of the derivative contract is negative, the Association owes the counterparty and, therefore, assumes no repayment risk. The Association minimizes the credit (or repayment) risk by entering into transactions only with CoBank, its funding bank and are collateralized through loan agreements. Notwithstanding collateral and netting provisions, our derivative assets and liabilities are not offset in the accompanying consolidated balance sheets. The Association's derivative activities are monitored by senior management and the Board of Directors.

Cash flow hedges

The Association uses "receive fixed/pay variable" interest rate swaps to hedge the risk of overall changes in the cash flows of an asset. The asset is defined as a pool of long term variable rate loans equal to the notional amount of the swaps, and not exceeding the Association's equity position. These swaps, which qualify for hedge accounting, have up to a three-year term, with a pay rate indexed to three month LIBOR.

As of December 31, 2017, the Association has executed interest rate swap contracts with CoBank, ACB having a notional amount of $970.0 million. The fair value of the swap contracts at December 31, 2017 is ($7.0) million of which ($7.9) million is reflected in accumulated other comprehensive income due to the highly effective nature of the hedge transaction and $0.9 million of income is recorded in interest expense due to the ineffectiveness of the hedge transactions. The carrying value of the hedged assets was zero and the carrying value of the hedged liabilities was $7.0 million. The Association is exposed to credit loss in the event of nonperformance by other parties to the interest rate swap agreement; however, the Association does not anticipate nonperformance by CoBank, ACB.

NOTE 16 – Subsequent Events

The Association has evaluated subsequent events through March 6, 2018 which is the date the financial statements were issued or available to be issued. There have been no material subsequent events that would require recognition in our 2017 consolidated financial statements.

Board of Director Disclosures

Board Structure

The Board consists of fourteen elected directors, one appointed customer director and two appointed outside directors. In the 2018 election cycle there are three open director seats to be elected for four year terms. As part of the Merger with Maine, a director seat will be discontinued when the term expires in 2018, bringing the ongoing number of elected directors to thirteen.

Farm Credit East has three Nominating Regions as shown on the map on the inside back cover of this Annual Report. Farm Credit East's bylaws specify four-year terms with a limit of four consecutive terms and that there will be one seat from each Region open for election each year. As part of the Merger with Maine, an additional director seat was added to the Eastern Region which will be up for election every four years. Association Bylaws also specify that director candidates be nominated by Region and be elected by the entire membership. The Board may appoint up to four directors, two of which must be outside directors, i.e. not having a borrowing relationship with Farm Credit East.

The Board is independent of management. The CEO reports to the Board and no management or employees may serve as directors within one year of employment. The Board generally has seven regularly scheduled meetings each year and has established a number of committees to provide concentrated focus and expertise in particular areas and to enhance the overall efficiency of scheduled Board meetings. Each committee created by the Board prepares a charter outlining the committee's purpose, its duties, responsibilities and authorities. All Committees report on their meetings at the regular meeting of the full Board. Minutes of each Committee meeting are documented and approved at the following meeting. The full text of each committee charter is available on our website under "Board Committees" at **Farmcrediteast.com**.

Association bylaws also established an Executive Committee. The Board has established the following standing committees: a Compensation Committee, Audit Committee, Governance Committee, and an AgInitiative Committee. The primary responsibilities of each Board Committee are described as follows:

Executive Committee

The Executive Committee members consist of the board chair, vice chair and three other directors designated by the Board, each representing a nominating region other than those represented by the chair or vice chair. The committee is primarily responsible for providing input and direction to management on the development and implementation of the Association's strategic plan, policies and other significant matters requiring attention between board meetings. The committee also acts as the liaison with the Association's regulator, the FCA.

Compensation Committee

The Compensation Committee consists of the Executive Committee. The function of this committee is to review the Association's overall compensation and benefits packages, including the performance and compensation for the Chief Executive Officer, and the funding of these programs.

Audit Committee

The Audit Committee members are appointed by the Board chair in consultation with the board officers. All members of the Audit Committee are independent of management of Farm Credit East and any other System entity. All committee members are expected to have practical knowledge of finance and accounting, be able to read and have a working understanding of financial statements, or develop that understanding within a reasonable period of time after being appointed to the Committee. Tim C. Chan was appointed to the Board of Directors in April 2015. His current term expires in 2019. The Board has determined that Mr. Chan has the qualifications and experience necessary to serve as the Audit Committee "financial expert," as defined by FCA regulations, and has been designated as such.

The Audit Committee has unrestricted access to representatives of the internal audit and risk management departments, financial management and our independent auditors. The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities related to accounting policies, internal controls, financial reporting practices and regulatory requirements.

The Audit Committee pre-approves all audit and audit-related services and permitted nonaudit services (including the fees and terms thereof) to be performed for the Association by its independent auditors, as negotiated by management. Aggregate fees incurred by the Association for services rendered by its independent auditors, PricewaterhouseCoopers, LLP for the years ended December 31, 2017 and 2016 follow:

For the year ended December 31	2017	2016
Audit Fees	$ 140,200	$ 125,400
Tax Fees	39,000	43,900
Total	$ 179,200	$ 169,300

The 2016 tax fees include services rendered in connection with a transfer pricing study.

Governance Committee

The Governance Committee members are appointed by the board chair in consultation with the board officers. The committee is primarily responsible for the training and education of Board members, the outside director election process, director compensation, ethics, and conflict of interest matters.

AgInitiative Committee

The AgInitiative Committee members are appointed by the board chair in consultation with the board officers. The committee is primarily responsible for directing the Association's lending and financial services program for Young, Beginning, Small and Veteran farmers and ranchers to support the development of agriculture with financial incentives and educational opportunities; represent Farm Credit East on the governing council of FarmStart, LLP and oversee the Association's scholarship program.

Other Committees

Nominating Committee

The Nominating Committee is comprised of one member and an alternative member from each branch office, who are elected each year by the membership at the annual stockholder meeting. This committee, which consists of customers who are not seated on the Board of Directors, proactively identifies qualified candidates for Board membership and reviews director nominations, helping to ensure that the Association continues to attract a highly qualified and diverse Board. The Nominating Committee makes a best effort to recommend at least two candidates for each open Board position. Stockholders and interested candidates may gather signatures for petitions to run for the Board following the conclusion of the Nominating Committee's work.

Farm Credit East Directors

Information regarding directors who served as of December 31, 2017, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Matthew W. Beaton, Wareham, Mass., became ***Chair of the Farm Credit East Board*** in 2016 and has served as director since 2006, with his current term expiring in 2020. He is also chair of the Board's Executive Committee and a member of the Compensation Committee. Matt is president and owner of Sure-Cran Services, Inc., a custom management company managing more than 550 acres of cranberry bogs in southeastern Massachusetts. Matt is also president and owner of Beaton's, Inc., which owns and manages 170 acres of cranberry bogs. Matt is on the Board of Directors of the Cape Cod Cranberry Growers Association and is currently serving in his second term as a member of the CoBank Nominating Committee.

Henry L. Huntington, Loudon, NH, has served as director since 2011 with his current term expiring in 2019. He currently serves as Vice Chair and is a member of the Executive Committee and chair of the Compensation Committee. He previously served as chair of the Audit Committee. Henry is CEO of Pleasant View Gardens, Inc., of Loudon, NH. Pleasant View Gardens is a 14-acre wholesale greenhouse operation specializing in young plant propagation and finished annuals and perennials. The company was founded by parents Jonathan and Eleanor, and is currently owned by Henry and his brother Jeffrey. Henry recently founded and is CEO of lēf Farms, a 50,000 sq. ft. greenhouse to grow cut baby greens.. Pleasant View Gardens is also partners in Proven Winners, LLC, a plant brand marketing company; Plant 21, LLC, a plant breeding company; and Ticoplant of Costa Rica, an offshore unrooted cutting production company. He is a director of Phenix Mutual Insurance Company based in Concord, NH; co-chair of the New Hampshire Ornamental Horticulture Endowment; member of the Leadership Advisory Board for the Thompson School and on the Development Board for the College of Life Sciences and Agriculture, University of New Hampshire; past president of Bedding Plants International; and an 18-year member of the Planning Board for the Town of Loudon.

Peter J. Barton, Poughquag, NY, was appointed to the Board in 2016 with his current term expiring in 2018. He currently serves on the Board's AgInitiative Committee. Peter is owner of Barton Orchards, a 175-acre agritourism farm operation in Poughquag, New York. Barton Orchards offers 18 different commodities for Pick-Your-Own, from vegetables to field crops to tree fruit, along with hosting large public venues with extensive attractions.

Michael N. Brooks, Elmer, NJ, was elected as director in 2014 to a term expiring in 2018. He is chair of the AgInitiative Committee and previously served on the Governance Committee. Mike owns Dusty Lane Farms, LLC, in partnership with his parents William and Diane Brooks. Located in Elmer, NJ, Dusty Lane Farms is a diverse 1,400-acre irrigated operation producing white potatoes, peppers, spinach, broccoli, sweet corn, corn and soybeans. The farm also includes 27,000 square feet of heated greenhouse space for vegetable transplants. Mike is a member of the United States Potato Board. He also serves on the executive committee of the Salem County Board of Agriculture and is the president of the New Jersey White Potato Association. He chairs the Woodstown-Pilesgrove Agricultural Education Advisory Committee and is a life-long supporter of the FFA Organization.

Peter R. Call, Batavia, NY, has served as director since 2015, and his current term expires in 2019. He is chair of the Board's Governance committee and member of the Executive and Compensation committees. Peter is President of My-T-Acres, Inc., an 8,500-acre vegetable and grain operation. More than 5,000 of those acres are dedicated to the production of snap beans, potatoes, red beets, carrots, peas, sweet corn, spinach and cabbage. My-T-Acres was named the New York State Agricultural Society's business of the year in 2012. Peter is in business with his brothers, Nate and Phil Call. Peter has an ownership interest in Call Farms, Inc.; My-T Lands, LLC; Call Lands Partnership; Batavia Farm Equipment, which is a center pivot irrigation dealership; and Bear Hammock, a Florida orange grove. Peter is on the Seneca Foods Board of Directors and the Farm Fresh First Board. He is a member of the Genesee Community College Board of Trustees and he serves on the United Memorial Medical Center Board. In addition, he serves on the advisory council of the New York State Ag Experiment Station in Geneva and is a Cornell Council member.

Tim C. Chan, Claremont, NH, has served as an outside director since 2015 and his term expires in 2019. He is a member of the Board's Audit Committee. Tim was the Senior Vice President and Chief Financial Officer of Ocean Spray Cranberries, Inc., North America's leading producer of canned and bottled juices and juice drinks. Prior to Ocean Spray, he served as Vice President of Finance for Campbell Soup Company and Vice President and Corporate Controller of The Pillsbury Company and ALPO Pet Foods. Tim started his career at Oscar Mayer Foods and General Foods.

Daniel J. Corey, Monticello, Maine, has served as director since 1999, having served on the Farm Credit of Maine Board of Directors prior to its merger with Farm Credit East. His current term expires in 2019. He is a member of Farm Credit East's Executive, Compensation and AgInitiative committees. Dan is President/CEO of Daniel J. Corey Farms, Seed Pro Inc., Nu-Seed Corp., Florida Spuds, LLC, Corey Equipment Inc., and Corey Timberlands Ltd., producing more than 1,100 acres of early generation seed potatoes, 1,400 acres of oats, 500 acres of wheat, 200 acres of fresh market potatoes, 200 acres of broccoli, 300 acres of hay and 75,000 Christmas trees. Seed Pro Inc. also operates an in-vitro lab facility and three greenhouses. Nu-Seed Corp. exports potatoes internationally, is a licensed truck brokerage and operates a 250,000bu grain elevator with rail access. Florida Spuds, LLC is the most recent venture, producing more than 200 acres of fresh market potatoes and over 200 acres of broccoli in Elkton, FL. Corey Equipment in Monticello, Maine, is a construction and wood processing company. Corey Timberlands Ltd. is a timberland holding company located in New Brunswick, Canada. He is a member of the New Brunswick Institute of Agrologists and works as a consulting agronomist throughout Maine, Massachusetts, Florida and Canada.

Laurie K. Griffen, Schuylerville, NY, has served as director since 2011, with her current term expiring in 2019. She is a member of the Board's Audit, Compensation and Executive committees. She previously served as Board vice chair and Governance Committee Chair. Laurie is co-owner/operator of Saratoga Sod Farm, Inc., a 600-acre turf grass farm in Stillwater, New York, with her husband Steve. In addition to producing and selling its high quality turf products, Saratoga Sod also provides installation services, sales of seed and fertilizer and the Big Yellow Bag garden soil product to assist its customers across the Northeast. Saratoga Sod also grows roughly 500 acres of soybeans and corn as part of the crop rotation. Laurie also serves on the Town of Saratoga Planning Board, Schuyler Park Committee (Co-chair) and the NY Farm Bureau Labor Committee.

David "Skip" Hardie, Lansing, NY, has served as director since 2016 and his term expires in 2020. He serves on the Board's Governance Committee and previously served on the AgInitiative Committee. Skip is partner of Walnut Ridge Dairy, LLC, along with Steve Palladino, John Fleming and Keith Chapin. The farm milks 1,600 cows and operates 2,000 acres. Skip serves on the American Dairy Association/Dairy Council's executive committee and Board of Directors. He is also chairman of the NYS Milk Promotion Advisory Board, secretary of Dairy Management, Inc., and director and nominating committee chairman for the US Dairy Export Council.

Richard P. Janiga, East Aurora, NY, has served as director since 2000 with his current term expiring in 2018. He had previously served as vice chair of the Board in 2011. He is a member of the Board's AgInitiative Committee and has previously served on the Executive, Compensation and Governance committees. He was previously vice chair of the Farm Credit of Western New York Board. Rick owns and operates R + D Janiga Enterprises, LLC, a 300-cow dairy, cash crop and custom harvest operation. He also serves on the Farm Credit Council Board of Directors.

LouAnne F. King, of Madrid, N.Y., was elected to the board in 2017, with her current term expiring in 2021. LouAnne is an owner of Mapleview Dairy LLC, along with her brother, David Fisher, John Kingston, and her two nephews, Jordan and Jacob Fisher. The family-owned 3,000 cow dairy has 2,800 replacement heifers and approximately 4,600 cropped acres. LouAnne serves as office manager and CFO, while providing human resource functions, management support and mentoring the next generation of managers. LouAnne is a member of the NYS Dairy Promotion Advisory Board; Cornell University Department of Animal Science Advisory Board; Pro-Dairy Advisory Board; the Northeast Agricultural Foundation Board; the St. Lawrence County Cornell Cooperative Extension Farm Profit Team; and is a member of the St. Lawrence Country Dairy Princess Committee.

John P. Knopf, Canandaigua, NY, has served as director since 2013 with his current term expiring in 2021. He is chair of the Board's Audit Committee. John is principal owner of Fa-Ba Farms, LLC in Canandaigua, NY, a dairy business consisting of 500 milking cows, 440 replacements and 850 acres of land devoted to forage production. He is a member of the Town of Canandaigua Board of Assessment Review and has prior service with the Soil and Water Conservation District Northern Watershed and Ontario County Farm Bureau.

James A. Robbins II, Searsmont, Maine, was elected director in 2016 to a term expiring in 2018. He is a member of the AgInitiative Committee. Jim is president of Robbins Lumber, Inc., a fully integrated log yard, sawmill, dry kilns and planer mill that produces 28 million board feet of Eastern White Pine. Robbins Lumber owns and manages 28,000 acres of timberland. Jim is currently building Georges River Energy, LLC, an 8.5 megawatt combined heat and power plant which will utilize the lumber mills residuals as well as pulp from local loggers. Jim also serves on his town's Planning Board of Appeals and on the Northeast Lumber Manufacturers Association's (NELMA) Board of Education. Previously, he was chair of Maine's SFI Implementation Committee and past president of the Maine Wood Products Association.

Lisa P. Sellew, Lebanon, Conn., has served as director since 2013 with her current term expiring in 2021. She is member of the Board's Governance Committee and previously served as the AgInitiative Committee Chair. The Sellew family owns Prides Corner Farms in Lebanon, Conn. Prides Corner is a wholesale nursery that grows more than 2,200 varieties of nursery stock, perennials, roses, trees, herbs and vegetables, and supplies plants to independent garden centers, landscapers and landscape distributors throughout the Northeast and Mid-Atlantic. In addition, Prides Corner also grows and supplies a prevegetated green roof system called LiveRoof®, which is designed to grow plants on rooftop environments. She previously worked in commercial lending and real estate lending.

Douglas W. Shelmidine, Adams, NY, has served as director since 2012 with his current term expiring in 2020. He is a member of the Board's Audit Committee. Doug owns Sheland Farms, LLC, which is a multi-generational family business run in partnership with his brother Todd and sons Devon and Erik. The family farms 1,800 acres and milks 980 cows. Doug served five two-year terms on the USDA-NRCS Agricultural Air Quality Task Force, is the Town of Ellisburg Supervisor and also chairs the Jefferson County Agriculture and Farmland Protection Board.

Diane D. Souza, Little Compton, RI, has served as an outside director since 2015 with her current term expiring in 2019. She is a member of the Governance Committee. Diane has an extensive background in healthcare and finance having served as the CEO of the UnitedHealthcare Specialty Benefits, as well as leading cross-segment activities spanning the UnitedHealthcare organization. Prior to UnitedHealthcare, she was CFO of Aetna's Guaranteed Products business, COO of OptumHealth Specialty Benefits and has held leadership positions at Deloitte and Price Waterhouse. She is also a certified public accountant and serves on the Board of Directors of Sanofi, a global pharmaceutical company headquartered in Paris.

Peter H. Triandafillou, Old Town, Maine, was appointed to the Farm Credit East Board as its forestry expert in 2016 with his current term expiring in 2018. He currently serves on the Board's Audit Committee. Peter is vice president of woodlands for Huber Resources Corp., a timber management firm managing 640,000 acres in seven states. Peter is also past president and current Board member of The Maine Forest Products Council, past chair and current member of the Society of American Foresters (Maine division), past president and current Board member of the North Maine Woods Corporation and past chair of the Advisory Committee of the Cooperative Forestry Research Unit. In addition, he is also a member of the Empire State Forest Products Council.

Director Compensation

For 2017, directors were compensated at a per diem rate of $800 for each day or any part thereof served, $800 for each day traveled before and after the meeting, $800 for board meeting preparation time, $800, approved in advance, for special assignments and a per diem rate of $800 for each day or any part thereof served on a Board committee not held in conjunction with a Board meeting. Directors also received an annual retainer of $13,000 ($20,250 and $15,525 respectively for Board Chair and Vice Chair) plus reimbursement of related travel expenses. Directors may elect to waive all or half of their per diem. In addition, Directors who are asked to serve on other boards are compensated for the difference in per diems. Directors may elect to defer payment of all or part of their director compensation through a nonqualified deferred compensation plan. In 2017 the Board approved additional compensation in excess of the board policy maximum of $58,115 to the Board chairman in recognition of greater than normal involvement in connection with special assignments. Total compensation paid to the directors as a group during 2017 was $717,386. Additional information for each director who served during 2017 is provided below.

The following table presents the number of days served at Board meetings and other official Farm Credit East activities, and compensation paid to each director for the year ended December 31, 2017.

		Number of Days Served[1]			
Name of Director	2017 Board Committee	Board Meetings	Other Official Duties	Committee Compensation[2]	Total Compensation
Matthew W. Beaton	Executive, Compensation	13	36	$ 1,200	$ 62,650
Peter J. Barton	AgInitiative	13	9	-	36,700
Michael N Brooks	AgInitiative	13	12	-	39,100
Peter R. Call	Executive, Compensation, Governance	13	20	-	43,500
Tim C. Chan	Audit	13	22	400	46,700
Daniel J. Corey	Executive, Compensation AgInitiative	13	15	800	38,300
Laurie K. Griffen	Executive, Audit, Compensation	13	26	800	48,700
David E. Hardie	Governance	12	11	-	36,700
Henry L. Huntington	Executive, Compensation	13	23	1,200	49,525
Richard P. Janiga[5]	Compensation, AgInitiative	13	35	-	39,986
Philip J. Jones[4]	Governance	3	7	-	9,600
LouAnne F. King[3]	AgInitiative	11	4	-	28,700
John P. Knopf	Audit	13	22	400	44,550
James A. Robbins II	Governance	13	13	-	36,300
Lisa P. Sellew	Governance	13	12	-	38,275
Douglas W. Shelmidine	Audit	13	17	400	42,700
Diane D. Souza	Governance	13	12	-	38,700
Peter H. Traindafillou	Audit	13	13	-	36,700
				Total Compensation	$ 717,386

[1] The number of days served and per diem totals include travel time to and from meetings

[2] All directors serve on board committees. The committee compensation paid was for participation in meetings not held in conjunction with board meeting dates.

[3] Term began during year

[4] Term ended during year

[5] This director represented Farm Credit East's interest by serving on boards of other organizations important to the Association. Days of service related to these activities and any compensation received from that organization (if any) are not included in this report.

Current Farm Credit East policy regarding reimbursements for travel, subsistence, and other related expenses provides for reimbursement of actual reasonable out of pocket expenses incurred while traveling on official Association business. Directors who use their own automobiles for Association business purposes will be reimbursed at a rate that has been established in accordance with IRS guidelines. The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $321,501, $395,305 and $295,249 for 2017, 2016, and 2015, respectively. A copy of the Association travel policy is available to stockholders upon request.

Transactions with Directors

At December 31, 2017, the Association had loans outstanding with directors individually and to the business organizations of directors. All of the loans were in the ordinary course of business and remain on the same terms, including interest rates, amortization schedules, and collateral as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk collectability. Information regarding related party transactions is incorporated herein by reference from Note 11 of the consolidated financial statements included in this annual report to stockholders.

Senior Officer Disclosures

Listed below are the CEO and senior officers of Farm Credit East, ACA. Information is provided on their experience, as well as on any business for which they serve on the board of directors or act as a senior officer and the primary business that the organization is engaged in.

William J. Lipinski serves as Chief Executive Officer, a position held since Farm Credit East was formed on January 1, 2010. He was previously President and CEO of First Pioneer Farm Credit. He reports to and works closely with the Board of Directors. He sets strategic direction with the Board and directs human resources, credit and services delivery, finance and customer service. Bill is a graduate of Cornell University with a degree in agricultural economics. Bill began his Farm Credit career in 1979 and was promoted through a number of positions before becoming CEO. Bill is a current director and past Chair of the Board of Farm Credit Financial Partners, a service company owned by Farm Credit East and other ACAs. He is a member of the Farm Credit System Presidents Planning Committee, a national leadership group. Bill was a former member of the Board of Directors of Pro-Fac Cooperative, Inc. He also served as director of the Farm Credit Leasing Corporation for a number of years.

Paul S. Bajgier serves as Senior Vice President and Treasurer. He is responsible for the Association's general ledger and loan accounting systems, operational procedures, tax filings and external reporting. He also works closely with the Board Audit Committee to manage Farm Credit East's relationship with PricewaterhouseCoopers, the Association's independent auditor. Paul is a CPA and worked for Price Waterhouse for five years before joining Farm Credit in 1992. Paul is a graduate of Western New England College with a degree in accounting. He is a member of the Farm Credit System Accounting Standards Work Group.

William S. Bathel serves as Executive Vice President and Chief Risk Officer. Bill is responsible for measuring and monitoring risk in Farm Credit East's loan portfolio. He provides reports to the Board and management to help assure the ACA's financial and operational safety. Bill administers the ACA's internal review, audit and fraud programs, and oversees the business intelligence and legal teams. He leads the Association's internal technology operations and coordinates technology efforts with Financial Partners Inc. (FPI), sitting on their strategic investment committee. Bill coordinates matters with our federal examiner, the Farm Credit Administration. Bill joined the Farm Credit System in 1987 and advanced through several positions. He is a graduate of the University of Nebraska with a degree in accounting. He serves on the Farm Credit East Credit, Asset Liability and Human Resources committees. Bill also works closely with the Board's Audit Committee.

Briana S. Beebe serves as Senior Vice President and Human Resources Director. She leads all of Farm Credit East's human resource programs including benefits, recruiting, employee engagement, training, compensation and many other special projects. She joined Farm Credit in 2002 and served as loan officer in the Middleboro branch for seven years before transitioning to her current role in Human Resources. Briana is Chair of Farm Credit East's Human Resources Committee and serves on the CoBank Welfare Benefits Committee. She is a graduate of Cornell University with a degree in animal science/ag business. She is also a graduate of LEAD New York and Farm Credit's Leadership Development Program.

Gary R. Bradley serves as Executive Vice President and Regional Manager. He provides senior management oversight and coaching to the Burrville, Claverack, Cooperstown, Greenwich and Potsdam offices in credit, financial services, consulting and customer service. Gary joined Farm Credit in 1977 and progressed through several positions. He serves on the association Credit Committee. He also works closely with the Board's AgInitiative Committee and is a member of the Farm Credit Fellows Committee at Cornell University. Gary holds a Cornell University degree in business management and marketing.

John P. Caltabiano serves as Executive Vice President and Regional Manager. He provides senior management oversight and coaching for the Bridgeton, Flemington, Enfield, Middletown and Riverhead offices. In his position, he is responsible for loans and financial services to farmers, commercial fisherman, forest products producers, agribusinesses and rural home owners in Connecticut, Massachusetts, New Jersey and New York. John joined Farm Credit in 1983 and progressed through a variety of positions with Southern New England Farm Credit, the Farm Credit Banks in Springfield, Mass. and CoBank in Denver, Colorado. He is a member of Farm Credit East's Credit Committee, Strategic Technology Action Team and Cyber Team. He is the association liaison to the Farm Credit Digital Alliance and he serves on the CoBank, ACB Retirement Trust Committee. John is a graduate of LEAD New York, the Empire State Food and Agricultural Leadership Institute, having served as President of its Board, and is a past Director of the Northeast Agricultural Education Foundation. John holds a BS in agricultural economics and plant science from Cornell University and an MBA from the Fuqua School of Business at Duke University.

Alena C. Gfeller serves as Executive Vice President and General Counsel. Alena is responsible for Farm Credit East's legal department and serves as the Standards of Conduct officer. As head of the legal department, Alena is charged with providing support on complex and innovative loan issues, ensuring regulatory compliance, supervision of outside counsel, and assisting with all facets of the Association's legal needs. She joined Farm Credit East in September 2016, having previously been a partner and member of the Executive Committee at Murtha Cullina, LLP. Alena is a graduate of Arizona State University and received her law degree from Widener University School of Law.

Andrew N. Grant serves as Executive Vice President and Chief Financial Officer. He leads the financial, treasury, accounting and asset-liability management operations of the Association. Prior to assuming his current position, he was Chief Financial Officer of Farm Credit of Maine prior to its merger into Farm Credit East and has held several positions since joining Farm Credit in 1995. He serves on the CoBank, ACB Retirement Trust Committee which oversees the defined benefit and defined contribution retirement plans for the Association and several other Farm Credit employers. He is a member of Farm Credit East's Human Resources, Asset-Liability, and Information Technology Oversight committees. He is a graduate of Husson University and holds both a BS in management accounting and a MS in business.

Brian K. Monckton serves as Executive Vice President and Regional Manager. He provides senior management oversight and coaching to the Batavia, Geneva, Hornell and Mayville offices in credit, financial services, consulting and customer service. Brian joined Farm Credit in 1981 and progressed through several positions with Farm Credit of Bridgeton, Farm Credit of Olean and Farm Credit of Western New York. He is a member of Farm Credit East's Credit Committee. He is a graduate of Cornell with a BS in agricultural economics and a graduate of LEAD New York and a former member of its Board.

Frederick H. Morton serves as Executive Vice President and Regional Manager. He provides senior management oversight and coaching to the Dayville, Bedford, Middleboro, Auburn and Presque Isle offices in credit, financial services, consulting and customer service. Fred joined Farm Credit of Maine in 1979 and progressed through several positions with Farm Credit of Southern Maine and Farm Credit of Maine. He is a member of Farm Credit East's Credit and Risk committees. He is a graduate of the University of Maine with a BS in agricultural and resource economics. He serves on the Board of Agriculture at the University of Maine, and also actively participates in a number of industry organizations that support Maine's natural resource-based businesses.

Roger E. Murray serves as Executive Vice President and provides senior management oversight and coaching to Commercial Lending, Country Living and Crop Growers, LLP business units. He has been part of the senior management team since 1995. Roger provides program leadership for our trade credit partnership with AgDirect, our leasing services through Farm Credit Leasing, and risk management services, including crop and credit life insurance. He serves on Farm Credit East's Credit, Asset-Liability, Technology Oversight and Human Resources committees. Roger holds a Cornell University degree in agricultural economics and is a current member of the Cornell Agri-Business Advisory Council. He joined Farm Credit in 1981 and has held several positions with predecessor organizations as well as the Springfield Bank for Cooperatives and CoBank in Springfield, Mass.

Raymond J. Nowak serves as a Consultant. Formerly the President and Chief Executive Officer of Farm Credit of Maine, Ray helped guide the successful merger of that institution into Farm Credit East. In 2017 Ray continued to assist Farm Credit as a trustee on the CoBank, ACB Retirement Trustee Committee and to consult on strategic outreach activities in the educational and economic development arenas that impact New England's natural resource industries.

James N. Putnam, II serves as Executive Vice President and Chief Business Officer. He provides executive leadership for all branch credit and financial services operations. He chairs the Associations' Credit Committee, which acts on large and complex credit decisions, and also serves on its Human Resources, Risk and Asset-Liability committees. He is responsible for balancing sound extension of credit and services with high quality customer service. Effective January 1, Jim stepped down from these duties and will retire effective March 31, 2018. Jim started with Farm Credit in 1975 after earning a BS from the University of Massachusetts and an MS from Iowa State University, both in agricultural economics. He has served a wide variety of positions over his career, including new business development, business research, financial services, marketing, business planning and communications prior to his current position. He was initially employed by the former Farm Credit Banks of Springfield and since 1995 has worked for Farm Credit East and its predecessor association. He serves as a Cooperator, Chair of the Bylaws Committee and Chair of the Audit Committee of Eastern States Exposition of West Springfield, Mass., as well as being active in the community of the small town in which he lives.

Michael J. Reynolds serves as Executive Vice President and Regional Manager, a position held since January 1, 2013. He provides senior management oversight and coaching to the Bridgeton, Claverack, Cobleskill, Flemington and Middletown offices in credit, financial services, consulting and customer service. Effective January 1, 2018, Michael was appointed Chief Business Officer and Chair of Credit Committee. Michael is a Farm Credit veteran having joined in 1990 and promoted through a variety of positions. He is a member of Farm Credit East's Credit, Human Resources and Financial Services committees. He is also active in the New Jersey farm community, having served on the Executive Committee of the NJ Agricultural Society and chaired the NJ Agricultural Leadership Development Program. Michael serves on the Board of the Farm Credit East Cares Fund.

Robert A. Smith serves as Executive Vice President and Corporate Secretary. Bob joined Farm Credit East in January 2007. He directs the ACA's business planning process and has responsibility for public policy, marketing and communications, and Farm Credit East's ***Knowledge Exchange*** program. He also serves as staff resource for the Governance Committee. Prior to joining Farm Credit East, he served as Vice President for Governmental Relations for CoBank and was responsible for CoBank's Washington, DC office. Prior to CoBank, Bob worked as a Deputy Commissioner in the NYS Department of Agriculture and Markets and Assistant Secretary to the Governor of New York. Before joining the Department of Agriculture and Markets, Bob worked for New York Farm Bureau. He is a graduate of Cornell University and LEAD NY and currently serves on the New York State Fair Advisory Board and Milk Marketing Advisory Board.

Senior Officers Compensation Discussion and Analysis

Overview

This section describes the compensation programs for Farm Credit East's Chief Executive Officer (CEO) and other senior officers, as defined by FCA regulations (collectively, senior officers), as well as those programs for any highly compensated employees as defined by FCA regulations. This section also presents the compensation earned by the CEO, as well as aggregate compensation earned by our other senior officers and any highly compensated employees, for the years ended December 31, 2017, 2016 and 2015.

The Board of Directors, through its Compensation Committee, has reviewed and discussed the Senior Officers Compensation Discussion and Analysis with management. Based on this review and discussion the Compensation Committee recommended that the Board of Directors include the Senior Officers Compensation Discussion and Analysis in the Annual Report for the year ended December 31, 2017.

Compensation Philosophy and Objectives

Farm Credit East's (the Association) compensation strategy is to attract and retain highly talented employees to fulfill our mission as the premier credit and financial services provider in the Northeast. The compensation philosophy seeks to achieve the appropriate balance among market-based salaries, benefits and variable incentive compensation designed to incent and reward both the current and long term achievement of our business objectives and business financial plans. We believe this philosophy fosters a performance-oriented, results-based culture wherein compensation varies on the basis of results achieved.

Components of Compensation Program

Given the cooperative ownership structure of Farm Credit East, no equity or stock based plans are used to compensate any employee, including senior officers. Senior officers' compensation consists of four components – salary, short-term incentive plan, long-term incentive plan and retirement benefits – as described below. All employees participate in salary, the short term incentive plan and retirement benefits, while senior officers and specified other key employees are also eligible to participate in the long-term incentive plan. In addition the CEO is eligible for supplemental retirement benefits (SERP).

Salary

Salaries are market based, as determined in consultation with an independent executive compensation consultant. The determination of market salaries consists of a comparison of salary levels to positions of similar scope at select peer group financial institutions, coupled with an evaluation of individual performance, competencies and responsibilities. Salaries represent a foundational component of the Association's total compensation program as the amounts of other components of compensation are determined in relation to base salary.

Short-Term Incentives

Short-term incentive payments are based on a combination of annual Association and individual performance. The plan focuses on achieving near-term, annual results. Under the terms of the plan, the key performance result areas are loan growth, financially related services income growth and operating efficiency. Substantially all employees in the Association are eligible to participate in this plan at various levels. Criteria used to determine amounts payable were established by the Board of Directors and include the achievement of certain Association financial targets and strategic business objectives. Payments are typically made in February following the end of the year to which the award is applicable.

Long-Term Incentives

The Association has a long-term incentive plan and long term retention plan that provides senior officers and other specified key employees the opportunity for financial rewards tied to Farm Credit East's sustained success. Eligibility for participation is limited to those individuals who clearly have the ability to drive the success of strategies critical to long term value creation for stockholders. The plan payouts are based on Association performance in the achievement of key financial metrics over a three-year performance period. Under the terms of the plan, the key financial metrics are return on assets, operating efficiency and focus on various human resource initiatives. The cash awards are to be paid subsequent to completion of the performance period cycle, subject to approval by the Board of Directors. Participants in the long-term incentive plan and long term retention plan can elect to defer plan payments if the election is made before the start of the year. Participants forfeit those amounts if they resign prior to being paid.

Retirement Benefits

The Association has employer-funded qualified defined benefit pension plans which are noncontributory and cover employees hired prior to January 1, 2007 (except the former Maine employees who all are participants in the noncontributory defined contribution plan). Benefits are determined by a formula based on years of service and eligible compensation. The Association also has a noncontributory, unfunded, nonqualified supplemental executive retirement plan (SERP) covering the CEO only. All employees are also eligible to participate in a 401(k) retirement savings plan, which includes a matching contribution by the Association. Employees hired on or after January 1, 2007 receive additional, non-elective employer contributions to the 401(k) retirement savings plan. All retirement-eligible employees hired before January 1, 2013, including senior officers, are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums associated with these other health care benefits.

The Association also has a nonqualified deferred compensation plan that allows senior officers and other specified key employees to defer all or a portion of their long-term incentive compensation. In addition, certain senior officers are able to participate in a nonqualified supplemental savings plan enabling them to receive the full benefit, irrespective of IRS limitations, of the Association's noncontributory defined contribution plan. The compensation that is deferred is invested in any number of investment alternatives selected by the participants. These alternatives are either identical or substantially similar to those available to all participants in the Association's 401(k) plan. The participant is subject to all risks and returns of amounts invested. The election to defer is irrevocable and the deferred amounts cannot be paid except in accordance with specified elections as permitted by law. At that time, the participant will receive payment of the amounts credited to his or her account under the plan in a manner that has been specified by the participant. If a participant dies before the entire amount has been distributed, the undistributed portion will be paid to the participant's beneficiary.

CEO Compensation

The CEO's compensation is benchmarked to a select peer group of financial institutions. The Board hires an independent executive compensation consultant to help benchmark total compensation. This evaluation helps ensure that such compensation is competitive with positions of similar scope at similar financial institutions. The Board's Executive Compensation Committee reviews the performance of the CEO semi-annually and reviews it with the Board. The Board of Directors annually approves the CEO compensation level.

In addition to the base salary, the CEO can earn both a short-term incentive and a long-term incentive each year based on pre-established performance goals. The short-term incentive potential for 2017 ranged from 0 percent to 65 percent of base salary. The 2017 long-term award was 50 percent of base salary. The short-term and long-term incentives shown in the Summary Compensation Table below reflect the amounts earned and paid during the year. The CEO's compensation in excess of the Internal Revenue Code is made up for via participation in a nonqualified deferred compensation plan. Contributions are made at the same percentages as available under the 401K plan. The nonqualified deferred compensation plan payment is shown in the Summary Compensation Table below.

As of December 31, 2017, the CEO is employed pursuant to an employment contract which runs through December 31, 2019. The employment agreement provides specified compensation and related benefits in the event employment is terminated, except for termination with cause. The significant provisions of the agreement are that the CEO would be entitled to severance benefits of two years base salary plus any incentives earned in the year of termination. The employment agreement may be extended by mutual agreement of the parties.

Senior Officer Compensation

The CEO is responsible for setting the compensation levels of the senior officers, who, in turn are responsible for the compensation of all other employees.

The Association's short-term incentive compensation plan features annual payments based on calendar year performance periods. The annual short-term incentive targets are set for all employees at the beginning of the year. For the 2017 performance period, the short-term incentive plan levels for senior officers ranged from 10 percent to 30 percent of base salary. Individual performance is also considered in the determination of the amount payable. The short-term incentives shown in the Summary Compensation Table below are paid in February following the end of the year to which the award is applicable. In addition, certain senior officers were awarded bonuses totaling $10,000 in 2017. These additional payments were for performance related to special projects.

The Association's long-term retention plan provides senior officers and other specified key employees the opportunity for financial rewards tied to Farm Credit East's sustained success over a three-year performance period. The three-year performance metrics are established at the beginning of each three-year period by the Board of Directors in connection with the annual business and financial plan. For the 2017 plan performance period, the retention plan incentive reward was up to 24 percent of base salary. The retention incentives shown in the chart below are not funded nor held in trust but contractually obligates the Association to make future payments in specified amounts. The cash awards are to be paid subsequent to completion of the three-year performance period cycle. During 2017, the 2014 through 2016 performance period cash awards were paid to senior officers totaling $355,845. Participants in the long-term retention plan can elect to defer incentive plan payments if the election is made before the start of the plan year.

Summary Compensation Table

Compensation earned by the CEO and aggregate compensation of the senior officers for the years ended December 31, 2017, 2016 and 2015, respectively is disclosed in the accompanying table. Disclosure of the total compensation during the last fiscal year to any senior officer included in the aggregate is available to stockholders upon request in writing. Current Board policy regarding reimbursements for travel, subsistence, and other related expenses provides that all employees, including senior officers, shall be reimbursed for actual reasonable travel and related expenses incurred while traveling on official Association business. Employees who use their own automobiles for Association business purposes will be reimbursed at a rate that has been established in accordance with IRS guidelines. The Association provides automobiles to exempt employees with credit or Association-wide management responsibilities. Association employees are allowed to use assigned cars for personal use. All miles other than those driven for business purposes, as defined by the IRS, are considered personal miles and are accounted for as a taxable benefit to the employee. A copy of the Association travel policy is available to stockholders upon request.

Summary Compensation Table	2017	2016	2015
William J. Lipinski, CEO			
Salary	$ 735,000	$ 700,000	$ 660,000
Short-term Incentive	434,000	364,500	376,500
Long-term Incentive	350,000	330,000	300,500
Change in Pension Value[3]	498,682	2,174,043	297,728
Deferred/Perquisites[4]	87,998	79,339	76,792
Total	$ 2,105,680	$ 3,647,882	$ 1,711,520
Senior Officers (excluding CEO)[1]			
Salary	$ 3,157,883	$ 2,925,487	$ 2,884,833
Short-term Incentive	400,850	350,319	369,000
Retention Incentive[2]	520,386	457,825	406,967
Change in Pension Value[3]	1,327,772	1,341,450	1,495,278
Deferred/Perquisites[4]	397,918	364,865	380,484
Total	$ 5,804,809	$ 5,439,946	$ 5,536,562

[1] The number of senior officers in 2017, 2016 and 2015 reflected in this chart was fourteen.

[2] The retention incentive reflects the amount awarded to these senior officers. The amounts are held as a general obligation of the Association and are subject to forfeiture.

[3] Change in pension value represents the change in the vested portion of the present value of the accumulated benefit obligation from the prior fiscal year to the current fiscal year. The change in pension value is generally due to annual changes in compensation, years of service, age and actuarial assumptions such as the discount rate. In 2016 the CEO reached full retirement age with no reduction in pension benefits.

[4] Represents company contributions to a 401(k) retirement savings plan and nonqualified deferred compensation plan, as well as payment of relocation expenses and associated tax impact; the taxable benefit of a company automobile for personal use, as determined by IRS regulations, wellness benefits and company paid life insurance benefits.

Pension Benefits

The table below shows the present value of accumulated benefits payable as of December 31, 2017 to the CEO and aggregate for the senior officers by plan, including the number of years of credited service.

Pension Benefits Table - 2017	Number of Years of Credited Service[2]	Present Value of Accumulated Benefits	Payments During Last Fiscal Year
William J. Lipinski, CEO			
CoBank , ACB Retirement Plan	37.17	$ 2,404,696	$ -
Supplemental Executive Retirement Plan	37.17	5,705,809	-
Total		$ 8,110,505	$ -
Senior Officers (excluding CEO)[1]			
CoBank , ACB Retirement Plan	30.88	$ 12,026,532	$ -
Total		$ 12,026,532	$ -

[1] The number of senior officers at December 31, 2017 and reflected in this chart was ten

[2] Represents an average for the aggregate senior officer group reflected in this chart

The CEO and senior officers hired prior to January 1, 2007 participate in the CoBank, ACB Retirement Plans (except the former Maine employees who are participants in the noncontributory defined contribution plan only). One plan provides a monthly retirement benefit at Normal Retirement Age equal to 1.65 percent of the 4-year highest average pay multiplied by benefit service up to 35 years plus 1.00 percent of 4-year highest average pay multiplied by benefit service in excess of 35 years. Average annual pay includes pay that is subject to withholding of Federal taxes plus any amounts contributed under Section 401 (k).
Another plan provides a monthly retirement at Normal Retirement Age equal to 1.5 percent of 60-month highest average pay, plus 0.25 percent of 60-month highest average pay in excess of Social Security Compensation multiplied by benefit service. Average annual pay includes base salary and non-deferred, short-term incentive annual bonus. The CEO also participates in the CoBank, ACB Farm Credit East Supplemental Executive Retirement Plan to provide benefits to a participant whose benefits in the Retirement Plan are subject to limitations under the Internal Revenue Code.

Each plan provides for early retirement as early as age 55 and 5 years of service but with reductions in the Normal Retirement Benefit. One plan reductions are equal to 3 percent per year between age 60 and the senior officer's Normal Retirement Age and 5 percent per year between age 55 and age 60. Another plan's reductions are equal to 3 percent per year between the age at retirement and the senior officer's Normal Retirement Age. Each plan pays benefits in the form of a 5-year certain and life annuity. Optional forms of annuity payment are available on an actuarially equivalent basis. The calculations assume that a lump sum is elected by each participant for each plan.
The present value of the accumulated benefits is based on assumptions and valuation dates that are the same as

those used for the valuation of pension liabilities in the 2017 annual report. The present value of the accumulated benefits is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes. The discount rate used is 3.75 percent as of December 31, 2017. The lump sum basis used for the valuation is 6.00 percent with the 2018 417(e) mortality table. The potential impact of 415 limits is reflected.

Transactions with Senior Officers

At December 31, 2017, there were no loans outstanding to a senior officer and there were loans outstanding to an immediate family member of two senior officers. All of the loans approved were in the ordinary course of business and remain on the same terms, including interest rates, amortization schedules, and collateral as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility. Information regarding related party transactions is incorporated herein by reference from Note 11 of the consolidated financial statements included in this annual report to stockholders.

Code of Ethics

The Association sets high standards for honesty, ethics, integrity, impartiality and conduct. Each year, every employee certifies compliance with the Association's Employee Standard of Conduct Policy which establishes the ethical standards of the Association. Additionally, all employees certify compliance with the Code of Ethics. The Code of Ethics supplements the Employee Standard of Conduct Policy and establishes additional responsibilities related to the preparation and distribution of the Association's financial statements and related disclosures. For details about the Association's Code of Ethics, visit **Farmcrediteast.com** and click on About Us. A copy of the Association's Code of Ethics is available to stockholders upon request.

Disclosure Information Required by Regulations

In accordance with Farm Credit Administration regulations, Farm Credit East, ACA (the Association) has prepared this Annual Report to Stockholders for the year ended December 31, 2017 in accordance with all applicable statutory or regulatory requirements.

Description of Business

General information regarding the business is incorporated herein by reference to Note 1 of the financial statements included in this annual report to stockholders.

The description of significant developments, if any, required to be disclosed in this section is incorporated herein by reference to "Management's Discussion and Analysis of Financial Position and Results of Operations" included in this annual report to stockholders.

Description of Property

Farm Credit East, ACA is headquartered in Enfield, CT. A listing of Association offices are on the inside back cover of this annual report. All office locations listed are owned by Farm Credit East.

Legal Proceedings and Enforcement Actions

Information regarding legal proceedings is incorporated herein by reference to Note 13 of the consolidated financial statements included in this annual report to stockholders. The Association was not subject to any enforcement actions at December 31, 2017.

Description of Capital Structure

Information required to be disclosed in this section is incorporated herein by reference to Note 7 of the consolidated financial statements included in this annual report to stockholders.

Description of Liabilities

Information required to be disclosed in this section is incorporated herein by reference to Notes 6, 9, 10, 13, 14 and 15 of the consolidated financial statements included in this annual report to stockholders.

Selected Financial Data

"Five Year Summary of Selected Financial Data" included in this annual report to stockholders, is incorporated herein by reference.

Management's Discussion and Analysis

"Management's Discussion and Analysis" included in this annual report to stockholders, is incorporated herein by reference.

Financial Statements

The "Report of Management", "Report of Audit Committee", "Management's Report on Internal Control over Financial Reporting", "Report of Independent Auditors", "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" included in this annual report to stockholders, is incorporated herein by reference.

Directors and Senior Officers

"Director Disclosures" and "Senior Officer Disclosures" included in this annual report to stockholders, is incorporated herein by reference.

Relationship with Independent Auditors

There were no changes in independent auditors since the prior annual report to stock holders and there has been no material disagreement with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Credit and Services to Young, Beginning, Small and Veteran Farmers and Ranchers

"Young, Beginning, Small and Veteran (YBSV) Farmers and Ranchers Program" included in this annual report to stockholders, is incorporated herein by reference.

Involvement in Certain Legal Proceedings

There were no matters that came to the attention of the Board of Directors or management regarding involvement of current directors or senior officers in specified legal proceedings that require to be disclosed.

Unincorporated Business Entities

Information required to be disclosed in this section is incorporated herein by reference to Note 11 of the consolidated financial statements included in this annual report to stockholders.

CoBank, ACB Annual Report and Quarterly Reports

As an Association Stockholder, your equity investment in the Association is materially affected by the financial condition and results of operations of the CoBank, ACB (CoBank).

Regulations require that CoBank's Annual and Quarterly Reports be made available to you upon request at no charge. Accordingly, you may pick-up a copy of CoBank's Annual and Quarterly Reports at one of our offices, or you may call the office to have a copy sent to you. A listing of the Association offices and telephone numbers are listed on the inside back cover of this annual report.

Customer Privacy

Customer financial privacy and the security of your other non-public information are important to us. Farm Credit East holds your financial and other non-public information in strictest confidence. Federal regulations allow disclosure of such information by us only in certain situations. Examples of these situations include law enforcement or legal proceedings or when such information is requested by a Farm Credit System institution with which you do business. In addition, as required by Federal laws targeting terrorism funding and money laundering activities, we collect information and take actions necessary to verify your identity.

Young, Beginning, Small and Veteran (YBSV) Farmers and Ranchers Program

Overview

Farm Credit East, ACA (the Association) takes great pride that its founding Board of Directors (Board) made young, beginning and small farmers a special focus since its founding in 1994. The Board maintains a standing committee of directors to oversee young, beginning, small, and Gulf War-era II veteran farmer programs and initiatives, as well as to plan further to serve these groups.

Mission

The Association's Board recognizes that the long range strength and soundness of the future of Farm Credit East and of the agricultural community in the area it serves depends on the individuals entering the industry. It further recognizes that demands for capital and farm and financial management skills make it exceedingly difficult to become established in the business. Therefore, we believe that it is in the Association's best interest to assist young, beginning, small and veteran farmers by providing loans and credit related services, and help to provide and encourage their participation in activities that improve farm and financial management skills.

Program Definitions

The definitions of young, beginning, small and veteran farmers and ranchers is as follow:

- Young - A farmer, rancher, producer or harvester of aquatic products who is 35 years or younger as of the loan transaction date.
- Beginning - A farmer, rancher, producer or harvester of aquatic products who has 10 years or less farming experience as of the loan transaction date.
- Small Farmer - A farmer, rancher, producer or harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products.
- Veteran - Gulf War-era II veterans having served in US Forces anywhere in the world at any time since September 2001.

Objectives

Young, beginning, small and veteran farmers are a vital part of agriculture and Farm Credit East is proud to provide innovative products and services that contribute to their success. In 1995, the Board created a committee to develop and then oversee a program to assist young, beginning and small farmers, regarding this as one of the core values of the Farm Credit East association. The Board was proud to expand their outreach to Gulf War-era II veterans in 2013 and FFA in 2015.

Services Provided

There are several credit and other related services offered through the Board approved YBSV Program that allows Farm Credit East to effectively serve the needs within the young, beginning, small and veteran customer segments:

- Special incentives that may be offered at a discount for a period of up to five years include:
  - Farm accounting and management software fees
  - Tax preparation fees
  - Consulting fees
  - Appraisal fees
  - FSA guaranteed loan fees
  - Interest rate assistance

Farm Credit East's special incentives were $491,119, $474,643, and $346,250 for the years ended December 31, 2017, 2016, and 2015 respectively.

- Since 2006, incentives are offered to organizations, schools, and universities for special training and educational programs utilizing the Farm Credit East developed *Harvesting a Profit* guide.
- Farm Credit East provides support, funding, and staff involvement in Dairy Fellows, Farm Credit Fellows, Ag Ambassadors, North East Dairy Challenge, and other programs at educational institutions.
- Representation by YBS farmers on Farm Credit East's Customer Service Councils. These councils provide customer feedback and function as a liaison to association management.
- A portion of the young, beginning and small loan portfolio is supported by government guarantees, including guarantees by the Farm Services Agency (FSA) and USDA's Business and Industry guaranteed loan program. Provided below are statistics related to government guarantees usage among the YBS portfolio.

	Government Guaranteed Young, Beginning and Small Farmer Loans		New Government Guaranteed YBS Loans (Originated in 2017)	
	Number	Volume *	Number	Volume *
Young	294	$ 50,796	28	$ 6,806
Beginning	315	$ 57,567	27	$ 5,519
Small	367	$ 42,105	38	$ 4,011

** in thousands*

- Farm Credit East works closely with the New York State Link Deposit Program which reduces the effective interest rate paid on loans for qualifying projects.
- Farm Credit East's Scholarship program awards scholarships to 32 students with an emphasis towards those students with "ag" backgrounds and pursuing interests related to agriculture.
- The Association works with the Northeast Cooperative Council (NECC) to develop and host young cooperators programs along with sponsoring attendance by customers.
- Farm Credit East provides a series of annual seminars that focus on developing skill sets of YBS farmers.
- Receiving regulatory authority in late 2005, Farm Credit East secured a partner (CoBank, ACB) and chartered FarmStart, LLP (FarmStart). At December 31, 2017, Farm Credit East has an equity investment in FarmStart of $1,660,646. FarmStart assists beginning farmers and new cooperatives by providing investments in working capital of up to $75,000. At December 31, 2017, FarmStart has 251 investments with an outstanding balance of $3.4 million.

Demographics

The local service area of Farm Credit East, ACA includes the states of New Jersey, Rhode Island, Connecticut, Maine, Massachusetts, and parts of the states of New York and New Hampshire. Demographic data for Young, Beginning, and Small farmers was taken from the USDA's 2012 Census of Agriculture. The census is conducted every five years. It showed the following:

Percentage Levels in Farm Credit East Lending Territory Expressed as a % of Total Farms

Young	Beginning	Small
11.8%	28.6%	90.1%

Farm Credit East has annually undertaken a study of the young, beginning, small farmer segment. This study makes a determination of Association penetration of young, beginning and small farmers utilizing information reported in the 2012 Census of Agriculture to better ascertain Farm Credit East's penetration of these farmer segments. The following table shows Farm Credit East's penetration in each market segment:

Penetration Levels in Farm Credit East Lending Territory December 31, 2017

Young	Beginning	Small
21%	28%	41%

Farm Credit East penetration is determined based on the number of loans to a specified group as a percentage of total loans.

Young, Beginning and Small Farmer Volume in Farm Credit East's Loan Portfolio

The following table outlines the percentage of young and beginning farmer and rancher loans in the loan portfolio (by number and volume) as of December 31, 2017 compared to total number of loans in the portfolio:

Category	Number of Loans	% of Total Loans	Volume Outstanding *	% of Total Volume
Total Loans and Commitments	18,857	100%	$ 8,175,177	100%
Young Farmers and Ranchers	4,030	21%	$ 1,098,142	13%
Beginning Farmers and Ranchers	5,621	30%	$ 1,395,352	17%

** in thousands*

The following table provides a breakdown of small farmer and rancher loans by size as of year-end 2017:

Number / Volume Outstanding	$0 - $50,000	$50,000 - $100,000	$100,000 - $250,000	>$250,000
Total # of Loans and Commitments	4,747	3,757	4,962	5,391
Total # of Loans to Small Farmers/Ranchers	2,653	2,084	2,325	1,113
# of Small Loans as a % of Total # of Loans	56%	55%	47%	21%
Total Loans and Commitments Outstanding	$ 127,514	$ 292,675	$ 825,280	$ 6,929,708
Total Volume and Commitments to Small Farmers / Ranchers *	$ 74,098	$ 159,535	$ 373,735	$ 549,361
Loan Volume to Small Farmers / Ranchers as a % of Total Loan Volume	58%	55%	45%	8%

** in thousands*

Goals and Results

As part of Farm Credit East's planning process, annual quantitative and qualitative goals are established.

The table below outlines the Association quantifiable goals under YBS loan commitments for 2017 and compares actual results to those goals:

	Young	Beginning	Small
12/31/2017 GOAL	**3,700**	**5,150**	**7,700**
12/31/2017 ACTUAL	3,874	5,373	7,896
2017 as a % of GOAL	105%	104%	103%

The numbers listed above do not include any investments made under FarmStart, LLP.

Farm Credit East has established the following quantifiable and quantitative goals under YBS loan commitments for 2018 and forward:

	Young	Beginning	Small
12/31/2018	3,950	5,450	8,000
12/31/2019	4,000	5,550	8,100
12/31/2020	4,100	5,650	8,200
12/31/2021	4,200	5,750	8,350
12/31/2022	4,300	5,900	8,500

Farm Credit East YBSV 2018 qualitative goals address credit, collaboration, financial services and educational assistance, to include:

- Continue incentive programs including interest rate reductions, payment of FSA guarantee fees and fee reductions on financial services in order to facilitate the entry of new farmers while deepening their financial management skills and to make Farm Credit their service provider of choice.
- Provide scholarships for students pursuing a career in agriculture and FFA SAE projects and continuing the *Farm Credit East Agricultural Leadership and Excellence Program* supporting agricultural leadership and excellence.
- Provide scholarships and program support for STEM program instructors in schools within the LSA and also partner with CASE on curriculum development.
- Support funding, staff involvement and direct training resources for university programs and organizations.
- Allow for "licensing arrangements" with organizations such as Cornell's Small Farmer Program and also its Beginning Farmer Program for use of Farm Credit East's *Harvesting a Profit* program focused on developing beginning farmers' skills.
- Actively support federal and state programs and related efforts when their objectives and execution are aligned with the Farm Credit mission. Several programs subsidize interest costs to YBSV borrowers or offer grant funding.
- Local grass roots involvement by branch staff in organizations such as FFA, 4-H, Young Farmers Associations, New York Agri-women, etc. Seek additional representation by YBSV farmers on Association Customer Service Councils.
- Work closely with veterans groups within the LSA and sponsor activities such as the NYS Veterans in Agriculture Conference.
- Advertisements geared to YBSV farmers and participating in publications such as: Small Farm Quarterly, Dairy Business East, County Folks, etc.
- Farm Credit East will continue to actively participate in the Farm Credit Northeast AgEnhancement Program, whose purpose is to accept and approve, as appropriate, applications for funding for projects that educate both agricultural groups and the non-agricultural public on Northeast agriculture. Funding is also targeted at young, beginning and small farm interests such as regional conferences and new technologies that may enhance the viability of Northeast agriculture or provide new opportunities for start-up agricultural businesses.

Customer Service Council Members

The Farm Credit East Board of Directors has established a system of Customer Service Councils (CSC) for each of the 21 branch offices. These are composed of a cross section of stockholders and other members of the agricultural community who meet three times annually with their local Branch Office Manager to provide feedback and input on a variety of topics. This is in keeping with Farm Credit East's strategic vision of retaining a strong grass roots network and having strong, highly empowered branch offices.

The track record of the CSCs has been very positive as Farm Credit East Branch Office Managers have received invaluable feedback on a wide variety of topics. The Board and Management sincerely appreciate the contribution of the CSC members listed below and look forward to building on this Farm Credit East tradition in 2017.

Auburn, ME
Arthur W. Batson III, John Lucas Tree Expert Co., Portland, ME
Libby P. Bleakney, Highland Farms, Inc., Cornish, ME
Benjamin D. Carlisle, Prentiss & Carlisle Company, Inc., Bangor, ME
Peter Carrier, Carrier Chipping, Inc., Skowhegan, ME
James V. Crane, Crane Bros. Inc., Exeter, ME
Travis Fogler, Stonyvale Farms, Exeter, ME
Robert E. Linkletter, Linkletter & Sons, Inc., Athens, ME
Jacob E. Pierson, Pierson Nurseries, Inc., Biddeford, ME
Todd R. Sawyer, TRS Timber Maintenance, Inc., Waterford, ME
Brian S. Souers, Treeline, Inc., Lincoln, ME

Batavia, NY
James Anderson, Anderson Farm, Avon, NY
Peter Dueppengiesser, Dueppengiesser Dairy Co., LLC, Perry, NY
Tom Jeffres, R.L. Jeffres & Sons, Inc., Wyoming, NY
Brett D. Kreher, Kreher's Poultry Farms, P/S, Clarence, NY
Matthew Lamb, Lamb Farms, Inc., Oakfield, NY
Bradley A. Macauley, Merrimac Farms, Inc., Geneseo, NY
Andrew Milleville, AM Farms LLC, Lockport, NY
Jody Neal, Orleans Poverty Hill Farm, LLC, Albion, NY
Jason E. Schwab, Schwab Dairy Farm, Delevan, NY
Jason E. Swede, Swede Farms, LLC, Piffard, NY
Sue Weber, Mike Weber's Greenhouses, Inc., W. Seneca, NY
Jason Woodworth, Lamont Fruit Farms, Medina, NY

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Kathleen Donald, Stout Oak Farm, Brentwood, NH
Steven A. Gaklis, Nursery Direct, Boston, MA
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Robert A. Johnson, II, Johnson Bros. Farm, Pittsfield, NH
Jamie Robertson, Bohanan Farm, Contoncook, NH
H. Michael Smolak, Smolak Farms, LLC, N. Andover, NH
Stewart R. Yeaton, Yeaton Dairy Farm, LLC, Epsom, NH

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James Brown, New Moon Nursery, LLC, Bridgeton, NJ
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Ed Overdevest, Overdevest Nurseries, Inc., Bridgeton, NJ
Dean Roork, Dean A. Roork, LLC, Greenwich, NJ
Tom Sheppard, Sheppard Farms, Inc., Cedarville, NJ
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Frank Tedesco, Safeway Freezer Storage Company, LLC, Vineland, NJ

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Jonathan Beller, Beller Farms, LLC, Carthage, NY
Kristina Burger, Deer Run Dairy, Adams, NY
David Fralick, The Cape Winery, Cape Vincent, NY
Lynn Murray, Murcrest Farms, LLC, Copenhagen, NY
Ronald Robbins, Robbins Family Grain Co., LLC & North Harbor Dairy, LLC, Sackets Harbor, NY
David Rudd, Heritage Hill Farm, Lacona, NY

Claverack, NY
David W. Becker, Becker's Farm, Rensselaer, NY
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Ben Freund, Freund's Farm, Inc., East Canaan, CT
Robert C. Graves, Faddegon's Nursery, Inc., Schenectady, NY
Christine Jones, APEX Farms, Catskill, NY
Michael Lischin, Dutchess View Farm, Pine Plains, NY
Eric Sheffer, Sheffer's Grassland Dairy, LLC, Hoosick Falls, NY
Philip J. Trowbridge, Trowbridge Farms, Ghent, NY
Lloyd Vaill, Jr., Lo-Nan Farm, LLC, Pine Plains, NY
Dale-Illa Riggs, The Berry Patch, Stephentown, NY

Cobleskill, NY
John Balbian, Harmony Farm NY, LLC, Amsterdam, NY
Christopher Fredericks, Insight Dairy, Little Falls, NY
Luke D. Johnson, Joleanna Holsteins, LLC, Unadilla, NY
Ryan Kelly, Glenvue Farms, LLC, Fultonville, NY
David W. Rivkowich, Veit Farms, LLC, Fort Plain, NY
Charles N. Tommell, Jr., CN Tommell Cattle Company, LLC, Berne, NY

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Paul Fouts, Fouts Farm, Cortland, NY
John Gates, Seneca Valley Dairy, Burdett, NY
Lee Hudson, Hudson Egg Farms, Camillus, NY
Edie McMahon, McMahon's EZ Acres, Homer, NY
Joel Riehlman, Venture Farms, Tully, NY
George Schaefer, Schaefer's Gardens, Chenago Forks, NY
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Clark Woodmansee, Woodmansee Farm, Preston, CT

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Stanley Skeba, Skeba Farms, Inc., Monroe, NJ

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Todd DuMond, DuMond Ag, Auburn, NY
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Adam Peters, Peters LakeAire Orchards, LLC, Williamson, NY
Matthew Young, Will-O-Crest, Clifton Springs, NY

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James W. Chambers, Chambers Valley Farm, Inc., Salem, NY
Nathan Darrow, Saratoga Apple, Inc., Schuylerville, NY
Charlie Hanehan, Hanehan Family Dairy, LLC, Saratoga Springs, NY
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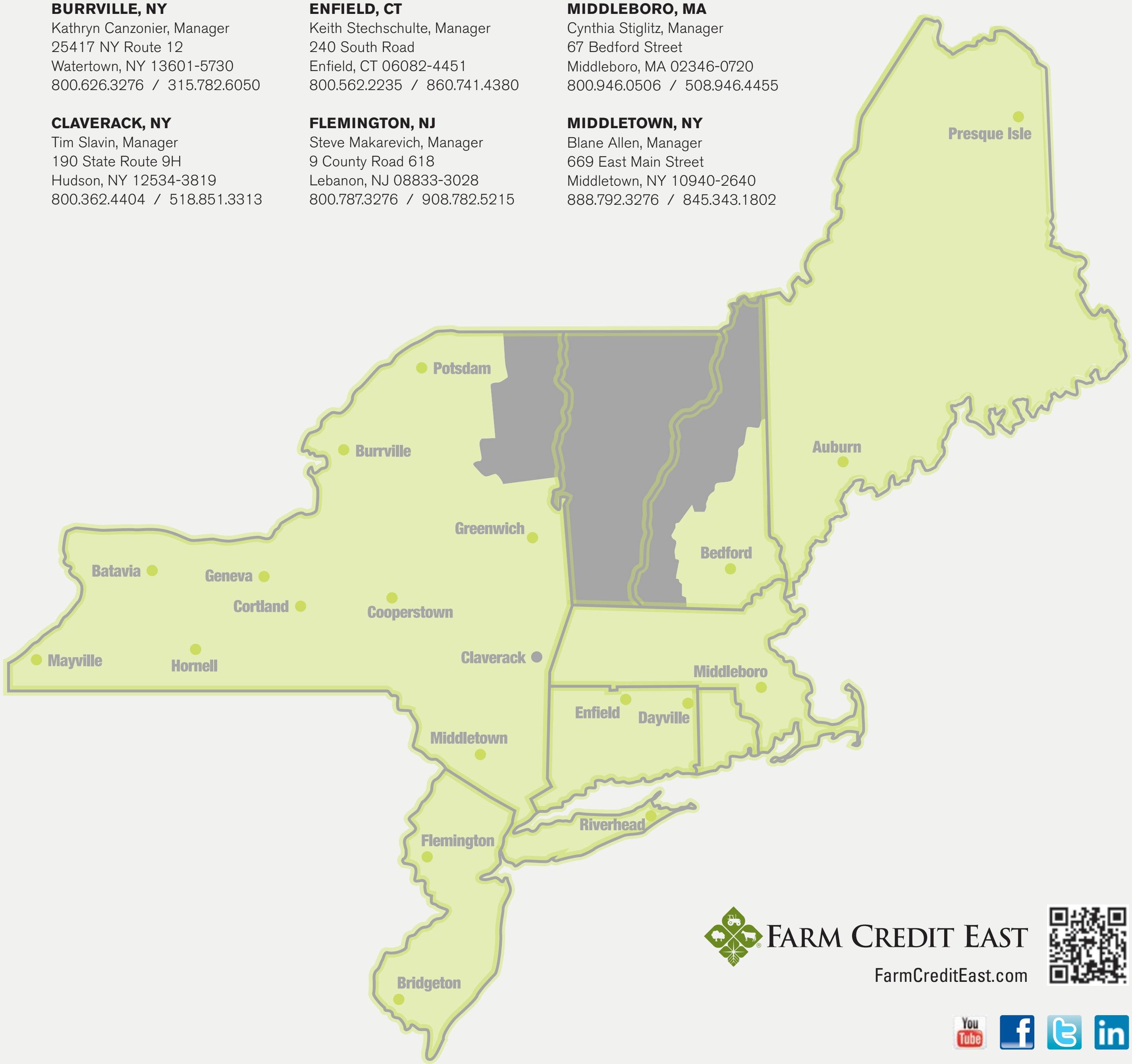

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