2017 NORTHWEST FARM CREDIT SERVICES, ACA

Annual Report to Stockholders

NORTHWEST FARM CREDIT SERVICES, ACA

REPORT OF MANAGEMENT

The financial statements of Northwest Farm Credit Services, ACA and its wholly-owned subsidiaries (Northwest FCS) are prepared by management, which is responsible for their integrity and objectivity, including amounts necessarily based on judgments and estimates. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and, in the opinion of management, fairly present the financial condition of Northwest FCS. Other financial information included in the 2017 Annual Report to Stockholders is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Northwest FCS' accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurances 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 Internal Audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are audited by PricewaterhouseCoopers LLP, independent auditors. Northwest FCS is also examined by the Farm Credit Administration.

The Chief Executive Officer, as delegated by the Northwest FCS Board of Directors, has overall responsibility for Northwest FCS' system of internal controls and financial reporting. The board has delegated significant responsibility to the Audit Committee, which is comprised entirely of directors who are independent of Northwest FCS' management. The Audit Committee meets periodically with management, independent auditors and internal auditors to ensure they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of Northwest FCS in addition to reviewing Northwest FCS' financial reports. The independent auditors and internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of the internal control structure for financial reporting and any other matters they believe should be brought to the attention of the committee.

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

Phil DiPofi	Tom Nakano	David B. Hedlin
President and CEO	EVP-Chief Administrative and Financial Officer	Chair of the Board
March 1, 2018	March 1, 2018	March 1, 2018

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

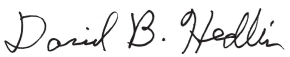
Northwest FCS principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for Northwest FCS' consolidated financial statements. For purposes of this report "internal control over financial reporting" is defined as a process designed by or under the supervision of Northwest FCS' 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 Northwest FCS, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of Northwest FCS, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Northwest FCS' assets that could have a material effect on its consolidated financial statements.

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

Based on the assessment performed, Northwest FCS concluded that as of December 31, 2017, the internal control over financial reporting was effective. Additionally, based on this assessment, Northwest FCS determined there were no material weaknesses in the internal control over financial reporting as of December 31, 2017. There were no material changes in the internal control over financial reporting during the year ended December 31, 2017.

Phil DiPofi
President and CEO
March 1, 2018

Tom Nakano
EVP-Chief Administrative and Financial Officer
March 1, 2018



David B. Hedlin
Chair of the Board
March 1, 2018

REPORT OF AUDIT COMMITTEE

The Audit Committee is composed of six members of the Northwest FCS Board of Directors. In 2017, the Audit Committee met four times in person and participated in conference calls, as needed. The Audit Committee oversees the scope of Northwest FCS' internal audit program, the independence of the outside auditors, the adequacy of Northwest FCS' system of internal controls and procedures and the adequacy of management's action with respect to recommendations arising from those auditing activities. In addition, the Audit Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as independent auditors for 2017. The Audit Committee's responsibilities are described more fully in the Internal Controls Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the 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 financial statements in accordance with generally accepted auditing standards in the United States of America and for issuing its report based on the audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited financial statements, for the year ended December 31, 2017 with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statements on Auditing Standards. PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

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

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended the Northwest FCS Board of Directors include the audited financial statements in the annual report as of and for the year ended December 31, 2017.

Christy Burmeister-Smith
Chair of the Audit Committee
March 1, 2018

Jim Farmer
Dave Nisbet
Karen Schott
Julie Shiflett
Shawn Walters

NORTHWEST FARM CREDIT SERVICES, ACA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)

December 31,	*2017*	*2016*	*2015*	*2014*	*2013*
CONDENSED BALANCE SHEETS					
Cash	$ 29,904	$ 45,565	$ 44,802	$ 51,467	$ 39,406
Loans	10,893,385	10,434,135	10,103,918	9,753,208	9,160,326
Less: allowance for loan losses	82,000	78,500	76,500	83,000	97,000
Net loans	10,811,385	10,355,635	10,027,418	9,670,208	9,063,326
Investment in CoBank, ACB	368,671	354,111	339,965	322,358	319,483
Other property owned, net	2,239	3,005	1,733	8,009	10,059
Other assets	240,179	224,209	205,151	200,617	172,474
Total assets	$ 11,452,378	$ 10,982,525	$ 10,619,069	$ 10,252,659	$ 9,604,748
Obligations with maturities of one year or less	$ 4,650,416	$ 4,379,655	$ 4,092,864	$ 3,940,142	$ 3,799,687
Obligations with maturities greater than one year	4,434,751	4,383,319	4,455,624	4,405,249	4,048,519
Total liabilities	9,085,167	8,762,974	8,548,488	8,345,391	7,848,206
Capital stock and participation certificates	12,691	12,577	12,655	12,695	12,970
Accumulated other comprehensive loss, net of tax	(29,645)	(34,653)	(35,929)	(35,581)	(22,596)
Unallocated retained earnings	2,384,165	2,241,627	2,093,855	1,930,154	1,766,168
Total members' equity	2,367,211	2,219,551	2,070,581	1,907,268	1,756,542
Total liabilities and members' equity	$ 11,452,378	$ 10,982,525	$ 10,619,069	$ 10,252,659	$ 9,604,748
CONDENSED STATEMENTS OF INCOME					
Net interest income	$ 314,878	$ 300,234	$ 297,703	$ 274,408	$ 263,963
(Provision for credit losses) credit loss reversal	(5,388)	(83)	12,321	2,570	34,677
Noninterest income	99,973	96,933	90,220	88,388	75,240
Noninterest expenses	(157,239)	(148,678)	(143,203)	(132,266)	(130,016)
Income tax provision	(1,575)	(1,201)	(1,440)	(4,980)	(6,975)
Net income	$ 250,649	$ 247,205	$ 255,601	$ 228,120	$ 236,889
KEY FINANCIAL RATIOS FOR THE YEAR					
Return on average assets	2.3%	2.3%	2.5%	2.4%	2.6%
Return on average members' equity	10.9%	11.5%	12.8%	12.4%	14.4%
Net interest income as a percentage of average earning assets	3.0%	3.0%	3.1%	3.0%	3.0%
Net loan (recoveries) charge-offs as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	(0.1)%
AT YEAR END					
Members' equity as a percentage of total assets	20.7%	20.2%	19.5%	18.6%	18.3%
Debt as a ratio to members' equity	3.8:1	3.9:1	4.1:1	4.4:1	4.5:1
Allowance for loan losses as a percentage of loans and accrued interest	0.7%	0.7%	0.8%	0.8%	1.1%
Permanent capital ratio	17.3%	16.8%	16.1%	15.5%	14.7%
Common Equity Tier 1 (CET1) Capital	17.2%	-	-	-	-
Tier 1 Capital	17.2%	-	-	-	-
Total Capital	18.1%	-	-	-	-
Tier 1 Leverage	18.8%	-	-	-	-
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	19.6%	-	-	-	-
Total surplus ratio*	-	16.7%	16.0%	15.4%	14.6%
Core capital ratio*	-	16.7%	16.0%	15.4%	14.6%
OTHER					
Loans serviced for other entities	$ 3,914,748	$ 3,759,490	$ 3,382,498	$ 3,316,227	$ 2,915,821
Patronage distribution accrued	$ 108,111	$ 99,433	$ 91,900	$ 64,134	$ 58,134

**Represent Farm Credit Administation capital ratios that were effective through December 31, 2016.*

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

The following discussion summarizes the financial condition and results of operations of Northwest Farm Credit Services, an Agricultural Credit Association (ACA), and its wholly-owned subsidiaries (collectively referred to as Northwest FCS) for the year ended December 31, 2017. The commentary should be read in conjunction with the accompanying Consolidated Financial Statements and Notes. Dollar amounts are in thousands unless otherwise stated.

Northwest FCS quarterly and annual reports to shareholders may be obtained free of charge on Northwest FCS' website, www.northwestfcs.com or upon request at Northwest Farm Credit Services, ACA, P.O. Box 2515, Spokane, Washington 99220-2515 or by telephone at (509) 340-5300 or toll free (800) 743-2125.

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee.

Forward-Looking Statements

Certain statements contained in this report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Actual results may differ materially from those included in the forward-looking statements that relate to plans, projections, expectations and intentions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "may," "will," "should," "would," "could" or similar expressions. Although it is believed that information expressed or implied in such forward-looking statements is reasonable, no assurance can be given that such projections and expectations will be realized or the extent to which a particular plan, projection, or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to:

- Political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- Economic fluctuations in the agricultural, rural infrastructure and farm-related business sectors;
- Weather-related, disease and other adverse climatic or biological conditions that impact agricultural productivity and income;
- Changes in U.S. government support of the agricultural industry and the Farm Credit System (System) as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises and other financial institutions;
- Actions taken by the Federal Reserve System in implementing monetary policy;
- Actions taken by the U.S. Government to manage U.S. fiscal policy, including tax reform;
- Credit, interest rate and liquidity risk inherent in lending activities;
- Changes in assumptions for determining the allowance for credit losses and fair value measurements;
- Cybersecurity risks, including a failure or breach of operational or security systems or infrastructure, that could adversely affect business, financial performance and reputation;
- Nonperformance by counterparties to derivative positions;
- The resolution of legal proceedings and related matters; and
- Industry outlooks for agricultural conditions and land values.

Business Overview

Farm Credit System Structure and Mission

Northwest FCS is 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 farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Structure and Focus

Northwest FCS is a customer-member cooperative that provides credit and financially related services to or for the benefit of eligible customers primarily in the states of Washington, Idaho, Oregon, Montana and Alaska. Northwest FCS makes short-term, intermediate-term and long-term loans and offers advance conditional payment accounts to farmers, ranchers, rural residents and agribusinesses. Northwest FCS also serves as an intermediary in offering federal multi-peril crop insurance programs, including the Whole-Farm Revenue Protection (WFRP) program and named peril/crop hail insurance. Additionally, Northwest FCS offers services to customers such as fee appraisals, business management education and planning services. Northwest FCS' success begins with its extensive agricultural experience and knowledge of the market and is dependent on the level of engagement of its customers.

As part of the System, Northwest FCS obtains funding for its lending and operations from CoBank, ACB, and its wholly-owned subsidiaries (CoBank), which is one of the four Farm Credit System Banks. CoBank is a cooperative of which Northwest FCS is a member. CoBank, its related associations, and AgVantis Inc. (AgVantis), a technology service corporation, are referred to as the District.

Northwest FCS' financial condition and results of operations may be impacted by factors that affect CoBank. The CoBank quarterly and annual reports are available free of charge on CoBank's website, www.cobank.com, or may be obtained at no charge by contacting Northwest FCS, P.O. Box 2515, Spokane, Washington 99220-2515, or by telephone at (509) 340-5300, toll free (800) 743-2125, as well as upon request at any Northwest FCS office location. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

2017 Financial Highlights

The year ended December 31, 2017, was another year of strong financial performance for Northwest FCS. Highlights include:

- Earnings of $250,649, driven by continued loan growth.
- Loan portfolio volume increased 4.4 percent, with an ending total loan and accrued interest balance of $11.0 billion.
- Capital levels remained strong and well in excess of regulatory minimums. As of December 31, 2017, members' equity totaled approximately $2.4 billion, an increase of 6.7 percent from December 31, 2016, primarily due to earnings, partially offset by the patronage distribution accrued of $108,111.

Commodity Review and Outlook

The following highlights the general health of agricultural commodities with the greatest concentrations in Northwest FCS' loan portfolio.

Dairy: Milk futures indicate a $2 per hundredweight, or 13 percent, decrease in milk prices from December 2017 to February 2018. The glut of skim milk powder continues to be burdensome in the European Union and Canada. However, drought in New Zealand and lower cheese tariffs in China may provide tailwinds to milk prices. The 12-month outlook suggests unprofitable returns as milk prices are projected to fall in the first half of 2018.

Forest Products: Strong lumber prices increased demand for logs in 2017; however, wet spring and winter weather coupled with a severe fire season decreased log inventories. This led to inflated log prices, which are expected to remain high into 2018. Lumber prices are anticipated to be stable, but with the increased log prices mills could see some softening of profit margins in 2018.

Fruit and Tree Nuts: The principal commodity financed by Northwest FCS in this sector is apples. The Northwest apple crop estimate for the 2017/18 crop year was revised up and is now the second largest on record. Smaller crops from the U.S. East Coast, Canada, Mexico and Europe should increase demand for Northwest apples. The profitability outlook remains strong for growers with varieties that match changing domestic consumer tastes. Growers with older, less desirable varieties continue to see profits dampen.

Cattle and Livestock: The principal commodity financed by Northwest FCS in this sector is cattle and calves. Those in the cattle industry are optimistic as calf prices remained unseasonably high through fall 2017. Despite continued growth in cattle and beef inventories, enduring domestic and global beef demand provide continued tailwinds. The 12-month outlook suggests slightly profitable results as exports and domestic demand continue to outpace a growing supply.

Potatoes: Potato production decreased 6.6 percent across the Northwest on fewer acres and lower yields. The 12-month outlook suggests grower returns will remain above the cost of production for the remainder of the 2017/18 marketing season due to limited supplies.

Grains: Wheat prices remain around breakeven. Peas, lentils and garbanzo beans, all grown in rotation with wheat, were negatively impacted by an unexpected import tariff by India, a large buyer of Northwest pulse crops. Reduced exports to India are likely to lower farm-level pulse crop prices effecting farm profitability. The 12-month outlook suggests low wheat prices are likely to persist in 2018, with higher prices constrained by record world production and high ending stocks.

For more information on the industries served by Northwest FCS, visit Industry Insights in the Resources section of www.northwestfcs.com.

Financial Condition

Loan Portfolio

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

December 31,	*2017*		*2016*		*2015*	
	Outstanding	*Percent*	*Outstanding*	*Percent*	*Outstanding*	*Percent*
Production agriculture:						
Real estate mortgage	$ 5,105,725	46.6%	$ 4,737,271	45.1%	$ 4,446,605	43.6%
Production and intermediate-term	2,883,774	26.2%	2,902,618	27.6%	2,911,793	28.5%
Agribusiness:						
Processing and marketing	1,256,300	11.4%	1,054,096	10.0%	834,757	8.2%
Loans to cooperatives	480,533	4.3%	507,920	4.8%	588,555	5.8%
Farm-related business	177,021	1.6%	171,251	1.6%	219,912	2.2%
Rural infrastructure:						
Energy	184,669	1.7%	208,185	2.0%	247,040	2.4%
Communications	78,421	0.7%	72,143	0.7%	69,227	0.7%
Water and waste disposal	29,383	0.3%	29,376	0.3%	35,336	0.3%
Rural residential real estate	696,992	6.3%	760,481	7.2%	750,504	7.4%
Other:						
Leases	73,180	0.7%	54,591	0.5%	56,438	0.6%
Other	20,309	0.2%	22,809	0.2%	26,608	0.3%
Total	**$ 10,986,307**	**100.0%**	**$ 10,520,741**	**100.0%**	**$ 10,186,775**	**100.0%**

Northwest FCS makes loans and provides financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities. The loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed, and loan size and structure.

Volume of participations purchased and sold are presented in the following table (participations purchased volume in the table excludes syndications and purchases of other interests in loans):

December 31,	*2017*	*2016*	*2015*
Participations purchased	$ 2,039,813	$ 1,889,111	$ 1,913,122
Participations sold	$ 3,784,417	$ 3,708,854	$ 3,261,352

Loan concentrations by state are presented in the following table:

December 31,	*2017*	*2016*	*2015*
Washington	30.3%	30.7%	29.8%
Idaho	21.1%	21.0%	20.0%
Oregon	19.4%	19.2%	20.2%
Montana	7.7%	7.5%	7.6%
Other	21.5%	21.6%	22.4%
Total	**100.0%**	**100.0%**	**100.0%**

The following table shows the primary agricultural commodities produced by Northwest FCS customers 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 percent or more of the total value of sales for a business; however, a large percentage of agricultural operations include more than one commodity.

December 31,	*2017*	*2016*	*2015*
Dairy	12.0%	11.7%	11.6%
Forest products	10.7%	11.4%	12.0%
Fruit and tree nuts	9.9%	9.2%	9.0%
Cattle and livestock	8.6%	8.6%	8.7%
Potatoes	7.1%	7.5%	7.3%
Grains	6.0%	6.2%	6.3%
Ag processing	5.6%	5.1%	4.7%
Other concentrations in aggregate	40.1%	40.3%	40.4%
Total	**100.0%**	**100.0%**	**100.0%**

Impaired loan volume is comprised of nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. Nonperforming assets consist of impaired loans and other property owned. Comparative information regarding nonperforming assets in the portfolio, including accrued interest where appropriate, are presented in the following table:

December 31,		*2017*		*2016*		*2015*
Performing loans and interest	**$**	**10,935,603**	**$**	**10,462,473**	**$**	**10,133,008**
Nonperforming assets:						
Nonaccrual loans		29,030		31,747		24,880
Restructured accrual loans		20,548		25,876		27,656
Accrual loans 90 days or more past due		1,126		645		1,231
Total impaired loans and interest	**$**	**50,704**	**$**	**58,268**	**$**	**53,767**
Other property owned, net		2,239		3,005		1,733
Total nonperforming assets	**$**	**52,943**	**$**	**61,273**	**$**	**55,500**
Total loans and interest	**$**	**10,986,307**	**$**	**10,520,741**	**$**	**10,186,775**
Nonaccrual loans to total loans and accrued interest		0.3%		0.3%		0.2%
Impaired loans to total loans and accrued interest		0.5%		0.6%		0.5%
Nonperforming assets to total loans and accrued interest		0.5%		0.6%		0.5%

Nonperforming assets at December 31, 2017, decreased by $8,330 or 13.6 percent compared to December 31, 2016. Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual loans decreased by $2,717 at December 31, 2017, compared to December 31, 2016, mainly driven by the loan changes summarized in the table below. Accruing restructured loan volume decreased by $5,328 compared to December 31, 2016, primarily related to loan repayments. Loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Other property owned is real and personal property that has been acquired through foreclosure or deed in lieu of foreclosure.

Nonaccrual loan changes are summarized in the following table:

Year ended December 31,		*2017*		*2016*		*2015*
Beginning balance	$	31,747	$	24,880	$	45,015
Transfer from accrual status		6,901		40,042		25,312
Return to accrual status		(3,461)		(3,269)		(6,641)
Charge-offs		(855)		(3,183)		(6,578)
Transfers to other property owned		(1,542)		(4,224)		(1,138)
Repayments, net		(3,760)		(22,499)		(31,090)
Ending balance	**$**	**29,030**	**$**	**31,747**	**$**	**24,880**

As of December 31, 2017, nonaccrual loans that were current as to principal and interest installments totaled $14,077 representing 48.5 percent of the nonaccrual loan portfolio compared to $7,951 representing 25.0 percent of the nonaccrual loan portfolio at December 31, 2016, and $17,107 representing 68.8 percent of the nonaccrual loan portfolio at December 31, 2015. Additional loan information is in Note 3 to the Consolidated Financial Statements.

Allowance for Credit Losses

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

Individual loans are evaluated based on the borrower's overall financial condition, resources and payment history; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans. These specific loan loss reserves at December 31, 2017, 2016 and 2015, totaled $2,951, $3,844 and $1,796, respectively. The ALL reserves, including the specific reserves, at December 31, 2017, 2016 and 2015, totaled $82,000, $78,500 and $76,500, respectively.

Coverage of the ALL, as a percentage of certain key loan categories, is presented in the following table:

December 31,	*2017*	*2016*	*2015*
Allowance for loan losses as a percentage of:			
Total loans	0.7%	0.8%	0.8%
Nonaccrual loans	282.5%	247.3%	307.5%
Impaired loans	161.7%	134.7%	142.3%

Northwest FCS maintains a reserve for unfunded lending commitments that reflects its best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as the likelihood of disbursement and loss given disbursement are utilized in determining this reserve. This reserve is reported within other liabilities in the Consolidated Balance Sheets and totaled $22,500, $20,500 and $24,000 at December 31, 2017, 2016 and 2015, respectively.

Other Assets

Other assets consist primarily of patronage receivables from and investments in other Farm Credit entities. Other assets were $111,428 at December 31, 2017, an increase of $3,837 compared to 2016, primarily the result of increased patronage receivables. Other assets were $107,591 at December 31, 2016, an increase of $6,875 compared to 2015, primarily due to increased patronage receivables and an increase in the investment in AgDirect LLP.

Other Liabilities

Other liabilities were $186,451 at December 31, 2017, an increase of $9,967 compared to 2016, primarily due to an increase in patronage payable to customer-members and an increase in the reserve for unfunded lending commitments. Other liabilities were $176,484 at December 31, 2016, a decrease of $20,532 compared to 2015. The decrease was primarily the result of insurance proceeds held on behalf of a customer at December 31, 2015.

Results of Operations

Net income for the year ended December 31, 2017, was $250,649, compared to $247,205 for 2016 and $255,601 for 2015. The following table provides detail of changes in the components of net income:

Change between the years ended December 31,	*2017 and 2016*	*2016 and 2015*
Increase in net interest income	$ 14,644	$ 2,531
Increase in provision for credit losses	(5,305)	(12,404)
Increase in noninterest income	3,040	6,713
Increase in noninterest expense	(8,561)	(5,475)
(Increase) decrease in provision for income taxes	(374)	239
Total increase (decrease) in net income	**$ 3,444**	**$ (8,396)**

Net Interest Income: Net interest income was $14,644 higher in 2017 compared to 2016 primarily due to an increase in the rates and volume of interest bearing assets, partially offset by an increase in the rates and volume of interest bearing liabilities. Net interest income was $2,531 higher in 2016 compared to 2015 primarily due to increased loan volume, partially offset by an increase in the rate paid on interest bearing liabilities. Net interest income includes $4,972, $5,424 and $6,508 of net loan fee accretion for the years ended December 31, 2017, 2016 and 2015, respectively.

Influences on net interest income from changes in effective rates on, and volume of, interest earning assets and interest bearing liabilities between the years ended December 31, 2017, and 2016, and between the years ended December 31, 2016, and 2015, are presented in the following tables:

Change between years ended December 31, 2017 and 2016	*Change in income/expense*	*Change in rate*	*Change in volume*
Total interest income	$ 40,586	$ 22,735	$ 17,851
Total interest expense	(25,942)	(21,261)	(4,681)
Net interest income	**$ 14,644**	**$ 1,474**	**$ 13,170**

Change between years ended December 31, 2016 and 2015	*Change in income/expense*	*Change in rate*	*Change in volume*
Total interest income	$ 19,408	$ 4,129	$ 15,279
Total interest expense	(16,877)	(13,448)	(3,429)
Net interest income	**$ 2,531**	**$ (9,319)**	**$ 11,850**

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

Year ended December 31,	*2017*	*2016*	*2015*
Net interest income	$ 314,878	$ 300,234	$ 297,703
Average balances:			
Average interest earning assets	$ 10,554,615	$ 10,135,580	$ 9,773,526
Average interest bearing liabilities	$ 8,601,956	$ 8,305,720	$ 8,064,245
Average yields and rates:			
Interest earning asset yield	4.47%	4.26%	4.22%
Rate paid on interest bearing liabilities	1.83%	1.58%	1.42%
Interest rate spread	2.64%	2.68%	2.80%
Net interest margin (net interest income as a percentage of average interest earning assets)	2.98%	2.96%	3.05%

Provision for credit losses/credit loss reversal: In 2017, the provision for credit losses of $5,388 was primarily the result of credit and collateral migrations, growth in the loan portfolio and an increase in the reserve for unfunded lending commitments. In 2016, the provision for credit losses of $83 was primarily the result of growth in the loan portfolio, with an offsetting reduction in the reserve for unfunded lending commitments. In 2015, the credit loss reversal of $12,321 was primarily the result of the decline in nonaccrual loan volume and related specific allowances, net recoveries and a reduction in the reserve for unfunded lending commitments.

Noninterest income: In 2017, noninterest income increased $3,040 or 3.1 percent compared to 2016, primarily due to an increase in patronage income of $5,028, slightly offset by a decline in other noninterest income. The patronage income increase was mainly due to higher patronage income on sold loan volume and an increase in the average note payable to CoBank compared to 2016. The other noninterest income decline was primarily due to mineral income.

In 2016, noninterest income increased $6,713 or 7.4 percent when compared to 2015, primarily related to higher loan and other fees of $4,312, higher financially related services income of $3,353 and an increase in patronage income of $3,226, partially offset by lower gains on sales of other property owned of $2,438 and a decline in mineral income of $1,902. The patronage income increase was mainly due to higher patronage income on sold loan volume and an increase in the average note payable to CoBank compared to 2015. Higher loan and other fees are related to increased volume of loans and a decline in fees requiring deferral. The increase in financially related services income is primarily the result of increased insurance commission rates and additional volume of insurance premiums compared to the prior year. Mineral income declines are the result of declining oil prices and activity, and the lower gains on sales of other property owned were the result of lower activity during the year.

Noninterest expense: In 2017, noninterest expenses increased $8,561 or 5.8 percent compared to 2016, primarily related to increased salaries and employee benefits of $4,805 and higher purchased services of $3,057. Salaries and employee benefits increased as a result of the normal merit administration, higher medical and retirement costs, and higher incentive compensation based on 2017 organizational performance compared to 2016. The purchased services increase was primarily due to higher technology fees and higher consulting fees related to process improvements.

In 2016, noninterest expenses increased $5,475 or 3.8 percent compared to 2015 due mainly to insurance fund premiums increasing $3,291 and salaries and employee benefits increasing $1,974. The insurance fund premium increased due to higher assessment rates, reflecting an increase in the System's outstanding insured debt obligations. The basis for the assessment is uniform across System entities. Salaries and employee benefits increased as a result of the normal merit administration, higher medical and retirement costs, partially offset by lower incentive compensation based on 2016 organizational performance compared to 2015.

Salaries and employee benefits includes a reduction of $7,059, $6,701 and $6,380 in deferred loan origination costs for the years ended December 31, 2017, 2016 and 2015, respectively. Deferred loan origination costs are periodically updated to reflect cost changes, primarily related to salaries and employee benefits.

Provision for income taxes: The provision for income taxes increased to $1,575 in 2017 from $1,201 in 2016. The effective tax rate was 0.6 percent for 2017 compared to 0.5 percent for 2016. The increase included $646 in net deferred tax adjustments resulting from the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with accounting principles generally accepted in the United States (GAAP), the change to the lower corporate tax rate led to a revaluation of the deferred tax assets and deferred tax liabilities in 2017. Tax estimates are based on the income from the taxable lending portfolio and include the effect of anticipated patronage distributions.

Liquidity and Funding Sources

The primary source of Northwest FCS liquidity and funding is a direct loan from CoBank that is reported as a note payable to CoBank, ACB in the Consolidated Balance Sheets. As described in Note 7 to the Consolidated Financial Statements, this direct loan is governed by a General Financing Agreement (GFA), is collateralized by a pledge of substantially all of Northwest FCS' assets and is also subject to borrowing limits. The GFA includes financial and credit metrics that if not maintained can result in increases to the funding costs. The GFA also requires compliance with FCA regulations regarding liquidity. To meet this requirement, Northwest FCS is allocated a share of CoBank's liquid assets for calculation purposes. Northwest FCS is currently in compliance with the GFA and does not foresee issues with obtaining funding or maintaining liquidity.

Northwest FCS plans to continue to fund lending operations primarily through its borrowing relationship with CoBank and from retained earnings. CoBank's primary source of funds is the issuance of Systemwide Debt Securities to investors through the Federal Farm Credit Banks Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting the mission of providing credit to agriculture and rural America.

Northwest FCS has a secondary source of liquidity and funding through an uncommitted Federal Funds line of credit with Wells Fargo Bank, N.A. The amount available through this line is $75,000 and is intended to provide liquidity for disaster recovery or other emergency situations. At December 31, 2017, 2016 and 2015, no balance was outstanding on this line of credit.

Asset/Liability Management

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

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

December 31, 2017	*One month or less*	*Over 1 month to 6 months*	*Over 6 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Total*
Interest earning assets:						
Floating rate loans	$ 4,516,848	$ 246,219	$ 1,282	$ -	$ -	$ 4,764,349
Adjustable rate loans	55,142	113,091	114,381	307,274	246,238	836,126
Fixed rate loans, prepayable	14,376	118,037	129,881	781,069	625,896	1,669,259
Fixed rate loans	25,389	222,546	225,646	1,579,959	1,541,081	3,594,621
Nonaccrual loans	11,958	3,712	4,453	8,907	-	29,030
Total interest earning assets	**$ 4,623,713**	**$ 703,605**	**$ 475,643**	**$ 2,677,209**	**$ 2,413,215**	**$ 10,893,385**
Interest bearing liabilities:						
Floating rate debt	$ 2,696,035	$ 416,400	$ 800	$ -	$ -	$ 3,113,235
Discount notes	228,736	973,230	24,842	-	-	1,226,808
Fixed rate debt, callable	3,954	(175)	39,791	476,740	783,099	1,303,409
Fixed rate debt	77,949	167,955	263,429	1,147,574	1,308,389	2,965,296
Effect of interest rate swaps	395,000	-	-	(382,000)	(13,000)	-
Other*	(2,679)	-	-	-	-	(2,679)
Future payment fund	264,256	-	-	-	-	264,256
Total interest bearing liabilities	**$ 3,663,251**	**$ 1,557,410**	**$ 328,862**	**$ 1,242,314**	**$ 2,078,488**	**$ 8,870,325**
Interest rate sensitivity gap	**$ 960,462**	**$ (853,805)**	**$ 146,781**	**$ 1,434,895**	**$ 334,727**	**$ 2,023,060**
Cumulative gap	**$ 960,462**	**$ 106,657**	**$ 253,438**	**$ 1,688,333**	**$ 2,023,060**	
Cumulative gap/total interest-earning assets	8.82%	0.98%	2.33%	15.50%	18.57%	

**Other consists of adjustments for changes associated with the fair value of the hedged item in the application of hedge accounting.*

Northwest FCS' repricing gap as of December 31, 2017, is characterized as slightly asset sensitive. An asset sensitive position is favorable to the association in a rising rate environment and is less favorable when interest rates are declining. Given some of the inherent weaknesses with interest rate gap analysis, simulation models are used to develop additional interest rate sensitivity measures and estimates. The assumptions used to produce anticipated results are periodically reviewed and models are tested to help ensure reasonable performance. Various simulations are produced for net interest income and the market value of equity. These simulations help to assess interest rate risk and make adjustments as needed to the products and related funding strategies.

Northwest FCS' Asset/Liability Management board policy establishes limits for changes in net interest income and market value of equity sensitivities. These limits are measured and reviewed by the ALCO monthly and reported to the board at least quarterly. The board policy limits for net interest income and the market value of equity are a negative 15 percent change given parallel and instantaneous shocks of interest rates up and down 2 percent. In instances when the rate on the three-month U.S. Treasury bill is less than 4 percent, FCA guidelines provide the Regulatory Down Policy shock measure should be used in lieu of the down 2 percent measure, with that measure equal to one-half the three-month U.S. Treasury bill rate. This was the case as of December 31, 2017, with the Regulatory Down Policy shock measure being at 0.68 percent. In the event where the current three-month Treasury bill interest rate is negative, Northwest FCS will coordinate with FCA and CoBank for the downward shock amount. The GFA also uses these simulation results to assess the interest rate risk position and whether corrective action is necessary.

December 31, 2017	*Regulatory down policy shock*	*- 1% shock*	*+ 1% shock*	*+ 2% shock*
Change in net interest income	-0.98%	-0.73%	1.29%	2.40%
Change in market value of equity	1.23%	1.92%	-1.81%	-3.78%

The upward and downward shocks reflected in the above table are based on parallel and instantaneous interest rate movements. Due to low short-term interest rates in 2017, the 2 percent parallel and instantaneous downward shock scenarios cannot be obtained.

As of December 31, 2017, all interest rate risk-related measures were within the board policy limits, GFA requirements and management guidelines.

Members' Equity

Northwest FCS has a capitalization objective to build and retain adequate members' equity for its continued financial viability and to provide for growth necessary to competitively meet the needs of its customers. In assessing the amount of capital needed, Northwest FCS takes into account credit risk, funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

Northwest FCS' capital position is reflected in the following ratio comparisons:

December 31,	*2017*	*2016*	*2015*
Debt to members' equity	3.8:1	3.9:1	4.1:1
Members' equity as a percent of total loans	21.7%	21.3%	20.5%
Members' equity as a percent of total assets	20.7%	20.2%	19.5%

Capital Regulations

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

Management is not aware of any reasons why the regulatory capital requirements would not be met in 2018, nor is it currently or expected to be prohibited from retiring stock or distributing earnings in 2018. See Note 8 to the Consolidated Financial Statements for additional information related to capital and related requirements and restrictions.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Northwest Farm Credit Services, ACA and Subsidiaries:

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northwest Farm Credit Services, ACA and its subsidiaries as of December 31, 2017, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 1, 2018
Salt Lake City, UT

NORTHWEST FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

December 31,	*2017*	*2016*	*2015*
ASSETS			
Cash	$ 29,904	$ 45,565	$ 44,802
Loans	10,893,385	10,434,135	10,103,918
Less: allowance for loan losses	82,000	78,500	76,500
Net loans	10,811,385	10,355,635	10,027,418
Accrued interest receivable	93,289	86,606	82,857
Investment in CoBank, ACB	368,671	354,111	339,965
Other property owned, net	2,239	3,005	1,733
Premises and equipment, net	34,184	27,879	18,411
Deferred tax asset, net	1,278	2,133	3,167
Other assets	111,428	107,591	100,716
Total assets	$ 11,452,378	$ 10,982,525	$ 10,619,069
LIABILITIES			
Note payable to CoBank, ACB	$ 8,606,069	$ 8,309,536	$ 8,000,436
Advance conditional payments and other interest bearing liabilities	264,256	253,871	327,581
Accrued interest payable	28,391	23,083	23,455
Other liabilities	186,451	176,484	197,016
Total liabilities	9,085,167	8,762,974	8,548,488
Commitments and Contingent Liabilities (Note 14)			
MEMBERS' EQUITY			
Capital stock and participation certificates	12,691	12,577	12,655
Accumulated other comprehensive loss, net of tax	(29,645)	(34,653)	(35,929)
Unallocated retained earnings	2,384,165	2,241,627	2,093,855
Total members' equity	2,367,211	2,219,551	2,070,581
Total liabilities and members' equity	$ 11,452,378	$ 10,982,525	$ 10,619,069

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

NORTHWEST FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)

For the year ended December 31,	*2017*	*2016*	*2015*
NET INTEREST INCOME			
Interest income	$ 472,117	$ 431,531	$ 412,123
Interest expense	157,239	131,297	114,420
Net interest income	314,878	300,234	297,703
Provision for credit losses (credit loss reversal)	5,388	83	(12,321)
Net interest income after provision for credit losses or credit loss reversal	309,490	300,151	310,024
NONINTEREST INCOME			
Patronage income	60,768	55,740	52,514
Financially related services	22,278	22,680	19,327
Loan and other fees	10,129	10,854	6,542
Other noninterest income	6,798	7,659	11,837
Total noninterest income	99,973	96,933	90,220
NONINTEREST EXPENSE			
Salaries and employee benefits	84,130	79,325	77,351
Purchased services	24,973	21,916	21,610
Occupancy and equipment expense	12,309	10,690	9,662
Insurance fund premium	11,698	12,759	9,468
Other noninterest expenses	24,129	23,988	25,112
Total noninterest expense	157,239	148,678	143,203
Income before income taxes	252,224	248,406	257,041
Provision for income taxes	1,575	1,201	1,440
Net income	$ 250,649	$ 247,205	$ 255,601

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

For the year ended December 31,	***2017***	***2016***	***2015***
Net income	$ 250,649	$ 247,205	$ 255,601
Amortization of costs included in net periodic pension cost and other actuarial adjustments, net of deferred income tax	4,648	704	(651)
Net change in cash flow hedges	360	572	303
Other comprehensive income (loss), net of tax	5,008	1,276	(348)
Comprehensive income	$ 255,657	$ 248,481	$ 255,253

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

NORTHWEST FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)

For the year ended December 31,		***2017***		***2016***		***2015***
Balance at beginning of period	$	2,219,551	$	2,070,581	$	1,907,268
Comprehensive income		255,657		248,481		255,253
Capital stock and participation certificates issued		1,275		1,305		1,172
Capital stock and participation certificates retired		(1,161)		(1,383)		(1,212)
Patronage distribution accrued		(108,111)		(99,433)		(91,900)
Balance at end of period	$	2,367,211	$	2,219,551	$	2,070,581

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

NORTHWEST FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

Year ended December 31,	***2017***	***2016***	***2015***
Cash flows from operating activities:			
Net income	$ 250,649	$ 247,205	$ 255,601
Adjustments to reconcile net income to net cash from operating activities:			
Provision for credit losses (credit loss reversal)	5,388	83	(12,321)
Depreciation and amortization	3,417	2,745	3,546
Net gains on sales and valuation adjustments of other property owned	(338)	(730)	(2,617)
Net gains on interest rate swaps	(14)	-	-
Changes in:			
Accrued interest receivable	(6,683)	(3,749)	(4,303)
Deferred tax asset	609	933	1,059
Other assets	(3,732)	(7,182)	(1,598)
Accrued interest payable	5,308	(372)	(59)
Other liabilities	1,397	(23,247)	15,438
Net cash provided by operating activities	256,001	215,686	254,746
Cash flows from investing activities:			
Increase in loans, net	(460,026)	(335,850)	(347,127)
Increase in CoBank, ACB and other investments	(14,711)	(14,143)	(18,280)
Purchases of premises and equipment	(6,767)	(12,065)	(1,897)
Proceeds from sales of premises and equipment and other property owned	1,997	3,464	8,098
Net cash used in investing activities	(479,507)	(358,594)	(359,206)
Cash flows from financing activities:			
Increase in notes payable, net	299,212	309,100	147,225
Increase (decrease) in advanced conditional payments	7,949	(73,469)	14,592
Capital stock and participation certificates issued	1,275	1,305	1,172
Capital stock and participation certificates retired	(1,161)	(1,383)	(1,212)
Distribution of patronage	(99,430)	(91,882)	(63,982)
Net cash provided by financing activities	207,845	143,671	97,795
Net (decrease) increase in cash	(15,661)	763	(6,665)
Cash at beginning of period	45,565	44,802	51,467
Cash at end of period	$ 29,904	$ 45,565	$ 44,802

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

NORTHWEST FARM CREDIT SERVICES, ACA

SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS INFORMATION

(dollars in thousands)

Year ended December 31,		***2017***		***2016***		***2015***
Supplemental schedule of non-cash investing and financing activities:						
Loans transferred to other property owned	$	1,542	$	4,224	$	1,138
Financed sales of other property owned		(654)		(174)		(1,900)
Net loan (recoveries) charge offs		(112)		1,583		(2,821)
Patronage distribution accrued		108,111		99,433		91,900
Stock patronage income received from CoBank		(2,315)		(2,165)		(1,902)
Premises (acquired) disposed of under capital leases		(2,868)		-		-
Supplemental non-cash fair values changes related to hedging activities:						
Decrease in interest rate cap and foreign currency hedge	$	-	$	(76)	$	(129)
Supplemental cash flow information:						
Interest paid	$	151,931	$	131,670	$	114,479
Income taxes paid (net of refunds)		(1,031)		1,303		1,640

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except as noted)

NOTE 1 – Organization and Operations

Organization

Northwest Farm Credit Services, ACA and its subsidiaries, Northwest Farm Credit Services, FLCA (the Federal Land Credit Association (FLCA)) and Northwest Farm Credit Services, PCA (the Production Credit Association (PCA)), (collectively referred to as Northwest FCS), is a customer-member cooperative that provides credit and financially related services to or for the benefit of eligible customers primarily in the states of Washington, Idaho, Oregon, Montana and Alaska.

Northwest FCS is a lending institution of the Farm Credit System (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 rural America and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System is comprised of three Farm Credit Banks (FCBs), one Agricultural Credit Bank (ACB) and 69 associations.

CoBank, ACB, and its wholly-owned subsidiaries (CoBank or Bank), its related associations, and AgVantis Inc. (AgVantis), a technology service corporation, 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. The District consists of CoBank and 22 Agricultural Credit Associations (ACA), each having two wholly owned subsidiaries (an FLCA and a PCA), one FLCA and AgVantis.

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

Northwest FCS, along with other System institutions, owns Farm Credit Financial Partners, Inc. (FPI), a dedicated service corporation that provides information technology solutions for various Farm Credit entities. At December 31, 2017, Northwest FCS owned approximately 16 percent of FPI.

Northwest FCS is a partial owner in AgDirect, LLP (AgDirect), a trade credit financing program that includes origination and re-financing of agricultural equipment loans through independent equipment dealers. The program is facilitated by a limited liability partnership and at December 31, 2017, Northwest FCS owned approximately 13 percent of AgDirect.

Northwest FCS has joined an alliance with seven other Farm Credit partners that provide financing for agribusiness companies under the trade name ProPartners Financial (ProPartners). ProPartners participates with crop input suppliers nationwide to create financing programs for their customers. Upon joining ProPartners on September 1, 2012, Northwest FCS became a participant in 25.75 percent of the loan volume. Northwest FCS' participant interest declined to 20 percent on October 1, 2015, and then to 10 percent on December 1, 2015. ProPartners is directed by representatives from the participating associations. The income, expense and loss sharing agreements are based on each association's participation interest in ProPartners' loan volume.

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

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used: (1) to ensure the timely payment of principal and interest on System-wide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums, which may be passed on as an expense to the associations, into the Insurance Fund based on its annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount" defined in the Farm Credit Act as 2 percent of the aggregate Insured Debt 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. CoBank passes this premium expense and the return of excess funds as applicable, through to each association based on the association's average adjusted note payable balance with CoBank.

Operations

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

Northwest FCS also serves as an intermediary in offering federal multi-peril crop insurance programs, including the Whole-Farm Revenue Protection (WFRP) program and named peril/crop hail insurance. Additionally, Northwest FCS offers services to customers such as fee appraisals, business management education and planning services.

Northwest FCS' financial condition and results of operations may be impacted by factors that affect CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com. Upon request, stockholders of Northwest FCS will be provided with a copy of the CoBank Annual Report, which discusses the material aspects of its financial condition, changes in financial condition and results of operations.

NOTE 2 – Summary of Significant Accounting Policies

The accounting and reporting policies of Northwest FCS conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry. 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 notes. Actual results may differ from these estimates. Significant estimates are discussed in the footnotes, as applicable.

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's financial statements presentation. There are reclassifications within certain loan tables shown in Note 3 to aggregate previous categories of Leases and Other into one category of Other.

Recently Issued or Adopted Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board (FASB) issued guidance, 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. Northwest FCS is evaluating the impact of adoption on its financial condition and results of operations.

In March 2017, the FASB issued guidance, 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 will not have a material impact on Northwest FCS' financial condition or its results of operations.

In August 2016, the FASB issued guidance, 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 Northwest FCS' financial condition or its results of operations but will change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance, 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. 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. Northwest FCS is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance, 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 adoption of this guidance is expected to have a material impact to Northwest FCS' Consolidated Balance Sheets, but is not expected to have a material impact on its results of operations.

In January 2016, the FASB issued guidance, Recognition and Measurement of Financial Assets and Financial 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 reporting periods beginning after December 15, 2017. Northwest FCS has early adopted this guidance as of December 31, 2017 and it did not have a material impact on its financial condition or results of operations.

In May 2014, the FASB issued guidance, 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 Northwest FCS' 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 will not have a material impact on Northwest FCS' financial condition or its results of operations.

Significant Accounting Policies

Cash

Cash, as included in the financial statements, represents cash on hand and on deposit at financial institutions, and may at times exceed federally insured limits.

Investment Securities

Northwest FCS may hold investments in accordance with mission-related investment and other investment programs approved by the FCA. These programs allow Northwest FCS to make investments that further the System's mission to serve rural America. Mission-related investments for which Northwest FCS has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

Loans and Allowance for Credit Losses

Long-term real estate mortgage loans may have original maturities ranging up to 40 years, although the typical loan is 25 years or less. Short- and intermediate-term loans for agricultural production or operating purposes generally have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and purchase premiums or discounts. 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 estimated life of the related loan as an adjustment to yield. These deferred origination costs are periodically evaluated. Unamortized net loan origination fees included as an offset to loans in the Consolidated Balance Sheets were $16,574, $18,664 and $20,357 as of December 31, 2017, 2016 and 2015, respectively.

Northwest FCS purchases loan and lease participations from other entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic areas served. Additionally, Northwest FCS sells a portion of certain large loans to other entities to reduce risk and comply with established lending limits. Loans are sold following accounting requirements for sales treatment.

Impaired loans are loans for which it is probable that not all principal and interest will 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 incurred as the result of past due status, is collected or otherwise discharged in full.

Impaired 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 reversed (if accrued in the current year) and/or charged 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.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties, Northwest FCS grants a concession to the debtor that it would not otherwise consider. Concessions vary, are borrower specific and may include any of the following: interest rate reductions, term extensions or adjustments, or loan reamortization. In rare cases, principal obligations may be reduced. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs, and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

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

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

The credit risk rating methodology is a key component of Northwest FCS' allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards, pricing and internal lending limits. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment, and their impact on borrower repayment capacity, will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from Northwest FCS' expectations and estimates. Macro-economic factors management considers in determining and supporting the level of allowance for loan losses include, but are not limited to: the loan portfolio composition and concentrations, collateral values, commodity prices, import/export levels, government assistance programs, regional and global economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, loans individually evaluated in the allowance for loan losses represent 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.

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

Investment in CoBank, ACB

Northwest FCS' investment in CoBank is in the form of Class A stock. The minimum required investment is 4 percent of Northwest FCS' prior year's average direct loan volume. In addition, Northwest FCS is required to capitalize its patronage-based participation loans sold to CoBank at 8 percent of Northwest FCS' prior ten-year average balance of such participations sold to CoBank. The investment in CoBank is comprised of purchased stock and stock received as patronage. Accounting for this investment is on the cost plus allocated equities basis. Northwest FCS owned approximately 11 percent of the outstanding common stock of CoBank at December 31, 2017.

Other Property Owned

Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in other noninterest expenses in the Consolidated Statements of Income. Gains on sales are included in other noninterest income and losses are included in other noninterest expenses in the Consolidated Statements of Income.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows: Buildings are 40 years, leasehold improvements are the lesser of the remaining lease term or 10 years and furniture and equipment are 1 to 7 years. Land is carried at cost and is not depreciated. Gains and losses on dispositions are reflected in other noninterest expenses in the Consolidated Statements of Income. Maintenance and repairs are charged to occupancy and equipment expense and significant improvements are capitalized. Leased property meeting certain criteria is capitalized and depreciated using the straight-line method over the terms of the respective leases.

Advanced Conditional Payments

Northwest FCS is authorized under the Farm Credit Act to accept advance payments from borrowers, which are classified within advance conditional payments and other interest-bearing liabilities in the Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is paid by Northwest FCS on such accounts.

Employee Benefit Plans

Substantially all employees of Northwest FCS participate in the Farm Credit Foundations Defined Contribution/401(k) Retirement Plan (Defined Contribution Plan) or the Defined Benefit Pension Plan (Pension Plan). Enrollment in the Pension Plan was curtailed in 1994. Existing employees who elected to transfer out of the Pension Plan and all new employees hired after December 31, 1994, participate in the Defined Contribution Plan. The Pension Plan uses the Projected Unit Credit actuarial method for funding purposes and for financial reporting purposes.

The Defined Contribution Plan has two components. In this plan, Northwest FCS provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also defer a portion of their salaries in accordance with Section 401(k) of the Internal Revenue Code (IRC) to which Northwest FCS matches a certain percentage of employee contributions. Defined contribution costs are expensed in the same period that participants earn employer contributions and employer matching costs are expensed as funded.

Certain management or highly compensated employees who participate in the Pension Plan also participate in a nonqualified Northwest FCS Defined Benefit Restoration Plan (Restoration Plan). Each eligible employee whose retirement benefit under the Pension Plan is limited by IRC Sections 401(a) (17), 415, or any code provision or government regulations subsequently issued, will receive a benefit if these programs are continued. Under the present plan, the monthly benefit is equal to the difference between the participant's actual monthly retirement benefit payment under the Pension Plan and the monthly retirement benefit payment that would be payable to the

participant under the Pension Plan if the limitations of IRC Sections 401(a) (17), 415, or any code provision or government regulations subsequently issued, did not apply.

Income Taxes

As previously described, Northwest Farm Credit Services, ACA conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary that is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Noninterest expenses are allocated to each subsidiary based on estimated relative service. Transactions between the subsidiaries and the parent company have been eliminated upon consolidation. The ACA, along with the PCA subsidiary, are subject to federal income taxes and state income taxes in Idaho, Oregon, Montana and California. Both entities currently operate as cooperatives that qualify for tax treatment under Subchapter T of the IRC. Accordingly, under specified conditions, they can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Northwest FCS accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal and state laws. For additional information refer to Note 9.

Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by Northwest FCS and will therefore impact future tax payments. 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 Northwest FCS' expected qualified patronage refunds that reduce taxable earnings.

Deferred income taxes have not been provided by Northwest FCS on stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of the FASB guidance on income taxes. Management's intent is to permanently invest these and other undistributed earnings in the Bank, or if converted to cash, to pass through any distribution related to pre-1993 earnings to Northwest FCS' stockholders through qualified patronage allocations.

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

Patronage Distributions from CoBank, ACB

Northwest FCS records patronage distributions from CoBank on an accrual basis. Under the current CoBank capital plan, they distribute patronage from Northwest FCS' direct lending business in cash. For patronage applicable to participations sold to CoBank, patronage is distributed in 75 percent cash and 25 percent CoBank Class A stock. Accrued patronage is included in other assets in the Consolidated Balance Sheets.

Derivative Instruments and Hedging Activity

In the normal course of business, Northwest FCS enters into derivative financial instruments that are principally used to manage interest rate and foreign currency exchange rate risk on assets. Derivatives are recorded in the Consolidated Balance Sheets as other assets and other liabilities at fair value.

Changes in the fair value of derivatives 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 that 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, in which Northwest FCS is hedging 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 for hedge accounting, the related change in fair value is recorded in current period earnings.

Northwest FCS formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities in the Consolidated Balance Sheets, or (2) firm commitments or

forecasted transactions. Northwest FCS also formally assesses (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. Northwest FCS typically uses regression analyses or other statistical analyses to assess the effectiveness of hedges. Hedge accounting is discontinued prospectively if: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; or (iii) management determines that the fair value or cash flow hedge designation is no longer appropriate.

If it is determined that a derivative no longer qualifies as an effective fair value or cash flow hedge, or if management removes the hedge designation, Northwest FCS continues to carry the derivative in the balance sheet at fair value, with changes in fair value recognized in current period earnings as part of noninterest income. For discontinued cash flow hedges, Northwest FCS amortizes the component of other comprehensive income (loss) to net interest income over the original term of the hedge contract. For additional information, refer to Note 15.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is a measure of all changes in the equity of Northwest FCS as a result of recognized transactions and other economic events of the period other than capital transactions with the stockholders. Other comprehensive income (loss) refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of members' equity and comprehensive income (loss) but are excluded from net income. Accumulated other comprehensive income (loss) refers to the balance of these transactions. Other comprehensive income (loss) is comprised of adjustments related to Northwest FCS' Pension Plan and Restoration Plan as well as adjustments related to its derivative contracts used to manage interest rate and foreign currency exchange rate risk on assets.

Fair Value Measurements

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

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds, which relate to amounts in a deferred compensation and a supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 – Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (1) quoted prices for similar assets or liabilities in active markets; (2) 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; (3) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (4) inputs derived principally from or corroborated by observable market data by correlation or other means. This category includes derivative contracts. Pension Plan assets that are derived from observable inputs are included in Level 2.

Level 3 – Unobservable inputs are those 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 factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes nonaccrual loans, other property owned, and standby letters of credit. Pension Plan assets 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 10 and Note 13.

Off-Balance Sheet Credit Exposures

Commitments to extend credit are agreements to lend to customers. The commitments generally have 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 a third party. Standby letters of credit are irrevocable agreements to guarantee payments of specified obligations. The credit risk associated with commitments to extend credit is essentially the same as that involved with extending loans to customers and is subject to normal

credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 – Loans and Allowance for Credit Losses

A summary of loans follows:

December 31,	*2017*	*2016*	*2015*
Real estate mortgage	$ 5,042,939	$ 4,677,488	$ 4,390,927
Production and intermediate-term	2,864,680	2,884,407	2,893,712
Agribusiness	1,906,381	1,728,195	1,637,725
Rural residential real estate	694,753	758,009	747,877
Rural infrastructure	291,655	309,054	351,051
Other	92,977	76,982	82,626
Total loans	**$ 10,893,385**	**$ 10,434,135**	**$ 10,103,918**

Northwest FCS may purchase or sell loan participation interests with other entities to diversify risk, manage loan volume and comply with FCA regulations. The following tables present information regarding participations purchased and sold. Participations purchased volume in the table excludes syndications and purchases of other interests in loans:

	Farm Credit institutions		*Non- Farm Credit institutions*		*Total*	
December 31, 2017	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 402,664	$ 526,742	$ 109	$ 20	$ 402,773	$ 526,762
Production and intermediate-term	450,425	2,535,015	2,507	-	452,932	2,535,015
Agribusiness	819,709	709,823	-	12,817	819,709	722,640
Rural infrastructure	291,655	-	-	-	291,655	-
Other	72,744	-	-	-	72,744	-
Total	**$ 2,037,197**	**$ 3,771,580**	**$ 2,616**	**$ 12,837**	**$ 2,039,813**	**$ 3,784,417**

	Farm Credit institutions		*Non- Farm Credit institutions*		*Total*	
December 31, 2016	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 268,361	$ 501,398	$ 346	$ 28	$ 268,707	$ 501,426
Production and intermediate-term	458,265	2,479,994	4,539	-	462,804	2,479,994
Agribusiness	794,293	710,518	-	16,916	794,293	727,434
Rural infrastructure	309,054	-	-	-	309,054	-
Other	54,253	-	-	-	54,253	-
Total	**$ 1,884,226**	**$ 3,691,910**	**$ 4,885**	**$ 16,944**	**$ 1,889,111**	**$ 3,708,854**

	Farm Credit institutions		*Non- Farm Credit institutions*		*Total*	
December 31, 2015	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 198,880	$ 536,927	$ 2,359	$ 36	$ 201,239	$ 536,963
Production and intermediate-term	523,285	2,123,700	7,713	119	530,998	2,123,819
Agribusiness	773,730	586,730	-	13,840	773,730	600,570
Rural infrastructure	351,051	-	-	-	351,051	-
Other	56,104	-	-	-	56,104	-
Total	**$ 1,903,050**	**$ 3,247,357**	**$ 10,072**	**$ 13,995**	**$ 1,913,122**	**$ 3,261,352**

One credit quality indicator utilized by Northwest FCS is the FCA 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.
- Loss – Assets are considered uncollectible.

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, machinery and equipment as well as inventories and receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 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 Northwest FCS in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum.

The following tables show loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest by loan type:

December 31, 2017	*Acceptable*	*OAEM*	*Substandard/ doubtful*	*Total*
Real estate mortgage	92.6%	4.4%	3.0%	100.0%
Production and intermediate-term	90.4%	4.9%	4.7%	100.0%
Agribusiness	94.3%	1.5%	4.2%	100.0%
Rural residential real estate	98.0%	0.6%	1.4%	100.0%
Rural infrastructure	100.0%	0.0%	0.0%	100.0%
Other	94.4%	0.7%	4.9%	100.0%
Total	**92.9%**	**3.6%**	**3.5%**	**100.0%**

December 31, 2016	*Acceptable*	*OAEM*	*Substandard/ doubtful*	*Total*
Real estate mortgage	96.4%	1.5%	2.1%	100.0%
Production and intermediate-term	90.5%	4.3%	5.2%	100.0%
Agribusiness	95.2%	1.0%	3.8%	100.0%
Rural residential real estate	98.3%	0.4%	1.3%	100.0%
Rural infrastructure	88.6%	11.4%	0.0%	100.0%
Other	92.9%	5.6%	1.5%	100.0%
Total	**94.5%**	**2.4%**	**3.1%**	**100.0%**

December 31, 2015	*Acceptable*	*OAEM*	*Substandard/ doubtful*	*Total*
Real estate mortgage	97.5%	0.7%	1.8%	100.0%
Production and intermediate-term	92.9%	3.3%	3.8%	100.0%
Agribusiness	96.1%	1.7%	2.2%	100.0%
Rural residential real estate	97.2%	0.5%	2.3%	100.0%
Rural infrastructure	95.3%	4.7%	0.0%	100.0%
Other	98.7%	0.0%	1.3%	100.0%
Total	**95.9%**	**1.7%**	**2.4%**	**100.0%**

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following table presents information related to impaired loans, including accrued interest, where applicable:

December 31,	*2017*	*2016*	*2015*
Nonaccrual loans:			
Current as to principal and interest	$ 14,077	$ 7,951	$ 17,107
Past due	14,953	23,796	7,773
Total nonaccrual loans	**$ 29,030**	**$ 31,747**	**$ 24,880**
Impaired accrual loans:			
Restructured accrual loans	$ 20,548	$ 25,876	$ 27,656
Accrual loans 90 days or more past due	1,126	645	1,231
Total impaired accrual loans	**$ 21,674**	**$ 26,521**	**$ 28,887**
Total impaired loans	**$ 50,704**	**$ 58,268**	**$ 53,767**

Commitments to lend additional funds to borrowers whose loans were classified as impaired at December 31, 2017, 2016 and 2015, totaled $84, $69 and $121, respectively.

Nonperforming assets consist of impaired loans and other property owned. The following table presents these nonperforming assets, including related accrued interest where applicable:

December 31,	*2017*	*2016*	*2015*
Nonaccrual loans:			
Real estate mortgage	$ 16,582	$ 17,419	$ 8,677
Production and intermediate-term	10,692	10,609	12,104
Agribusiness	238	525	74
Rural residential real estate	1,124	2,800	4,023
Other	394	394	2
Total nonaccrual loans	**$ 29,030**	**$ 31,747**	**$ 24,880**
Accruing restructured loans:			
Real estate mortgage	$ 6,050	$ 10,076	$ 11,774
Production and intermediate-term	12,589	13,741	13,754
Agribusiness	21	-	-
Rural residential real estate	1,888	2,059	2,128
Other	-	-	-
Total accruing restructured loans	**$ 20,548**	**$ 25,876**	**$ 27,656**
Accruing loans 90 days or more past due:			
Real estate mortgage	$ -	$ -	$ 357
Production and intermediate-term	403	645	677
Rural residential real estate	723	-	197
Total accruing loans 90 days or more past due	**$ 1,126**	**$ 645**	**$ 1,231**
Total impaired loans	**$ 50,704**	**$ 58,268**	**$ 53,767**
Other property owned	2,239	3,005	1,733
Total nonperforming assets	**$ 52,943**	**$ 61,273**	**$ 55,500**

Additional impaired loan information, including related accrued interest where applicable, is as follows:

December 31, 2017	*Recorded investment*	*Unpaid principal balance**	*Related allowance*	*Average impaired loans*	*Interest income recognized on impaired loans*
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 10,172	$ 10,879	$ 1,851	$ 10,603	$ -
Production and intermediate-term	1,918	2,263	1,100	1,757	-
Agribusiness	-	-	-	40	-
Rural residential real estate	-	-	-	141	-
Other	-	-	-	-	-
Total impaired loans with a related allowance	**$ 12,090**	**$ 13,142**	**$ 2,951**	**$ 12,541**	**$ -**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 12,460	$ 12,591	$ -	$ 15,037	$ 897
Production and intermediate-term	21,766	26,987	-	28,275	1,571
Agribusiness	259	259	-	527	6
Rural residential real estate	3,735	3,927	-	3,738	313
Other	394	404	-	393	-
Total impaired loans with no related allowance	**$ 38,614**	**$ 44,168**	**$ -**	**$ 47,970**	**$ 2,787**
Total impaired loans:					
Real estate mortgage	$ 22,632	$ 23,470	$ 1,851	$ 25,640	$ 897
Production and intermediate-term	23,684	29,250	1,100	30,032	1,571
Agribusiness	259	259	-	567	6
Rural residential real estate	3,735	3,927	-	3,879	313
Other	394	404	-	393	-
Total impaired loans	**$ 50,704**	**$ 57,310**	**$ 2,951**	**$ 60,511**	**$ 2,787**

**Unpaid principal balance represents the recorded principal balance of the loan.*

December 31, 2016	Recorded investment	Unpaid principal balance*	Related allowance	Average impaired loans	Interest income recognized on impaired loans
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 11,124	$ 11,224	$ 2,638	$ 1,791	$ -
Production and intermediate-term	1,407	1,531	465	4,923	-
Agribusiness	465	447	454	230	-
Rural residential real estate	555	487	287	1,016	-
Other	-	-	-	-	-
Total impaired loans with a related allowance	**$ 13,551**	**$ 13,689**	**$ 3,844**	**$ 7,960**	**$ -**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 16,371	$ 16,661	$ -	$ 23,569	$ 2,135
Production and intermediate-term	23,588	30,822	-	27,776	2,033
Agribusiness	60	60	-	166	32
Rural residential real estate	4,304	4,639	-	4,360	502
Other	394	404	-	345	-
Total impaired loans with no related allowance	**$ 44,717**	**$ 52,586**	**$ -**	**$ 56,216**	**$ 4,702**
Total impaired loans:					
Real estate mortgage	$ 27,495	$ 27,885	$ 2,638	$ 25,360	$ 2,135
Production and intermediate-term	24,995	32,353	465	32,699	2,033
Agribusiness	525	507	454	396	32
Rural residential real estate	4,859	5,126	287	5,376	502
Other	394	404	-	345	-
Total impaired loans	**$ 58,268**	**$ 66,275**	**$ 3,844**	**$ 64,176**	**$ 4,702**

**Unpaid principal balance represents the recorded principal balance of the loan.*

December 31, 2015	Recorded investment	Unpaid principal balance*	Related allowance	Average impaired loans	Interest income recognized on impaired loans
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 2,079	$ 2,329	$ 259	$ 2,409	$ -
Production and intermediate-term	2,225	2,988	1,063	11,356	-
Agribusiness	-	-	-	517	-
Rural residential real estate	1,917	2,006	474	2,269	-
Other	-	-	-	3	-
Total impaired loans with a related allowance	**$ 6,221**	**$ 7,323**	**$ 1,796**	**$ 16,554**	**$ -**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 18,728	$ 19,534	$ -	$ 24,094	$ 1,421
Production and intermediate-term	24,310	43,893	-	33,853	9,378
Agribusiness	74	96	-	621	58
Rural residential real estate	4,432	4,617	-	5,102	393
Other	2	4	-	22	16
Total impaired loans with no related allowance	**$ 47,546**	**$ 68,144**	**$ -**	**$ 63,692**	**$ 11,266**
Total impaired loans:					
Real estate mortgage	$ 20,807	$ 21,863	$ 259	$ 26,503	$ 1,421
Production and intermediate-term	26,535	46,881	1,063	45,209	9,378
Agribusiness	74	96	-	1,138	58
Rural residential real estate	6,349	6,623	474	7,371	393
Other	2	4	-	25	16
Total impaired loans	**$ 53,767**	**$ 75,467**	**$ 1,796**	**$ 80,246**	**$ 11,266**

**Unpaid principal balance represents the recorded principal balance of the loan.*

Interest income was recognized, and cash payments were applied on impaired nonaccrual loans as described in Note 2. The following table presents interest income recognized on impaired loans:

Year ended December 31,	2017	2016	2015
Interest income recognized on:			
Nonaccrual loans	$ 988	$ 2,955	$ 9,155
Restructured accrual loans	1,309	1,393	1,825
Accrual loans 90 days or more past due	490	354	286
Interest income recognized on impaired loans	**$ 2,787**	**$ 4,702**	**$ 11,266**

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

Year ended December 31,	2017	2016	2015
Interest income which would have been recognized under the original loan terms	$ 3,322	$ 3,164	$ 3,090
Less: interest income recognized	(2,297)	(4,348)	(10,980)
Foregone (recognized) interest income	**$ 1,025**	**$ (1,184)**	**$ (7,890)**

The following tables provide an aging analysis of past due loans and accrued interest:

December 31, 2017	*Current loans*	*30-89 days past due*	*90+ days past due*	*Total past due*	*Recorded investment in loans outstanding*	*Recorded investment >90 days and accruing interest*
Real estate mortgage	$ 5,088,161	$ 12,924	$ 4,640	$ 17,564	$ 5,105,725	$ -
Production and intermediate-term	2,862,186	12,721	8,867	21,588	2,883,774	403
Agribusiness	1,910,226	3,390	238	3,628	1,913,854	-
Rural residential real estate	689,682	6,468	842	7,310	696,992	723
Rural infrastructure	292,473	-	-	-	292,473	-
Other	85,583	7,904	2	7,906	93,489	-
Total	**$ 10,928,311**	**$ 43,407**	**$ 14,589**	**$ 57,996**	**$ 10,986,307**	**$ 1,126**

December 31, 2016	*Current loans*	*30-89 days past due*	*90+ days past due*	*Total past due*	*Recorded investment in loans outstanding*	*Recorded investment >90 days and accruing interest*
Real estate mortgage	$ 4,702,246	$ 33,148	$ 1,877	$ 35,025	$ 4,737,271	$ -
Production and intermediate-term	2,880,183	13,627	8,808	22,435	2,902,618	645
Agribusiness	1,732,727	75	465	540	1,733,267	-
Rural residential real estate	753,839	5,830	812	6,642	760,481	-
Rural infrastructure	309,704	-	-	-	309,704	-
Other	74,056	3,341	3	3,344	77,400	-
Total	**$ 10,452,755**	**$ 56,021**	**$ 11,965**	**$ 67,986**	**$ 10,520,741**	**$ 645**

December 31, 2015	*Current loans*	*30-89 days past due*	*90+ days past due*	*Total past due*	*Recorded investment in loans outstanding*	*Recorded investment >90 days and accruing interest*
Real estate mortgage	$ 4,435,984	$ 8,687	$ 1,934	$ 10,621	$ 4,446,605	$ 357
Production and intermediate-term	2,898,478	11,170	2,145	13,315	2,911,793	677
Agribusiness	1,643,224	-	-	-	1,643,224	-
Rural residential real estate	742,622	6,081	1,801	7,882	750,504	197
Rural infrastructure	351,603	-	-	-	351,603	-
Other	79,003	4,043	-	4,043	83,046	-
Total	**$ 10,150,914**	**$ 29,981**	**$ 5,880**	**$ 35,861**	**$ 10,186,775**	**$ 1,231**

Note: 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.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) 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.

The following table presents additional information regarding TDRs:

Year ended December 31,	*2017*		*2016*		*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*
Troubled debt restructurings:						
Production and intermediate-term	$ 504	$ 507	$ 2,785	$ 2,791	$ 1,543	$ 1,534
Agribusiness	461	451	-	-	94	96
Total	**$ 965**	**$ 958**	**$ 2,785**	**$ 2,791**	**$ 1,637**	**$ 1,630**

Note: 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.

The following table presents information regarding TDRs that occurred within the previous 12 months of that year end and for which there was a payment default during the period:

Year ended December 31,	*2017*	*2016*	*2015*
Troubled debt restructurings that subsequently defaulted:			
Real estate mortgage	$ -	$ -	$ 42
Production and intermediate-term	32	-	53
Total	**$ 32**	**$ -**	**$ 95**

The following table provides information on outstanding TDRs. These loans are included as impaired loans in the impaired loans table.

December 31,	*2017*		*2016*		*2015*	
	Loans modified as TDRs	*TDRs in nonaccrual status*	*Loans modified as TDRs*	*TDRs in nonaccrual status*	*Loans modified as TDRs*	*TDRs in nonaccrual status*
TDRs:						
Real estate mortgage	$ 6,830	$ 780	$ 10,891	$ 815	$ 14,453	$ 2,679
Production and intermediate-term	14,487	1,898	15,260	1,519	16,074	2,320
Agribusiness	21	-	60	60	74	74
Rural residential real estate	1,888	-	2,130	71	2,227	99
Other	-	-	-	-	-	-
Total	**$ 23,226**	**$ 2,678**	**$ 28,341**	**$ 2,465**	**$ 32,828**	**$ 5,172**

Summaries of the changes in the allowance for loan losses and the ending balance of loans and accrued interest outstanding are as follows:

	Real estate mortgage	*Production and intermediate-term*	*Agribusiness*	*Rural residential real estate*	*Rural infrastructure*	*Other*	*Total*
Allowance for loan losses:							
Balance at December 31, 2016	$ 17,848	$ 31,258	$ 19,606	$ 4,074	$ 4,336	$ 1,378	78,500
Charge-offs	(1)	(637)	(2)	(215)	-	-	(855)
Recoveries	3	929	-	35	-	-	967
Provision for loan losses (Loan loss reversal)	3,973	(630)	1,121	(780)	(1,304)	1,008	3,388
Balance at December 31, 2017	**$ 21,823**	**$ 30,920**	**$ 20,725**	**$ 3,114**	**$ 3,032**	**$ 2,386**	**$ 82,000**
Ending balance: Allowance individually evaluated for impairment	$ 1,851	$ 1,100	$ -	$ -	$ -	$ -	$ 2,951
Ending balance: Allowance collectively evaluated for impairment	19,972	29,820	20,725	3,114	3,032	2,386	79,049
Balance at December 31, 2017	**$ 21,823**	**$ 30,920**	**$ 20,725**	**$ 3,114**	**$ 3,032**	**$ 2,386**	**$ 82,000**
Recorded investments in loans outstanding:							
Ending balance: Loans individually evaluated for impairment	$ 22,632	$ 23,281	$ 259	$ 3,012	$ -	$ 394	$ 49,578
Ending balance: Loans collectively evaluated for impairment	5,083,093	2,860,493	1,913,595	693,980	292,473	93,095	10,936,729
Balance at December 31, 2017	**$ 5,105,725**	**$ 2,883,774**	**$ 1,913,854**	**$ 696,992**	**$ 292,473**	**$ 93,489**	**$ 10,986,307**

	Real estate mortgage	*Production and intermediate-term*	*Agribusiness*	*Rural residential real estate*	*Rural infrastructure*	*Other*	*Total*
Allowance for loan losses:							
Balance at December 31, 2015	$ 15,078	$ 32,224	$ 17,776	$ 5,136	$ 4,933	$ 1,353	$ 76,500
Charge-offs	(104)	(2,835)	-	(244)	-	-	(3,183)
Recoveries	146	1,408	43	3	-	-	1,600
Provision for loan losses (Loan loss reversal)	2,728	461	1,787	(821)	(597)	25	3,583
Balance at December 31, 2016	**$ 17,848**	**$ 31,258**	**$ 19,606**	**$ 4,074**	**$ 4,336**	**$ 1,378**	**$ 78,500**
Ending balance: Allowance individually evaluated for impairment	$ 2,638	$ 465	$ 454	$ 287	$ -	$ -	$ 3,844
Ending balance: Allowance collectively evaluated for impairment	15,210	30,793	19,152	3,787	4,336	1,378	74,656
Balance at December 31, 2016	**$ 17,848**	**$ 31,258**	**$ 19,606**	**$ 4,074**	**$ 4,336**	**$ 1,378**	**$ 78,500**
Recorded investments in loans outstanding:							
Ending balance: Loans individually evaluated for impairment	$ 27,495	$ 24,350	$ 525	$ 4,859	$ -	$ 394	$ 57,623
Ending balance: Loans collectively evaluated for impairment	4,709,776	2,878,268	1,732,742	755,622	309,704	77,006	10,463,118
Balance at December 31, 2016	**$ 4,737,271**	**$ 2,902,618**	**$ 1,733,267**	**$ 760,481**	**$ 309,704**	**$ 77,400**	**$ 10,520,741**

	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural residential real estate	Rural infrastructure	Other	Total
Allowance for loan losses:							
Balance at December 31, 2014	$ 19,858	$ 39,812	$ 10,518	$ 5,781	$ 5,091	$ 1,940	$ 83,000
Charge-offs	(111)	(3,720)	(2,318)	(429)	-	-	(6,578)
Recoveries	116	8,027	1,079	153	-	24	9,399
(Loan loss reversal) Provision for loan losses	(4,785)	(11,895)	8,497	(369)	(158)	(611)	(9,321)
Balance at December 31, 2015	**$ 15,078**	**$ 32,224**	**$ 17,776**	**$ 5,136**	**$ 4,933**	**$ 1,353**	**$ 76,500**
Ending balance: Allowance individually evaluated for impairment	$ 259	$ 1,063	$ -	$ 474	$ -	$ -	$ 1,796
Ending balance: Allowance collectively evaluated for impairment	14,819	31,161	17,776	4,662	4,933	1,353	74,704
Balance at December 31, 2015	**$ 15,078**	**$ 32,224**	**$ 17,776**	**$ 5,136**	**$ 4,933**	**$ 1,353**	**$ 76,500**
Recorded investments in loans outstanding:							
Ending balance: Loans individually evaluated for impairment	$ 20,450	$ 25,858	$ 74	$ 6,152	$ -	$ 2	$ 52,536
Ending balance: Loans collectively evaluated for impairment	4,426,155	2,885,935	1,643,150	744,352	351,603	83,044	10,134,239
Balance at December 31, 2015	**$ 4,446,605**	**$ 2,911,793**	**$ 1,643,224**	**$ 750,504**	**$ 351,603**	**$ 83,046**	**$ 10,186,775**

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

	2017	2016	2015
Balance at January 1,	$ 20,500	$ 24,000	$ 27,000
Provision (reversal) for unfunded lending commitments	2,000	(3,500)	(3,000)
Balance at December 31,	**$ 22,500**	**$ 20,500**	**$ 24,000**

Credit Default Swaps

During 2007 and 2004, Northwest FCS entered into credit default swaps with Mt. Spokane 2007-A LLC (2007 LLC) and Mt. Spokane 2004-A LLC (2004 LLC), respectively, for credit and capital enhancement purposes. Both of these agreements were redeemed during the year ended December 31, 2016. The impacts of unwinding these transactions to Northwest FCS' financial condition, results of operations, capital ratios and credit quality were minimal. Each of the agreements could remain in place over the life of the loans under the swap agreement; however, Northwest FCS had the right to redeem any of the agreements once the outstanding balance was below 10 percent of the original balance or if there were significant changes affecting the capital benefits. Fees were paid accordingly based on the volume of the loans under the agreements. The following discussion provides the key provisions of each of the agreements.

2007 LLC

On August 15, 2016, Northwest FCS redeemed the 2007 LLC transaction due to the significant changes impacting the capital benefits of this credit default swap agreement. Refer to Note 8 for additional information on the capital regulation changes. Pursuant to the credit default swap, following the occurrence of a known loss, the 2007 LLC was required to pay an amount to Northwest FCS equal to the principal amount of the defaulted loan plus covered interest and costs less any recoveries. No payment was due to Northwest FCS until Northwest FCS' Retained First Loss Notional Amount was reduced to zero. In addition to loss events, proportionate reductions in the Retained First Loss Notional Amount would occur due to reductions of the Aggregate Notional Amount of the Reference obligations associated with non-loss events such as repayment of loan principal.

2004 LLC

On January 15, 2016, Northwest FCS redeemed the Mt. Spokane 2004 LLC as the outstanding balance was below 10 percent of the original balance. Pursuant to the credit default swap following the occurrence of a known loss, the 2004 LLC was required to pay an amount to

Northwest FCS equal to the principal amount of the defaulted loan plus covered interest and costs less any recoveries, subject to certain limitations.

The following tables provide information related to loan balances, fees and amortization pertaining to the aforementioned credit default swap agreements:

December 31, 2016	*Balance and accrued interest receivable*	*Fees and amortization of capitalized costs*
2007 LLC	$ -	$ 314
2004 LLC	-	39
Total	**$ -**	**$ 353**

December 31, 2015	*Balance and accrued interest receivable*	*Fees and amortization of capitalized costs*
2007 LLC	$ 243,834	$ 660
2004 LLC	62,617	311
Total	**$ 306,451**	**$ 971**

2007 LLC was also a variable interest entity created by Lehman Brothers to acquire eligible securities that were used as collateral to secure the Failure to Pay Credit Event payment of the 2007 LLC under a credit default swap with Northwest FCS. The bankruptcy of Lehman Brothers in 2008 did not have an economic impact on the 2007 LLC. The securities were limited to direct obligations of, and obligations fully guaranteed as to timely payment of principal and interest by, the United States of America or obligations of any agency or instrumentality of the United States of America, the obligations of which were backed by the full faith and credit of the United States of America.

2004 LLC was a variable interest entity created by Bank of America to acquire eligible securities that were used as collateral to secure the Failure to Pay Credit Event payment of the 2004 LLC under a credit default swap with Northwest FCS. The securities were held in the form of direct obligations of, and obligations fully guaranteed as to timely payment of principal and interest by, the United States of America. Included were obligations of the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank or obligations of any agency or instrumentality of the United States of America, the obligations of which were backed by the full faith and credit of the United States of America.

Eligible securities, however, did not include "real estate mortgages" (or interest therein) as defined in Section 7701(i) of the IRC and the accompanying United States Treasury Regulations. Management had evaluated these variable interest entities and concluded that they were not subject to consolidation.

NOTE 4 – Investment in CoBank, ACB

At December 31, 2017, Northwest FCS' investment in CoBank is in the form of Class A stock with a par value of $100 per share. Northwest FCS is required to own stock in CoBank to capitalize both its direct loan balance and participation loans sold to CoBank. The current CoBank capital plan related to the direct loan balance has a targeted equity level at 4 percent of Northwest FCS' prior year's average direct loan volume and includes a targeted patronage distribution of 0.45 percent of the current year average loan volume that is paid in cash. Under the current CoBank capital plan applicable to participation loans sold to CoBank, the targeted equity level is 8 percent of the 10-year historical average loan volume and includes a targeted patronage distribution of 1.0 percent of the current year average loan volume that is paid 75 percent in cash and 25 percent in CoBank Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change. During 2017, the capital plan was modified to reduce the targeted patronage distributions for Northwest FCS' average direct loan volume and participations sold volume, effective January 1, 2019.

Northwest FCS owned approximately 11 percent of the issued stock of CoBank at December 31, 2017. As of that date, CoBank's assets totaled $129,210,813 and members' equity totaled $9,060,077. CoBank's earnings were $1,125,321 during 2017.

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

NOTE 5 – Premises and Equipment

Premises and equipment consist of the following:

December 31,	*2017*	*2016*	*2015*
Land	$ 5,393	$ 5,393	$ 3,640
Buildings and leasehold improvements	30,555	24,789	18,299
Furniture and equipment	17,809	21,055	19,075
Less: accumulated depreciation	(19,573)	(23,358)	(22,603)
Total premises and equipment, net	**$ 34,184**	**$ 27,879**	**$ 18,411**
Depreciation expense	**$ 3,366**	**$ 2,517**	**$ 1,911**

Northwest FCS completed construction on its new Pasco branch in 2017. Northwest FCS also moved into its new headquarters and Spokane branch location in 2016, after remodeling was complete.

Northwest FCS is obligated under various operating leases for certain office space and equipment. Rental expense under these operating leases was $7,903, $7,550 and $7,127 for the years ended December 31, 2017, 2016 and 2015, respectively, and was included in occupancy and equipment expense in the Consolidated Statements of Income.

At December 31, 2017, future minimum lease payments for leases were as follows:

	Equipment operating lease payments	*Building operating lease payments*	*Total operating lease payments*	*Capital lease payments*
2018	$ 1,303	$ 3,375	$ 4,678	$ 689
2019	893	2,718	3,611	693
2020	329	2,283	2,612	681
2021	50	2,141	2,191	601
2022	-	1,727	1,727	459
Subsequent years	-	1,730	1,730	1,800
Total	**$ 2,575**	**$ 13,974**	**$ 16,549**	**$ 4,923**

The capital lease payments in the above table include $1,393 of interest; the total present value of minimum capital lease payments at December 31, 2017, was $3,530. The capitalized value of buildings under capital leases was $4,191, $1,839 and $1,911, respectively, as of December 31, 2017, 2016 and 2015, and accumulated depreciation was $814, $983 and $791, respectively, as of December 31, 2017, 2016 and 2015.

NOTE 6 – Other Property Owned

Net gains on other property owned consist of the following:

Year ended December 31,	*2017*	*2016*	*2015*
Gains on sales, net	$ (109)	$ (726)	$ (2,850)
Carrying value adjustments	(225)	42	281
Other expense, net	105	143	500
Net gains on other property owned	**$ (229)**	**$ (541)**	**$ (2,069)**

The Farm Credit Act requires that mineral rights acquired after 1985 through foreclosure be sold to the buyer of the surface rights in the land. Northwest FCS retains certain mineral interests in land acquired through foreclosure and sale proceedings prior to this requirement and in accordance with the Farm Credit Act, for which it receives income from leases and royalties. These intangible assets have no recorded value in the Consolidated Balance Sheets. Income earned on these mineral rights for the years ended December 31, 2017, 2016 and 2015, was $2,961, $3,720 and $5,622, respectively, and was included in other noninterest income in the Consolidated Statements of Income.

Northwest FCS possessed foreclosed rural residential real estate of $289 as of December 31, 2017, which was included in other property owned in the Consolidated Balance Sheets.

NOTE 7 – Note Payable to CoBank, ACB

Northwest FCS' indebtedness to CoBank represents borrowings by Northwest FCS to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of Northwest FCS' assets and is governed by a General Financing Agreement (GFA). According to the GFA, the aggregate outstanding amount of principal and accrued interest shall not at any time exceed the commitment amount. Each debt obligation has its own term and rate structure. The weighted average interest rate for all debt was 2.07, 1.64 and 1.52 percent at December 31, 2017, 2016 and 2015, respectively. The GFA is subject to renewal periodically and requires the association to comply with certain covenants. Northwest FCS was in compliance with the terms and conditions of the GFA as of December 31, 2017. The GFA matures on May 31, 2018. Management expects renewal of the GFA prior to the maturity date.

Through the note payable to CoBank, Northwest FCS was liable for the following:

December 31,	*2017*	*2016*	*2015*
Fixed rate debt	$ 4,268,705	$ 3,484,075	$ 3,570,705
Floating rate debt	2,567,800	2,643,500	3,069,500
Discount notes	1,226,808	1,522,308	804,070
Daily revolving line of credit	545,435	659,653	556,161
Other	(2,679)	-	-
Total	**$ 8,606,069**	**$ 8,309,536**	**$ 8,000,436**

Fixed rate debt typically has original maturities ranging from one to 30 years and at December 31, 2017, included callable debt of $1,306,000, with a range of call dates between January 2018 and January 2024. Floating rate debt generally has maturities ranging from one year to five years. Discount notes have maturities from one day to 365 days. The daily revolving line of credit is

renewed annually and is priced at the overnight discount note rate. Other consists of adjustments for changes associated with the fair value of the hedged item in the application of hedge accounting.

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

Year of maturity		*Amount*	*Weighted average interest rate*
2018	$	4,171,318	1.58%
2019		941,375	1.62%
2020		561,015	2.00%
2021		260,630	2.33%
2022		517,646	2.20%
Subsequent years		2,154,085	3.16%
Total	**$**	**8,606,069**	**2.07%**

Under the Farm Credit Act, Northwest FCS is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on Northwest FCS' ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2017, Northwest FCS' note payable is within the specified limitations.

Northwest FCS has a secondary source of liquidity and funding through an uncommitted Federal Funds line of credit with Wells Fargo Bank, N.A. The amount available through this line is $75,000 and is intended to provide liquidity for disaster recovery or other emergency situations. This line of credit has been approved by CoBank and in the event of disaster recovery or other emergency situation, Northwest FCS would not need to notify CoBank prior to usage of the line of credit. At December 31, 2017, 2016 and 2015, no balance was outstanding on this line of credit.

NOTE 8 – Members' Equity

A description of Northwest FCS' capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and Northwest FCS' capitalization bylaws, each borrower is required to invest in Northwest FCS as a condition of borrowing. Borrowers acquire ownership of capital stock or participation certificates at the time the loan is made but usually do not make a cash investment. Northwest FCS retains a first lien on common stock or participation certificates owned by its borrowers.

Pursuant to provisions of the Farm Credit Act, the System's minimum initial borrower investment requirement is one thousand dollars or 2 percent of the related loan balance on a per customer basis, whichever is less. The bylaws of Northwest FCS provide its board of directors with the authority to modify the capitalization requirements for new loans subject to a maximum of 4 percent of the related loan balance.

Retirement of equities noted above will 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. The Northwest FCS' Board of Directors (the board) considers the current and future status of permanent capital requirements before authorizing any retirement of at-risk equities. Pursuant to FCA regulations, should Northwest FCS fail to satisfy its minimum permanent capital requirements, retirements of at-risk equities subsequent to such noncompliance would be prohibited, except for retirements in the event of default or loan restructuring.

Regulatory Capitalization Requirements and Restrictions

The FCA sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for Farm Credit System banks and associations were adopted. These new requirements replaced the core surplus and total surplus ratios with common equity tier 1, tier 1, and total capital ratio requirements. The new requirements also added a tier 1 leverage ratio, and an unallocated retained earnings and equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

Northwest FCS exceeded the regulatory minimums and capital conservation buffer amounts, where applicable, for all ratios. The following sets forth the regulatory capital ratio requirements and ratios as of December 31, 2017:

	As of December 31, 2017	*Regulatory minimums*	*Regulatory minimums with buffer**
Risk-adjusted:			
Common equity tier 1 ratio	17.2%	4.5%	7.0%
Tier 1 capital ratio	17.2%	6.0%	8.5%
Total capital ratio	18.1%	8.0%	10.5%
Permanent capital ratio	17.3%	7.0%	-
Non-risk-adjusted:			
Tier 1 leverage ratio**	18.8%	4.0%	5.0%
UREE leverage ratio	19.6%	1.5%	-

**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 of at least 1.5 percent of UREE.*

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. Also, failure to meet total requirements could initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on Northwest FCS' financial statements.

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. This regulation has not been utilized to date. Northwest FCS has not been called upon to initiate any such transfers and is not aware of any proposed action under this regulation.

Description of Equities

Northwest FCS is authorized to issue an unlimited number of shares of Class A common stock and up to 500 million units of Class A participation certificates (PCs) with a par value of five dollars per share.

Class A common stock is at-risk, has voting rights, and may be retired at the discretion of the board and, if retired, shall be retired at lower of par or book value. At December 31, 2017, there were 2,436,941 shares outstanding with a total par value of $12,185.

Class A PCs are at-risk and do not have voting rights. Class A PCs may be retired at the discretion of the board and, if retired, shall be retired at lower of par or book value. At December 31, 2017, there were 101,252 units outstanding with a total par value of $506.

Northwest FCS is authorized to issue 100 million shares of Class D nonvoting stock to CoBank with a par value of five dollars per share. Class D nonvoting stock is not transferable and is required to be issued for cash, with Northwest FCS having no authority to require additional capital contributions. Retirement and earnings distributions are subject to statutory and regulatory restrictions. At December 31, 2017, there were no Class D nonvoting shares outstanding.

Voting common stock is converted to nonvoting common stock two years after the owner of the stock ceases to be a borrower or immediately if the former borrower becomes ineligible to borrow from Northwest FCS. Nonvoting common stockholders are eligible to participate in other services offered by Northwest FCS. Each owner or the joint owners of voting common stock is entitled to a single vote regardless of the number of shares held, while nonvoting common stock and PCs provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold such stock.

Losses that result in impairment of capital stock and PCs would be allocated to such equities on a prorated basis. Upon liquidation of Northwest FCS, at-risk capital stock and PCs would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Equities protected under the Farm Credit Act would continue to be retired at par or face value.

Patronage

Northwest FCS' bylaws provide for the payment of patronage distributions. All patronage distributions to eligible stockholders shall be on a proportionate patronage basis as may be approved by the board, consistent with the requirements of Subchapter T of the IRC. For the years ending December 31, 2017, 2016 and 2015, the board approved cash patronage distributions of $108,111, $99,433 and $91,900, respectively. Patronage distributions are recorded on an accrual basis, based on estimated amounts. The difference between the estimated accrual and the actual patronage distribution is reflected in retained earnings in the year paid. In December 2017, the board approved a resolution to distribute a portion of 2018 earnings in the form of patronage dividends to its stockholders. The patronage dividend will be accrued and declared in 2018 and paid in 2019.

All earnings not distributed as qualified patronage allocations or appropriated for some other purpose are retained as unallocated retained earnings. At December 31, 2017, all accumulated earnings are retained as unallocated retained earnings. In accordance with Internal Revenue Service (IRS) requirements, each stockholder is sent a nonqualified written notice of allocation. Allocated, but not distributed patronage refunds are included as unallocated retained earnings. The board considers these unallocated retained earnings to be permanently invested in Northwest FCS. As such, there is no current plan to retire, revolve or redeem these amounts, except in the unlikely event of liquidation. No express or implied right to have such capital retired or revolved at any time is granted.

Accumulated Other Comprehensive Loss

Northwest FCS reports accumulated other comprehensive loss as a component of members' equity, which was reported net of taxes as follows:

December 31,	*2017*	*2016*	*2015*
Pension and other benefit plans	$ (29,645)	$ (34,293)	$ (34,997)
Unrealized losses on cash flow hedges	-	(360)	(932)
Total accumulated other comprehensive loss, net of tax	**$ (29,645)**	**$ (34,653)**	**$ (35,929)**

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

	Pension and other benefit plans, net of tax	*Unrealized (losses) gains on cash flow hedges, net of tax*	*Total accumulated other comprehensive (loss) income, net of tax*
Balance at December 31, 2016	**$ (34,293)**	**$ (360)**	**$ (34,653)**
Other comprehensive income before reclassifications	2,750	-	2,750
Amounts reclassified from accumulated other comprehensive loss	1,898	360	2,258
Net current period other comprehensive income	4,648	360	5,008
Balance at December 31, 2017	**$ (29,645)**	**$ -**	**$ (29,645)**
Balance at December 31, 2015	$ (34,997)	$ (932)	$ (35,929)
Other comprehensive loss before reclassifications	(1,192)	(76)	(1,268)
Amounts reclassified from accumulated other comprehensive loss	1,896	648	2,544
Net current period other comprehensive income	704	572	1,276
Balance at December 31, 2016	**$ (34,293)**	**$ (360)**	**$ (34,653)**
Balance at December 31, 2014	$ (34,346)	$ (1,235)	$ (35,581)
Other comprehensive loss before reclassifications	(3,042)	(129)	(3,171)
Amounts reclassified from accumulated other comprehensive loss	2,391	432	2,823
Net current period other comprehensive (loss) income	(651)	303	(348)
Balance at December 31, 2015	**$ (34,997)**	**$ (932)**	**$ (35,929)**

The following table represents reclassifications out of accumulated other comprehensive loss:

	Amount reclassified from accumulated other comprehensive loss			*Location of (losses) gains recognized in Consolidated Statements of Income*
Year ended December 31,	*2017*	*2016*	*2015*	
Unrealized gains on cash flow hedges, net:				
Interest rate contracts	$ (360)	$ (578)	$ (378)	Net interest income
Foreign exchange rate contracts	-	(70)	(54)	Other noninterest income
Pension and other benefit plans:				
Amortization of net actuarial loss	$ (2,090)	$ (1,996)	$ (1,764)	Salaries and employee benefits
Deferred Tax	192	100	(627)	Provision for income taxes
Total reclassifications	**$ (2,258)**	**$ (2,544)**	**$ (2,823)**	

NOTE 9 – Income Taxes

The provision for income taxes follows:

Year ended December 31,	*2017*	*2016*	*2015*
Current:			
Federal	$ 834	$ 423	$ 358
State	127	(183)	42
Total current provision for income taxes	**$ 961**	**$ 240**	**$ 400**
Deferred:			
Federal	$ 5,791	$ 2,076	$ 3,839
State	(142)	220	408
Total deferred provision for income taxes	**$ 5,649**	**$ 2,296**	**$ 4,247**
Decrease in deferred tax asset valuation allowance	(5,035)	(1,335)	(3,207)
Provision for income taxes	**$ 1,575**	**$ 1,201**	**$ 1,440**

The increase in the provision for income taxes in 2017 included $646 in net deferred tax adjustments resulting from the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. The change to the lower corporate tax rate led to a revaluation of the deferred tax assets and deferred tax liabilities in the period of enactment.

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

Year ended December 31,	*2017*	*2016*	*2015*
Federal tax at statutory rate	$ 85,756	$ 86,942	$ 89,964
State tax, net	(10)	24	293
Effect of nontaxable activities	(64,632)	(67,846)	(69,988)
Patronage distribution	(19,575)	(18,221)	(15,763)
Decrease in deferred tax asset valuation allowance	(5,035)	(1,335)	(3,207)
Change in tax rates, excluding impacts to valuation allowance	3,598	-	-
Other	1,473	1,637	141
Provision for income taxes	**$ 1,575**	**$ 1,201**	**$ 1,440**

Deferred tax assets and liabilities were comprised of the following:

December 31,	*2017*	*2016*	*2015*
Allowance for credit losses	$ 11,465	$ 17,368	$ 18,395
Employee benefits, net	4,931	9,130	8,837
Interest on nonaccrual loans	577	1,141	1,288
Deferred loan fees and costs, net	280	857	1,087
Other	167	5	5
Gross deferred tax assets	**$ 17,420**	**$ 28,501**	**$ 29,612**
Patronage	(6,643)	(9,213)	(8,322)
Gross deferred tax liabilities	**$ (6,643)**	**$ (9,213)**	**$ (8,322)**
Valuation allowance	(9,499)	(17,155)	(18,123)
Net deferred tax asset	**$ 1,278**	**$ 2,133**	**$ 3,167**

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

Northwest FCS recorded a valuation allowance in 2017, 2016 and 2015 as reflected in the tables above. Northwest FCS will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

Northwest FCS has had unrecognized tax benefits for which liabilities have been established. A reconciliation of the beginning and ending amount of unrecognized tax benefits was as follows:

	2017	*2016*	*2015*
Balance at January 1,	$ -	$ 264	$ 264
Reductions for tax positions of prior years	-	(264)	-
Balance at December 31,	**$ -**	**$ -**	**$ 264**

During 2014, Northwest FCS established a liability of $264 for an uncertain tax position related to a California state tax position. During 2015 no adjustments were made to this liability. During 2016, a voluntary disclosure agreement was filed with and accepted by the California taxing authority. The related tax liabilities were remitted to the state and the remaining accrued liability related to the uncertain tax position was reversed.

Northwest FCS recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The total amount of unrecognized tax benefits that, if recognized, would have no effect on the effective tax rate. Northwest FCS does not have any positions for which it is reasonably possible that the total amounts of unrecognized tax positions will significantly increase or decrease within the next 12 months.

Tax years that remain open for federal and state income tax jurisdictions are generally 2014 and forward.

NOTE 10 – Employee Benefit Plans

Certain employees of Northwest FCS participate in a Pension Plan, a defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. Northwest FCS contributes amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amounts ultimately to be contributed and recognized as expense, as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater or less than anticipated. Benefits are paid from plan assets based on a pre-defined formula that considers salary and credited service, subject to certain limitations. Several benefit payment options are available, as defined in the Pension Plan document.

For a limited number of highly-compensated participants in the Pension Plan mentioned above, Northwest FCS also has a Restoration Plan to restore benefits to those Pension Plan participants whose compensation or benefits exceeds the maximum allowed for a qualified pension plan per IRS regulations or wages excluded from compensation in the Pension Plan due to deferrals in a nonqualified deferred compensation plan.

The following tables set forth the obligations and funded status of Northwest FCS' Pension Plan and Restoration Plan:

December 31,	*2017*	*2016*	*2015*
Change in projected benefit obligation:			
Benefit obligation at January 1,	$ 86,764	$ 88,286	$ 93,682
Service cost	124	196	208
Interest cost	2,782	2,891	3,519
Actuarial loss (gain)	3,466	1,430	(3,057)
Benefits paid	(6,043)	(6,039)	(6,066)
Projected benefit obligation at December 31,	**$ 87,093**	**$ 86,764**	**$ 88,286**
Change in plan assets:			
Fair value of plan assets at January 1,	$ 71,256	$ 67,599	$ 71,922
Actual return on plan assets	10,858	4,859	(1,257)
Employer contributions	1,000	4,837	3,000
Benefits paid	(6,043)	(6,039)	(6,066)
Fair value of plan assets at December 31,	**$ 77,071**	**$ 71,256**	**$ 67,599**
Unfunded liability	**$ (10,022)**	**$ (15,508)**	**$ (20,687)**
Accumulated benefit obligation	**$ 85,601**	**$ 84,959**	**$ 85,869**

December 31,	*2017*	*2016*	*2015*
Amounts recognized in the balance sheets consist of:			
Other liabilities	$ (10,022)	$ (15,508)	$ (20,687)
Net amount recognized	**$ (10,022)**	**$ (15,508)**	**$ (20,687)**
Amounts recognized in accumulated other comprehensive loss consist of:			
Net loss	$ 30,311	$ 35,206	$ 35,982
Net amount recognized	**$ 30,311**	**$ 35,206**	**$ 35,982**
Weighted-average assumptions used to determine benefit obligations			
Defined benefit pension plan:			
Discount rate	3.59%	4.06%	4.31%
Rate of compensation increase	4.50%	4.50%	4.50%
Defined benefit restoration plan:			
Discount rate	2.61%	2.37%	2.34%
Rate of compensation increase	4.50%	4.50%	4.50%

The projected benefit obligation, accumulated benefit obligation and the fair value of plan assets for each of Northwest FCS' post-retirement benefit plans are presented in the following tables. Each of the plans has an accumulated benefit obligation in excess of plan assets in each of the periods reported:

	Defined Benefit Pension Plan		
December 31,	*2017*	*2016*	*2015*
Projected benefit obligation	$ 86,262	$ 85,817	$ 87,424
Accumulated benefit obligation	$ 84,885	$ 84,178	$ 85,312
Fair value of plan assets	$ 77,071	$ 71,256	$ 67,599

	Defined Benefit Restoration Plan		
December 31,	*2017*	*2016*	*2015*
Projected benefit obligation	$ 831	$ 947	$ 862
Accumulated benefit obligation	$ 716	$ 781	$ 557
Fair value of plan assets	$ -	$ -	$ -

The components of net periodic pension cost and other amounts recognized in other comprehensive loss were as follows:

Year ended December 31,	*2017*	*2016*	*2015*
Components of net periodic benefit cost:			
Service cost	$ 124	$ 196	$ 208
Interest cost	2,782	2,891	3,519
Expected return on plan assets	(4,587)	(4,649)	(4,964)
Amortization of net loss	2,090	1,996	1,764
Net periodic benefit cost	**$ 409**	**$ 434**	**$ 527**
Other changes in plan assets and benefit obligations recognized in other comprehensive loss:			
Net actuarial (gain) loss	$ (2,805)	$ 1,220	$ 3,165
Amortization of net loss	(2,090)	(1,996)	(1,764)
Total recognized in other comprehensive (income) loss	**$ (4,895)**	**$ (776)**	**$ 1,401**
Weighted-average assumptions used to determine net costs			
Defined benefit pension plan:			
Discount rate			
Projected benefit obligation	4.06%	4.31%	N/A
Service cost	4.33%	4.61%	N/A
Interest cost	3.35%	3.44%	N/A
Expected long-term return on plan assets	6.75%	7.25%	7.25%
Rate of compensation increase	4.50%	4.50%	5.00%
Defined benefit restoration plan:			
Discount rate			
Projected benefit obligation	2.37%	2.34%	N/A
Interest cost	2.28%	2.29%	N/A
Rate of compensation increase	4.50%	4.50%	5.00%

The discount rate for both plans was 3.90 percent for the year ended December 31, 2015. The estimated net loss for the Pension Plan and Restoration Plan that will be amortized from accumulated other comprehensive loss into the net periodic benefit cost in 2018 is $1,698 and $27, respectively. There are no remaining prior service costs in accumulated other comprehensive loss as of December 31, 2017.

Assumptions

Northwest FCS measures benefit obligations and net periodic benefit cost using assumptions designed to reflect future economic conditions. The most significant assumptions used in calculating the benefit obligations are discount rates, mortality rates and compensation rate increases. In addition to these assumptions, expected return on plan assets is also a significant driver in the measurement of net periodic benefit cost.

The independent actuary calculates the discount rates using a full yield curve method. 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. As of December 31, 2015, Northwest FCS elected to update the method used to estimate the service and interest components of net periodic benefit cost for pension and other postretirement benefits consistent with the full yield curve method. Previously, a single weighted-average discount rate was used to estimate the service and interest components of net periodic benefit cost. Generally, a lower discount rate correlates to an increase in the benefit obligation. The change to the full yield curve method did not impact the projected benefit obligations upon adoption.

In 2015, the Society of Actuaries issued updated mortality improvement assumptions. The revised mortality improvement assumptions reflect lower life expectancy improvements based on data released by the Social Security Administration and other various studies, compared to the study published in 2014. The adoption of these new tables resulted in a decrease to the projected benefit obligations of $1.8 million as of December 31, 2015.

The expected long-term rate of return assumption is determined by the Farm Credit Foundations Plan Sponsor Committee (PSC) with input from the Farm Credit Foundations Trust Committee (Trust Committee). Historical return information is used to establish a best-estimate range for each asset class in which the plans are invested. The most appropriate rate is selected from the best-estimate range, taking into consideration the duration of plan benefit liabilities and Trust Committee's investment policies. The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives, generally senior leadership and/or Board of Director members, from the participating organizations. The PSC is responsible for decisions regarding retirement benefits at the direction of the participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Estimated Future Contributions and Benefit Payments

Northwest FCS expects to make a contribution of approximately $1,000 to the Pension Plan in 2018, but it does not expect to make any contributions to the Restoration Plan.

The following table presents the expected future payments, which reflect expected future service, as appropriate, from the Pension Plan and Restoration Plan:

		Expected payments
2018	$	6,889
2019	$	6,449
2020	$	6,988
2021	$	6,249
2022	$	6,173
2023 through 2027	$	27,761

Plan Assets

The funding objective of the Pension Plan and Restoration Plans is to provide present and future retirement or survivor benefits for its members by achieving an attractive rate of return, as defined by the plans' policy statements, without exposing the plan to undue risks.

The Trust Committee approved an investment policy, which has the overall objective to meet the benefit obligations for the plan beneficiaries and to earn a long-term rate of return consistent with the related cash flow profile of the underlying benefit obligations. The policy uses a risk management strategy designed to reduce investment risks as the funded status improves. To implement the policy, the plan has adopted a diversified set of portfolio management strategies to optimize the risk reward profile of the plan. Plan assets are divided into two primary component portfolios:

- A return-seeking portfolio that is invested in a diversified set of assets designed to deliver performance in excess of the underlying liability growth rate coupled with diversification controls regarding the level of risk. Equity exposures are expected to be the primary drivers of excess returns, but also introduce the greatest level of volatility of returns. Accordingly, the return-seeking portfolio contains additional asset classes that are intended to diversify equity risk as well as contribute to excess return.

The largest subset contains U.S. equities including securities that are both actively and passively managed to their benchmarks across a full spectrum of capitalization and styles. Non-U.S. equities contain securities in both passively and actively managed strategies. Currency futures and forward contracts may be held for the sole purpose of hedging existing currency risk in the portfolio. Other investments that serve as equity diversifiers include:

- High yield bonds: fixed income portfolio of securities below investment grade including up to 30 percent of the portfolio in non-U.S. issuers,
- Global real estate: portfolio of diversified real estate investment trusts and private direct real estate and
- Hedge fund of funds: alternative diversified strategy that has low correlation to equity markets.

These portfolios combine income generation and capital appreciation opportunities from developed markets globally. Other investment strategies may be employed to gain certain market exposures, reduce portfolio risk and to further diversify portfolio assets.

- A liability hedging portfolio that is primarily invested in intermediate-term and long-term investment grade corporate bonds in actively managed strategies that are intended to hedge interest rate risk. The portfolio will progressively increase in size as the plan's funded ratio improves. The use of selected portfolio strategies incorporating derivatives may be employed to improve the liability hedging characteristics or reduce risk. Finally, there is a managed liquidity portfolio that is comprised of short-term assets intended to pay periodic plan benefits and expenses.

Portfolios are measured and monitored daily to ensure compliance with the investment policy. Tactical tilts (investing above or below the policy target allocation for each asset class to achieve above policy benchmark returns) will be employed based on medium term views and capital market assumptions, but will remain within stated policy ranges. In the beginning of 2018, the asset allocation policy of the Pension Plan provides a target of 70 percent of assets in return seeking investments and 30 percent of assets in liability investments. As the funded ratio of the Pension Plan (total plan assets/plan liabilities) increases, the percentage of return seeking investments decrease in favor of liability hedging investments. In January 2018 the funded ratio improved above 80 percent, triggering the dynamic glide path to adjust the target asset allocation percent by reducing return seeking investments and increasing liability investments for the remainder of 2018. Specifically, return seeking investments include: global equity securities, global real estate investment trust securities, hedge funds, and high yield bonds; and liability hedging investments include high quality credit debt securities.

The fair values of the Pension Plan assets measured at fair value on a recurring basis were as follows:

	Fair value measurements			
December 31, 2017	*Quoted prices in active markets for identical assets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Asset Category:				
Cash and cash equivalents	$ 1,402	$ -	$ -	$ 1,402
Mutual funds:				
Domestic funds	-	12,411	-	12,411
International funds	-	21,036	-	21,036
Bond funds	-	7,508	-	7,508
Real estate equity funds	-	35	295	330
Fixed income funds	-	20,943	-	20,943
Total assets in fair value hierarchy	**$ 1,402**	**$ 61,933**	**$ 295**	**$ 63,630**
Investments measured at net asset value*				13,441
Total assets at fair value				**$ 77,071**

	Fair value measurements			
December 31, 2016	*Quoted prices in active markets for identical assets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Asset Category:				
Cash and cash equivalents	$ 3,337	$ -	$ -	$ 3,337
Mutual funds:				
Domestic funds	-	11,554	-	11,554
International funds	-	17,724	-	17,724
Bond funds	-	7,418	-	7,418
Real estate equity funds	-	33	-	33
Fixed income funds	-	18,325	-	18,325
Total assets in fair value hierarchy	**$ 3,337**	**$ 55,054**	**$ -**	**$ 58,391**
Investments measured at net asset value*				12,865
Total assets at fair value				**$ 71,256**

**Certain investments that are measured at fair value using the net asset value 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.*

December 31, 2015	Fair value measurements: Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Asset Category:				
Cash and cash equivalents	$ 2,189	$ -	$ -	$ 2,189
Mutual funds:				
Domestic funds	-	9,568	-	9,568
International funds	-	17,020	-	17,020
Bond funds	-	6,846	-	6,846
Real estate equity funds	-	227	-	227
Fixed income funds	-	19,268	-	19,268
Total assets in fair value hierarchy	**$ 2,189**	**$ 52,929**	**$ -**	**$ 55,118**
Investments measured at net asset value*				12,481
Total assets at fair value				**$ 67,599**

**Certain investments that are measured at fair value using the net asset value 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.*

There were no significant transfers in or out of Levels 1, 2 or 3 during the year.

Valuation Techniques

Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets would be classified as Level 1. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with observable market data would be classified as Level 2. In addition, assets measured at Net Asset Value (NAV) per share and may be redeemed at NAV per share at the measurement date are classified as Level 2. Assets valued using unobservable inputs (e.g., a company's own assumptions and data) would be classified as Level 3. All assets are evaluated at the fund level. Refer to Note 13 for a complete description of fair value measurements.

Other Post-Employment Benefit Plans

Employees not eligible to participate in the Pension Plan participate in the Defined Contribution Plan, which is in accordance with Section 401 of the IRC. The Defined Contribution Plan requires the employer to contribute 3 percent of eligible employee compensation for eligible employees. For eligible employees hired prior to January 1, 2007, up to an additional 5 percent of compensation in excess of the employee social security wage base is available. The Defined Contribution Plan expense recorded by Northwest FCS was $1,848, $1,866 and $1,839, in 2017, 2016 and 2015, respectively.

All Northwest FCS employees may elect to defer a portion of their salaries in accordance with IRS rules. For employees participating in the Pension Plan, Northwest FCS matches employee contributions up to a maximum of 100 percent of the employees' first 2 percent of eligible earnings and 50 percent on the next 4 percent of eligible earnings. For employees participating in the Defined Contribution Plan, Northwest FCS matches employee contributions up to a maximum of 100 percent on the employees' first 6 percent of eligible earnings. Employer matching contributions were $4,189, $3,853 and $3,664 for the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 11 – Related Party Transactions

In the ordinary course of business, Northwest FCS enters into loan transactions with directors, their immediate families, their affiliated organizations and affiliated organizations of senior officers. Such loans are made on the same terms, including interest rates, amortization schedules and collateral requirements, as those prevailing at the time for comparable transactions with unrelated borrowers. Senior officers and certain immediate family and affiliated organizations are precluded from obtaining new loans from Northwest FCS.

Loan information to related parties was as follows:

	2017	2016	2015
Balance at January 1,	$ 27,105	$ 22,146	$ 11,785
New and advances on loans	28,317	28,648	31,417
Repayments and other	(24,461)	(23,689)	(21,056)
Balance at December 31,	**$ 30,961**	**$ 27,105**	**$ 22,146**

The Repayments and other above reflects changes in related parties for the respective periods.

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

In the ordinary course of business, Northwest FCS also enters into certain other transactions with directors and their affiliated entities. These transactions for products and services are available to all customers and are made on the same terms prevailing at the time for comparable transactions with unrelated customers.

Northwest FCS also recognized $47,770, $45,310 and $43,446 of patronage income from CoBank for the years ended December 31, 2017, 2016 and 2015, respectively. Patronage distributed from CoBank was in cash and stock. The amounts accrued for 2017 will be paid by CoBank in 2018. As of December 31, 2017, Northwest FCS' investment in CoBank was $368,671, which was included in assets in the Consolidated Balance Sheets.

In the normal course of business Northwest FCS purchases loan participations from CoBank and also sells loan participations to CoBank. At December 31, 2017, Northwest FCS had sold participation interests to CoBank totaling $1,481,391 and had purchased loan participation interests from CoBank totaling $987,348.

As of December 31, 2017, Northwest FCS' investment in FPI was $4,588, which was included in other assets in the Consolidated Balance Sheets. Accounting for this investment is on the equity method. The total cost of services purchased from FPI for the years ended December 31, 2017, 2016 and 2015, was $15,975, $14,146 and $12,326, respectively, which were included within purchased services in the Consolidated Statements of Income.

As of December 31, 2017, Northwest FCS' investment in AgDirect was $26,505, which was included in other assets in the Consolidated Balance Sheets. Accounting for this investment is on a cost basis. Income recorded related to AgDirect for the years ended December 31, 2017, 2016 and 2015, was $3,164, $2,933 and $2,637, respectively, which were included within other noninterest income in the Consolidated Statements of Income.

As of December 31, 2017, Northwest FCS' investment in Farm Credit Foundations (Foundations) was $80, which was included in other assets in the Consolidated Balance Sheets. Foundations provides human resource information systems, benefit, payroll and workforce management services. The total cost of services purchased from Foundations for the years ended December 31, 2017, 2016 and 2015, was $685, $669 and $594, respectively, which were included within purchased services in the Consolidated Statements of Income.

Upon joining ProPartners on September 1, 2012, Northwest FCS became a participant in 25.75 percent of loan volume. Northwest FCS' participant interest declined to 20 percent on October 1, 2015, and then to 10 percent on December 1, 2015. As of December 31, 2017, Northwest FCS had ProPartners loans of $96,439 included in loans in the Consolidated Balance Sheets. Expenses recorded related to ProPartners for the years ended December 31, 2017, 2016 and 2015, were $1,218, $1,401 and $3,584, respectively, which were generally included within purchased services in the Consolidated Statements of Income.

As of December 31, 2017, Northwest FCS had equity ownerships in the following Unincorporated Business Entities, which were all formed for the purpose of acquiring and managing unusual or complex collateral associated with loans. These Unincorporated Business Entities have not had any activity since creation.

	Ownership %
Assembly, LLC	100.0%
Assembly I, LLC	100.0%
Avail, LLC	100.0%

NOTE 12 – Regulatory Enforcement Matters

No FCA regulatory enforcement actions currently exist with respect to Northwest FCS.

NOTE 13 – Fair Value Measurements

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

Assets and liabilities measured at fair value on a recurring basis for each of the fair value hierarchy values are summarized in the following tables:

	Fair value measurement using			
December 31, 2017	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Assets held in trust	$ 91	$ -	$ -	$ 91
Derivative assets	-	-	-	-
Total assets	**$ 91**	**$ -**	**$ -**	**$ 91**
Liabilities:				
Derivative liabilities	$ -	$ 2,665	$ -	$ 2,665
Standby letters of credit	-	-	554	554
Total liabilities	**$ -**	**$ 2,665**	**$ 554**	**$ 3,219**

	Fair value measurement using			
December 31, 2016	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Assets held in trust	$ 90	$ -	$ -	$ 90
Derivative assets	-	-	-	-
Total assets	**$ 90**	**$ -**	**$ -**	**$ 90**
Liabilities:				
Derivative liabilities	$ -	$ -	$ -	$ -
Standby letters of credit	-	-	1,157	1,157
Total liabilities	**$ -**	**$ -**	**$ 1,157**	**$ 1,157**

	Fair value measurement using			
December 31, 2015	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Assets held in trust	$ 90	$ -	$ -	$ 90
Derivative assets	-	76	-	76
Total assets	**$ 90**	**$ 76**	**$ -**	**$ 166**
Liabilities:				
Derivative liabilities	$ -	$ -	$ -	$ -
Standby letters of credit	-	-	794	794
Total liabilities	**$ -**	**$ -**	**$ 794**	**$ 794**

The tables below represent a reconciliation of all Level 3 liabilities measured at fair value on a recurring basis using significant unobservable inputs:

	Standby letters of credit
Balance at December 31, 2016	$ 1,157
Issuances	675
Settlements	(1,278)
Balance at December 31, 2017	**$ 554**

	Standby letters of credit
Balance at December 31, 2015	$ 794
Issuances	1,264
Settlements	(901)
Balance at December 31, 2016	**$ 1,157**

	Standby letters of credit
Balance at December 31, 2014	$ 889
Issuances	1,074
Settlements	(1,169)
Balance at December 31, 2015	**$ 794**

There were no significant transfers between Level 1, Level 2 and Level 3 during the year.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized in the following table:

	Fair value measurement using			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Nonaccrual loans				
December 31, 2017	$ -	$ -	$ 9,291	$ 9,291
December 31, 2016	-	-	9,830	9,830
December 31, 2015	-	-	4,809	4,809
Other property owned				
December 31, 2017	$ -	$ -	$ 2,562	$ 2,562
December 31, 2016	-	-	3,584	3,584
December 31, 2015	-	-	2,300	2,300

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used for Northwest FCS' assets and liabilities.

Assets Held in Non-Qualified Trusts

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

Nonaccrual Loans

For nonaccrual loans, it is assumed that collection will result from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral. When the net realizable value of collateral exceeds the legal obligation for a particular loan, the legal obligation was used for evaluating fair values of the respective loans. The carrying value of accrued interest receivable was assumed to approximate its fair value. As a result, nonaccrual loans are classified within fair value Level 3 hierarchy.

Other Property Owned

The process for measuring the fair value of 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, other property owned is classified within the fair value Level 3 hierarchy.

Derivatives

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the 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 interest rate swaps and foreign currency forward contracts.

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.

Standby Letters of Credit

The fair value of standby letters of credit is based on fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations. The standby letters of credit are classified within the fair value Level 3 hierarchy.

NOTE 14 – Commitments and Contingencies

Northwest FCS has various commitments outstanding and contingent liabilities.

Northwest FCS may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its customers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial 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 customer 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. 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, there were $3,335,434 of commitments to extend credit and there were $8,676 of commercial letters of credit.

Northwest FCS also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. Standby letters of credit are recorded at fair value in the Consolidated Balance Sheets. At December 31, 2017, $64,020 of standby letters of credit were outstanding. The outstanding standby letters of credit have expiration dates ranging from 2018 to 2028.

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. The credit risk associated with issuing commitments is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

In addition, actions are pending against Northwest FCS in which claims for monetary damages are asserted. Based on current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting therefrom, would not be material in relation to the financial condition and results of operation of Northwest FCS.

NOTE 15 – Derivative Instruments and Hedging Activities

Risk Management Objectives and Strategies

Northwest FCS maintains an overall risk management strategy that incorporates the use of derivative financial instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities. Northwest FCS also maintains a foreign exchange risk management strategy to reduce the impact of foreign currency fluctuations on its foreign currency denominated loan assets. As a result of interest rate and foreign exchange rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities. Interest rate and foreign exchange fluctuations also cause interest income and interest expense of variable-rate assets and liabilities to increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities. Northwest FCS considers the strategic use of derivatives to be a prudent method of managing risk, as it prevents earnings from being exposed to undue risk posed by changes in interest rates or foreign exchange rates.

By using derivative instruments, Northwest FCS exposes itself to credit risk and market risk. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes Northwest FCS, thus creating a performance risk for Northwest FCS. When the fair value of the derivative contract is negative, Northwest FCS owes the counterparty and therefore assumes no performance risk. Northwest FCS' derivative activities are monitored by its asset/liability committee (ALCO) as part of its oversight of the asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed within parameters established by the board. The resulting hedging strategies are then incorporated into Northwest FCS' overall risk-management strategies.

Uses of Derivatives

To achieve risk management objectives and satisfy the financing needs of its borrowers, Northwest FCS executes derivative transactions with CoBank. Derivatives (primarily interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, Northwest FCS agrees to exchange with CoBank, at specified intervals, payment streams calculated on a specified notional amount, with at least one payment stream based on a specified floating-rate index. Northwest FCS uses interest rate swaps where fixed-rate interest is received and floating-rate interest is paid with payment obligations tied to specific indices. In addition, Northwest FCS executes foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies.

The notional amounts of derivatives and related activity of derivatives are shown in the following tables:

	Activity in the notional amounts of derivative financial instruments			
	Interest rate swaps	*Interest rate caps*	*Foreign exchange contracts*	*Total*
December 31, 2016	$ -	$ 73,000	$ -	$ 73,000
Additions	395,000	-	-	395,000
Maturities	-	(73,000)	-	(73,000)
Terminations	-	-	-	-
December 31, 2017	**$ 395,000**	**$ -**	**$ -**	**$ 395,000**

	Activity in the notional amounts of derivative financial instruments			
	Interest rate swaps	*Interest rate caps*	*Foreign exchange contracts*	*Total*
December 31, 2015	$ -	$ 73,000	$ 275	$ 73,275
Additions	-	-	-	-
Maturities	-	-	(275)	(275)
Terminations	-	-	-	-
December 31, 2016	**$ -**	**$ 73,000**	**$ -**	**$ 73,000**

	Activity in the notional amounts of derivative financial instruments			
	Interest rate swaps	*Interest rate caps*	*Foreign exchange contracts*	*Total*
December 31, 2014	$ -	$ 73,000	$ 275	$ 73,275
Additions	-	-	-	-
Maturities	-	-	-	-
Terminations	-	-	-	-
December 31, 2015	**$ -**	**$ 73,000**	**$ 275**	**$ 73,275**

Accounting for Derivative Instruments and Hedging Activities

Northwest FCS records derivatives as assets or liabilities at their fair value in the Consolidated Balance Sheets. Northwest FCS records changes in the fair value of a derivative 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 that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset in the Consolidated Statements of Income by changes in the hedged item's fair value attributable to the risk being hedged. For cash flow hedge transactions, in which Northwest FCS hedges the variability of future cash flows related to a variable-rate or foreign currency denominated assets or liabilities, changes in the fair value of the derivative are reported in accumulated other comprehensive income (loss). The gains and losses on the derivatives that are reported in accumulated other comprehensive income (loss) will be reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. Northwest FCS records the ineffective portion of all hedges in current period earnings.

Fair Value Hedges

The majority of the fair value hedging activity relates to entering into receive-fixed, pay-floating interest rate swaps primarily to convert non-callable fixed-rate debt to floating-rate debt for liquidity management purposes. For the remaining fair value hedges, Northwest FCS enters into receive-fixed, pay-floating swaps to align its equity positioning with its overall risk management strategy. For fair value hedges, the amount of hedge ineffectiveness is recognized as interest expense in current period earnings.

Cash Flow Hedges

Northwest FCS had purchased an interest rate cap from CoBank to hedge the potential impact of rising interest rates on a portion of its variable-rate debt. If the strike rate of the purchased interest rate cap was exceeded, Northwest FCS would have received cash flows on the derivative to hedge its variable-rate funding exposure above such strike levels. The interest rate cap was accounted for as a cash flow hedge, and matured in August 2017.

Northwest FCS can also use foreign exchange forward contracts to "lock in" a desired cash flow on foreign denominated loans. The specific terms and amounts of the forwards are determined based on the known cash flows on the loans. Each cash flow is hedged via a separate foreign exchange forward sale as it arises.

Summary of Derivative Instruments and Hedging Activities

A summary of the impact of derivative financial instruments in the Consolidated Balance Sheets is shown in the following table:

	Fair value of derivative financial instruments	
December 31, 2017	*Derivative assets* [1]	*Derivative liabilities* [2]
Derivatives designated as hedging instruments:		
Interest rate contracts	$ -	$ 2,665
Foreign exchange contracts	-	-
Total derivatives designated as hedging instruments	**$ -**	**$ 2,665**

	Fair value of derivative financial instruments	
December 31, 2016	*Derivative assets* [1]	*Derivative liabilities* [2]
Derivatives designated as hedging instruments:		
Interest rate contracts	$ -	$ -
Foreign exchange contracts	-	-
Total derivatives designated as hedging instruments	**$ -**	**$ -**

	Fair value of derivative financial instruments	
December 31, 2015	*Derivative assets* [1]	*Derivative liabilities* [2]
Derivatives designated as hedging instruments:		
Interest rate contracts	$ -	$ -
Foreign exchange contracts	76	-
Total derivatives designated as hedging instruments	**$ 76**	**$ -**

(1) Derivative assets are included in other assets in the Consolidated Balance Sheets.
(2) Derivative liabilities are included in other liabilities in the Consolidated Balance Sheets.

A summary of the impact of derivative financial instruments in the Consolidated Statements of Income and Consolidated Statements of Comprehensive Income is shown in the following tables:

	Derivative financial instruments in fair value hedging relationships		
	Net amount of gain recognized in income on derivative and hedged item [1]		
December 31,	*2017*	*2016*	*2015*
Interest rate contracts	$ 14	$ -	$ -
Total	**$ 14**	**$ -**	**$ -**

(1) Located in interest expense in the Consolidated Statements of Income for each of the respective periods presented.

	Derivative financial instruments in cash flow hedging relationships		
December 31, 2017	*Amount of gain or (loss) recognized in accumulated other comprehensive loss on derivative* [1]	*Amount of gain or (loss) reclassified from accumulated other comprehensive loss to income on derivative* [1][3]	*Amount of gain or (loss) recognized in income on derivative* [2][3]
Interest rate contracts	$ -	$ 360	$ -
Foreign exchange contracts	-	-	-
Total	**$ -**	**$ 360**	**$ -**

	Derivative financial instruments in cash flow hedging relationships		
December 31, 2016	*Amount of gain or (loss) recognized in accumulated other comprehensive loss on derivative* [1]	*Amount of gain or (loss) reclassified from accumulated other comprehensive loss to income on derivative* [1][3]	*Amount of gain or (loss) recognized in income on derivative* [2][3]
Interest rate contracts	$ -	$ 578	$ -
Foreign exchange contracts	(76)	70	-
Total	**$ (76)**	**$ 648**	**$ -**

	Derivative financial instruments in cash flow hedging relationships		
December 31, 2015	*Amount of gain or (loss) recognized in accumulated other comprehensive loss on derivative* [1]	*Amount of gain or (loss) reclassified from accumulated other comprehensive loss to income on derivative* [1][3]	*Amount of gain or (loss) recognized in income on derivative* [2][3]
Interest rate contracts	$ (51)	$ 378	$ -
Foreign exchange contracts	(78)	54	-
Total	**$ (129)**	**$ 432**	**$ -**

(1) Effective portion.
(2) Ineffective portion and amount excluded from effectiveness assessment.
(3) Located in interest expense in the Consolidated Statements of Income for each of the respective periods presented.

Counterparty Credit Risk

The use of derivatives for risk management introduces counterparty credit risk. Generally, when the fair value of a derivative contract is positive, Northwest FCS is exposed to credit risk. Northwest FCS has an International Securities Dealer Association agreement with CoBank, which meets the definition of a Qualifying Master Netting Agreement per FCA Regulations and requires the net settlement of covered contracts. Collateral is not exchanged between Northwest FCS and CoBank. Notwithstanding netting provisions, derivative assets and liabilities are not offset in the accompanying Consolidated Balance Sheets.

See Note 8 and Note 13 for additional information on derivative instruments.

NOTE 16 – Quarterly Financial Information (Unaudited)

Quarterly results of operations were as follows:

Quarters ending in 2017	*First*	*Second*	*Third*	*Fourth*	*Total*
Net interest income	$ 75,994	$ 76,779	$ 80,813	$ 81,292	$ 314,878
Credit loss reversal (provision for credit losses)	2,553	(5,300)	2,195	(4,836)	(5,388)
Noninterest income	24,063	21,729	23,093	31,088	99,973
Noninterest expenses and provision for income taxes	(37,255)	(38,554)	(38,329)	(44,676)	(158,814)
Net income	**$ 65,355**	**$ 54,654**	**$ 67,772**	**$ 62,868**	**$ 250,649**

Quarters ending in 2016	*First*	*Second*	*Third*	*Fourth*	*Total*
Net interest income	$ 73,763	$ 72,875	$ 76,236	$ 77,360	$ 300,234
(Provision for credit losses) credit loss reversal	(2,608)	(908)	1,777	1,656	(83)
Noninterest income	22,625	21,438	23,300	29,570	96,933
Noninterest expenses and provision for income taxes	(35,382)	(35,463)	(38,569)	(40,465)	(149,879)
Net income	**$ 58,398**	**$ 57,942**	**$ 62,744**	**$ 68,121**	**$ 247,205**

Quarters ending in 2015	*First*	*Second*	*Third*	*Fourth*	*Total*
Net interest income	$ 74,008	$ 71,901	$ 77,054	$ 74,740	$ 297,703
Credit loss reversal (provision for credit losses)	2,219	(925)	3,867	7,160	12,321
Noninterest income	21,500	19,745	21,024	27,951	90,220
Noninterest expenses and provision for income taxes	(34,629)	(34,636)	(35,306)	(40,072)	(144,643)
Net income	**$ 63,098**	**$ 56,085**	**$ 66,639**	**$ 69,779**	**$ 255,601**

Northwest FCS' 2017 Quarterly Reports to Stockholders are available free of charge by contacting Northwest Farm Credit Services, ACA, P.O. Box 2515, Spokane Washington 99220-2515 or contacting by telephone at (509) 340-5300 or toll free (800) 743-2125. Northwest FCS' 2017 Quarterly Reports to Stockholders are also available free of charge at any office location or at www.northwestfcs.com. The 2018 Quarterly Reports to Stockholders will be available on approximately May 10, 2018, August 9, 2018 and November 9, 2018. The Northwest FCS 2018 Annual Report will be available on approximately March 15, 2019.

NOTE 17 – Subsequent Events

Northwest FCS has evaluated subsequent events through March 1, 2018, the date the financial statements were issued or available to be issued, and determined there are no other items to disclose.

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS (UNAUDITED)

Description of Business

General information regarding the business is incorporated herein by reference to Note 1 of the Consolidated Financial Statements included in this annual report.

The description of significant developments, if any, is incorporated herein by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations included in this annual report.

Description of Property

Northwest FCS is headquartered in Spokane, Washington. Northwest FCS owns and leases various facilities across the territory it serves, which are described in this annual report.

Legal Proceedings

Information regarding legal proceedings is incorporated herein by reference to Note 14 of the Consolidated Financial Statements included in this annual report.

Description of Capital Structure

Information regarding capital structure is incorporated herein by reference to Note 8 of the Consolidated Financial Statements included in this annual report.

Description of Liabilities

Information regarding liabilities is incorporated herein by reference to Notes 5, 7, 9, 10, 14 and 15 of the Consolidated Financial Statements included in this annual report.

Selected Financial Data

The Five Year Summary of Selected Financial Data included in this annual report is incorporated herein by reference.

Management's Discussion and Analysis

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

Board of Directors

Corporate Governance

The Northwest FCS' Board of Directors (the board) is comprised of 14 director positions. Each director elected by the voting membership represents one of the 11 geographic regions that comprise Northwest FCS' operating territory. Three directors are appointed by the board. Two of these board-appointed directors are outside directors, who cannot be customers, stockholders, employees or agents of any Farm Credit institution. One of the two outside directors is currently designated as a "financial expert" as defined by FCA Regulation. This director brings independence and financial, accounting and audit expertise to the board and chairs the board's Audit Committee. The other outside director position is used to bring independence, an outside perspective and other areas of expertise to enhance board oversight capabilities. Currently, both outside directors qualify as financial experts and one acts as an alternate to the designated "financial expert." The third board-appointed director position is a stockholder and is intended to ensure representation of market segments not currently represented by the stockholder-elected director positions or to bring additional desired skills or background to the board.

The board has a comprehensive director training and development program. This training consists of an annual board self-assessment of its governance practices as well as a comprehensive new director orientation program. This program is intended to develop an understanding of the roles and responsibilities of a director and to familiarize newer board members with key areas of financial performance, reporting and board oversight. Directors are encouraged to attend both Farm Credit System and non-System meetings, seminars and conferences and the core modules of a comprehensive board training and leadership program during their term of service. This balance of training assures not only an understanding of the Farm Credit System, but also exposes board members to best practices of other financial and lending institutions and allows them to benchmark Northwest FCS' operations against those of other successful lending institutions.

The board is independent of management. The President and Chief Executive Officer (CEO) and the SVP-Internal Audit report to the board and no management or employees may serve as directors. The board generally has five regularly scheduled meetings each year, plus interim conference calls as needed between meetings. One of those regularly scheduled meetings is

conducted as a comprehensive strategic planning session. The board operates with a structure of five committees: Governance, Audit, Human Resources, Risk and Strategy. These committees are structured to provide focus and expertise in key areas of board oversight and to enhance the overall efficiency of scheduled board meetings. All policies and major initiatives are reviewed by one of these committees, with any actions recommended to the full board for approval. Each committee approves a charter outlining the purpose of the committee, its duties, responsibilities and authorities. Generally, these responsibilities are advisory in nature, with the full board acting on committee recommendations. These charters are reviewed and approved by the full board at least annually. This committee structure is organized to reflect Northwest FCS' key enterprise risks and to enhance the overall effectiveness of the board's oversight of these areas. These committees generally meet as part of regularly scheduled board meetings and also conduct conference calls as needed. The board may, by resolution adopted by a majority of the full board, provide for one or more additional committees.

With the exception of the Governance and Human Resources Committees, committee members, as well as the Chairs and Vice Chairs, are identified by the board Chair in consultation with the board Vice Chair and CEO as part of the board's annual reorganization process. In the case of the Governance Committee, committee members, as well as the Chair and Vice Chair, are set by policy as outlined below. In the case of the Human Resources Committee, the CEO does not participate in identifying its members or its Chair and Vice Chair. The Human Resources Committee members, Chair and Vice Chair, are identified by the board Chair in consultation with the Vice Chair and at least one outside director. Following are full descriptions of the committees:

Governance Committee

This committee is made up of the Chair and Vice Chair of the board as well as the Chair of the Human Resources, Audit, Risk and Strategy Committees. The board Chair and Vice Chair act as the Chair and Vice Chair of this committee. The Governance Committee has the authority to review, prioritize and recommend agenda items for board meetings and is responsible for all board policies not assigned to other committees. Committee duties also include serving as an ad hoc committee on major System and organizational issues, including System legislative and regulatory affairs and related matters. This committee also oversees the director nomination and election processes, director training, standards of conduct and serves as a search committee for appointed director positions and CEO transition, if needed.

Audit Committee

This committee is made up of at least four board members, including at least one outside director. All members of the committee should be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure or accounting procedures. The director designated as the "financial expert" serves as the chair of this committee. The board has determined that outside director Ms. Burmeister-Smith has the qualifications and experience necessary to serve as an audit committee "financial expert," as defined by FCA regulation, and she has been designated as such. Outside director Julie Shiflett also qualifies as a "financial expert" and is the designated alternate to serve in Ms. Burmeister-Smith's absence.

The Audit Committee has unrestricted access to representatives of the Internal Audit department, independent auditors, all employees, outside counsel and any records as desired. The Internal Audit department reports directly to this committee.

This committee assists the board in fulfilling its oversight responsibility related to accounting policies, internal controls, financial reporting practices and regulatory requirements. This committee has a charter detailing its purpose and key objectives, authority, composition, meeting requirements and responsibilities. The charter, among other things, gives the committee the authority to hire and compensate the independent auditor, approve all audit and permitted non-audit services, review the audited financial statements and all public financial disclosures, meet privately with internal and external independent auditors and review any complaints regarding accounting irregularities and fraud. The Audit Committee's charter is posted on Northwest FCS' website at www.northwestfcs.com.

Human Resources Committee

This committee is made up of at least three board members and includes the board Chair and Vice Chair, at least one outside director, and additional board members selected by the board Chair in consultation with the board Vice Chair and an outside director. The board Chair also designates the Chair and Vice Chair of this committee. Neither the CEO nor any member of management can be involved in the selection of committee members, nor can they participate in any deliberations of the committee on matters relating to their own compensation or employment.

The committee is responsible for reviewing and recommending for full board approval the performance goals for the CEO and the evaluation of the CEO's performance against those goals. It also recommends to the board all actions necessary to administer the CEO's compensation,

benefits and perquisites under the terms of the CEO's compensation plan. This committee is also responsible for recommending to the board the terms of the senior officers' compensation plan and participation of senior officers in that plan. The board has delegated to the CEO the responsibility to administer the compensation of those senior officers within board approved guidelines. However, the CEO must review the compensation levels for each senior officer with the Human Resources Committee before they become effective. The committee is also responsible for director compensation and for oversight of Northwest FCS' employee compensation and benefit plans, all board policies applicable to those plans, and other human resource matters not specifically assigned to other committees.

Risk Committee

This committee provides oversight for the majority of the enterprise risk management practices of the association, including risk definitions, risk metrics, risk appetite statements and risk monitoring for asset liability management, compliance, credit default, data management, financial management, information security, and portfolio strategy. The committee reviews the quarterly allowance for credit losses. The committee reviews and recommends to the full board for approval underwriting standards and portfolio and lending limit policies that guide all of Northwest FCS' lending and credit related activities. In addition to monitoring the overall credit characteristics of the industries Northwest FCS serves and the existing portfolio, the committee also reviews and approves, or recommends to the full board for approval, certain credit related actions that exceed management's delegated authority. This committee also oversees key risk areas associated with the Northwest FCS' financial plan, budget, operations, technology, funding, interest rate, liquidity, capital management as well as those risks associated with its alliance partners and counterparties.

Strategy Committee

This committee provides oversight in developing and monitoring the association's strategic and business plans in accordance with Northwest FCS' mission, policies and procedures. It is responsible to ensure board planning sessions and the association's overall strategic planning processes serve as foundations for the business plan. This specifically includes evaluating potential benefits, costs, risks and strategies for considering opportunities such as emerging technologies, product development, joint ventures, strategic alliances, mergers and acquisitions. The committee oversees marketing, advertising, community support and local regulatory and legislative activities. It provides oversight of the Local Advisor program, Crop Insurance and the Business Management Center. The committee also evaluates management's assessment of the association's internal strengths and weaknesses and external factors such as economic, competitor and political trends. The committee's authority is generally limited to investigation, development of proposed positions and making recommendations to the full board for approval when appropriate.

Northwest FCS' Directors

The following represents information regarding the directors of Northwest FCS, including their principal occupations, employment experience and business interests in which they serve on the board of directors or as a senior officer. All directors are elected or appointed to serve five-year terms and are limited to serving three full terms. Unless otherwise noted, the principal occupation, employment and business experience of the directors over at least the past five years is related to their farming, ranching or aquatics' operations described below.

Christy Burmeister-Smith – Newman Lake, Washington

Board-Appointed Outside Director
Appointed in 2010; term expires 2020. Serves as the designated "financial expert" on the Northwest FCS board. Member of Audit (Chair), Governance and Strategy Committees.
Principal Occupation/Experience: Past Vice President-Controller and Principal Accounting Officer at Avista Corporation, a provider of utility services (retired September 30, 2015).
Other Affiliations: None.

Susan Doverspike – Burns, Oregon

Elected in 2015; term expires 2020. Member of Human Resources and Risk Committees.
Principal Occupation/Experience: Owner/Operator and Secretary, Hotchkiss Company, Inc. and Owner/Operator and Manager, Doverspike Land LLC, cow/calf/yearling operations that produce beef and grow native meadow grass hay.
Other Affiliations: None.

Jim Farmer – Nyssa, Oregon

Elected in 2010; term expires 2020. Member of Audit and Strategy Committees.
Principal Occupation/Experience: President and co-owner of Fort Boise Produce Co., a family held corporation that packs and markets fresh onions; Secretary and co-owner of Deseret Farms, Inc., a family held corporation that produces onions, wheat, field corn and dry edible beans for seed; co-owner of farmland and other real estate.
Other Affiliations: None.

Skip Gray – Albany, Oregon

Elected in 2015; term expires 2020. Member of Governance, Risk (Chair) and Strategy Committees.

Principal Occupation/Experience: President, Gray Farms, Inc., diversified crop farm; Member/Manager, Lakeside Ag-Ventures, LLC, vegetable seed, grass seed sales and custom applications.

Other Affiliations: Member/Manager, Earthsource Investments, LLC, real estate investment.

David Hedlin – Mt. Vernon, Washington

Board Chair

Elected in 2006; term expires 2021. Member of Governance (Chair) and Human Resources Committees.

Principal Occupation/Experience: Owner/Partner/Operator, R C Koudal Land Co. and Hedlin Farms, vegetable seed, pickling cucumbers, pumpkins and wheat farming.

Other Affiliations: None.

John Helle - Dillon, Montana

Elected in 2012; term expires 2022. Member of Human Resources and Risk Committees.

Principal Occupation/Experience: Partner, Helle Livestock, a commercial and purebred sheep operation; Partner, Rebish and Helle, farming small grains and hay; Part owner, Village Vista, LLC, land management; Part owner, Duckworth, Inc., a vertically integrated apparel company taking wool from sheep to shelf; Part owner, HR Wool, LLC, textile production.

Other Affiliations: None.

Greg Hirai – Wendell, Idaho

Elected in 2014; term expires 2019. Member of Governance, Risk and Strategy (Chair) Committees.

Principal Occupation/Experience: Owner, Hirai Farms, LLC, a 4,500 acre farm producing wheat, barley, a variety of potatoes, along with corn, alfalfa and triticale as feed for local dairies; Owner, Hirai Farms Storages, LLC, which owns potato storage facilities.

Other Affiliations: Board Member, North Side Canal Company, LTD, providing water resources management.

Herb Karst – Billings/Sunburst, Montana

Elected in 2008; term expires 2018. Member of Governance, Risk and Strategy (Vice Chair) Committees.

Principal Occupation/Experience: President and Manager, Karag, Inc., a family-held corporation producing wheat, malting barley and other crops on a 4,300 acre farm; Consultant and contracting liaison in barley procurement to Constellation Brands, a producer and marketer of beer, wine and spirits.

Other Affiliations: Board Member, The Farm Credit Council, a Farm Credit System trade association handling legislative and regulatory matters.

Dave Nisbet – Bay Center, Washington

Vice Chair and Board-Appointed Stockholder Director

Appointed in 2007; term expires 2022. Member of Audit, Governance (Vice Chair) and Human Resources Committees.

Principal Occupation/Experience: Owner, Nisbet Oyster Co., Inc.; President and CEO, Goose Point Oysters, Inc., and Hawaiian Shellfish, LLC, shellfish processing plant, hatchery and grower of Pacific oysters.

Other Affiliations: None.

Kevin Riel – Yakima, Washington

Elected in 2007; term expired 2017. Member of Audit and Compensation (renamed Human Resources) Committees through March 2017.

Principal Occupation/Experience: President, Double R Hop Ranches, Inc.; President, Trigen Enterprises, Inc.; Managing Partner, WLJ Investments LLC, and 4K Investments, LLC, farming operations raising hops, apples and Concord grapes.

Other Affiliations: Director, CoBank, a cooperative bank serving agribusiness, rural infrastructure providers and Farm Credit associations throughout the U.S.

Nate Riggers – Nezperce, Idaho

Elected in 2014; term expires 2019. Member of Human Resources and Risk (Vice Chair) Committees.

Principal Occupation/Experience: Manager and Partner, Riggers Clearwater Farms, J.V., a dry land farming operation raising wheat, barley, canola, grass seed and alfalfa hay; Manager, Riggers Land, LLC, land management; President and Secretary, Riggers Brothers, Inc.; President, NCR Farm, Inc.; President and Secretary, SNS, Inc., farming operations.

Other Affiliations: None.

Derek Schafer – Ritzville, Washington

Elected in 2017; term expires 2022. Member of Risk and Strategy Committees.

Principal Occupation/Experience: Vice President, Schafer Ranch, LTD; Treasurer, Fields & Furrows, Inc.; President, The Family Plow Inc.; President, 509 Farms, Inc., farms producing wheat; President, Homestead Family Grain, Co., a grain and seed dealer; Vice President, More Prophet Seeding, LTD, equipment manufacturing; Manager, Grainland Acres, LLC, farming operations.

Other Affiliations: None.

Karen Schott – Broadview, Montana

Elected in 2006; term expires 2021. Member of Audit (Vice Chair) and Strategy Committees.

Principal Occupation/Experience: Owner/Secretary, Bar Four F Ranch, Inc. raising winter wheat, spring wheat and peas; manages a lease pasture operation.

Other Affiliations: Director, CoBank, a cooperative bank serving agribusiness, rural infrastructure providers and Farm Credit associations throughout the U.S.

Julie Shiflett – Spokane, Washington

Board-Appointed Outside Director

Appointed in 2008; term expires 2018. Serves as the alternate to the designated "financial expert" on the board. Member of Audit, Governance and Human Resources (Chair) Committees.

Principal Occupation/Experience: Founding partner of Northwest CFO, which assists emerging and mid-market companies to increase cash flow, profitability, sales, and company value.

Other Affiliations: Director, American Chemet Corporation, a powder based chemicals manufacturer; Director, Smoky Mountain Metals and Royal Metal Powders, subsidiaries of American Chemet Corporation; Director, Morrison-Maierle and Director, Keller Associates, engineering firms.

Shawn Walters – Newdale, Idaho

Board Appointed in 2010 to fill remaining term of a vacated director position. Elected in 2011; term expires 2021. Member of Audit and Human Resources (Vice Chair) Committees.

Principal Occupation/Experience: Co-Owner, Walters Produce, Inc., fresh pack potato operation; Owner, Shawn Walters Farms, Inc.; Partner, Walters & Walters; Partner, Idaho Grain Producers; Partner, Aristocrat Farms; Member, Walters Osgood Farms, farming operations; Partner, Walters Family Limited Partnership Osgood; Partner, Walters Family Limited Partnership Newdale; Member, Aristocrat Investments, LLC, land ownership.

Other Affiliations: Director, Enterprise Canal, delivering natural flow and reservoir storage water to landowners; Director, Growmark, a marketing cooperative; Member, Mountain View Holdings, LLC and Main Street Investments, LLC, real estate loans and rental properties.

Compensation of Directors

The Human Resources Committee oversees director compensation. The committee conducts periodic director compensation studies to identify current compensation paid to directors of other Farm Credit associations and similar entities. Based upon these studies, the committee recommends for approval adjustments to director compensation including any pay differentials to the Chair or other key board positions. Absent such a study, board policy limits any adjustment to director compensation to the cost of living index published each year by the FCA. Increases to director compensation typically become effective June 1 of each year.

Director compensation in May 2017 was approved at a rate of $54,000 per year. The Chairs of both the Audit and Human Resources Committees are paid $62,100, representing an additional 15 percent, and the board Chair is paid $67,500 representing an additional 25 percent, reflecting the unique responsibilities and significant additional time demands of these three positions. Each director receives a monthly retainer of $4,500, the Chairs of the Audit and Human Resources Committees receive a monthly retainer of $5,175, and the Chair of the board receives a monthly retainer of $5,625. No additional per diem is paid for attendance at Northwest FCS' meetings or functions. If a director is not able to attend a regular monthly board meeting, then the director only receives the monthly retainer if attendance at or performance of other official business during that month is determined to warrant that payment. In addition, Northwest FCS purchases Accidental Death and Disability and Business Travel Accident coverage for each director.

Directors and senior officers are reimbursed for reasonable travel expenses and related expenses while conducting association business. In addition, directors are allowed reimbursement for expenses related to their spouse attending the Annual Stockholder and Local Advisors Meeting, strategic planning session, the December board meeting and one national meeting each year. In all other cases, spouse expenses are reimbursed only if attendance at a meeting is preapproved by the board. The aggregate amount of expenses reimbursed to directors in 2017 was $106,213, compared to $111,143 in 2016, and $94,215 in 2015. The Director Compensation policy is available and will be disclosed to stockholders upon request.

Information for each director for the year ended December 31, 2017, is as follows:

	Board meeting days	*Other official duty days*	*Travel days*	*Compensation paid during 2017*
Christy Burmeister-Smith	15	10	6	$ 61,141
Susan Doverspike	15	15	14	53,167
Jim Farmer	15	4	7	53,167
Skip Gray	15	14	10	53,167
Dave Hedlin	15	16	11	66,458
John Helle	15	11	9	53,167
Greg Hirai	15	12	11	53,167
Herb Karst	15	12	13	53,167
Dave Nisbet	14	14	12	53,167
Kevin Riel	4	2	1	10,833
Nate Riggers	15	7	7	53,167
Derek Schafer	11	8	6	42,333
Karen Schott	15	5	6	53,167
Julie Shiflett	15	13	5	61,141
Shawn Walters	15	12	7	53,167
Total				**$ 773,576**

Senior Officers

Listed below are the CEO and nine individuals collectively referred to as the Senior Officers of Northwest FCS who served during 2017. Four of the Senior Officers reported to the CEO and were on the Management Executive Committee (MEC). Lending and insurance staff are under the leadership of four state presidents who are considered Senior Officers and also serve on the MEC. Below is information provided on the experience of the Northwest FCS Senior Officers, as well as any organization for which they serve on the board of directors or act as a senior officer, and the primary business of that organization.

Phil DiPofi, President and CEO

Mr. DiPofi has served as President and CEO since January 1, 2011. Prior to that, he held various senior officer positions with CoBank. Mr. DiPofi currently serves as Vice Chair on the board of directors of Financial Partners, Inc. (FPI), which provides technology support for Farm Credit institutions, including Northwest FCS. He is also the Chair of FPI's compensation committee and a member of their audit committee.

Fred DePell, Executive Vice President-Lending and Insurance

Mr. DePell was named Executive Vice President-Lending and Insurance effective January 1, 2015. He served as Executive Vice President-Financial Services from 1992 through 2014. Prior to 1992, he held various positions with Northwest FCS since being hired in 1978. Mr. DePell serves on the board of directors of the YMCA of the Inland Northwest. The YMCA of the Inland Northwest is part of the largest not-for-profit community service organization in America, working to meet the health and social service needs of men, women and children.

Brent Fetsch, Oregon President

Mr. Fetsch was named Oregon President effective January 1, 2015. He served as Senior Vice President-Chief Strategy Officer and Chief Information Officer from 2011 through 2014. Prior to 2011, he held various positions with Northwest FCS since being hired in 1987. Mr. Fetsch serves as a board member of the Oregon Food Bank, whose mission is to eliminate hunger and its root causes. He also serves on the boards of the Oregon Future Farmers of America (FFA) Foundation, Oregon State University - College of Agricultural Sciences Dean Council and Oregon State University Leadership Academy. The mission of the Oregon FFA Foundation is to coordinate sustainable, long-term funding for agriculture education and the Oregon FFA. The College of Agricultural Sciences at Oregon State University is Oregon's principal source of knowledge relating to agricultural and food systems, environmental quality, natural resources, life sciences, and rural economies and communities. The Oregon State University Leadership Academy is a program open to Colleges of Agricultural Sciences and Forestry students to develop leadership skills, improve future career success and prepare to become the next generation of agriculture, food and fiber leaders.

Stacy Lavin, Senior Vice President-General Counsel

Mr. Lavin has served as Senior Vice President-General Counsel since May 2011. Prior to that, he held various positions with Northwest FCS since being hired in 2001. Mr. Lavin reports to the Executive Vice President-Chief Administrative and Financial Officer.

Mandy Minick, Washington President

Ms. Minick was named Washington President effective January 1, 2015. She served as Senior Vice President-Agribusiness from 2011 through 2014. Prior to 2011, she held various positions with Northwest FCS since being hired in 1994.

Tom Nakano, Executive Vice President-Chief Administrative and Financial Officer

Mr. Nakano was named Executive Vice President-Chief Administrative and Financial Officer effective January 1, 2014. He served as Executive Vice President-Chief Financial Officer between October 2004 and December 2013. Prior to October 2004, he held various positions with Northwest FCS since being hired in 1993. Mr. Nakano serves on the Farm Credit Foundations Trust Committee. This committee oversees the fiduciary and plan administrative responsibilities of the benefit plans offered to a number of Farm Credit employers, including Northwest FCS. He also serves as a board member of the Oregon State University Alumni Association, which engages alumni and friends to promote the advancement of the university and build alumni membership, programs and value-added services.

Mark Nonnenmacher, Executive Vice President-Special Industry Lending and Services

Mr. Nonnenmacher was named Executive Vice President-Special Industry Lending and Services effective January 1, 2015. He served as Executive Vice President-Agribusiness and Capital Markets from April 2012 through December 2014. Prior to April 2012, he spent 10 years at CoBank managing the agribusiness lending operations of their Western Region. He has over 30 years of experience in the Farm Credit System. Mr. Nonnenmacher serves as a director on the University of Montana - College of Forestry Advisory Board. This board provides input to the Dean for program composition, as well as outreach and communication. He also serves on the Idaho Cooperative Council Board, providing industry awareness, education and political involvement in support of Idaho cooperatives. In addition, he serves on the ProPartners Financial Board, providing strategic direction for this System-led vendor financing program for crop inputs.

Bill Perry, Montana President

Mr. Perry was named Montana President effective January 1, 2015. He served as Vice President Enterprise Risk Management and Credit Underwriting from 2013 through 2014. Prior to 2013, he was Vice President of Credit and held various positions with Northwest FCS since being hired in 2004. Mr. Perry serves as Treasurer for the board of directors of the Alpha Gamma Rho Fraternity Alumni Association at Montana State University, which is committed to helping young men develop professional and social skills to become exceptional leaders in agriculture.

John Phelan, Executive Vice President-Chief Risk Officer

Mr. Phelan has served as Executive Vice President-Chief Risk Officer since January 2011. Prior to that, he was Senior Vice President-Commercial Lending and held various positions with Northwest FCS since being hired in 1992.

Blair Wilson, Idaho President

Mr. Wilson was named Idaho President effective January 1, 2015. He served as Senior Vice President for the southern half of Northwest FCS' Financial Services Division from 2011 through 2014. Prior to 2011, he held various positions with Northwest FCS since being hired in 1979. Mr. Wilson is the outgoing Chairman of the board of directors of the Idaho Food Bank, which is a nonprofit organization working toward a hunger-free Idaho through a network of community-based partners.

Compensation of CEO and Other Senior Officers

Executive Compensation - Summary

The compensation program for the CEO and other Senior Officers of Northwest FCS, as defined by FCA regulations, is designed to reward management for performance that builds long-term value for stockholders, fulfills Northwest FCS' mission, ensures safety and soundness of the organization and enhances the value of the cooperative. This is accomplished by tying a significant portion of compensation for the leadership team to balanced scorecards of performance measures that are consistent with the strategy and mission.

To demonstrate commitment to align compensation with strong governance practices that are in the interests of stockholders, the goal of the Human Resources Committee (committee) is to ensure:

- A strong linkage between pay and performance of the organization,
- Multiple-year measurements are used to reward for sustained performance,
- Competitive compensation through market data review,
- Overall compensation program design, including incentive plans, does not encourage excessive risk taking, and
- Best governance practices are followed.

Compensation Philosophy and Objectives

The compensation program is intended to:

- Support a strong and enduring cooperative enterprise,
- Successfully execute Northwest FCS' mission,
- Reinforce a high-performance culture through pay for performance,
- Attract and retain talented staff needed to achieve Northwest FCS' mission, and
- Provide competitive total compensation opportunities that balance current rewards with long-term opportunities and provide security contingent upon performance.

Linking Pay and Performance

The framework for compensation is designed to pay for performance. To achieve competitive compensation levels, management must achieve strong results across multiple measures of performance. As described in the program design below, a large percentage of Senior Officer compensation is "at risk" if Northwest FCS results are below plan, and as a result, compensation paid would be less than competitive levels. The at-risk component of compensation is provided through short-term and long-term incentives while the "fixed" portion is salary and benefits, as explained below.

Program Design

The compensation program for the CEO and other Senior Officers has four components:

Component	Purpose
Salary	Pay a competitive salary to reward for experience, skills and performance. Provide a competitive basis for other rewards based on salary.
Short-Term Incentive Plan (STIP)	Reward for accomplishing annual Northwest FCS goals that over time result in long-term success. Reward for profitability, return on equity, loan quality, expense control and achieving strategic business objectives. Reward for individual employee contributions.
Long-Term Incentive Plan (LTIP)	Reward for sustained performance, safety and soundness of Northwest FCS. Reward for achieving multiple-year Northwest FCS goals for profitability, return on equity, loan quality, capital adequacy and achieving strategic business objectives. Retain top performers based on performance.
Benefits	Provide financial security through a competitive benefits program and limited perquisites, which are considered "indirect" compensation.
Total	Each component and the total compensation package is managed to be competitive and ensure a linkage to performance.

Performance Assessment

A framework of multiple performance metrics, goals and individual performance assessments reinforces Northwest FCS' pay for performance philosophy. This framework balances annual and multiple-year performance measures. The STIP is based upon multiple measures of organizational performance, including an individual performance factor. The LTIP is based on various performance measures over multiple years of organizational results. The CEO and MEC have clawback provisions in certain situations for both the STIP and LTIP.

The following table summarizes the scorecards for each plan:

Component	Weight	Measure/Goal	Performance Period
STIP	30%	After-tax Net Income	Annual
	20%	Return on Equity	
	20%	Adverse Assets/Risk Funds (2015 and 2016 plans) and Adverse Assets/Total Regulatory Capital (2017 plan)	
	10%	Efficiency Ratio	
	20%	Strategic Business Objectives	
LTIP	15%	After-tax Net Income	Multiple-Year
	15%	Return on Equity	
	25%	Adverse Assets/Risk Funds (plans beginning prior to 2017) and Adverse Assets/Total Regulatory Capital (plans beginning 2017 and after)	
	20%	Core Capital (plans beginning prior to 2017) and Common Equity Tier 1 (plans beginning 2017 and after)	
	25%	Strategic Business Objectives	

At the beginning of each performance period, the committee approves financial targets and goals for each category, including minimum levels of performance required in order for an award to be earned in each category and maximum levels of performance on which an incentive will be paid. The approved financial targets and goals are aligned with the organization's business plan financial metrics to ensure Senior Officer incentives match business plan objectives. In addition, a minimum Return on Assets threshold must be achieved before any incentives are earned. The committee has discretion to adjust awards or performance assessments as needed to ensure rewards align with the pay for performance philosophy.

In addition to the measures and goals listed above, adjustments to base salary and STIP awards are impacted by the individual performance of the participant. Participants that voluntarily terminate employment or do not maintain satisfactory performance may forfeit short-term and long-term awards. As a part of Northwest FCS' performance management process, all employees are provided performance reviews, and in the case of the CEO, the performance review process is coordinated by the committee with input and approval by the board.

The CEO and other Senior Officers participate in the STIP and LTIP. The target awards for the current year STIP range from 20 percent to 50 percent of salary, and the actual current year STIP awards may range from 0 percent to twice the target award, depending on Northwest FCS' and the individual's performance. STIP awards are paid in the year following the performance period based on achievement of targets and goals and after audited financial statements are issued.

The target awards for the 2013-2015 LTIP were paid in 2016. The 2014-2016 LTIP awards were paid in 2017. The 2015-2017 LTIP awards will be paid in 2018 as disclosed in the Summary Compensation Table. Current plans are based on three years of performance and include the 2015-2017 LTIP, 2016-2018 LTIP and 2017-2019 LTIP. Target awards for the current LTIPs range from 20 percent to 70 percent of salary, with a range of opportunity from 0 percent up to twice the target award.

The measures used in incentive compensation are believed to be key drivers of Northwest FCS' long-term success and are directly correlated to the pay received by Senior Officers. Components of compensation increased or decreased in 2017 based on the level of achievement of these goals, which are tied to Northwest FCS' mission and strategy.

To calculate incentive awards, Northwest FCS aggregates the performance under each plan and calculates a separate Corporate Performance Factor for the STIP and LTIP. For the STIP, individual performance is assessed (see Performance Assessment above) and used to determine an Individual Performance Factor used in the incentive award calculation.

Actual awards under the STIP and LTIP for the CEO and other Senior Officers were determined as follows:

STIP Award Calculation	=	**Salary**	x	**STIP Award Target**	x	**STIP Corporate Performance Factor**	x	**Individual Performance Factor**
LTIP Award Calculation	=	**Salary**	x	**LTIP Award Target**	x	**LTIP Corporate Performance Factor**		

Actual STIP and LTIP awards earned for the CEO and other Senior Officers are presented in the Summary Cmpensation Table.

Encouraging Appropriate Risk Taking

The compensation program is structured to provide a balance of components that are based upon multiple financial and nonfinancial measures of performance. It is designed to encourage the appropriate level of risk-taking, consistent with maintaining safety and soundness, and measurements aligned with the business plan, strategy and mission. The committee has taken the following measures to ensure the compensation program does not encourage inappropriate risk taking:

- Implemented caps on incentive plans.
- Balanced incentive compensation through a STIP and LTIP.
- Designed incentive plans to provide rewards based upon multiple financial and nonfinancial measures and goals.
- Incorporated individual performance into the STIP based upon the performance management system.
- Engaged an independent consultant to conduct a risk review of the compensation and benefit programs.
- Approved performance targets and ranges for STIP and LTIP metrics that align with the business plan, strategy and mission.
- Retained discretion to adjust awards as needed.

Human Resources Committee Governance Process and Decisions

The committee is composed of members of the board and recommends CEO compensation decisions to the board. In carrying out its responsibilities, the committee regularly reports to and consults with the board and, when appropriate, discusses compensation matters with the CEO. The committee reviews pay and performance matters throughout the year with the assistance of management and an independent consultant. The committee's process includes:

- Selecting and approving performance measures for the STIP and LTIP balanced scorecards,
- Reviewing mid-year performance results and accruals of STIP and LTIP awards,
- Reviewing corporate performance against approved goals and determining final achievement,
- Assessing CEO performance and reviewing other Senior Officer performance assessments conducted by the CEO,
- Determining and approving each component of CEO compensation for the next year using market comparisons and performance assessments,
- Reviewing Senior Officer compensation packages and levels,
- Approving actual awards under incentive programs for the CEO based upon performance assessments,
- Approving overall compensation plans and any design changes to compensation programs for the compensation period,
- Reviewing and approving programs that provide benefits or potential benefits to management such as employment agreements, severance benefits and other benefit programs, and
- Assessing the risk of programs on an annual basis to ensure the operation of the programs does not create a material adverse risk to the organization.

In conducting its responsibilities as determined by the board, the committee has reviewed and concluded that:

- Long-term compensation and retirement benefit obligations are appropriate for the participants in the plans given their roles and responsibilities,
- Incentive programs are not unreasonable or disproportionate to the services provided by the CEO, other Senior Officers and other employees of Northwest FCS, and

- Levels and design of the CEO and other Senior Officer's total compensation align with Northwest FCS' strategy.

CEO Compensation

The committee reviews and approves the CEO's total compensation based on the CEO's performance, Northwest FCS' performance and market considerations prepared by an independent consultant. Market considerations include compensation for CEOs of comparable financial institutions, including other Farm Credit System entities. The CEO participates in the STIP and LTIP programs provided for Senior Officers of Northwest FCS in addition to receiving salary and benefits. The "Short-Term Incentive Compensation" shown in the Summary Compensation Table reflects the STIP earned by the CEO in each year. The CEO's STIP potential, depending on the respective plan year, was a target of 50 percent to 60 percent of salary to be awarded for meeting the pre-established goals described above, with the opportunity to earn up to twice the target for exceeding those goals. The "Long-Term Incentive Compensation" shown in the Summary Compensation Table for 2015 represents the 2013-2015 LTIP award for achievement of performance goals during 2013-2015; 2016 represents the 2014-2016 LTIP award for achievement of performance goals during 2014-2016, and 2017 represents the 2015-2017 LTIP award for achievement of performance goals during 2015-2017. The CEO's LTIP award potential, depending on the respective plan, was a target of 60 percent to 70 percent of salary to be awarded for meeting the pre-established goals described above, with the opportunity to earn up to twice the target for exceeding the goals.

Northwest FCS makes an annual contribution to the CEO's Non-Qualified Defined Contribution Plan in an amount equal to the lesser of $200,000 or 15 percent of the total of his base salary and short-term incentive award. It is reported under "Deferred and Perquisites" in the following table. The amounts earned related to this award were $181,748, $168,075 and $180,302 for the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017, the CEO is employed pursuant to an employment agreement. The agreement is automatically extended by one additional year at the end of each calendar year through December 31, 2019. Following December 31, 2019, the employment agreement is no longer automatically extended and shall terminate on December 31, 2024. The employment agreement provides specified compensation and related benefits in the event his employment is terminated, except for termination for cause. In the event of termination by Northwest FCS prior to the CEO reaching age 62 and except for cause, the employment agreement provides for payment of his salary through the date of termination, a prorated LTIP incentive payout and payment of three times his base compensation. In the event of termination by Northwest FCS on or after age 62, except for cause or change in control, the employment agreement provides for payment of his salary through the date of termination, a prorated LTIP incentive payout and a specified payment. The employment agreement also provides certain payments upon death, disability or a change in control. To receive payments and other benefits under the agreement, the CEO must sign a release agreement to give up any claims, actions or lawsuits against Northwest FCS that relate to his employment and termination of employment from Northwest FCS. The CEO is also employed subject to a Restrictive Covenant Agreement (RCA), which requires non-solicitation of employees or customers by the CEO for 24 months following termination of employment.

Other Senior Officer Compensation

The Senior Officers other than the CEO also participate in the STIP and LTIP in addition to receiving base salary and benefits generally provided to management personnel. The committee reviews the total compensation of the other Senior Officers appointed to serve on the MEC based on their individual performance assessments provided by the CEO, Northwest FCS' performance, and market considerations prepared by an independent consultant using the same comparable financial institutions used for the CEO's compensation. The STIP and LTIP provide the other Senior Officers the opportunity to earn awards as a percent of their base salaries for meeting pre-established performance goals. STIP targets for plans reflected in the Summary Compensation Table ranged from 17 percent to 35 percent of salary, with the potential to earn a maximum of twice the target for exceeding those goals. LTIP targets for plans reflected in the Summary Compensation Table ranged from 10 percent to 40 percent of salary, with the potential to earn a maximum of twice the target for exceeding those goals.

As of December 31, 2017, the other Senior Officers appointed to serve on the MEC are provided specified severance and other benefits in the event their employment is terminated, except for termination for cause. In the event of termination, except for cause, the other Senior Officers on the MEC are entitled to a lump sum severance payment equal to one times base compensation. To receive the severance payment, the other Senior Officers on the MEC must sign a release agreement to give up any claims, actions or lawsuits against Northwest FCS that relate to their employment and termination of employment from Northwest FCS. The other Senior Officers are also employed subject to a RCA, which requires non-solicitation of employees or customers by the other Senior Officers for 24 months following termination of employment.

Summary Compensation Table

The compensation shown in the following table is the actual compensation earned by the CEO and other Senior Officers during the years ended December 31, 2017, 2016 and 2015. The 2017, 2016 and 2015 periods also include compensation earned by highly compensated employees in each year, as required by FCA regulations. Highly compensated employees are determined excluding changes in pension value. The "Short-Term Incentive Compensation" shown reflects the short-term incentive earned in each year, which is paid in the following year. The "Long-Term Incentive Compensation" shown reflects the long-term awards in the year they were earned, together with any gains or losses incurred, where applicable, on those awards that were held in trust.

		Annual					
President and CEO	*Year*	*Salary*	*Short-term incentive compensation (1)*	*Long-term incentive compensation (2)*	*Deferred and perquisites (3)*	*Other (4)*	***Total***
Phil DiPofi	2017	$ 697,500	509,652	558,600	267,684	25,610	**$ 2,059,046**
Phil DiPofi	2016	$ 665,500	445,500	614,900	259,151	10,056	**$ 1,995,107**
Phil DiPofi	2015	$ 615,000	584,010	589,742	285,201	23,850	**$ 2,097,803**
Aggregate number of Senior Officers and highly compensated employees (excluding the CEO)							
11	2017	$ 2,848,574	1,790,286	897,549	142,466	558,300	**$ 6,237,175**
10	2016	$ 2,530,885	1,097,708	950,644	132,064	464,795	**$ 5,176,096**
10	2015	$ 2,376,865	1,232,349	901,665	197,533	893,607	**$ 5,602,019**

(1) Represents the STIP previously described for 2017, 2016 and 2015, which is paid in the first quarter of the year subsequent to the reported year to persons who continue to be employed by Northwest FCS or unless otherwise provided for. The 2017, 2016 and 2015 years include insurance agent compensation earned for highly compensated employees.

(2) Represents the LTIP described previously for the 2015-2017 plan (presented within 2017), 2014-2016 plan (presented within 2016) and 2013-2015 plan (presented within 2015). There was an additional long-term bonus program in which the CEO and certain other Senior Officers previously participated. This additional program was terminated in January 2015.

(3) Various deferred or perquisite amounts include, but are not limited to, the CEO Non-Qualified Defined Contribution Plan discussed previously, other non-qualified contributions made by Northwest FCS, moving and relocation costs, long-term disability, life insurance benefits and vehicle allowances.

(4) Represents 401(k) employer contributions, other compensation of minimal value and the change in pension value for two Senior Officers.

Total compensation paid during the last year to any Senior Officer, or to any other employee included in the aggregate, is available and will be disclosed to stockholders upon request. Senior Officers are reimbursed for travel expenses and related expenses while conducting business for Northwest FCS, and the travel policy is available and will be disclosed to stockholders upon request.

Included in the summary compensation table above for 2017, 2016 and 2015 are highly compensated employees included within an insurance agent compensation plan. This plan was terminated in 2017, and the insurance agents were moved to the STIP previously described. The insurance agent compensation plan covered certain insurance agents that were formerly not participating in the STIP. Payments under the insurance agent compensation plan were based on both an individual's performance rating during the year and insurance commissions earned by Northwest FCS. Payments were made twice per year, and the final payment under this plan was made in December 2017.

The table below provides certain pension information by plan for the Senior Officers participating in these plans. There were no individuals outside of the Senior Officers noted, which required disclosure, and the CEO is not a participant in these plans.

Aggregate number of Senior Officers (excluding the CEO)	*Plan name*	*Number of years of credited service*	*Actuarial present value of accumulated benefits*	*Payments during last year*
2	Defined Benefit Pension Plan	40.48	$ 5,207,399	$ -
2	Defined Benefit Pension Restoration Plan	40.48	741,411	-
Total			**$ 5,948,810**	**$ -**

There were no payments made during the last year to the Senior Officers included in the table above for the referenced pension plans. The actuarial present values of accumulated benefits for plans noted within the table are funded by Northwest FCS.

The Defined Benefit Pension Plan (Pension Plan) provides participants with various options at normal retirement (age 65). Participants may elect to receive a normal retirement benefit upon retirement or if they otherwise terminate their employment and satisfy certain conditions. A normal retirement benefit is based on, but not limited to, the highest consecutive 60 months' compensation, as defined in the Summary of Plan Provisions, and the participant's total years of service in the plan (maximum of 35 years). Participants may elect to receive their accrued vested pension benefits as an annuity or as a single lump sum distribution. A lump sum distribution includes the present value of a single life annuity based on mortality and interest rate assumptions

defined in the Pension Plan. The Pension Plan provides benefits up to the applicable limits under Internal Revenue Code (IRC) Sections 401(a) (17), 415, or any code provision or government regulations subsequently issued.

The Defined Benefit Pension Restoration Plan (Restoration Plan) provides eligible employees benefits, which were limited by IRC Sections 401(a) (17), 415, or any code provision or government regulations subsequently issued, and therefore are not available under the Pension Plan. The monthly benefit is equal to the difference between the participant's actual monthly retirement benefit payment under the Pension Plan and the monthly retirement benefit payment that would be payable to the participant under the Pension Plan if the limitations of IRC 401(a) (17), 415 or any code provision or government regulations subsequently issued did not apply. The Restoration Plan valuation was determined using an assumption that benefits will be distributed as a lump sum at the participants' earliest unreduced retirement age.

Transactions with Senior Officers and Directors

Information regarding related party transactions is incorporated herein by reference from Note 11 to the Consolidated Financial Statements included in this annual report.

Involvement in Certain Legal Proceedings

There were no events during the past five years that are material to evaluating the ability or integrity of any person who served as a director or Senior Officer on January 1, 2018, or at any time during 2017.

Relationship with Independent Public Auditors

There were no changes in independent public auditors since the prior annual report to stockholders. There were no material disagreements with the independent public accountants on any matter of accounting principles or financial statement disclosures during this period.

Audit Fees and Expenses

Fees and expenses incurred by Northwest FCS for audit services rendered by its independent public auditors, PricewaterhouseCoopers LLP, were approximately $280,000, $322,000 and $414,000 at December 31, 2017, 2016 and 2015, respectively. These fees and expenses were incurred for the annual financial statement audit for all years. In addition, fees of $142,000 were incurred in 2017 for consulting related to process improvements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the Independent Auditor's Report dated March 1, 2018 and the Report of Management appearing in this annual report, are incorporated herein by reference.

Relationship with CoBank, ACB

Northwest FCS' relationship with CoBank, ACB is discussed in the Notes to Consolidated Financial Statements referenced below:

- Northwest FCS' statutory obligation to borrow from CoBank, ACB is discussed in Note 7 of the Consolidated Financial Statements.
- CoBank, ACB's ability to access the capital of Northwest FCS is discussed in Note 4 of the Consolidated Financial Statements.
- The major terms of any capital preservation, loss sharing or financial assistance agreements between Northwest FCS and CoBank, ACB are discussed in Notes 2 and 8 of the Consolidated Financial Statements.
- A discussion of how the financial condition and results of operations of CoBank, ACB may materially affect a stockholder investment in Northwest FCS and Northwest FCS' investment in CoBank, ACB is discussed in Note 1 and Note 4 of the Consolidated Financial Statements.
- CoBank, ACB is required to distribute its annual report to shareholders of Northwest FCS if a "significant event," as defined by FCA regulation occurs.

Privacy Protection Afforded Under FCA Regulations

Customer financial privacy and the security of other non-public information are important. Therefore, Northwest FCS holds customer financial and other non-public information in strict confidence. Federal regulations allow disclosure of such information by Northwest FCS only in certain situations.

DESCRIPTION AND STATUS REPORT ON THE YOUNG, BEGINNING AND SMALL FARMERS' PROGRAM

Program Definitions

Northwest FCS has a specific program in place to serve the credit and related needs of young, beginning and small farmers and ranchers (YBS) in its territory. The definitions of young, beginning and small farmers and ranchers are:

- **Young** – A farmer, rancher, producer or harvester of aquatic products who is age 35 or younger, as of the loan transaction date.
- **Beginning** – Any farmer, rancher, producer or harvester of aquatic products who has 10 years or less farming or ranching experience, as of the loan transaction date.
- **Small** – Any farmer, rancher, producer, or harvester of aquatic products who generates less than $250,000 in annual gross sales of agricultural or aquatic products as of the loan transaction date.

Mission and Objectives

Mission Statement

To advance young, beginning, and small farmers' success through deliberate strategies in lending and professional development.

Objectives of the Program

- To promote agriculture by encouraging and developing competent YBS customers to enter into or remain in agriculture by supporting their efforts to do so.
- To recognize the challenges facing YBS customers attempting to obtain credit and establish a viable enterprise, and to establish Northwest FCS as a leader in providing the products and services necessary for them to succeed.
- To develop business relationships with next generation producers who:
    - Exhibit the management skills necessary to build a solid financial position,
    - Contribute to the agricultural community, and
    - Will become profitable customers for the association.
- To provide adequate board oversight to ensure the needs of this market are met on a constructive, safe, and sound basis.

Services Provided

Several credit and related services are offered through the board approved YBS Program directly and in coordination with other organizations that allow Northwest FCS to effectively serve the needs within these producer segments. Highlights of the YBS Program include:

- The AgVision program enhances Northwest FCS' ability to serve the young, beginning and small producers who are actively involved in farming and those who may not meet traditional credit standards. AgVision customers account for $629.9 million of loan volume. Through this program, special consideration is given in loan underwriting ratios, interest rate reductions, and origination and appraisal fee waivers. Over $1.8 million in fee waivers have been provided to AgVision customers since 2001, with over $195,000 in fees waived in 2017.
- Nearly $760,000 has been reimbursed to customers for educational expenses, technology purchases, recordkeeping and tax planning and preparation services since the 2001 inception of the AgVision program. Reimbursements totaled over $61,000 in 2017.
- An advisory group which includes young, beginning and small farmers and ranchers who provide Northwest FCS with customer feedback, function as a liaison to association management and advance the YBS program impact within the agricultural community.
- The RateWise program rewards YBS producers for continuing their management education with interest rate reductions on new loans.
- Northwest FCS' interest only, JumpStart loan program is designed to help entrepreneurs begin promising new ventures in agriculture.
- Customer education programs are tailored to YBS producers focusing on areas such as farm economics, financial literacy, profitability, cash flow, personal finance and succession planning.

- The Northwest FCS' Business Management Center helps customers assess, understand and improve management practices through group and individual interactions via orientations, workshops and consulting. Numerous YBS customers have taken part in these various programs.
- Northwest FCS offers crop insurance to help YBS producers mitigate risk.
- A portion of the YBS producers' loan portfolio is supported by government guarantees, including guarantees by the Farm Service Agency (FSA) and the U.S. Department of Agriculture's (USDA) Business and Industry Guaranteed Loan Program.

Government Guaranteed Loans to YBS Farmers and Ranchers

(dollars in thousands)

December 31, 2017	*Number of loans*		*Volume*
Young	320	$	69,257
Beginning	341	$	73,791
Small	265	$	38,901

Regional Demographics

The service area of Northwest FCS primarily includes the states of Washington, Montana, Oregon, Idaho and Alaska. The following table compares demographic information from the USDA's 2012 Census of Agriculture to the 2007 census for YBS producers in Northwest FCS' area. This census is conducted every five years.

Census of Agriculture - Young, Beginning and Small Producers
2012 vs. 2007

The 2012 Census of Agriculture results show a 0.9 percent increase in young producers and an 8.0 percent decrease in small producers from 2007 to 2012. The beginning producer data cannot be compared between the 2012 and 2007 census due to a change in the census process. The 2007 census data for beginning producer counted "years on present farm" and in 2012 counted "years operating any farm."

	Young		*Beginning*		*Small*	
Geography	*2012*	*2007*	*2012*	*2007*	*2012*	*2007*
Washington	1,707	1,680	8,355	12,053	33,228	35,269
Oregon	1,419	1,604	6,506	11,107	32,548	35,814
Idaho	1,547	1,438	4,799	7,309	21,555	22,663
Montana	1,387	1,296	4,713	7,182	23,612	26,584
Alaska	37	26	211	205	719	649
Total	**6,097**	**6,044**	**24,584**	**37,856**	**111,662**	**120,979**

YBS Volume in the Northwest FCS Portfolio

The following table reflects the percentage of YBS producers' loans in the Northwest FCS loan portfolio as of December 31, 2017. Methods by which the Census demographics and the Northwest FCS' data are presented differ as the Census data is based on number of producers, while the Northwest FCS' data is based on number of loans. Additionally, the FCA definition of a young farmer is an individual who is 35 years or younger, while the USDA uses an individual 34 years old or less; and FCA beginning farmers have 10 years or less farming or ranching experience while the Census of Agriculture considers nine years or less farming or ranching experience. The USDA small producers' definition aligns closely with the FCA definition and overall the USDA study is the most useful tool to accurately measure association YBS goals and results.

Young, Beginning and Small Farmers and Ranchers – Number and Volume of Loans Outstanding (including available commitment)

(dollars in thousands)

December 31, 2017	*Number of loans*	*Percent of total*		*Loans and commitments outstanding*	*Percent of total*
Total loans and commitments outstanding at year end	43,896		$	14,301,516	
Young farmers and ranchers	6,952	15.84%	$	1,583,386	11.07%
Beginning farmers and ranchers	9,010	20.53%	$	2,025,541	14.16%
Small farmers and ranchers	13,552	30.87%	$	1,120,910	7.84%

The table above includes loan participation interests from states outside Northwest FCS' chartered territory.

Goals and Results

Quantitative goals are established each year for YBS producers' loan volume and numbers based on demographic data. The 2017 goals and actual results were as follows:

2017 Young, Beginning and Small Service Goals & Results

(dollars in thousands)

	Goals by number of loans	*Actual by number of loans*		*Goals by loan volume*		*Actual by loan volume*
Young	6,342	6,952	$	1,499,807	$	1,583,386
Beginning	8,377	9,010	$	1,993,842	$	2,025,541
Small	12,157	13,552	$	1,171,386	$	1,120,910

OFFICE LOCATIONS

Northwest FCS Headquarters

2001 S Flint Road
Spokane, Washington 99224*
(509) 340-5300

** Northwest FCS Owned*

Idaho

73 Fort Hall Avenue, Suite A
American Falls, Idaho 83211
(208) 226-1340

370 N Meridian Street, Suite A
Blackfoot, Idaho 83221
(208) 782-3800

1408 Pomerelle Avenue, Suite B
Burley, Idaho 83318
(208) 678-6650

501 King Street
Cottonwood, Idaho 83522
(208) 962-2280

1215 Pier View Drive
Idaho Falls, Idaho 83402*
(208) 552-2300

2631 Nez Perce Drive, Suite 201
Lewiston, Idaho 83501
(208) 799-4800

16034 Equine Drive
Nampa, Idaho 83687
(208) 468-1600

102 N State Street, Suite 2
Preston, Idaho 83263
(208) 852-2145

1036 Erikson Drive
Rexburg, Idaho 83440
(208) 656-2100

815 N College Road
Twin Falls, Idaho 83301
(208) 732-1000

139 River Vista Place, Suite 201
Twin Falls, Idaho 83301
(208) 732-1000

Montana

3490 Gabel Road, Suite 300
Billings, Montana 59102
(406) 651-1670

1001 W Oak Street, Suite 200
Bozeman, Montana 59715
(406) 556-7300

519 S Main Street
Conrad, Montana 59425
(406) 278-4600

134 E Reeder Street
Dillon, Montana 59725
(406) 683-1200

54147 US Highway 2, Suite A
Glasgow, Montana 59230
(406) 228-3900

700 River Drive S
Great Falls, Montana 59405
(406) 268-2200

1705 US Highway 2 NW, Suite A
Havre, Montana 59501
(406) 265-7878

120 Wunderlin Street, Suite 6
Lewistown, Montana 59457
(406) 538-7737

502 S Haynes Avenue
Miles City, Montana 59301
(406) 233-3100

3021 Palmer Street, Suite B
Missoula, Montana 59808
(406) 532-4900

123 N Central Avenue
Sidney, Montana 59270
(406) 433-3920

Oregon

3370 10th Street, Suite B
Baker City, Oregon 97814
(541) 524-2920

2345 NW Amberbrook Drive, Suite 100
Beaverton, Oregon 97006
(503) 844-7920

650 E Pine Street, Suite 106A
Central Point, Oregon 97502
(541) 665-6100

2911 Tennyson Avenue, Suite 301
Eugene, Oregon 97408
(541) 685-6140

300 Klamath Avenue, Suite 200
Klamath Falls, Oregon 97601
(541) 850-7500

308 SE 10th Street
Ontario, Oregon 97914
(541) 823-2660

12 SW Nye Avenue
Pendleton, Oregon 97801
(541) 278-3300

3113 S Highway 97, Suite 100
Redmond, Oregon 97756
(541) 504-3500

2222 NW Kline Street
Roseburg, Oregon 97471
(541) 464-6700

650 Hawthorne Avenue SE, Suite 210
Salem, Oregon 97301
(503) 373-3000

3591 Klindt Drive, Suite 110
The Dalles, Oregon 97058
(541) 298-3400

Washington

265 E George Hopper Road
Burlington, Washington 98233
(360) 707-2353

629 S Market Boulevard
Chehalis, Washington 98532
(360) 767-1100

224 N Main Street
Colfax, Washington 99111
(509) 397-2840

1501 E Yonezawa Boulevard
Moses Lake, Washington 98837
(509) 764-2700

9915 St. Thomas Drive
Pasco, Washington 99301*
(509) 542-3720

201 W Broadway Avenue, Suite B
Ritzville, Washington 99169
(509) 659-1105

2157 N Northlake Way, Suite 120
Seattle, Washington 98103
(206) 691-2000

2001 S Flint Road, Suite 101
Spokane, WA 99224*
(509) 340-5600

2735 Allen Road
Sunnyside, Washington 98944
(509) 836-3080

1 W Pine Street
Walla Walla, Washington 99362
(509) 525-2400

667 Grant Road, Suite 1
East Wenatchee, Washington 98802
(509) 665-2160

1360 N 16th Avenue
Yakima, Washington 98902
(509) 225-3200