FARM CREDIT SYSTEM INSURANCE CORPORATION

McLean, VA

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2017 and 2016

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BAKER TILLY

Independent Auditors' Report

The Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

We have audited the accompanying financial statements of the Farm Credit System Insurance Corporation ("FCSIC"), which comprise the statement of financial condition as of December 31, 2017 and 2016, and the related statements of income and expenses and changes in insurance fund and cash flows for the years then ended, and the related notes to the financial statements. We also have audited FCSIC's internal control over financial reporting as of December 31, 2017, based on the criteria established in *Internal Control-Integrated Framework (2013)* promulgated by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, which is included in the accompanying *Management's Report on Internal Control Over Financial Reporting*.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the entity's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements 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 financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Farm Credit System Insurance Corporation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the Farm Credit System Insurance Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017 based on the criteria established in *Internal Control-Integrated Framework (2013)* promulgated by the Committee of Sponsoring Organizations of the Treadway Commission.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Farm Credit System Insurance Corporation's financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under U.S. Government Auditing Standards.

Milwaukee, Wisconsin
February 9, 2018

Baker Tilly Virchow Krause, LLP

FARM CREDIT SYSTEM INSURANCE CORPORATION

STATEMENTS OF FINANCIAL CONDITION
As of December 31, 2017 and 2016
(Dollars in thousands)

Assets	**2017**	**2016**
Cash and cash equivalents	$ 1,613	$ 241
Investments in U.S. Treasury obligations	4,454,235	4,016,813
Premiums receivable	340,565	372,721
Accrued interest receivable	21,894	17,334
Other receivables	30,012	46,356
General property, plant, equipment, and software, net	78	-
Total Assets	**$ 4,848,397**	**$ 4,453,465**
Liabilities and Insurance Fund		
Accounts payable and accrued expenses	$ 679	$ 561
Total Liabilities	**679**	**561**
Farm Credit Insurance Fund		
Allocated Insurance Reserves Accounts	175,832	-
Unallocated Insurance Fund	4,671,886	4,452,904
Total Insurance Fund	**4,847,718**	**4,452,904**
Total Liabilities and Insurance Fund	**$ 4,848,397**	**$ 4,453,465**

FARM CREDIT SYSTEM INSURANCE CORPORATION

STATEMENTS OF INCOME AND EXPENSES AND CHANGES IN INSURANCE FUND
For the Years Ended December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
Income		
Premiums	$ 340,762	$ 372,626
Interest income	57,720	45,751
Total Income	**398,482**	**418,377**
Expenses		
Administrative operating expenses	3,668	3,714
Total Expenses	**3,668**	**3,714**
Net Income	**394,814**	**414,663**
Farm Credit Insurance Fund — Beginning of Year	**4,452,904**	**4,038,241**
Payments to AIRAs Accountholders	-	-
Farm Credit Insurance Fund — End of Year	**$ 4,847,718**	**$ 4,452,904**

FARM CREDIT SYSTEM INSURANCE CORPORATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
Cash Flows from Operating Activities		
Net income	$ 394,814	$ 414,663
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13	-
(Increase) decrease in premiums receivable	32,156	(112,087)
(Increase) decrease in accrued interest receivable	(4,560)	(3,289)
(Increase) decrease in other receivables	16,344	(46,356)
Net amortization and accretion of investments	11,849	17,463
(Increase) decrease in accounts payable and accrued expenses	118	30
Net Cash Provided by Operating Activities	**450,734**	**270,424**
Cash Flows from Investing Activities		
Payments for purchase of U.S. Treasury obligations	(1,246,440)	(1,387,970)
Proceeds from maturity of U.S. Treasury obligations	797,169	968,999
Payment for purchase of depreciable assets	(91)	-
Net Cash Provided by Investing Activities	**(449,362)**	**(418,971)**
Cash Flows from Financing Activities		
Payment to AIRAs Accountholders	-	-
Net Cash Used in Financing Activities	**-**	**-**
Net change in cash and cash equivalents	1,372	(148,547)
Cash and cash equivalents, beginning of year	241	148,788
Cash and Cash Equivalents, End of Year	**$ 1,613**	**$ 241**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – Farm Credit Insurance Fund (Insurance Fund): Statutory Framework

The Agricultural Credit Act of 1987 established the Farm Credit System Insurance Corporation (the Corporation or FCSIC) for the purpose of ensuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 of the Farm Credit Act of 1971, as amended (the Farm Credit Act), (insured obligations). Each bank in the Farm Credit System (System) participating in insured obligations is an insured System bank. At December 31, 2017, there were four insured System banks and 69 direct lender associations, down from December 31, 2016 when there were four insured System banks and 74 direct lender associations.

The Corporation is managed by a Board of Directors consisting of the same individuals as the Farm Credit Administration (FCA) Board except that the Chairman of the FCA Board may not serve as the Chairman of the Corporation's Board of Directors.

The Corporation must spend amounts in the Insurance Fund necessary to:

1. Ensure the timely payment of interest and principal on insured obligations; and

2. Ensure the retirement of eligible borrower stock at par value under section 4.9A of the Farm Credit Act.

The Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to System banks and direct lender associations.

As of December 31, 2017, there were $266.0 billion of insured obligations compared to $258.4 billion as of December 31, 2016, and less than $1 million of eligible borrower stock outstanding as of December 31, 2017 and 2016.

If the Corporation does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability, as required by section 4.4 (a)(2) of the Farm Credit Act.

Under section 5.63 of the Farm Credit Act, the Corporation is exempt from all Federal, state, and local taxes with the exception of real property taxes.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Accounting — The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP) and, as such, the financial statements have been prepared using the accrual basis of accounting.

Cash and Cash Equivalents — Cash and cash equivalents include investments in U.S. Treasury obligations with original maturities of 90 days or less. At December 31, 2017, the Corporation held $1,413 thousand in overnight Treasury Certificates maturing on January 2, 2018, with an investment rate of 1.18 percent, and $200 thousand in cash. At December 31, 2016, the Corporation held $140 thousand in overnight Treasury Certificates maturing on January 3, 2017, with an investment rate of 0.39 percent, and $101 thousand in cash.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Investments in U.S. Treasury Obligations — Section 5.62 of the Farm Credit Act requires that funds of the Corporation, not otherwise employed, shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Corporation has classified its investments as held to maturity in accordance with Financial Accounting Standards Board Accounting Standards Codification 320, *Investments - Debt and Equity Securities* and carries them at amortized cost. Amortization of premium and accretion of discount on investments has been computed under the interest method since 2002. Fair value of investments is estimated based on quoted market prices for those or similar instruments.

Other Receivables — The Corporation reports receivables for securities when investments mature at the end of an accounting period and proceeds are received in the following month.

Liability for Estimated Insurance Obligations — The liability for estimated insurance obligations is the present value of estimated probable insurance payments to be made in the future based on the Corporation's analysis of economic conditions of insured System banks.

The insured System banks' primary lending markets are borrowers engaged in farming, ranching, and producing or harvesting of aquatic products, and their cooperatives. Financial weaknesses in these market segments and the effect of general market conditions on the System's borrowers could adversely affect the banks' financial condition and profitability. Insured System banks also face risks from changing interest rate environments and the need to maintain ongoing access to financial markets. Adverse changes in the financial condition and profitability of insured System banks resulting from increased levels of credit, financial, or other risks could occur in the future which would require a liability for estimated insurance obligations to be recorded.

The Corporation actively monitors the creditworthiness and financial position of the insured System banks. Management is not aware of any events or circumstances at this time which would require a liability for estimated insurance obligations to be recorded at December 31, 2017 or 2016.

Premiums — Annual premiums are recorded as revenue during the period on which the premiums are based. All premiums are due on or before January 31st of the year subsequent to the year in which they are earned.

Use of Estimates — The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – Investments in U.S. Treasury Obligations

In addition to the amounts referenced in Note 2, Cash and Cash Equivalents, at December 31, 2017 and 2016, investments in U.S. Treasury obligations which are carried at amortized cost consisted of the following:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2017				
U.S. Treasury obligations	$ 4,454,235	$ 304	$ (35,858)	$ 4,418,681
December 31, 2016				
U.S. Treasury obligations	$ 4,016,813	$ 6,947	$ (16,584)	$ 4,007,176

The amortized cost and estimated fair value of U.S. Treasury obligations at December 31, 2017, by contractual maturity, are shown below.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,188,463	$ 1,185,688
Due after one year through five years	3,216,264	3,183,566
Due after five years through ten years	49,508	49,427
	$ 4,454,235	$ 4,418,681

The Corporation follows GAAP for measuring, reporting, and disclosing fair value. These standards apply to all assets and liabilities that are measured, reported, and/or disclosed on a fair value basis.

As defined in the accounting standards, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the plan has the ability to access.

NOTE 3 – Investments in U.S. Treasury Obligations (cont.)

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data. Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs that are unobservable and not corroborated by market data.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair values of FCSIC's investments in U.S. Treasury obligations are estimated based on quoted market prices for those instruments; accordingly, these are classified as Level 1 assets.

NOTE 4 – Premiums, the Secure Base Amount and Excess Insurance Fund Balances

Each System bank which issues insured obligations under subsection (c) or (d) of section 4.2 of the Farm Credit Act is an insured System bank and may be required to pay premiums to the Corporation.

The Food, Conservation, and Energy Act of 2008 amended the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to generally assess premiums based on each bank's pro rata share of insured debt (rather than on loans), aligning premiums with what FCSIC insures. The changes were implemented beginning July 1, 2008. Now FCSIC may collect from 0 to 20 basis points annually on adjusted insured debt outstanding. The amendments also authorize a risk surcharge of up to 10 basis points on non-accrual loans and on other-than-temporarily impaired investments. The amendments reduce the total insured debt on which premiums are assessed by 90 percent of Federal government-guaranteed loans and investments and 80 percent of state government-guaranteed loans and investments, and deduct similar percentages of such guaranteed loans and investments when calculating the secure base amount (SBA). The amendments clarify that FCSIC may collect premiums more frequently than annually.

In addition, the Farm Credit Act no longer specifies how the System banks pass premiums to associations and other financing institutions, although it requires that the banks do so in an equitable manner. This change allows the banks flexibility in allocating premium costs to associations. The amendments clarify that, in addition to FCSIC's regulatory authority under Title V of the Farm Credit Act, FCSIC has the authority to adopt rules and regulations concerning provisions in Title I of the Farm Credit Act related to banks passing along the cost of insurance premiums. Finally, the amendments change the Farm Credit Act provisions regarding certified statements and simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow more immediate distribution of excess Insurance Fund balances to insured banks and the System Financial Assistance Corporation (the FAC) stockholders.

NOTE 4 – Premiums, the Secure Base Amount and Excess Insurance Fund Balances (cont.)

The Farm Credit Act sets a base amount for the Insurance Fund to achieve. The statutory SBA is equivalent to 2.0 percent of the aggregate outstanding insured obligations of all insured System banks (adjusted downward by a percentage of the guaranteed portions of principal outstanding on certain government-guaranteed loans and investments) or such other percentage as determined by the Corporation in its sole discretion to be actuarially sound to maintain in the Insurance Fund taking into account the risk of insuring outstanding insured obligations. When the assets in the Insurance Fund for which no specific use has been designated exceed the SBA, the Corporation is required to reduce the premiums, but it still must ensure that reduced premiums are sufficient to maintain at the SBA the assets in the Insurance Fund for which no specific use has been designated (the unallocated Insurance Fund).

Insurance premium rates are reviewed semiannually. For 2017, the Board of Directors set premium rates at its January 26, 2017 meeting at 15 basis points on average adjusted insured debt and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The Board of Directors again reviewed premiums at its June 8, 2017 meeting. The Board of Directors voted to maintain the premium accrual rate on average adjusted insured debt at 15 basis points and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the remainder of 2017. In 2017, outstanding insured obligations increased by $7.6 billion (3 percent). At December 31, 2017, the unallocated Insurance Fund and the total Insurance Fund were 2.00 percent and 2.08 percent of adjusted insured obligations, respectively.

For 2016, the Board of Directors set premium rates at its February 19, 2016 meeting at 16 basis points for the first 6 months, and 18 basis points for the second 6 months, on average adjusted insured debt and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The Board of Directors again reviewed premiums at its June 9, 2016 meeting. The Board of Directors voted to maintain the premium accrual rate on average adjusted insured debt at 16 basis points for the first 6 months and 18 basis points for the second 6 months and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the remainder of 2016. In 2016, outstanding insured obligations increased by $15 billion (6 percent). At December 31, 2016, both the unallocated Insurance Fund and the total Insurance Fund were 1.96 percent of adjusted insured obligations.

A 1996 amendment to the Farm Credit Act requires the Corporation to establish AIRAs for each System bank and an account for the stockholders of the FAC. If, at the end of any calendar year, the aggregate of the amounts in the Insurance Fund exceed the SBA, the Corporation is to allocate to the AIRAs any excess balances less the amount that the Corporation, in its sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations of the Corporation for the immediately succeeding calendar year.

As the total Insurance Fund exceeded the 2 percent SBA at December 31, 2017, there was an allocation of $175.8 million to the AIRAs as follows:

FAC Shareholders	$ 13.1 million
Farm Credit System banks	$162.7 million

NOTE 4 – Premiums, the Secure Base Amount and Excess Insurance Fund Balances (cont.)

The AIRAs' balances are recorded as part of the Insurance Fund until approved for payment by the Corporation's Board of Directors. AIRAs' balances may be used to absorb any insurance losses and claims. Furthermore, the Board of Directors has discretion to limit or restrict the AIRAs' payments. In accordance with the Corporation's policy, any AIRAs' balances do not count in measuring the Insurance Fund's compliance with the SBA.

NOTE 5 – Operating Lease

On October 8, 2015, the Corporation executed a ten-year lease with the FCS Building Association for office space. The terms of the lease provide for an annual minimum base rent for office space of $143 thousand for 2018. The Corporation recorded lease expense (including operating cost assessments) of $144 thousand and $139 thousand for 2017 and 2016, respectively.

NOTE 6 – Line of Credit

On September 24, 2013, the Corporation entered into an agreement with the Federal Financing Bank (the FFB), a United States government corporation subject to the supervision and direction of the U.S. Treasury. Pursuant to this agreement, the FFB may advance funds to the Corporation when exigent market circumstances make it extremely doubtful that insured System banks will be able to pay maturing debt obligations. The Corporation will in turn use the funds advanced by the FFB to provide assistance to the System banks until market conditions improve. The agreement provides for a short-term revolving credit facility of up to $10 billion, is renewable annually and terminates on September 30, 2018, unless otherwise further extended.

Under the agreement, each provision of funds by the FFB is subject to certain terms and conditions. The interest rate for each advance will be established by the FFB at the time the respective advance is made. Each advance cannot have a maturity date longer than twelve months and the maturity date cannot be later than the final termination date of the agreement.

The Corporation paid no commitment fee to secure this line of credit. There were no amounts drawn on this line of credit during 2017 and 2016.

NOTE 7 – Retirement Plan

All permanent Corporation employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Corporation's contribution to the CSRS plan during 2017 and 2016 was 7 percent of base pay. For those employees covered by FERS, the Corporation's contribution was 13.7 percent of base pay for 2017 and 2016. In addition, for FERS-covered employees, the Corporation automatically contributes 1 percent of base pay to the employee's Thrift Savings Plan account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. In 2015, the Corporation began a 401K plan for both CSRS and FERS employees. The Corporation automatically contributes 1 percent of base pay to the employee's 401K account and matches the first 2 percent contributed by the employee. Retirement plan expenses amounted to $385 thousand in 2017 and $370 thousand in 2016.

NOTE 8 – Related Parties

The Corporation purchases services from the FCA under an Interagency Agreement. These include examination and administrative support services. The intention of the parties as stated in the agreement is that specified rates and fees will reimburse the party providing services for all reasonable costs associated with provision of the services. The Corporation purchased services for 2017 which totaled $322 thousand, compared with $343 thousand for 2016.

The Corporation may also provide services to the FCA under an Interagency Agreement; however, the Corporation provided no services and recognized no revenue for 2017 and 2016. At December 31, 2017, and 2016, the Corporation did not have any receivables from the FCA.

NOTE 9 – Subsequent Events

Management evaluated subsequent events through February 9, 2018, the date the financial statements were available to be issued. Events or transactions occurring after the balance sheet date but prior to the date the financial statements were available to be issued, that provide additional evidence about conditions that existed at the balance sheet date, are recognized in the financial statements. Events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose before the financial statements were available to be issued are not recognized in the financial statements.

The financial statements for the year ended December 31, 2017 have not been adjusted for any events or transactions occurring after the balance sheet date.

Farm Credit System Insurance Corporation

Management's Report on Internal Control Over Financial Reporting

The Farm Credit System Insurance Corporation's (FCSIC) internal control over financial reporting is a process designed by those charged with governance and management to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures are being made only in accordance with authorizations of FCSIC management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of FCSIC's assets that could have a material effect on our financial statements.

Management of FCSIC is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of FCSIC's internal control over financial reporting as of December 31, 2017 using 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". Management concluded that as of December 31, 2017, FCSIC's internal control over financial reporting is effective, based on the COSO criteria.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgement and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Dorothy L. Nichols
Chief Operating Officer

Emily W.F. Dean
Chief Financial Officer

C. Richard Pfitzinger
Director, Risk Management

Howard I. Rubin
General Counsel

February 9, 2018

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