Farm Credit Illinois, ACA

Quarterly Report
September 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

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

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Mahomet, IL 61853
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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2016 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

The September 12, 2017, World Agricultural Supply and Demand Estimates increased estimated U.S. corn production by 32 million bushels from the August report. Increased supply and falling use indicates an increase in ending stocks of 62 million bushels from last month. The September 12, 2017, United States Department of Agriculture's (USDA) Crop Production Report estimates a national average corn yield of 169.9 bushels per acre, down 4.7 bushels from last year. The projected season-average corn price was lowered by $0.10, to an estimated range of $2.80 to $3.60 per bushel. The report estimates record soybean production at 4.43 billion bushels, up 50 million bushels on a higher yield forecast. U.S. soybean yield is expected to average 49.9 bushels per acre, down 2.2 bushels from 2016, but with record high harvest acreage of 88.7 million acres. The 2017/2018 U.S. season-average soybean price is forecast at $8.35 to $10.05 per bushel, down $0.10 per bushel.

Slower maturing corn has delayed activity in some areas where dry conditions have allowed for a quicker start to the soybean harvest. According to the Illinois Crop Progress and Condition Report released October 2, 2017, corn harvest is 21% complete compared to 11% the prior week and 38% over the past 5 years. Soybeans were 30% harvested versus 9% the week before. At this point in 2016, soybean harvest was 15% complete and the 5-year average is 21% harvested. USDA estimates average Illinois corn production of 189.0 bushels per acre, up 1 bushel from last month, but down 8 bushels from the 2016 estimate. Illinois soybeans are forecast to yield an average of 58.0 bushels per acre in 2017, unchanged from the prior monthly estimate and 1 bushel below the 2016 yield.

Gary Schnitkey, Department of Agricultural and Consumer Economics, University of Illinois, recently updated his "Forecast of 2017 Net Income on Grain Farms in Illinois." He projects net income will be down from 2016 due to lower yields; however, decreases in non-land costs will partially offset declining revenues. The decrease in non-land costs comes from slightly lower prices for fertilizers, pesticides, and seed. University of Illinois economists project 2017 crop Illinois corn prices at $3.65 per bushel compared to $3.45 per bushel in 2016. Indications for the current soybean crop suggest a price of $9.00 per bushel compared to $9.74 per bushel last year. Given differences in marketing gains or losses, and slightly lower cash rent and non-land costs, a corn-soybean split rotation would show a decrease of $17 per acre in 2017 compared to 2016.

Respondents to the mid-year survey of Illinois Society of Farm Managers and Rural Appraisers indicate Illinois farmland prices were level to slightly lower and sales volume remained fairly flat during the first half of 2017. They expect that trend to continue for the remainder of the year. Cash rents are expected to be slightly lower in 2018 with rent on the best quality land to be down from $305 per acre to $300 per acre. Average quality farmland will command $210 per acre on average for 2018 compared to $220 per acre for the 2017 crop year.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $3.9 billion at September 30, 2017, a decrease of $38.1 million from December 31, 2016. The decrease was primarily in our production and intermediate term loans due to seasonal paydowns.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2016. Adversely classified loans increased to 2.1% of the portfolio at September 30, 2017, from 1.7% of the portfolio at December 31, 2016. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At September 30, 2017, $40.0 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30 2017**	December 31 2016
Loans:		
Nonaccrual	**$ 6,841**	$ 6,848
Accruing restructured	**102**	123
Accruing loans 90 days or more past due	**586**	43
Total risk loans	**7,529**	7,014
Other property owned	**--**	--
Total risk assets	**$ 7,529**	$ 7,014
Total risk loans as a percentage of total loans	**0.2%**	0.2%
Nonaccrual loans as a percentage of total loans	**0.2%**	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**37.5%**	60.3%
Total delinquencies as a percentage of total loans	**0.2%**	0.4%

Note: Accruing loans include accrued interest receivable.

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

The increase in accruing loans 90 days or more past due was primarily due to several production and intermediate term loans in the ProPartners Financial portfolio, and one production and intermediate term loan in our portfolio becoming more than 90 days past due during the nine months ended September 30, 2017. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**September 30 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**118.0%**	93.8%
Total risk loans	**107.2%**	91.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2017.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	2017	2016
Net income	$ 52,648	$ 47,740
Return on average assets	1.8%	1.6%
Return on average members' equity	8.0%	7.9%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30	2017	2016	Increase (decrease) in net income
Net interest income	$ 71,498	$ 70,767	$ 731
Provision for loan losses	1,574	3,233	1,659
Patronage income	14,811	10,710	4,101
Other income, net	6,292	6,298	(6)
Operating expenses	37,786	36,326	(1,460)
Provision for income taxes	593	476	(117)
Net income	$ 52,648	$ 47,740	$ 4,908

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	2017 vs 2016
Changes in volume	$ 1,620
Changes in interest rates	(897)
Changes in nonaccrual income and other	8
Net change	$ 731

The change in the provision for loan losses was primarily related to production and intermediate term loan volume being down considerably from the prior year and the management of lower quality credits.

The change in patronage income was primarily related to a higher patronage rate received from AgriBank compared to the prior year. We also accrued additional patronage related to an increase in the wholesale spread on our note payable, which was partially offset by a decrease in patronage income received on loans in the AgriBank Asset Pool Program due to lower earnings on loans in the AgriBank Asset Pool Program compared to the prior year.

The change in operating expenses was primarily related to an increase in salaries and benefits as a result of staffing increases.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on July 31, 2017, and was renewed for $4.5 billion with a maturity date of July 31, 2020. The note payable will be renegotiated no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

The components of cost of funds associated with our note payable include:

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

We were not subject to a risk premium at September 30, 2017, or December 31, 2016.

Total members’ equity increased $52.5 million from December 31, 2016, primarily due to net income for the period.

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

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section. Refer to Note 4 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of September 30, 2017. Refer to Note 6 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

RELATIONSHIP WITH AGRIBANK

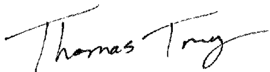
Patronage

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

CERTIFICATION

The undersigned have reviewed the September 30, 2017, Quarterly Report of Farm Credit Illinois, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Mark Miller
Chairperson of the Board
Farm Credit Illinois, ACA



Thomas H. Tracy
Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

November 8, 2017

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Illinois, ACA

(in thousands)

(Unaudited)

As of:		September 30 2017		December 31 2016
ASSETS				
Loans	**$**	**3,904,631**	$	3,942,719
Allowance for loan losses		**8,071**		6,420
Net loans		**3,896,560**		3,936,299
Investment in AgriBank, FCB		**95,206**		95,206
Accrued interest receivable		**57,262**		45,409
Deferred tax assets, net		**--**		354
Other assets		**38,895**		36,759
Total assets	**$**	**4,087,923**	$	4,114,027
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**3,160,361**	$	3,240,487
Accrued interest payable		**17,073**		12,076
Deferred tax liabilities, net		**52**		--
Other liabilities		**10,934**		14,500
Total liabilities		**3,188,420**		3,267,063
Contingencies and commitments (Note 5)				
MEMBERS' EQUITY				
Protected members' equity		**4**		5
Capital stock and participation certificates		**7,927**		8,035
Unallocated surplus		**891,572**		838,924
Total members' equity		**899,503**		846,964
Total liabilities and members' equity	**$**	**4,087,923**	$	4,114,027

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

	Three Months Ended		*Nine Months Ended*	
For the period ended September 30	**2017**	2016	**2017**	2016
Interest income	**$ 40,347**	$ 36,695	**$ 115,980**	$ 105,808
Interest expense	**17,073**	11,779	**44,482**	35,041
Net interest income	**23,274**	24,916	**71,498**	70,767
Provision for loan losses	**372**	162	**1,574**	3,233
Net interest income after provision for loan losses	**22,902**	24,754	**69,924**	67,534
Other income				
Patronage income	**6,375**	3,471	**14,811**	10,710
Financially related services income	**1,825**	1,595	**4,809**	4,254
Fee income	**392**	457	**1,308**	1,997
Miscellaneous income (loss), net	**54**	(38)	**175**	47
Total other income	**8,646**	5,485	**21,103**	17,008
Operating expenses				
Salaries and employee benefits	**7,445**	7,189	**22,423**	21,387
Other operating expenses	**5,610**	5,013	**15,363**	14,939
Total operating expenses	**13,055**	12,202	**37,786**	36,326
Income before income taxes	**18,493**	18,037	**53,241**	48,216
Provision for income taxes	**310**	353	**593**	476
Net income	**$ 18,183**	$ 17,684	**$ 52,648**	$ 47,740

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$ 6	$ 8,305	$ 769,291	$ 777,602
Net income	--	--	47,740	47,740
Capital stock and participation certificates issued	--	373	--	373
Capital stock and participation certificates retired	--	(592)	--	(592)
Balance at September 30, 2016	$ 6	$ 8,086	$ 817,031	$ 825,123
Balance at December 31, 2016	$ 5	$ 8,035	$ 838,924	$ 846,964
Net income	**--**	**--**	**52,648**	**52,648**
Capital stock and participation certificates issued	**--**	**369**	**--**	**369**
Capital stock and participation certificates retired	**(1)**	**(477)**	**--**	**(478)**
Balance at September 30, 2017	**$ 4**	**$ 7,927**	**$ 891,572**	**$ 899,503**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2017, are not necessarily indicative of the results to be expected for the year ending December 31, 2017. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the Farm Credit Funding Corporation and performance of the Farm Credit System. Therefore, we typically adopt accounting pronouncements on the public effective date or aligned with other System institutions, whichever is earlier.

Standard	Description	Effective date and financial statement impact
In March 2017, the FASB issued Accounting Standards Update (ASU) 2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.”	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	The guidance is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted with certain restrictions. We are currently evaluating the impact of the guidance on our results of operations and financial statement disclosures. The guidance will have no impact on the financial condition or cash flows.
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 “Financial Instruments – Credit Losses.”	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	The guidance is effective for non-U.S. Securities Exchange Commission filers for annual reporting periods beginning after December 15, 2020, including interim periods within those annual periods. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 “Leases.”	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2018, including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019, and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In January 2016, the FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities.”	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	The guidance is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within that year. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017, for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for public entities for the first interim reporting periods within the annual reporting periods beginning after December 15, 2017. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**September 30, 2017**		December 31, 2016	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,184,252**	**55.9%**	$ 2,195,592	55.7%
Production and intermediate term	**818,548**	**21.0%**	921,215	23.4%
Agribusiness	**705,163**	**18.1%**	620,860	15.7%
Other	**196,668**	**5.0%**	205,052	5.2%
Total	**$ 3,904,631**	**100.0%**	$ 3,942,719	100.0%

The other category is primarily comprised of communication, energy, and agricultural export finance related loans, and certain assets originated under the mission related investment authority.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 2017**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 2,209**	**$ 88**	**$ 2,297**	**$ 2,220,629**	**$ 2,222,926**	**$ --**
Production and intermediate term	**1,762**	**3,054**	**4,816**	**829,009**	**833,825**	**586**
Agribusiness	**--**	**--**	**--**	**707,801**	**707,801**	**--**
Other	**--**	**--**	**--**	**197,341**	**197,341**	**--**
Total	**$ 3,971**	**$ 3,142**	**$ 7,113**	**$ 3,954,780**	**$ 3,961,893**	**$ 586**

As of December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 13,350	$ 161	$ 13,511	$ 2,209,621	$ 2,223,132	$ --
Production and intermediate term	1,597	2,217	3,814	932,677	936,491	43
Agribusiness	--	--	--	623,036	623,036	--
Other	--	--	--	205,469	205,469	--
Total	$ 14,947	$ 2,378	$ 17,325	$ 3,970,803	$ 3,988,128	$ 43

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	**September 30 2017**	December 31 2016
Volume with specific allowance	**$ 2,002**	$ 1,707
Volume without specific allowance	**5,527**	5,307
Total risk loans	**$ 7,529**	$ 7,014
Total specific allowance	**$ 1,553**	$ 891
For the nine months ended September 30	**2017**	2016
Income on accrual risk loans	**$ 26**	$ 34
Income on nonaccrual loans	**296**	288
Total income on risk loans	**$ 322**	$ 322
Average risk loans	**$ 6,295**	$ 8,513

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at September 30, 2017.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

We completed TDRs of certain production and intermediate term loans during the nine months ended September 30, 2017, and 2016. Our recorded investment in these loans just prior to and immediately following restructuring was $127 thousand during the nine months ended September 30, 2017, and $131 thousand during the nine months ended September 30, 2016. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off. The primary type of modification was extension of maturity.

We had TDRs in the production and intermediate term loan category of $24 thousand that defaulted during the nine months ended September 30, 2017, in which the modifications were within twelve months of the respective reporting period. We had no TDRs that defaulted during the nine months ended September 30, 2016, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding in the Production and Intermediate Term Loan Category

(in thousands) As of:	**September 30 2017**	December 31 2016
TDRs in accrual status	**$ 102**	$ 123
TDRs in nonaccrual status	**253**	116
Total TDRs	**$ 355**	$ 239

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Nine months ended September 30	**2017**	2016
Balance at beginning of period	**$ 6,420**	$ 5,489
Provision for loan losses	**1,574**	3,233
Loan recoveries	**370**	106
Loan charge-offs	**(293)**	(927)
Balance at end of period	**$ 8,071**	$ 7,901

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Prior to January 1, 2017, the required investment in AgriBank was equal to 2.25% of the average quarterly balance of our note payable to AgriBank. In addition, an additional 1.0% of stock was required on association growth that exceeded 7.5%.

Effective January 1, 2017, the required investment in AgriBank was equal to 2.25% of the average quarterly balance of our note payable to AgriBank. In addition, additional stock was required on growth that exceeded a targeted rate. The additional stock required was 3.0% on association growth exceeding 7.5%; however, the additional stock was only required if District growth exceeded 5.5%, which it did not.

This plan is expected to continue to develop with the long-term capital plan, and is expected to be a required investment in AgriBank of 3.0% of the average quarterly balance of our note payable to AgriBank. In addition, an additional 3.0% of stock will be required on association growth that exceeds 8.5%; however, this is only required if District growth exceeds 6.5%.

The balance of our investment in AgriBank is summarized in the table below. The amount presented as purchased excess stock investment is the result of our total investment exceeding the total required investment as of September 30, 2017. AgriBank retires stock annually in accordance with its capital plan related to minimum hold periods.

Investment in AgriBank

(in thousands) As of:	**September 30 2017**	December 31 2016
Required stock investment	**$ 92,182**	$ 95,206
Purchased excess stock investment	**3,024**	--
Total investment	**$ 95,206**	$ 95,206

NOTE 4: MEMBERS' EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of September 30, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**18.2%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.2%**	6.0%	2.5%*	8.5%
Total capital ratio	**18.3%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.2%**	7.0%	N/A	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**20.1%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.2%**	1.5%	N/A	1.5%

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

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

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

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

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

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

Risk-adjusted Capital Ratios

	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings as regulatorily prescribed	X	X	X	X
Paid-in capital	X	X	X	X
Common cooperative equities:				
Statutory minimum purchased member stock	X	X	X	X
Other required member purchased stock held <5 years				X
Other required member purchased stock held ≥ 5 years but < 7 years			X	X
Other required member purchased stock held ≥7 years	X	X	X	X
Allocated equities:				
Allocated equities held <5 years				X
Allocated equities held ≥ 5 years but < 7 years			X	X
Allocated equities held ≥7 years	X	X	X	X
Nonqualified allocated equities not subject to retirement	X	X	X	X
Non-cumulative perpetual preferred stock		X	X	X
Other preferred stock subject to certain limitations			X	X
Subordinated debt subject to certain limitations			X	X
Allowance for loan losses and reserve for credit losses subject to certain limitations			X	
Regulatory adjustments and deductions:				
Amount of allocated investments in other System institutions	X	X	X	X
Amount of purchased investments in other System institutions held <5 years				X
Amount of purchased investments in other System institutions held ≥ 5 years but < 7 years			X	X
Amount of purchased investments in other System institutions held ≥7 years	X	X	X	X
Other regulatory required deductions	X	X	X	X
Denominator:				
Risk-adjusted assets excluding allowance	X	X	X	X
Regulatory adjustments and deductions:				
Regulatory deductions included in total capital	X	X	X	X
Allowance for loan losses				X

Non-risk-adjusted Capital Ratios

	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings as regulatorily prescribed	X	X
Paid-in capital	X	X
Common cooperative equities:		
Statutory minimum purchased member stock	X	
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years	X	X
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥ 5 years but < 7 years		
Allocated equities held ≥7 years	X	
Nonqualified allocated equities not subject to retirement	X	X
Non-cumulative perpetual preferred stock	X	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitations		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory adjustments and deductions:		
Amount of allocated investments in other System institutions	X	X
Other regulatory required deductions	X	X
Denominator:		
Total assets	X	X
Regulatory adjustments and deductions:		
Regulatory deductions included in tier 1 capital	X	X

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

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at September 30, 2017, or December 31, 2016.

Refer to Note 6 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

NOTE 5: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 6: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2016 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2017, or December 31, 2016.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	**As of September 30, 2017**				**Nine months ended September 30, 2017**
	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total (Losses)
Impaired loans	**$ --**	**$ --**	**$ 472**	**$ 472**	**$ (955)**

	As of December 31, 2016				Nine months ended September 30, 2016
	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total (Losses)
Impaired loans	$ --	$ --	$ 857	$ 857	$ (2,301)

Valuation Techniques

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

NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 8, 2017, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.