Farm Credit Illinois, ACA

Quarterly Report
March 31, 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.

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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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

In the March 9, 2017 World Agricultural Supply and Demand Estimates report, the U.S. Department of Agriculture projected mid-point season-average farm prices for corn at $3.40 per bushel and soybeans at $9.60 per bushel. The corn estimate is slightly below last year while the soybean price projection is nearly 10.0% higher. Soybean prices have fallen since the report yet soybeans should again be more profitable than corn in 2017. According to the most recent 2017 Prospective Plantings report, nationwide, there will be a 4.0 million acre shift away from corn and 6.0 million acre shift to soybeans in 2017. Acreage shifts are not projected for Illinois however, relatively similar acres of both corn and soybeans are anticipated in 2017 compared to last year.

Cash rent terms are again lower for 2017 following several years of declining incomes. According to survey information shown in the 2017 Illinois Farmland Values and Lease Trends publication provided by the Illinois Society of Farm Managers and Rural Appraisers, some regions within the state are flat to slightly lower, while rent in other regions are down 10.0% or more. The survey indicated that overall, average cash rents on professionally managed farms would be down between 8.0%-9.0% across all land quality classes for 2017.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $3.8 billion at March 31, 2017, a decrease of $163.7 million from December 31, 2016. The decrease was primarily due to a decline in our production and intermediate term loan portfolio and seasonal loan repayments.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2016. Adversely classified loans increased to 2.0% of the portfolio at March 31, 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 March 31, 2017, $30.1 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:		**March 31 2017**		December 31 2016
Loans:				
Nonaccrual	**$**	**4,078**	$	6,848
Accruing restructured		**100**		123
Accruing loans 90 days or more past due		**372**		43
Total risk loans		**4,550**		7,014
Other property owned		**--**		--
Total risk assets	**$**	**4,550**	$	7,014
Total risk loans as a percentage of total loans		**0.1%**		0.2%
Nonaccrual loans as a percentage of total loans		**0.1%**		0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans		**70.7%**		60.3%
Total delinquencies as a percentage of total loans		**0.3%**		0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2016 and remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at March 31, 2017 and December 31, 2016.

Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing 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:	**March 31 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**160.8%**	93.8%
Total risk loans	**144.1%**	91.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2017.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31		**2017**		2016
Net income	**$**	**17,460**	$	15,524
Return on average assets		**1.8%**		1.6%
Return on average members' equity		**8.2%**		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 three months ended March 31	2017	2016	Increase (decrease) in net income
Net interest income	$ 24,031	$ 22,970	$ 1,061
(Reversal of) provision for loan losses	(3)	1,064	1,067
Patronage income	4,166	3,633	533
Other income, net	1,931	2,276	(345)
Operating expenses	12,584	12,274	(310)
Provision for income taxes	87	17	(70)
Net income	$ 17,460	$ 15,524	$ 1,936

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2017 vs 2016
Changes in volume	$ 494
Changes in interest rates	477
Changes in nonaccrual income and other	90
Net change	$ 1,061

The change in the (reversal of) provision for loan losses was related to the Association managing our lower quality credits and PCA volume being down considerably from the prior year.

The increase in patronage income was primarily due to additional patronage accrued related to an increase in the wholesale spread on our note payable.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on July 31, 2017, at which time the note will be renegotiated. 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 March 31, 2017 or December 31, 2016.

Total members' equity increased $17.4 million from December 31, 2016 primarily due to net income for the period.

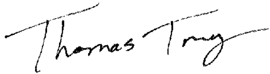
Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with risk-based capital ratios of common equity tier 1, tier 1 capital, and total capital. 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 March 31, 2017. Refer to Note 6 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

CERTIFICATION

The undersigned have reviewed the March 31, 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

May 10, 2017

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Illinois, ACA

(in thousands)

(Unaudited)

As of:		March 31 2017		December 31 2016
ASSETS				
Loans	**$**	**3,779,001**	$	3,942,719
Allowance for loan losses		**6,557**		6,420
Net loans		**3,772,444**		3,936,299
Investment in AgriBank, FCB		**95,206**		95,206
Accrued interest receivable		**35,243**		45,409
Deferred tax assets, net		**53**		354
Other assets		**35,800**		36,759
Total assets	**$**	**3,938,746**	$	4,114,027
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**3,055,232**	$	3,240,487
Accrued interest payable		**13,136**		12,076
Other liabilities		**6,030**		14,500
Total liabilities		**3,074,398**		3,267,063
Contingencies and commitments (Note 5)				
MEMBERS' EQUITY				
Protected members' equity		**4**		5
Capital stock and participation certificates		**7,960**		8,035
Unallocated surplus		**856,384**		838,924
Total members' equity		**864,348**		846,964
Total liabilities and members' equity	**$**	**3,938,746**	$	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	
For the period ended March 31	**2017**	2016
Interest income	**$ 37,167**	$ 34,552
Interest expense	**13,136**	11,582
Net interest income	**24,031**	22,970
(Reversal) of provision for loan losses	**(3)**	1,064
Net interest income after (reversal of) provision for loan losses	**24,034**	21,906
Other income		
Patronage income	**4,166**	3,633
Financially related services income	**1,469**	1,296
Fee income	**332**	863
Miscellaneous income, net	**130**	117
Total other income	**6,097**	5,909
Operating expenses		
Salaries and employee benefits	**7,572**	7,079
Other operating expenses	**5,012**	5,195
Total operating expenses	**12,584**	12,274
Income before income taxes	**17,547**	15,541
Provision for income taxes	**87**	17
Net income	**$ 17,460**	$ 15,524

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	--	--	15,524	15,524
Capital stock and participation certificates issued	--	152	--	152
Capital stock and participation certificates retired	--	(208)	--	(208)
Balance at March 31, 2016	$ 6	$ 8,249	$ 784,815	$ 793,070
Balance at December 31, 2016	$ 5	$ 8,035	$ 838,924	$ 846,964
Net income	**--**	**--**	**17,460**	**17,460**
Capital stock and participation certificates issued	**--**	**146**	**--**	**146**
Capital stock and participation certificates retired	**(1)**	**(221)**	**--**	**(222)**
Balance at March 31, 2017	**$ 4**	**$ 7,960**	**$ 856,384**	**$ 864,348**

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. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the three months ended March 31, 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.

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:

Standard	Description	Effective date and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 “Financial Instruments – Credit Losses.” (CECL)	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 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 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.
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 nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with 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.

Standard	Description	Effective date and financial statement impact
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 nonpublic entities for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. 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:	**March 31, 2017**		December 31, 2016	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,150,033**	**56.9%**	$ 2,195,592	55.7%
Production and intermediate term	**716,420**	**19.0%**	921,215	23.4%
Agribusiness	**699,919**	**18.5%**	620,860	15.7%
Other	**212,629**	**5.6%**	205,052	5.2%
Total	**$ 3,779,001**	**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 March 31, 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	90 Days or More Past Due and Accruing
Real estate mortgage	**$ 1,360**	**$ 198**	**$ 1,558**	**$ 2,172,964**	**$ 2,174,522**	**$ --**
Production and intermediate term	**8,220**	**1,251**	**9,471**	**714,952**	**724,423**	**372**
Agribusiness	**--**	**--**	**--**	**702,195**	**702,195**	**--**
Other	**--**	**--**	**--**	**213,104**	**213,104**	**--**
Total	**$ 9,580**	**$ 1,449**	**$ 11,029**	**$ 3,803,215**	**$ 3,814,244**	**$ 372**

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	90 Days or More Past Due and Accruing
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:		March 31 2017		December 31 2016
Volume with specific allowance	**$**	**1,022**	$	1,707
Volume without specific allowance		**3,528**		5,307
Total risk loans	**$**	**4,550**	$	7,014
Total specific allowance	**$**	**854**	$	891
For the three months ended March 31		**2017**		2016
Income on accrual risk loans	**$**	**5**	$	1
Income on nonaccrual loans		**172**		83
Total income on risk loans	**$**	**177**	$	84
Average risk loans	**$**	**5,156**	$	5,067

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 March 31, 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 three months ended March 31, 2017 and 2016. Our recorded investment in these loans just prior to restructuring was $48 thousand and $116 thousand during the three months ended March 31, 2017 and 2016, respectively. Our recorded investment in these loans immediately following the restructuring was $48 thousand and $116 thousand during the three months ended March 31, 2017 and 2016, respectively. 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 $32 thousand that defaulted during the three months ended March 31, 2016, in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the three months ended March 31, 2017, 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:		March 31 2017		December 31 2016
TDRs in accrual status	**$**	**100**	$	123
TDRs in nonaccrual status		**151**		116
Total TDRs	**$**	**251**	$	239

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Three months ended March 31		2017		2016
Balance at beginning of period	**$**	**6,420**	$	5,489
(Reversal of) provision for loan losses		**(3)**		1,064
Loan recoveries		**157**		40
Loan charge-offs		**(17)**		(44)
Balance at end of period	**$**	**6,557**	$	6,549

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective January 1, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate. Previously, the required investment was equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

Investment in AgriBank

(in thousands) As of:	**March 31 2017**	December 31 2016
Required stock investment	**$ 92,407**	$ 95,206
Purchased excess stock investment	**2,799**	--
Total investment	**$ 95,206**	$ 95,206

NOTE 4: MEMBERS' EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of March 31, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**17.6%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.6%**	6.0%	2.5%*	8.5%
Total capital ratio	**17.8%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.6%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**19.7%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.8%**	1.5%	0.0%	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 term 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:

Risk-adjusted Capital Ratios

	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	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	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 March 31, 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 March 31, 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 March 31, 2017**				**Three months ended March 31, 2017**
	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total Gains
Impaired loans	**$ --**	**$ --**	**$ 175**	**$ 175**	**$ 20**
	As of December 31, 2016				Three months ended March 31, 2016
	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total Losses
Impaired loans	$ --	$ --	$ 857	$ 857	$ (350)

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 May 10, 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.