Delta Agricultural Credit Association, 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 Delta Agricultural Credit Association, ACA and its subsidiaries Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, 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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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

Our territory is located in rural southeast Arkansas. Crop, timber, and poultry production are the primary agricultural enterprises that influence our portfolio and local communities. Governmental, economic, environmental, and social forces have a significant impact on our local economic conditions. After several years of volatility, there has been some stabilization of income and expenses for our primary enterprise of field crops. The current farm bill and previous strong crop earnings have provided some buffer to the sharp decline of field crop commodity prices. Stress levels remain in the cropping enterprises of rice, cotton, soybeans, and corn. The crop land rents remain primarily share rent which adjusts to changes in income automatically. Crop rents are still attractive to land owners and have not declined significantly. The beef cattle industry has stabilized from a collapse of live cattle prices in 2016. Poultry production continues to show profitable margins but new grower contracts have declined significantly. Pine timber values remain weak. The overall livestock, poultry, timber, and field crop economies are sustainable and capital erosion has been limited for enterprises that are economically stressed. The farm, poultry, and timberland real estate values are stable. Presently, our Association is experiencing a profitable economic environment.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $59.0 million at September 30, 2017, an increase of $8.5 million from December 31, 2016. The increase was primarily due to seasonal credit needs of our commercial loan borrowers.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2016. Adversely classified loans were 0.8% of the portfolio at September 30, 2017, and were negligible 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, $27.4 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	**$ 436**	$ --
Accruing restructured	**--**	--
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**436**	--
Other property owned	**--**	--
Total risk assets	**$ 436**	$ --
Total risk loans as a percentage of total loans	**0.7%**	0.0%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.0%
Current nonaccrual loans as a percentage of total nonaccrual loans	**0.0%**	0.0%
Total delinquencies as a percentage of total loans	**0.7%**	0.0%

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 nonaccrual loans was due to two loans, guaranteed by the Farm Service Agency that moved to nonaccrual status during the first quarter of 2017.

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	**24.1%**	0.0%
Total risk loans	**24.1%**	0.0%

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	**$ 621**	$ 685
Return on average assets	**1.5%**	1.6%
Return on average members' equity	**8.0%**	9.6%

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	**$ 1,454**	$ 1,439	**$ 15**
Patronage income	**144**	143	**1**
Other income, net	**18**	3	**15**
Operating expenses	**995**	899	**(96)**
Provision for income taxes	**--**	1	**1**
Net income	**$ 621**	$ 685	**$ (64)**

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	2017 vs 2016
Changes in volume	**$ 2**
Changes in interest rates	**13**
Net change	**$ 15**

The change in other income, net was primarily related to the decrease in wholesale lending fees on poultry construction escrow account balances.

The change in operating expenses was primarily related to increase in salaries and benefits expense and purchased services expense.

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 March 31, 2017, and was renewed for $60.0 million with a maturity date of March 31, 2018. 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 December 31, 2016. Effective January 1, 2017, we are subject to a two basis point risk premium. If we meet certain measures by the end of 2017, we are able to earn back all or a portion of the 2017 risk premium amount. Certain factors may impact our cost of funds, which primarily includes market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

Total members' equity increased $763 thousand from December 31, 2016, primarily due to net income for the period and an increase in capital stock and participation certificates.

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.

Purchased Services

During 2016, District associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity allows District associations and AgriBank to develop and maintain long-term, cost effective technology and business services. The service entity would be owned by certain District associations and AgriBank and will be named SunStream Business Services (SunStream). An application to form the service entity was submitted in May 2017 to the FCA for approval. The SunStream interim board named Steve Jensen as President, effective November 13, 2017.

CERTIFICATION

The undersigned have reviewed the September 30, 2017, Quarterly Report of Delta Agricultural Credit Association, 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.

Mike Norris
Chairperson of the Board
Delta Agricultural Credit Association, ACA

Mark W. Kaufman
Chief Executive Officer
Delta Agricultural Credit Association, ACA

Mary Ann Johnson
Chief Financial Officer
Delta Agricultural Credit Association, ACA

November 7, 2017

CONSOLIDATED STATEMENTS OF CONDITION

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

As of:		September 30 2017		December 31 2016
ASSETS				
Loans	**$**	**58,981**	$	50,458
Allowance for loan losses		**105**		105
Net loans		**58,876**		50,353
Investment in AgriBank, FCB		**1,196**		1,196
Accrued interest receivable		**954**		1,184
Other assets		**364**		366
Total assets	**$**	**61,390**	$	53,099
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**50,245**	$	42,561
Accrued interest payable		**287**		256
Patronage distribution payable		**--**		140
Other liabilities		**140**		187
Total liabilities		**50,672**		43,144
Contingencies and commitments (Note 5)				
MEMBERS' EQUITY				
Protected members' equity		**12**		12
Capital stock and participation certificates		**1,902**		1,760
Unallocated surplus		**8,804**		8,183
Total members' equity		**10,718**		9,955
Total liabilities and members' equity	**$**	**61,390**	$	53,099

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

CONSOLIDATED STATEMENTS OF INCOME

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2017**	2016	**2017**	2016
Interest income	**$ 821**	$ 846	**$ 2,221**	$ 2,221
Interest expense	**287**	283	**767**	782
Net interest income	**534**	563	**1,454**	1,439
Provision for loan losses	**--**	--	**--**	--
Net interest income after provision for loan losses	**534**	563	**1,454**	1,439
Other income				
Patronage income	**71**	54	**144**	143
Financially related services income	**--**	--	**4**	3
Fee income	**4**	5	**10**	(3)
Miscellaneous income, net	**--**	--	**4**	3
Total other income	**75**	59	**162**	146
Operating expenses				
Salaries and employee benefits	**225**	193	**665**	572
Other operating expenses	**107**	96	**330**	327
Total operating expenses	**332**	289	**995**	899
Income before income taxes	**277**	333	**621**	686
Provision for income taxes	**--**	--	**--**	1
Net income	**$ 277**	$ 333	**$ 621**	$ 685

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Delta Agricultural Credit Association

(in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$ 12	$ 1,712	$ 7,387	$ 9,111
Net income	--	--	685	685
Capital stock and participation certificates issued	--	325	--	325
Capital stock and participation certificates retired	--	(171)	--	(171)
Balance at September 30, 2016	$ 12	$ 1,866	$ 8,072	$ 9,950
Balance at December 31, 2016	$ 12	$ 1,760	$ 8,183	$ 9,955
Net income	**--**	**--**	**621**	**621**
Capital stock and participation certificates issued	**--**	**386**	**--**	**386**
Capital stock and participation certificates retired	**--**	**(244)**	**--**	**(244)**
Balance at September 30, 2017	**$ 12**	**$ 1,902**	**$ 8,804**	**$ 10,718**

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 Delta Agricultural Credit Association, ACA and its subsidiaries Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, 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	**$ 35,153**	**59.6%**	$ 36,647	72.6%
Production and intermediate term	**23,773**	**40.3%**	13,778	27.3%
Agribusiness	**55**	**0.1%**	--	0.0%
Rural residential real estate	**--**	**0.0%**	33	0.1%
Total	**$ 58,981**	**100.0%**	$ 50,458	100.0%

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 2017**	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$ --**	**$ --**	**$ 35,748**	**$ 35,748**
Production and intermediate term	**436**	**436**	**23,693**	**24,129**
Agribusiness	**--**	**--**	**58**	**58**
Total	**$ 436**	**$ 436**	**$ 59,499**	**$ 59,935**

As of December 31, 2016	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	$ --	$ --	$ 37,596	$ 37,596
Production and intermediate term	--	--	14,013	14,013
Rural residential real estate	--	--	33	33
Total	$ --	$ --	$ 51,642	$ 51,642

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at September 30, 2017, and December 31, 2016.

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	**$ 436**	$ --
Volume without specific allowance	**--**	--
Total risk loans	**$ 436**	$ --
Total specific allowance	**$ 20**	$ --
For the nine months ended September 30	**2017**	2016
Income on accrual risk loans	**$ --**	$ --
Income on nonaccrual loans	**--**	--
Total income on risk loans	**$ --**	$ --
Average risk loans	**$ 346**	$ 129

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)

There were no TDRs that were outstanding at September 30, 2017, or December 31, 2016. In addition, there were no TDRs that occurred during the nine months ended September 30, 2017, or 2016.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Nine months ended September 30	**2017**	2016
Balance at beginning of period	**$ 105**	$ 121
Loan charge-offs	**--**	(22)
Balance at end of period	**$ 105**	$ 99

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective July 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 association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. From January 1 to June 30, 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:	**September 30 2017**	December 31 2016
Required stock investment	**$ 1,140**	$ 1,120
Allocated excess stock investment	**56**	76
Total investment	**$ 1,196**	$ 1,196

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	**18.4%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**22.3%**	7.0%	N/A	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**12.8%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**12.3%**	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):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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 included 4.7% and 6.4% of our investment in AgriBank as permanent capital at September 30, 2017, and December 31, 2016, respectively. These changes did not have a material impact on our permanent capital ratio.

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 Value	
	Level 1	Level 2	Level 3		Total (Losses)
Impaired loans	**$ --**	**$ 437**	**$ --**	**$ 437**	**$ (20)**

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

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 7, 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.