Helping Farm Families Succeed

FARM CREDIT ILLINOIS

2017 ANNUAL REPORT

FARM CREDIT ILLINOIS

2017 HIGHLIGHTS

BUSINESS RESULTS IN REVIEW	2017	2016	% CHANGE
Total Loans	$4.340 billion	$4.245 billion	+2.2%
Total Real Estate Loans	$3.577 billion	$3.477 billion	+2.9%
Total Operating (& Machinery) Loans	$762 million	$768 million	-0.8%
New Real Estate Loans	$597 million	$582 million	+2.6%
Annual Net Earnings	$73.3 million	$69.6 million	+5.3%
Annual Multi-Peril Crop Insurance Premiums	$41.9 million	$40.3 million	+4.0%
Acceptable Credit Quality	97.50%	98.40%	-0.9%
Total Capital	$919 million	$847 million	+8.5%
Total Regulatory Capital	18.34%	17.21%	+6.6%
Results are as of 12/31 and include all loan assets owned and managed by Farm Credit Illinois.			

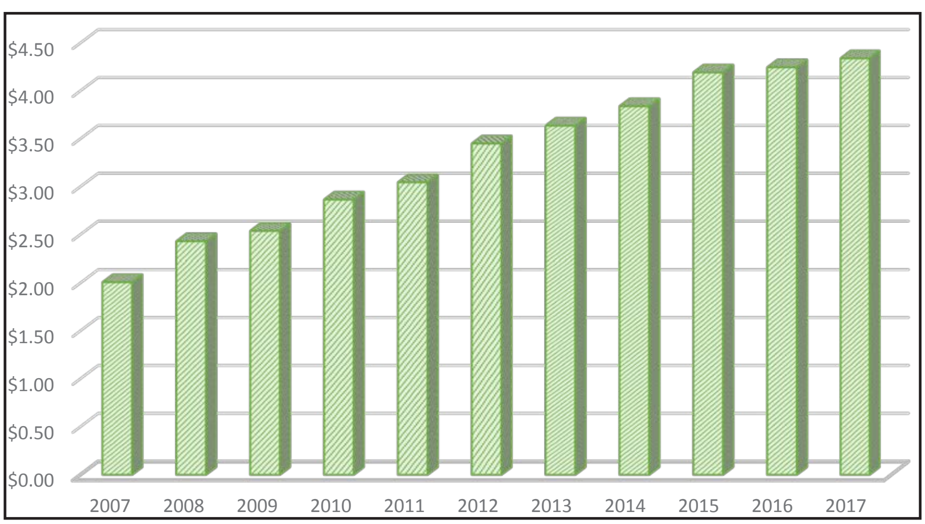
11,000
Farm Family Members

$4.34
Billion Total Loans

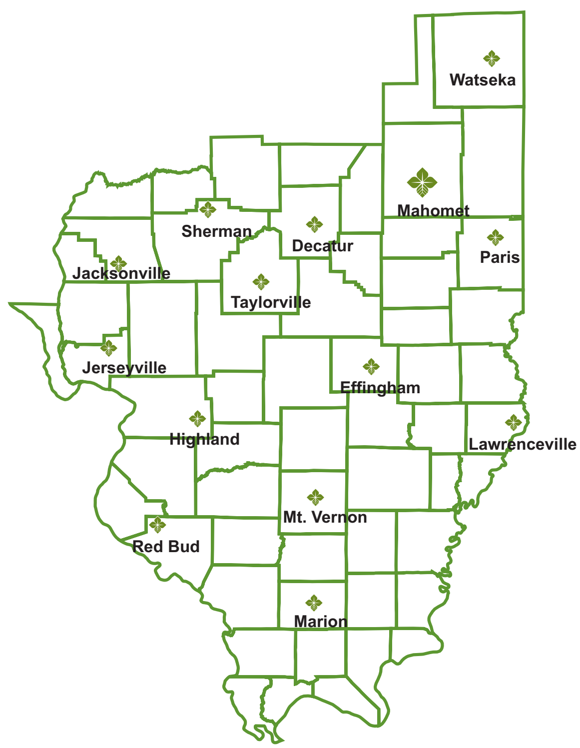
211
Full-time Employees

14
Regional Offices

Loan Portfolio (in billions)



Owned and managed as of 12/31 annually



2018 Board of Directors

Farm Credit Illinois' cooperative structure enables member-owners to elect board members who direct the business affairs of the Association and ensure the cooperative carries out its mission.

L-R: Mike Carls, Mark Miller, Lisa Helmink, Eric Mosbey, Kent Brinkmann, K. Bridget Schneider, David Haase, Larry Hasheider, Wes Durbin, Robin Yockey, Steve Hettinger, Karen Neff, Clayton Bloome (not pictured, Kevin Miller)

REGION 1

Clayton Bloome, Sangamon
Mike Carls, Cass
Wes Durbin, Shelby
Mark Miller (Chair), Logan

REGION 2

David Haase, Iroquois
Steve Hettinger, Champaign
Kevin Miller, Jasper
Eric Mosbey (Vice Chair), Crawford

REGION 3

Karen Neff, St. Clair
Larry Hasheider, Washington
Kent Brinkmann, Clinton
Lisa Helmink, Clinton

Appointed Directors: **K. Bridget Schneider**, Logan; **Robin Yockey**, Shelby
(See region map on next page)

Senior Management

The senior management team sets strategic direction under the guidance of the Board of Directors and provides cooperative leadership while ensuring the Association's financial strength.

Pictured L-R: **Ryan Berg**, Chief Administrative Officer; **Kelly Loschen**, Chief Financial Officer; **Tom Tracy**, President & CEO; **Aaron Johnson**, Chief Operations Officer; **Bob Rhode**, General Counsel; **Steve Carson**, Chief Credit Officer

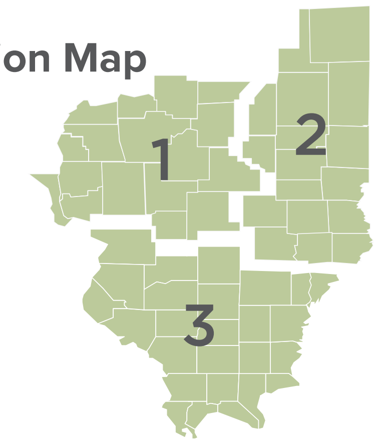
LEADERSHIP

Helping Farm Families Succeed

Nominating Committee and Member Advisory Councils

The 2018 Nominating Committee consists of elected stockholders who serve a one-year term presenting future nominees for the Board of Directors and Nominating Committee. **Member Advisory Council** meetings are held annually to engage a diverse group of member-owners in a discussion with senior management and board members related to FCI's vision and member experience.

Region Map



2018 Nominating Committee and 2017 Member Advisory Councils

REGION 1

Nominating Committee

Brian Burrus, Cass
David Dorn Jr., Christian
William Kuebrich, Jersey
Mike Stacey, Macon

Alternates

Andrew Bertolino, Montgomery
Christopher Dussold, Bond
Blake Furness, Montgomery
Clifford Nolte, Calhoun

Member Advisory Council

Adam Albrecht, Greene
Steve & Liz Bland, Greene
Craig & Haley Boggs, Macon
Nick Kenny, Bond
Derek Martin, Logan
Jessie & Jarod Maske, Fayette
Kenneth & John Mentzer, Shelby
Chad Moore, Macon
Garry Niemeyer, Sangamon
RJ Ruppel, Menard
Wes & Brandi Rynders, Greene
Nathan & Beth Sasse, Logan
Bill Schwartz, Madison
Mark Stiltz, Morgan
Troy Uphoff, Shelby
Pat Wolf, Christian

REGION 2

Nominating Committee

Scott Bidner, Champaign
Bill Gartner, Lawrence
Matthew Moss, Edgar
Thomas Roepke, Effingham

Alternates

Stanley Catlett, Vermilion
Mitchell Heap, Ford
Aaron Puzey, Vermilion
Oliver Smith, Edgar

Member Advisory Council

David Andris, Iroquois
Ronald & Allison Arends, Ford
Roger & Cathy Babbs, Coles
Ryan Butzow, Iroquois
Heath & Julie Clodfelter, Richland
Mark Crawford, Vermilion
Sarah Hastings, Champaign
Ed & Katie Leonard, Macon
Aaron Niebrugge, Effingham
Tony Pitcher, Jasper
Quint Shambaugh, Macon
Brent Weathers, Vermilion
John Yeley, Clark

REGION 3

Nominating Committee

Kevin Bauman, Franklin
John Danner, Jefferson
Scott Knopp, Randolph
Kenneth Weilbacher, St. Clair

Alternates

David Krebel, Monroe
Randall Lambdin, Union
Art Matecki, Washington
Mike Poole, Franklin

Member Advisory Council

Leon & Andrea Adams, Jefferson
Rodney & Chloe Byars, Wayne
Codie Ford, Wabash
Mike Lamczyk, Washington
Kevin Maloney, Gallatin
Bill McClarney, Alexander
Jim Rose, Marion
Todd & Lana Schneider, Bond
Richard Suhre, Madison
Dale Taake, Pulaski
Mary & Jeff Westerhold, Madison
Sean York, Hamilton

FARM CREDIT ILLINOIS

FARMER ENGAGEMENT

Farm Credit College

Encouraging life-long learning, FCI provides educational workshops to equip members with skills, strategies, and information for success.

Upcoming Farm Credit College learning opportunities are listed at: www.farmcreditIL.com/learning

Managing Risk and Optimizing Marketing Strategies

Farmer CEO Summit

Farm Estate and Succession Planning

Young Farmer Retreat

RURAL **MARKET**PLACE **ENGAGE**MENT

Helping Farm Families Succeed

Illinois Cooperative Conference

Volunteer Service Hours

As part of FCI's 10-year vision, employees and directors give back to the communities in which they live and work on behalf of FCI.

2,164
total service hours delivered by employees and directors in 2017

62%
of employees volunteered at least 8 hours

Illinois Marathon Water Station

Women Changing the Face of Agriculture

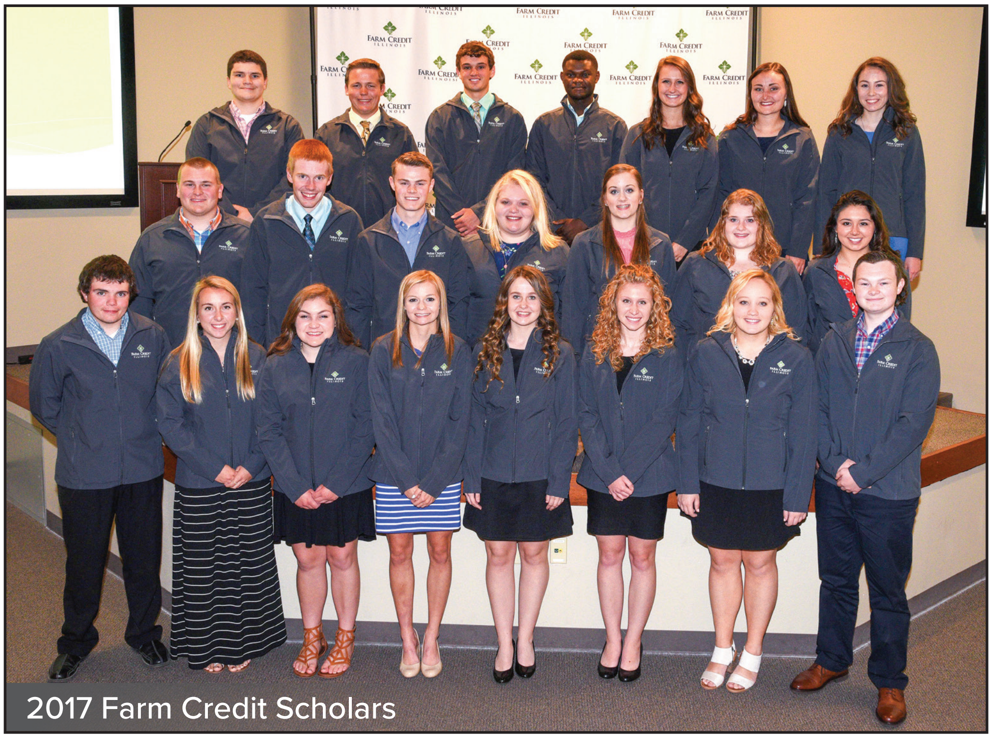
FARM CREDIT ILLINOIS

RURAL MARKETPLACE

Scholarships & Grants

FCI supports rural youth with the annual agriculture scholarship program for high school seniors and through community improvement grants awarded to 4-H clubs and FFA chapters delivering tangible value to their community.

FCI invests a growing portion of net earnings to the rural marketplace with cash, in-kind, and endowment gifts. Farmer development funds support external organizations which deliver development programs for young, beginning, small, women, urban, and veteran farmers.


2017 Farm Credit Scholars

2017 Rural Marketplace Investments

$191,129	$448,972	$25,920	$53,169	$719,190
Youth Development	Farmer Development	Community Charities	Ag-vocacy	TOTAL

Sunnyside Flea Flickers 4-H Club Grant Recipients


Athens FFA Chapter Grant Recipients

INVESTMENTS

Helping Farm Families Succeed

farmdoc Endowment Presentation

$400,000 Gift Expands *farmdoc* Endowment

FCI contributed an additional $400,000 into a *farmdoc* endowment at the University of Illinois Foundation, originally established in December 2010 with a $350,000 gift. The funding will provide more than $30,000 of annual support to the cutting-edge program, which provides tools and resources to better equip farm families to make management decisions.

Urbana's Market at the Square

Fair Oaks Farms Youth FeedBarn Grand Opening

11

Permanent Endowment Funds & Sponsorships

Illinois Agricultural Leadership Foundation
Illinois Farm Bureau Young Leaders
farmdoc University of Illinois
Community Foundation of East Central Illinois
Illinois College of Agricultural, Consumer & Environmental Sciences
SIU Carbondale Southern Illinois University College of Agricultural Sciences
Parkland College
Kaskaskia College
Lake Land College

Celebrating Ag-vocacy: **William Bass, Union County**


William Bass, Union County

Growing up, William Bass of Union County dreamed of living on a farm and cherished each moment spent at his friend's orchard. William fondly recalls this time in his youth, even though he has been running his own farm business now for more than 50 years after marrying into a family that owns a peach and apple orchard.

William's love for agriculture didn't stop with tree fruit. He diversified Bass Farms to produce a variety of specialty and conventional products such as berries, vegetables, meat, and row crops.

Six months of the year, Bass Farms sells produce at its permanent storefront location just outside Carbondale. During the summer months, consumers head to the hills for U-pick berries. When the weather isn't suitable for growing vegetables, consumers can count on Bass Farms' three greenhouses to provide tomatoes, lettuce, hanging flower baskets, and more.

William and his wife raised a family while growing Bass Farms. The children developed a fondness for agriculture, and today their son Toby farms by William's side. "I can't explain it; from day one he wanted to be with me out in the fields," William says. "He was born into it, so he was lucky there, but he has a great eye for the business."

William recognized the spark in his son and realized they were fortunate because both of them were able to pursue their passion for farming. He thought it unfortunate that many children today don't have the chance to experience the farm lifestyle.

Ten years ago William started putting on tours for school groups so students could get a taste of farm life. William also works with the University of Illinois Extension to host adult groups. At least five tour groups each year pick strawberries, pet calves and rabbits, and climb in a tractor while being educated on modern food production.

"I've always been curious and wanted to learn more about things I saw but didn't understand, which is why we've diversified our farm," William says. "Opening our farm for tours lets me answer the questions visitors otherwise have no one else to ask."

William enjoys spending time with preschool classes the most because the youngsters still have a sense of wonder. "I'm always amazed that these 4-year-olds enjoy feeding the chickens the most," William notes. "Those of us surrounded by agriculture often want to avoid the chicken coup, but these kids can't get enough."

William hopes the children go away with memories that will last them a lifetime and offer a positive perspective on modern farming. "I found my passion when I was exposed to something different as a kid. You never know how an experience can shape someone's life," he points outs. "And if we can make a memory for one of these children that they will carry with them, we are making a difference for their future."


Toby and William Bass

Celebrating Young Farmer Resilience: **Ben Briggs, Christian County**

Ben Briggs, Christian County

Tragedy can define you. You can respond to its impacts by closing yourself off or by grabbing your new life by the horns and pushing forward. Ben Briggs of Christian County has faced adversity coupled with misfortune – all while dealing with the current farm economic conditions as a young farmer and sole proprietor of his family's 150-year-old farm.

After earning an agricultural business degree at the University of Illinois at Urbana-Champaign in 2009, Ben began working for Christian County FS as a crop specialist while maintaining a part-time position on the family farm.

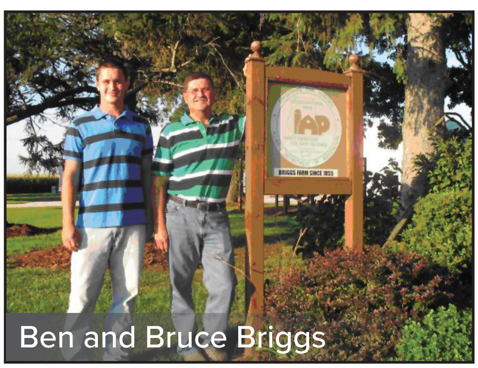
A few years into the ag economy super cycle and only one year post-graduation, Ben received a proposal from his father Bruce to adjust their original plan. Instead of returning to the family farm full-time in four to five years, Ben would come back sooner.

Ben worked one final year at Christian County FS and then returned to the home farm as an equal partner with his father, forming Briggs Family Farms, LLC in 2011.

"Growing up, I wanted to spend as much time with my dad as possible," Ben says. "As I matured, our relationship developed into a friendship and partnership with a lot of mutual respect."

With two siblings off-the-farm, Ben and his father based the partnership's value on equipment only and excluded all farmland and other owned property. Ben and Bruce paid each other equal salaries, took out insurance policies on one another, and put into action a 10-year plan fostering Bruce's retirement and Ben's total buyout.

Two years into their well-thought-out, strategic plan, the unthinkable happened during planting season — Bruce passed away following complications from a routine medical procedure.


Ben and Bruce Briggs

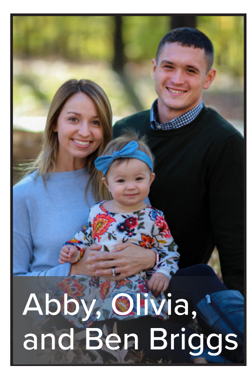
"All of a sudden, I was 26 years old and dissolving the partnership," Ben says. "I bought out my mom's half of the farm and remaining equipment assets, just as we had designed when creating our partnership agreement."

Dealing with his personal loss, managing the overwhelming responsibilities he now held, and getting the crops in the ground, Ben persevered through that first year while endlessly studying records and finances to grasp how to best run the business.

"Harvesting the straightest planted corn rows does not pay the bills," Ben says. "It's knowing the farm's financials and managing the operation like a business. I learned quickly to ask for help too. There's no way to ever know everything, and even if I did, that's not what being successful looks like. Identify people you can trust who can provide the answers you need."

During the past five years, Ben has successfully managed the transition and continued to increase the farm's yields to consistently sit above the county average. Last year he operated for the first time without having to draw on his line of credit to get through the growing season, thanks in large part, to his father's strategic planning.

"If my dad hadn't followed his intuition to get me back on the farm and structured the partnership when and how he did, I doubt I would be farming today and the more than 150-year history of Briggs Farms would have come to an end."


Abby, Olivia, and Ben Briggs

Celebrating International Service: **Norbert Soltwedel, Effingham County**

Norbert Soltwedel, Effingham County

Behind every great volunteer is a supportive and generous family. Norbert Soltwedel of Effingham County is no exception. While he spends time away from his family farm teaching rural populations overseas about agricultural practices ranging from responsible use of credit to post-harvest management, his family keeps the farm and family running smoothly. A second-generation farmer with his brother, Norbert has taken eleven service trips overseas.

Norbert first traveled outside of the U.S. as an Army second lieutenant based in Germany in the 1960s. There, he learned the value of planning ahead, building relationships, and experiencing other cultures. When he returned from active duty, Norbert resumed his job at the Farmers Home Administration (now known as the USDA's Farm Service Agency) and purchased additional farm ground. He worked in the office during the day and lent a hand on the family farm in the evenings.

The United States Agency for International Development (USAID) began looking for volunteers for the Food for Peace Program to travel to Moscow for two weeks to educate rural farmers on best practices associated with borrowing and paying back money. Norbert saw this as an opportunity to visit another country while helping teach a familiar subject thanks to his Farmers Home Administration career and agricultural economics degree. Following this 2000 trip, Norbert returned to Russia once more and then visited various countries in Africa.

"These trips allow me to provide people with the tools needed to have a better livelihood while enabling them to do more for themselves," Norbert says. "If we sit here in America and keep what we know to ourselves while developing countries struggle, we are creating a humanitarian problem. It's only right that all nations share in the responsibility of feeding the world's growing population."

Between volunteer trips, Norbert grew his farmland and joined forces with his brother Delbert to expand their family's farm. He and Delbert complement one another's talents and make a good team. Through the years, both Delbert's and Norbert's sons have joined the family operation. Norbert's training and interest in crunching the numbers help the family business make strategic decisions. While Norbert maintained an off-the-farm job and traveled the world, he credits his brother, wife, son, and nephew for making it all possible.

"People poke fun at me saying work is my fun since I don't spend much time playing," Norbert notes. "I just enjoy being productive and seeing tangible results of my work, which is why I love farming so much. When you are done planting and harvesting, you can look back on the field and see what you've accomplished."

Whether Norbert is working overseas or on his own family farm, he uses his talents to make a positive impact. Sparked by his volunteering, Norbert has visited more than 40 countries and continues volunteering overseas to this day – most recently traveling to Uganda with his wife through the Catholic Relief Services Farmer-to-Farmer program.


Norbert Soltwedel volunteering in Africa

"There's a volunteer opportunity made for everyone – from farmers to off-the-farm professionals," says Norbert. "People are needed to share practical farming practices, create educational materials on credit, explain how to run a grain inventory warehouse, and much more. All you have to do is commit for an experience that will impact those you meet while changing how you see the world."

FRESH PERSPECTIVES

Helping Farm Families Succeed

Celebrating Safety Education: **Tracy Lillard, Champaign County**

Trooper Tracy Lillard

Ask any child what they want to be when they grow up. They'll say they an astronaut, ballerina, or firefighter. But how many actually fulfill that dream as an adult? Illinois State Police Trooper Tracy Lillard did.

From the time a police officer visited her fifth-grade classroom with a K-9 dog, Tracy was hooked. Even Tracy's future husband Tom had a similar aspiration. He also works for the Illinois State Police as a sergeant and K-9 handler. His K-9 Yadi lives with the Lillard family at home.

Growing up on a farm in Champaign County gave Tracy a distinct perspective on rural life to reference every day in her role as the District 10 safety education officer.

One of 16 safety educators in the state, Tracy serves as the district media liaison and manages social media. She writes news releases and fields questions from the media, both over the phone and on camera. She balances this with speaking engagements. In her district there are 186 schools that she visits upon request. She spends roughly 99 percent of her time in the safety education role, while still making occasional traffic stops and helping at roadway accidents.

"I saw my predecessor in the safety education officer role and realized his interactions were more positive than what's typical," Tracy says. "Teaching is a whole different experience than pulling someone over; people see you as more of a person, not a cop."

Tracy's larger-than-life personality and ability to bring a human aspect to an otherwise boring lecture on practicing safe driving habits keep her busy. In one month alone, she made 46 presentations to groups ranging from schools to local businesses.

She uses her police-trained observation skills to read the audience and bring relevant references to them. Instead of showing gory images of car crash scenes to scare people, she describes the crash and lets the listeners imagine the scene themselves, noting that people always imagine the worst and see themselves as the victim. To add a personal touch, Tracy also mentions her family during her presentations.

"I used to be afraid to show pictures of my daughters, but I realized you need people to see you as human to get them to listen to you," she says. "When I warn teens about the dangers of texting and driving, I don't just tell them they're putting themselves at danger. I tell them they're putting my children's lives at risk too. After seeing their cute faces and hearing me talk about them, the lesson hits home."

Tracy makes connections that last, whether in schools or at annual events like the Illinois State Fair, where she spends two weeks each August talking to visitors about roadway safety. Last year, people were asked to write notes and stick them on the squad car. By the end of the fair, the car was covered, and Tracy enjoyed reading the notes – especially those from families she sees year after year.

Tracy is showcasing a new way to approach safety education – with humor and personalization. Her dream career as a child is now reality as she makes presentations that leave her audience with an experience to remember and lessons they won't soon forget.

Farm Safety and Health Presentation at FCI

FARM CREDIT ILLINOIS

REFLECTIONS


Karen Neff Receives 2017 Outstanding Illinois Cooperative Director Award


2017 Farm Credit Illinois College Interns


2017 Farm Progress Show

Jericho Woods at the Farm Progress Show Farm Credit Tent

2018 on the Horizon

Loan Assistance and Learning Incentives Program

New Online Banking "myFCI" Coming August 20

New look for www.farmcreditIL.com Coming Soon

FreshRoots
YOUNG & BEGINNING FARMERS

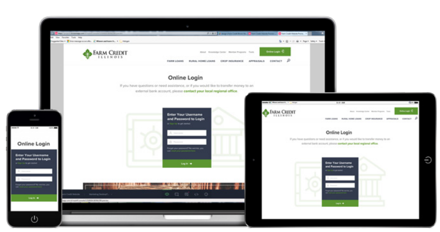


TABLE OF CONTENTS

Farm Credit Illinois, ACA

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Dear Farm Credit Illinois Members,

Grain prices in 2017 didn't rally and the Illinois farm economy is feeling the effect. Farm Credit Illinois' (FCI) response to today's market conditions demonstrates its commitment to the mission of lending support to farm families, rural communities, and agribusinesses through both the prosperous and challenging economic cycles.

2017 brings financial resilience

Our strategic focus remained centered on credit quality, stable earnings, and growth, in that order. Despite the low commodity prices and decreased working capital for many members, credit quality remained very strong at 97.5% non-adverse for all loans owned and managed by the Association. The forecast for 2018 includes continued strong portfolio credit quality, lower earnings, and moderate growth. Lower earnings are forecast because of expenses associated with significant changes in FCI's technology infrastructure.

Following a strong year of annual earnings in 2016, net income results for 2017 were $73.3 million. The 5.3% increase from the prior year was caused by increased patronage income from AgriBank and some increases in loan balances. The increase in net income was offset to some degree by the Harvest Interest Returns program discussed below.

Loan volume owned and managed by the Association grew 2.2% from 2016 despite current conditions. This slower growth resulted in a total regulatory capital ratio of 18.3%, a new metric in 2017 with no equivalent prior year ratio.

Education and experience enrich cooperative relationships

When the farm economy faces challenges, farmers more heavily rely on expertise from advisors. It's crucial these business associates – including lenders and crop insurance agents – have an understanding of which strategies, products, and services can best benefit each unique family farm.

FCI is dedicated to providing training and development opportunities to our team and members to ensure all are exposed to the latest industry information. With expertise in credit, loan, and crop insurance, FCI staff work closely with members whose operations are displaying signs of stress. This strategy helps farm families make proactive, informed decisions – increasing their staying power for generations to come.

Added services and strategic investments enhance cooperative member-value

Your cooperative is continuously striving to meet the needs of its membership. We continue to partner, collaborate, and invest in advances that allow us to serve members better, faster, and with greater value. In 2017, FCI developed plans to enhance member benefits and services. Last summer, rural appraisal services were made available to members and their families to assist with estate planning and settlements and real estate transactions for both buying and selling properties.

The Harvest Interest Returns program provided 0% interest on operating loan balances up to $500 thousand during October and November of 2017 to more than 2,800 farm families – accumulating more than $3 million of interest credit.

FCI invested $10.0 million to become a co-owner of the Farm Credit System's leading technology platform – Farm Credit Financial Partners, Inc. (FPI) – alongside four of the ten largest associations in the nation. Joining FPI gives us access to a robust, secure, and tested platform which is continually evolving to incorporate the latest technology advancements. Members can expect a state-of-the-art, evolving online banking platform this fall.

Along with caring for our business and members, the staff team and directors also committed to serve the local marketplace. In 2017, the FCI team collectively volunteered more than 2,100 hours to benefit youth and local charities and to promote agriculture to the public. Your cooperative invested about 1% of the previous year's net earnings on your behalf toward college agriculture scholarships and donations to organizations and causes including *farmdoc*, community colleges, FFA, and 4-H.

FCI is proud to support the next generation of farmers through a newly-launched *Fresh Roots* young and beginning farmers program. It offers lending assistance and learning incentives for farmers up to age 40 or in their first 10 years of farming full-time.

Changes focused on continuing extraordinary member experience

This year requires steadfast operational focus as we complete the FPI technology conversion and implement new services, but our team's commitment to outstanding member service will not diminish. FCI's core purpose is the driving force behind each decision, motivating us to continue the pursuit of **Helping Farm Families Succeed** today and tomorrow.

We look forward to the challenges and opportunities we will face together in the coming year while balancing consistency and change. Change can be energizing, and we are seeing that take hold as new opportunities and leaders emerge from within the Association, bringing new ideas, products, and services forward.

Thank you for choosing to be a member of Farm Credit Illinois and best wishes for a successful and significant 2018.

Sincerely,

Mark Miller

Mark Miller
Chairperson of the Board
Farm Credit Illinois, ACA

Thomas Tracy

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

March 8, 2018

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Illinois, ACA

(dollars in thousands)

As of December 31	**2017**	2016	2015	2014	2013
Statement of Condition Data					
Loans	**$ 4,073,787**	$ 3,942,719	$ 3,824,454	$ 3,424,902	$ 3,176,217
Allowance for loan losses	**7,111**	6,420	5,489	4,833	3,585
Net loans	**4,066,676**	3,936,299	3,818,965	3,420,069	3,172,632
Investment in AgriBank, FCB	**95,206**	95,206	96,697	93,338	99,937
Other assets	**102,292**	82,522	74,978	71,779	65,865
Total assets	**$ 4,264,174**	$ 4,114,027	$ 3,990,640	$ 3,585,186	$ 3,338,434
Obligations with maturities of one year or less	**$ 30,872**	$ 3,267,063	$ 3,213,038	$ 2,868,714	$ 2,683,171
Obligations with maturities greater than one year	**3,314,191**	--	--	--	--
Total liabilities	**3,345,063**	3,267,063	3,213,038	2,868,714	2,683,171
Protected members' equity	**4**	5	6	11	12
Capital stock and participation certificates	**7,922**	8,035	8,305	8,315	8,251
Unallocated surplus	**912,270**	838,924	769,291	708,146	647,000
Accumulated other comprehensive loss	**(1,085)**	--	--	--	--
Total members' equity	**919,111**	846,964	777,602	716,472	655,263
Total liabilities and members' equity	**$ 4,264,174**	$ 4,114,027	$ 3,990,640	$ 3,585,186	$ 3,338,434

For the year ended December 31	**2017**	2016	2015	2014	2013
Statement of Income Data					
Net interest income	**$ 93,806**	$ 96,090	$ 84,297	$ 78,920	$ 78,541
Provision for (reversal of) loan losses	**983**	2,111	1,522	1,511	(151)
Other expenses, net	**19,477**	24,346	21,630	16,263	14,973
Net income	**$ 73,346**	$ 69,633	$ 61,145	$ 61,146	$ 63,719
Key Financial Ratios					
For the Year					
Return on average assets	**1.8%**	1.8%	1.7%	1.9%	2.0%
Return on average members' equity	**8.3%**	8.6%	8.2%	8.9%	10.2%
Net interest income as a percentage of average earning assets	**2.4%**	2.5%	2.5%	2.6%	2.6%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
At Year End					
Members' equity as a percentage of total assets	**21.6%**	20.6%	19.5%	20.0%	19.6%
Allowance for loan losses as a percentage of loans	**0.2%**	0.2%	0.1%	0.1%	0.1%
Capital ratios effective beginning January 1, 2017:					
Permanent capital ratio	**18.2%**	N/A	N/A	N/A	N/A
Common equity tier 1 ratio	**18.2%**	N/A	N/A	N/A	N/A
Tier 1 capital ratio	**18.2%**	N/A	N/A	N/A	N/A
Total capital ratio	**18.3%**	N/A	N/A	N/A	N/A
Tier 1 leverage ratio	**20.0%**	N/A	N/A	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	17.2%	16.6%	16.8%	15.9%
Total surplus ratio	**N/A**	17.0%	16.4%	16.6%	15.7%
Core surplus ratio	**N/A**	17.0%	16.4%	16.6%	15.7%

No income was distributed to members in the form of cash patronage, dividends, stock, or allocated surplus during the five years presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Illinois, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA (the Association) and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2018, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 69 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

Due to the nature of our financial relationship with 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, contact us at:

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.farmcreditIL.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

FORWARD-LOOKING INFORMATION

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political, legal, regulatory, financial markets, international, and economic conditions and developments in the United States (U.S.) and abroad
- Economic fluctuations in the agricultural and farm-related business sectors
- Unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses and fair value measurements

AGRICULTURAL AND ECONOMIC CONDITIONS

Crop yields in Illinois for 2017 are now estimated to have averaged 192 bushels per acre for corn and 57 bushels per acre for soybeans. Both estimates declined from 2016 yields of 197 bushels per acre for corn and 59 bushels per acre for soybeans. In the December 12, 2017, World Agricultural Supply and Demand Estimates report, the United States Department of Agriculture made no change to the record high national average corn yield from their November 2017/18 projection of 175.4 bushels per acre. Corn production was also unchanged from their November 2017/18 projection at 14.6 billion bushels, down from an estimated record of 15.1 billion bushels in 2016/17. Inventory continues to grow following a fifth consecutive large U.S. corn crop. Ending stocks for the 2017/18 marketing year are expected to be 2.4 billion bushels. The marketing year average mid-point price remained unchanged at $3.20 per bushel, down $0.16 per bushel from last year. The national average soybean yield is now estimated at 49.5 bushels per acre, down from 52.0 bushels per acre last year. Given higher planted and harvested acres for the 2017 growing year, however, estimated production is now 4.4 billion bushels, up from 4.3 billion bushels last year. Continued growth in ending stocks along with stronger than expected competition from Argentina and Brazil during the first quarter of 2018 put the mid-point marketing season average price forecast at $9.30 per bushel, down $0.17 from last year.

Gary Schnitkey, Professor at the University of Illinois, says farm income was down for 2017 from 2016 but will again exceed 2015 income because of above trend line yields. Since 2013, soybeans have been more profitable than corn despite fertilizer declining each year over that time period. For Central Illinois high productivity farmland, operator and land return from 2017 is projected at $246 per acre with a roughly 50/50 split of corn and soybean acres; this compares with $294 per acre in 2016. Prices are expected to be lower in 2018 with large inventories of both corn and soybeans. Given a corn yield of 210 bushels per acre at $3.20 per bushel and soybeans at 62 bushels per acre at $8.88 per bushel, operator and land return would average $179 per acre in 2018.

Despite continued profitability issues, particularly with corn as compared to soybeans, Dwight D. Raab, CEO of Illinois Farm Business Farm Management Association, says most Illinois grain farms are in a good to strong financial position. Median debt to asset ratios have decreased over the last 10 years, due in large part to increasing asset values compared with debt load. He states that liquidity remains generally good and that in the short-term, equity and solvency are such that lower profitability can be weathered.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.1 billion at December 31, 2017, an increase of $131.1 million from December 31, 2016.

Components of Loans

(in thousands) As of December 31	**2017**	2016	2015
Accrual loans:			
Real estate mortgage	**$ 2,275,124**	$ 2,192,966	$ 2,105,235
Production and intermediate term	**862,854**	916,993	933,680
Agribusiness	**742,575**	620,860	609,895
Other	**187,694**	205,052	169,987
Nonaccrual loans	**5,540**	6,848	5,657
Total loans	**$ 4,073,787**	$ 3,942,719	$ 3,824,454

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.

Growth in our real estate mortgage loans was due to growth in our branch units as well as growth in the Capital Markets Group. Additionally, we started purchasing government guaranteed loans in 2017.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs to our borrowers, and fixed interest rate lease programs through Farm Credit Leasing. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

As part of the AgriBank Asset Pool program, we have sold participation interests in real estate loans to AgriBank. The total participation interests in this program were $265.8 million, $301.8 million, and $367.6 million at December 31, 2017, 2016, and 2015, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Illinois. No county comprised more than 5.0% of our total loan portfolio at December 31, 2017.

Agricultural Concentrations

As of December 31	**2017**	2016	2015
Corn and soybeans	**60.2%**	61.7%	62.7%
Production and services	**9.8%**	9.2%	8.3%
Landlords	**8.6%**	8.8%	8.8%
Livestock	**6.1%**	5.0%	5.0%
Ancillary agriculture products	**5.7%**	5.7%	5.5%
Other	**9.6%**	9.6%	9.7%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower’s primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Our production and intermediate term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs. In addition, the loan portfolio increased temporarily in December, followed by significant repayments in January, as borrowers increased their operating lines to purchase production inputs, primarily as part of tax-planning strategies.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2016. Adversely classified loans increased to 2.5% of the portfolio at December 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 December 31, 2017, $59.3 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2017**	2016	2015
Loans:			
Nonaccrual	**$ 5,540**	$ 6,848	$ 5,657
Accruing restructured	**110**	123	6
Accruing loans 90 days or more past due	**--**	43	23
Total risk loans	**5,650**	7,014	5,686
Other property owned	**--**	--	--
Total risk assets	**$ 5,650**	$ 7,014	$ 5,686
Total risk loans as a percentage of total loans	**0.1%**	0.2%	0.1%
Nonaccrual loans as a percentage of total loans	**0.1%**	0.2%	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**45.1%**	60.3%	40.0%
Total delinquencies as a percentage of total loans	**0.2%**	0.4%	0.1%

Note: Accruing loans include accrued interest receivable.

As of December 31, 2017, risk assets and related ratios are within established risk management guidelines.

The decrease in nonaccrual loans and total delinquencies as a percentage of total loans was primarily due to efforts made by our high risk asset group that worked with and settled several of our distressed accounts. Nonaccrual loans remained at an acceptable level at December 31, 2017, 2016, and 2015.

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 the 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 December 31	**2017**	2016	2015
Allowance as a percentage of:			
Loans	**0.2%**	0.2%	0.1%
Nonaccrual loans	**128.4%**	93.8%	97.0%
Total risk loans	**125.9%**	91.5%	96.5%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**12.4%**	8.9%	9.4%

Note: Risk funds includes permanent capital and allowance for loan losses.

The change in the ratios of allowance as a percentage of nonaccrual loans and total risk loans is due to a decrease in our nonaccrual loans. In addition, there has been a migration to higher probabilities of default due to stress in the agricultural economy, therefore necessitating an increase in the general allowance. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2017.

Additional loan information is included in Notes 3, 9, 10, and 11 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2017**	2016	2015
Net income	**$ 73,346**	$ 69,633	$ 61,145
Return on average assets	**1.8%**	1.8%	1.7%
Return on average members' equity	**8.3%**	8.6%	8.2%

Changes in the previous chart relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2017**	2016	2015	**2017 vs 2016**	2016 vs 2015
Net interest income	**$ 93,806**	$ 96,090	$ 84,297	**$ (2,284)**	$ 11,793
Provision for loan losses	**983**	2,111	1,522	**1,128**	(589)
Patronage income	**23,351**	15,676	16,376	**7,675**	(700)
Other income, net	**8,992**	9,800	10,386	**(808)**	(586)
Operating expenses	**51,533**	48,368	46,901	**(3,165)**	(1,467)
Provision for income taxes	**287**	1,454	1,491	**1,167**	37
Net income	**$ 73,346**	$ 69,633	$ 61,145	**$ 3,713**	$ 8,488

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	**2017 vs 2016**	2016 vs 2015
Changes in volume	**$ 2,597**	$ 9,194
Changes in interest rates	**(4,763)**	2,431
Changes in nonaccrual income and other	**(118)**	168
Net change	**$ (2,284)**	$ 11,793

Net interest income included income on nonaccrual loans that totaled $456 thousand, $574 thousand, and $406 thousand in 2017, 2016, and 2015, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest income was reduced in 2017 by $3.0 million as a result of our Harvest Interest Returns program which granted a reduced interest rate for a two-month period on certain loans. This program was not offered in 2016 or 2015.

Net interest margin (net interest income as a percentage of average earning assets) was 2.4% in 2017, and 2.5% in 2016 and 2015. We expect margins may compress further in the future if interest rates continue to rise and competition increases.

Provision for Loan Losses

The fluctuation in the provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Patronage Income

We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors. Patronage and equalization distributions for the programs discussed below are declared solely at the discretion of the applicable Board of Directors.

Patronage Income

(in thousands)

For the year ended December 31	**2017**	2016	2015
Wholesale patronage	**$ 16,223**	$ 7,990	$ 7,277
Equalization income	**48**	--	--
Asset pool patronage	**6,273**	6,880	8,371
AgDirect partnership distribution	**792**	784	655
Other Farm Credit Institutions	**15**	22	73
Total patronage income	**$ 23,351**	$ 15,676	$ 16,376

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates were 45 basis points, 25.6 basis points, and 26.0 basis points in 2017, 2016, and 2015, respectively. The increase in the patronage rate in 2017 was primarily due to a change in AgriBank's capital plan effective July 1, 2017. The capital plan was modified to pay out 100% of net earnings beginning in 2017. Previously 50% of net earnings was paid. See the Relationship with AgriBank section for further discussion on patronage income.

Equalization is determined based on the quarterly average balance of stock in excess of our AgriBank required investment. Prior to 2017, we earned equalization on any stock investment in AgriBank required to be held when our growth exceeded a targeted growth rate. The equalization rate is targeted at the average cost of funds for all District associations as a group.

Since 2008, we have participated in the AgriBank Asset Pool program in which we sell participation interests in certain real estate loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume.

We also received a partnership distribution resulting from our participation in the AgDirect trade credit financing program. The AgDirect trade credit financing program is facilitated by another AgriBank District association through a limited liability partnership (AgDirect, LLP), in which we are a partial owner. AgriBank purchases a 100% participation interest in the program loans from AgDirect, LLP. Patronage distributions are paid to AgDirect, LLP, which in turn pays partnership distributions to the participating associations. We received a partnership distribution in an amount that approximated our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees.

Other Income, Net

The change in other income, net was primarily due to a decrease in fee income.

Operating Expenses

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	**2017**	2016	2015
Salaries and employee benefits	**$ 29,846**	$ 28,428	$ 27,632
Purchased and vendor services	**3,771**	2,710	2,846
Communications	**932**	864	823
Occupancy and equipment	**3,190**	2,972	3,223
Advertising and promotion	**2,207**	1,814	2,029
Examination	**1,127**	984	824
Farm Credit System insurance	**4,831**	5,535	3,823
Other	**5,629**	5,061	5,701
Total operating expenses	**$ 51,533**	$ 48,368	$ 46,901
Operating rate	**1.3%**	1.3%	1.4%

Provision for Income Taxes

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. Additional discussion is included in Note 7 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 5 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2017, we had $1.2 billion available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands)

For the year ended December 31	**2017**	2016	2015
Average balance	**$ 3,118,326**	$ 3,121,037	$ 2,798,766
Average interest rate	**2.0%**	1.5%	1.4%

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, which accounts for approximately 19% of gross loans at December 31, 2017.

CAPITAL ADEQUACY

Total members' equity was $919.1 million, $847.0 million, and $777.6 million at December 31, 2017, 2016, and 2015, respectively. Total members' equity increased $72.1 million from December 31, 2016, primarily due to net income for the year. Accumulated other comprehensive loss is the impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Additional Pension Restoration Plan information is included in Note 8 to the accompanying Consolidated Financial Statements.

The 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.

Regulatory Capital Requirements and Ratios

As of December 31	**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	**20.0%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.1%**	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.

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Additional discussion of these regulatory ratios is included in Note 6 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2017, our optimum total capital target was 15.5%, as defined in our 2018 capital plan.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan section for further discussion of the changes in assets. Additional members' equity information is included in Note 6 to the accompanying Consolidated Financial Statements. Refer to Note 6 in our Annual Report for the year ended December 31, 2016, for a more complete description of the ratios effective as of December 31, 2016 and 2015. We were in compliance with the minimum required capital ratios as of December 31, 2016, and 2015.

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.

We did not have a patronage program in 2017. However, in December of 2017 the Board of Directors adopted a resolution that would allow us to make patronage distributions in the future. Patronage distributions may be declared and paid in amounts authorized by the Board of Directors, provided we meet all statutory and regulatory requirements. Any patronage distributions must be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors and will be paid within eight-and-a-half months after year end. FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 5 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

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

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset Liability Committee.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. 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 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%.

As of December 31, 2017, we were also required to hold AgriBank stock equal to 8.0% of the quarter end balance in the AgriBank Asset Pool program.

At December 31, 2017, our investment in AgriBank was $95.2 million, of which, $43.8 million consisted of stock representing distributed AgriBank surplus and $51.4 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

As an AgDirect, LLP partnering association, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank. Specifically, the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program's outstanding participation loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter.

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.

We receive different types of discretionary patronage from AgriBank. Beginning in 2017, patronage income earned may be paid in cash and AgriBank stock. Patronage income for 2017, 2016, and 2015 was paid in the form of cash. AgriBank's Board of Directors sets the level of:

- Wholesale patronage which includes:
    - Patronage on our note payable with AgriBank
    - Equalization patronage based on our excess stock in AgriBank
- Patronage based on the balance and net earnings of loans in the AgriBank Asset Pool program
- Partnership distribution based on our share of the net earnings of the loans in the AgDirect trade credit financing program, adjusted for required return on capital and servicing and origination fees

Purchased Services

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services.

The total cost of services we purchased from AgriBank was $931 thousand, $872 thousand, and $793 thousand in 2017, 2016, and 2015, respectively.

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). Farm Credit Illinois, ACA, would not be an owner of this entity and would be considered a customer. An application to form the service entity was submitted in May 2017 to the FCA for approval.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

ProPartners Financial: We participate in ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing through agribusinesses that sell crop inputs. ProPartners is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the ProPartners volume. Each association's allocation is established based on mutual agreement of the owners. We had $101.6 million, $103.4 million, and $107.0 million of ProPartners volume at December 31, 2017, 2016, and 2015, respectively. We also had $132.3 million of available commitment on ProPartners loans at December 31, 2017.

Capital Markets Group: We participate in the Capital Markets Group (CMG) with two other AgriBank District associations. The CMG focuses on generating revenue and loan volume for the financial benefit of all three participating associations. Management for each association has direct decision-making authority over the loans purchased and serviced for their respective association. The business arrangement provides additional means for diversifying each participant's portfolio, helps reduce concentration risk, and positions the participants for continued growth. We had $966.2 million, $902.6 million, and $819.3 million of CMG volume at December 31, 2017, 2016, and 2015, respectively.

Insight Technology Unit: We participate in the Insight Technology Unit (Insight) with certain other AgriBank District associations to facilitate the development and maintenance of certain retail technology systems essential to providing credit to our borrowers. Insight is governed by representatives of each participating association. The expenses are shared pro rata based on the number of loans and leases of each participant. We had $665 thousand, $835 thousand, and $651 thousand in expenses related to Insight at December 31, 2017, 2016, and 2015, respectively.

During 2017, we were the facilitating association for Insight. As the facilitating association, we were compensated $27 thousand to provide various support functions. This included support for technology, human resources, accounting, payroll, reporting, and other finance functions. On January 1, 2018, Farm Credit Services of North Dakota, ACA will become the facilitating association as we will be leaving this collaboration effective August 2018.

Farm Credit Financial Partners, Inc.: In December 2017, we purchased two million shares at $5 per share of Financial Partners, Inc. (FPI) stock in exchange for a one fifth ownership. FPI, a System service corporation, provides core technology solutions including network infrastructure, loan accounting, and general ledger and document management. FCI will be transitioning from AgriBank, its current provider of these services, to the FPI platform of solutions in 2018. The decision was based upon FCI's ability to acquire ownership in FPI and establish a governance voice, the overall alignment of the FPI associations in size and philosophy, the projected stability of the FPI solution, and FPI's security focus and stance. We will incur implementation costs through the transition date of August 17, 2018. Implementation costs through December 31, 2017, totaled $791 thousand, of which none were capitalized and $791 thousand were expensed.

Farm Credit Leasing: We have an agreement with Farm Credit Leasing (FCL), a System entity specializing in leasing products and providing industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $79 thousand at December 31, 2017, 2016, and 2015.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2017, 2016, and 2015, our investment in Foundations was $29 thousand. The total cost of services we purchased from Foundations was $255 thousand, $197 thousand, and $166 thousand in 2017, 2016, and 2015, respectively.

Unincorporated Business Entities (UBEs)

In certain circumstances we may establish separate entities to acquire and manage complex collateral, primarily for legal liability purposes.

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $6.9 million, $6.3 million, and $5.7 million at December 31, 2017, 2016, and 2015, respectively.

Programs

We are involved in a number of programs designed to improve our credit delivery, related services, and marketplace presence.

Harvest RE: We have a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement.

Agriculture and Rural Community (ARC) Bond Program: We participated in the ARC Bond program authorized during 2006 by the FCA in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. The FCA Board voted to conclude the program effective December 31, 2014. The Board's action permits each System institution to hold its ARC Bond program investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The ARC Bond program is part of our mission related investments. These investments will help to increase rural communities' and businesses' well-being and prosperity by providing an adequate flow of capital into rural areas. We had $20.0 million, $35.2 million, and $36.0 million of volume under this program at December 31, 2017, 2016, and 2015, respectively.

REPORT OF MANAGEMENT

Farm Credit Illinois, ACA

We prepare the Consolidated Financial Statements of Farm Credit Illinois, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audits the Consolidated Financial Statements. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared 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

Mark Miller
Chairperson of the Board
Farm Credit Illinois, ACA

Thomas Tracy

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

Kelly D. Loschen

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

March 8, 2018

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Illinois, ACA

The Farm Credit Illinois, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

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

Based on the assessment performed, the Association concluded that as of December 31, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2017.

Thomas Tracy

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

Kelly D. Loschen

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

March 8, 2018

REPORT OF AUDIT COMMITTEE

Farm Credit Illinois, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of Farm Credit Illinois, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2017, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

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

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2017.

Wesley A. Durbin

Wesley A. Durbin
Chairperson of the Audit Committee
Farm Credit Illinois, ACA

Clayton Bloome
David Haase
Kevin Miller
K. Bridget Schneider
Robin Yockey

March 8, 2018

Report of Independent Auditors

To the Board of Directors of Farm Credit Illinois, ACA,

We have audited the accompanying Consolidated Financial Statements of Farm Credit Illinois, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2017, 2016, and 2015, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 8, 2018

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Illinois, ACA

(in thousands)

As of December 31	**2017**	2016	2015
ASSETS			
Loans	**$ 4,073,787**	$ 3,942,719	$ 3,824,454
Allowance for loan losses	**7,111**	6,420	5,489
Net loans	**4,066,676**	3,936,299	3,818,965
Investment in AgriBank, FCB	**95,206**	95,206	96,697
Accrued interest receivable	**49,442**	45,409	40,898
Deferred tax assets, net	**--**	354	508
Other assets	**52,850**	36,759	33,572
Total assets	**$ 4,264,174**	$ 4,114,027	$ 3,990,640
LIABILITIES			
Note payable to AgriBank, FCB	**$ 3,314,191**	$ 3,240,487	$ 3,190,061
Accrued interest payable	**16,341**	12,076	10,421
Deferred tax liabilities, net	**145**	--	--
Other liabilities	**14,386**	14,500	12,556
Total liabilities	**3,345,063**	3,267,063	3,213,038
Contingencies and commitments (Note 10)			
MEMBERS' EQUITY			
Protected members' equity	**4**	5	6
Capital stock and participation certificates	**7,922**	8,035	8,305
Unallocated surplus	**912,270**	838,924	769,291
Accumulated other comprehensive loss	**(1,085)**	--	--
Total members' equity	**919,111**	846,964	777,602
Total liabilities and members' equity	**$ 4,264,174**	$ 4,114,027	$ 3,990,640

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Illinois, ACA

(in thousands)

For the year ended December 31	**2017**	2016	2015
Interest income	**$ 154,629**	$ 143,207	$ 123,058
Interest expense	**60,823**	47,117	38,761
Net interest income	**93,806**	96,090	84,297
Provision for loan losses	**983**	2,111	1,522
Net interest income after provision for loan losses	**92,823**	93,979	82,775
Other income			
Patronage income	**23,351**	15,676	16,376
Financially related services income	**6,880**	6,858	6,793
Fee income	**1,833**	2,860	3,519
Miscellaneous income, net	**279**	82	74
Total other income	**32,343**	25,476	26,762
Operating expenses			
Salaries and employee benefits	**29,846**	28,428	27,632
Other operating expenses	**21,687**	19,940	19,269
Total operating expenses	**51,533**	48,368	46,901
Income before income taxes	**73,633**	71,087	62,636
Provision for income taxes	**287**	1,454	1,491
Net income	**$ 73,346**	$ 69,633	$ 61,145

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)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2014	$ 11	$ 8,315	$ 708,146	$ --	$ 716,472
Net income	--	--	61,145	--	61,145
Capital stock and participation certificates issued	--	525	--	--	525
Capital stock and participation certificates retired	(5)	(535)	--	--	(540)
Balance as of December 31, 2015	6	8,305	769,291	--	777,602
Net income	--	--	69,633	--	69,633
Capital stock and participation certificates issued	--	488	--	--	488
Capital stock and participation certificates retired	(1)	(758)	--	--	(759)
Balance as of December 31, 2016	5	8,035	838,924	--	846,964
Net income	**--**	**--**	**73,346**	**--**	**73,346**
Other comprehensive loss and other	**--**	**--**	**--**	**(1,085)**	**(1,085)**
Capital stock and participation certificates issued	**--**	**511**	**--**	**--**	**511**
Capital stock and participation certificates retired	**(1)**	**(624)**	**--**	**--**	**(625)**
Balance as of December 31, 2017	**$ 4**	**$ 7,922**	**$ 912,270**	**$ (1,085)**	**$ 919,111**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Illinois, ACA

(in thousands)

For the year ended December 31	**2017**	2016	2015
Cash flows from operating activities			
Net income	**$ 73,346**	$ 69,633	$ 61,145
Depreciation on premises and equipment	**999**	1,023	1,006
Gain on sale of premises and equipment, net	**(90)**	--	(30)
Amortization of premiums on loans	**277**	--	--
Provision for loan losses	**983**	2,111	1,522
Stock patronage received from Farm Credit Institutions	**(1)**	--	(16)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(5,470)**	(5,799)	(5,497)
(Increase) decrease in other assets	**(5,562)**	(3,137)	1,289
Increase in accrued interest payable	**4,265**	1,655	1,496
(Decrease) increase in other liabilities	**(1,054)**	1,944	408
Net cash provided by operating activities	**67,693**	67,430	61,323
Cash flows from investing activities			
Increase in loans, net	**(130,140)**	(118,224)	(399,082)
Redemptions (purchases) of investment in AgriBank, FCB, net	**--**	1,491	(3,359)
(Purchases) redemptions of investment in other Farm Credit Institutions, net	**(10,646)**	(541)	132
Purchases of premises and equipment, net	**(437)**	(378)	(1,265)
Net cash used in investing activities	**(141,223)**	(117,652)	(403,574)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**73,704**	50,426	342,420
Capital stock and participation certificates retired, net	**(174)**	(204)	(169)
Net cash provided by financing activities	**73,530**	50,222	342,251
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$ 366**	$ 356	$ 426
Stock applied against loan principal	**304**	412	267
Stock applied against interest	**2**	11	5
Interest transferred to loans	**1,435**	1,277	1,176
Decrease in members' equity from employee benefits	**(1,085)**	--	--
Supplemental information			
Interest paid	**$ 56,558**	$ 45,462	$ 37,265
Taxes paid, net	**680**	777	2,170

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Illinois, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2018, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 69 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2018, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. In addition, loans that are purchased from other entities are classified as FLCA loans. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

Farm Credit Illinois, ACA (the Association) and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Alexander, Bond, Calhoun, Cass, Champaign, Christian, Clark, Clay, Clinton, Coles, Crawford, Cumberland, DeWitt, Douglas, Edgar, Edwards, Effingham, Fayette, Ford, Franklin, Gallatin, Greene, Hamilton, Hardin, Iroquois, Jackson, Jasper, Jefferson, Jersey, Johnson, Lawrence, Logan, Macon, Macoupin, Madison, Marion, Massac, Menard, Monroe, Montgomery, Morgan, Moultrie, Perry, Platt, Pope, Pulaski, Randolph, Richland, Saline, Sangamon, Scott, Shelby, St. Clair, Union, Vermillion, Wabash, Washington, Wayne, White, and Williamson in the state of Illinois.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of Consolidation

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

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans**.** Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

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 formally restructured loan for regulatory purposes. 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 troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in our loan 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.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for loan losses" in the Consolidated Statements of Income, recoveries, and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Miscellaneous income, net" in the Consolidated Statements of Income. Depreciation and maintenance and repair expenses are included in "Other operating expenses" in the Consolidated Statements of Income and improvements are capitalized. All purchases of premises and equipment greater than $5 thousand are capitalized.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans are included in "Salaries and employee benefits" in the Consolidated Statements of Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Beginning in 2017, the pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Statements of Condition.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees' active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee's contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the Internal Revenue Service (IRS), are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management's best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in "Other liabilities" in the Consolidated Statements of Condition and a corresponding loss is recorded in "Provision for credit losses" in the Consolidated Statements of Income. However, no such reserve was necessary as of December 31, 2017, 2016, or 2015.

Cash: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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 performance of the combined 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 May 2014, the FASB issued Accounting Standards Update (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 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 guidance. The guidance sets forth the requirement for new and enhanced disclosures.	We have adopted the new standard effective January 1, 2018, using the modified retrospective approach, as the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity, or cash flows.

Standard	Description	Effective date and financial statement impact
In March 2017, the FASB issued 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. However, we have no plans to early adopt. 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 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 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. However, we have no plans to early adopt. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued 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. However, we have no plans to early adopt. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	2017		2016		2015	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 2,278,901**	**55.9%**	$ 2,195,592	55.7%	$ 2,107,310	55.1%
Production and intermediate term	**864,617**	**21.2%**	921,215	23.4%	937,262	24.6%
Agribusiness	**742,575**	**18.2%**	620,860	15.7%	609,895	15.9%
Other	**187,694**	**4.7%**	205,052	5.2%	169,987	4.4%
Total	**$ 4,073,787**	**100.0%**	$ 3,942,719	100.0%	$ 3,824,454	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.

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the FCA Regulations or General Financing Agreement (GFA) limitations.

Participations Purchased and Sold

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2017	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (264,528)**	**$ 83,233**	**$ (1,266)**	**$ 50,836**	**$ --**	**$ 134,069**	**$ (265,794)**
Production and intermediate term	**--**	**--**	**154,848**	**--**	**--**	**--**	**154,848**	**--**
Agribusiness	**--**	**(1,253)**	**671,528**	**(6,330)**	**5,911**	**--**	**677,439**	**(7,583)**
Other	**--**	**(43)**	**167,702**	**--**	**--**	**--**	**167,702**	**(43)**
Total	**$ --**	**$ (265,824)**	**$ 1,077,311**	**$ (7,596)**	**$ 56,747**	**$ --**	**$ 1,134,058**	**$ (273,420)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2016	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (301,778)	$ 81,807	$ (6,756)	$ 21,787	$ --	$ 103,594	$ (308,534)
Production and intermediate term	--	(4,295)	166,207	--	1,887	--	168,094	(4,295)
Agribusiness	--	--	597,222	(1,429)	--	--	597,222	(1,429)
Other	--	(54)	169,906	--	--	--	169,906	(54)
Total	$ --	$ (306,127)	$ 1,015,142	$ (8,185)	$ 23,674	$ --	$ 1,038,816	$ (314,312)

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2015	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (367,637)	$ 87,487	$ (9,270)	$ 21,493	$ --	$ 108,980	$ (376,907)
Production and intermediate term	--	(6,271)	125,708	--	2,400	--	128,108	(6,271)
Agribusiness	--	--	586,739	(1,586)	--	--	586,739	(1,586)
Other	--	--	133,993	--	--	--	133,993	--
Total	$ --	$ (373,908)	$ 933,927	$ (10,856)	$ 23,893	$ --	$ 957,820	$ (384,764)

Information in the preceding chart excludes loans entered into under our mission related investment authority.

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2017, 2016, or 2015.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2017	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 2,222,633**	**96.2%**	**$ 28,687**	**1.2%**	**$ 59,187**	**2.6%**	**$ 2,310,507**	**100.0%**
Production and intermediate term	**817,990**	**93.1%**	**28,988**	**3.3%**	**31,890**	**3.6%**	**878,868**	**100.0%**
Agribusiness	**733,217**	**98.4%**	**1,687**	**0.2%**	**10,676**	**1.4%**	**745,580**	**100.0%**
Other	**188,274**	**100.0%**	**--**	**0.0%**	**--**	**0.0%**	**188,274**	**100.0%**
Total	**$ 3,962,114**	**96.1%**	**$ 59,362**	**1.4%**	**$ 101,753**	**2.5%**	**$ 4,123,229**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2016	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 2,160,433	97.2%	$ 33,249	1.5%	$ 29,450	1.3%	$ 2,223,132	100.0%
Production and intermediate term	877,581	93.7%	28,966	3.1%	29,944	3.2%	936,491	100.0%
Agribusiness	614,032	98.5%	1,813	0.3%	7,191	1.2%	623,036	100.0%
Other	205,469	100.0%	--	0.0%	--	0.0%	205,469	100.0%
Total	$ 3,857,515	96.7%	$ 64,028	1.6%	$ 66,585	1.7%	$ 3,988,128	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2015	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 2,092,536	98.2%	$ 14,756	0.7%	$ 24,464	1.1%	$ 2,131,756	100.0%
Production and intermediate term	898,180	94.3%	18,679	2.0%	34,751	3.7%	951,610	100.0%
Agribusiness	597,784	97.7%	9,540	1.6%	4,452	0.7%	611,776	100.0%
Other	166,433	97.8%	3,777	2.2%	--	0.0%	170,210	100.0%
Total	$ 3,754,933	97.2%	$ 46,752	1.2%	$ 63,667	1.6%	$ 3,865,352	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 1,953**	**$ 1,677**	**$ 3,630**	**$ 2,306,877**	**$ 2,310,507**	**$ --**
Production and intermediate term	**1,842**	**1,284**	**3,126**	**875,742**	**878,868**	**--**
Agribusiness	**293**	**--**	**293**	**745,287**	**745,580**	**--**
Other	**--**	**--**	**--**	**188,274**	**188,274**	**--**
Total	**$ 4,088**	**$ 2,961**	**$ 7,049**	**$ 4,116,180**	**$ 4,123,229**	**$ --**

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

As of December 31, 2015	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	$ 2,041	$ 715	$ 2,756	$ 2,129,000	$ 2,131,756	$ --
Production and intermediate term	465	2,491	2,956	948,654	951,610	23
Agribusiness	--	--	--	611,776	611,776	--
Other	--	--	--	170,210	170,210	--
Total	$ 2,506	$ 3,206	$ 5,712	$ 3,859,640	$ 3,865,352	$ 23

Note: Accruing loans include accrued interest receivable.

All loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

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. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands) As of December 31	**2017**	2016	2015
Nonaccrual loans:			
Current as to principal and interest	**$ 2,500**	$ 4,131	$ 2,261
Past due	**3,040**	2,717	3,396
Total nonaccrual loans	**5,540**	6,848	5,657
Accruing restructured loans	**110**	123	6
Accruing loans 90 days or more past due	**--**	43	23
Total risk loans	**$ 5,650**	$ 7,014	$ 5,686
Volume with specific allowance	**$ 679**	$ 1,707	$ 604
Volume without specific allowance	**4,971**	5,307	5,082
Total risk loans	**$ 5,650**	$ 7,014	$ 5,686
Total specific allowance	**$ 529**	$ 891	$ 487

For the year ended December 31	**2017**	2016	2015
Income on accrual risk loans	**$ 29**	$ 40	$ 31
Income on nonaccrual loans	**456**	574	406
Total income on risk loans	**$ 485**	$ 614	$ 437
Average recorded risk loans	**$ 6,327**	$ 8,344	$ 8,684

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31	**2017**	2016	2015
Real estate mortgage	**$ 3,777**	$ 2,626	$ 2,076
Production and intermediate term	**1,763**	4,222	3,581
Total	**$ 5,540**	$ 6,848	$ 5,657

Additional Impaired Loan Information by Loan Type

In the following chart, the recorded investment in the loan is the unpaid principal amount 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 of the investment.

Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2017.

	As of December 31, 2017			For the year ended December 31, 2017	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate term	**679**	**705**	**529**	**1,156**	--
Agribusiness	--	--	--	--	--
Total	**$ 679**	**$ 705**	**$ 529**	**$ 1,156**	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 3,777**	**$ 3,704**	$ --	**$ 3,136**	**$ 166**
Production and intermediate term	**1,194**	**3,050**	--	**2,035**	**319**
Agribusiness	--	--	--	--	--
Total	**$ 4,971**	**$ 6,754**	$ --	**$ 5,171**	**$ 485**
Total impaired loans:					
Real estate mortgage	**$ 3,777**	**$ 3,704**	$ --	**$ 3,136**	**$ 166**
Production and intermediate term	**1,873**	**3,755**	**529**	**3,191**	**319**
Agribusiness	--	--	--	--	--
Total	**$ 5,650**	**$ 7,459**	**$ 529**	**$ 6,327**	**$ 485**

	As of December 31, 2016			For the year ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate term	1,707	1,732	891	1,938	--
Agribusiness	--	--	--	--	--
Total	$ 1,707	$ 1,732	$ 891	$ 1,938	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 2,626	$ 2,573	$ --	$ 3,363	$ 352
Production and intermediate term	2,681	4,727	--	3,043	262
Agribusiness	--	--	--	--	--
Total	$ 5,307	$ 7,300	$ --	$ 6,406	$ 614
Total impaired loans:					
Real estate mortgage	$ 2,626	$ 2,573	$ --	$ 3,363	$ 352
Production and intermediate term	4,388	6,459	891	4,981	262
Agribusiness	--	--	--	--	--
Total	$ 7,014	$ 9,032	$ 891	$ 8,344	$ 614

	As of December 31, 2015			For the year ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate term	604	618	487	999	--
Agribusiness	--	--	--	--	--
Total	$ 604	$ 618	$ 487	$ 999	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 2,076	$ 2,071	$ --	$ 2,710	$ 152
Production and intermediate term	3,006	4,176	--	4,968	204
Agribusiness	--	26	--	7	81
Total	$ 5,082	$ 6,273	$ --	$ 7,685	$ 437
Total impaired loans:					
Real estate mortgage	$ 2,076	$ 2,071	$ --	$ 2,710	$ 152
Production and intermediate term	3,610	4,794	487	5,967	204
Agribusiness	--	26	--	7	81
Total	$ 5,686	$ 6,891	$ 487	$ 8,684	$ 437

Troubled Debt Restructurings (TDRs)

Included within our loans are TDRs. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

We completed TDRs of certain production and intermediate term loans during the years ended December 31, 2017, 2016, and 2015. Our recorded investment in these loans just prior to restructuring was $217 thousand, $132 thousand, and $197 thousand during the years ended December 31, 2017, 2016, and 2015, respectively. Our recorded investment in these loans immediately following the restructuring was $216 thousand, $132 thousand, and $198 thousand during the years ended December 31, 2017, 2016, and 2015, 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 types of modification included extension of maturity and deferral of principal.

We had TDRs in the production and intermediate term loan category of $49 thousand and $16 thousand that defaulted during the years ended December 31, 2017, and 2015 in which the modifications were within twelve months of the respective reporting period. We had no TDRs that defaulted during the year ended December 31, 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 December 31	**2017**	2016	2015
TDRs in accrual status	**$ 110**	$ 123	$ 6
TDRs in nonaccrual status	**254**	116	228
Total TDRs	**$ 364**	$ 239	$ 234

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

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	**2017**	2016	2015
Balance at beginning of year	**$ 6,420**	$ 5,489	$ 4,833
Provision for loan losses	**983**	2,111	1,522
Loan recoveries	**464**	250	56
Loan charge-offs	**(756)**	(1,430)	(922)
Balance at end of year	**$ 7,111**	$ 6,420	$ 5,489

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	**$ 768**	**$ 3,476**	**$ 1,701**	**$ 475**	**$ 6,420**
Provision for (reversal of) loan losses	**400**	**360**	**289**	**(66)**	**983**
Loan recoveries	**7**	**457**	**--**	**--**	**464**
Loan charge-offs	**--**	**(756)**	**--**	**--**	**(756)**
Balance as of December 31, 2017	**$ 1,175**	**$ 3,537**	**$ 1,990**	**$ 409**	**$ 7,111**
Ending balance: individually evaluated for impairment	**$ --**	**$ 529**	**$ --**	**$ --**	**$ 529**
Ending balance: collectively evaluated for impairment	**$ 1,175**	**$ 3,008**	**$ 1,990**	**$ 409**	**$ 6,582**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	**$ 2,310,507**	**$ 878,868**	**$ 745,580**	**$ 188,274**	**$ 4,123,229**
Ending balance: individually evaluated for impairment	**$ 3,777**	**$ 1,873**	**$ --**	**$ --**	**$ 5,650**
Ending balance: collectively evaluated for impairment	**$ 2,306,730**	**$ 876,995**	**$ 745,580**	**$ 188,274**	**$ 4,117,579**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2015	$ 585	$ 3,193	$ 1,215	$ 496	$ 5,489
Provision for (reversal of) loan losses	184	1,462	486	(21)	2,111
Loan recoveries	--	250	--	--	250
Loan charge-offs	(1)	(1,429)	--	--	(1,430)
Balance as of December 31, 2016	$ 768	$ 3,476	$ 1,701	$ 475	$ 6,420
Ending balance: individually evaluated for impairment	$ --	$ 891	$ --	$ --	$ 891
Ending balance: collectively evaluated for impairment	$ 768	$ 2,585	$ 1,701	$ 475	$ 5,529
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2016	$ 2,223,132	$ 936,491	$ 623,036	$ 205,469	$ 3,988,128
Ending balance: individually evaluated for impairment	$ 2,626	$ 4,388	$ --	$ --	$ 7,014
Ending balance: collectively evaluated for impairment	$ 2,220,506	$ 932,103	$ 623,036	$ 205,469	$ 3,981,114

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2014	$ 302	$ 3,043	$ 993	$ 495	$ 4,833
Provision for loan losses	283	1,007	231	1	1,522
Loan recoveries	--	56	--	--	56
Loan charge-offs	--	(913)	(9)	--	(922)
Balance as of December 31, 2015	$ 585	$ 3,193	$ 1,215	$ 496	$ 5,489
Ending balance: individually evaluated for impairment	$ --	$ 487	$ --	$ --	$ 487
Ending balance: collectively evaluated for impairment	$ 585	$ 2,706	$ 1,215	$ 496	$ 5,002
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2015	$ 2,131,756	$ 951,610	$ 611,776	$ 170,210	$ 3,865,352
Ending balance: individually evaluated for impairment	$ 2,076	$ 3,610	$ --	$ --	$ 5,686
Ending balance: collectively evaluated for impairment	$ 2,129,680	$ 948,000	$ 611,776	$ 170,210	$ 3,859,666

The recorded investment in the loan is the unpaid principal amount 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 of the investment.

NOTE 4: INVESTMENT IN AGRIBANK

As of December 31, 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.

As of December 31, 2017, we were also required by AgriBank to maintain an investment equal to 8.0% of the quarter end balance of the participation interests in real estate loans sold to AgriBank under the AgriBank Asset Pool program.

Investment in AgriBank

(in thousands) As of December 31		2017		2016		2015
Required stock investment	**$**	**93,452**	$	95,206	$	96,697
Purchased excess stock investment		**1,754**		--		--
Total investment	**$**	**95,206**	$	95,206	$	96,697

Excess stock investment is recorded when the required investment in AgriBank and the AgriBank Asset Pool program is lower than our total investment.

NOTE 5: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral.

Note Payable Information

(dollars in thousands) As of December 31		2017		2016		2015
Line of credit	**$**	**4,500,000**	$	4,500,000	$	4,000,000
Outstanding principal under the line of credit		**3,314,191**		3,240,487		3,190,061
Interest rate		**2.1%**		1.6%		1.4%

Our note payable matures July 31, 2020, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2017, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 6: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of a $5 participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	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	**20.0%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.1%**	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 and 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 the 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 December 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 and 2015. We were in compliance with the minimum required capital ratios as of December 31, 2016, and 2015.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2017**	2016	2015
Class A common stock (protected)	**738**	1,097	1,296
Class C common stock (at-risk)	**1,579,854**	1,597,482	1,650,745
Participation certificates (at-risk)	**4,670**	9,425	10,199

Under our bylaws, we are also authorized to issue Class B and Class D common stock. The Class B common stock is at-risk and nonvoting with a $5.00 par value per share, and Class D common stock is at-risk and nonvoting with a one thousand dollar par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2017, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- First, pro rata to all classes of preferred stock (if any) at par value
- Second, to the holders pro rata of all classes of common stock and participation certificates at par value

In the event of impairment, losses will be absorbed pro rata by all classes of common stock and participation certificates then by preferred stock, if any; however, protected stock will be retired at par value regardless of impairment.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts. We do not foresee any events that would result in this prohibition in 2018.

We did not have a patronage program in 2017. However, in December of 2017 the Board of Directors adopted a resolution that would allow us to make patronage distributions in the future. Patronage distributions may be declared and paid in amounts authorized by the Board of Directors, provided we meet all statutory and regulatory requirements. Any patronage distributions must be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors and will be paid within eight-and-a-half months after year end. FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts.

NOTE 7: INCOME TAXES

Provision for Income Taxes

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 34%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association's tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, have been valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation is recognized in our provision for (benefit from) income taxes for the year ended December 31, 2017.

Provision for Income Taxes

(dollars in thousands) For the year ended December 31	**2017**	2016	2015
Current:			
Federal	**$ (157)**	$ 1,043	$ 1,280
State	**(55)**	257	303
Total current	**$ (212)**	$ 1,300	$ 1,583
Deferred:			
Federal	**$ 403**	$ 123	$ (62)
State	**96**	31	(30)
Total deferred	**499**	154	(92)
Provision for income taxes	**$ 287**	$ 1,454	$ 1,491
Effective tax rate	**0.4%**	2.0%	2.4%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands) For the year ended December 31	**2017**	2016	2015
Federal tax at statutory rates	**$ 25,035**	$ 24,170	$ 21,296
State tax, net	**34**	188	191
Effect of non-taxable entity	**(24,812)**	(22,922)	(20,025)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	**10**	--	--
Other	**20**	18	29
Provision for income taxes	**$ 287**	$ 1,454	$ 1,491

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands) As of December 31	**2017**	2016	2015
Allowance for loan losses	**$ 616**	$ 840	$ 683
Postretirement benefit accrual	**413**	513	548
Accrued incentive	**441**	556	459
Accrued patronage income not received	**(397)**	(271)	(191)
AgriBank 2002 allocated stock	**(390)**	(534)	(534)
Accrued pension asset	**(630)**	(509)	(205)
Other liabilities	**(198)**	(241)	(252)
Total deferred tax (liabilities) assets	**(145)**	354	508
Deferred tax (liabilities) assets, net	**$ (145)**	$ 354	$ 508
Gross deferred tax assets	**$ 1,470**	$ 1,909	$ 1,690
Gross deferred tax liabilities	**$ (1,615)**	$ (1,555)	$ (1,182)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2017, 2016, or 2015.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $20.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $827.7 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2017. In addition, we believe we are no longer subject to income tax examinations for years prior to 2014.

NOTE 8: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and District Associations 2017 Annual Report (District financial statements).

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any), and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands) As of December 31	2017	2016	2015
Unfunded liability	**$ 352,516**	$ 374,305	$ 453,825
Projected benefit obligation	**1,371,013**	1,269,625	1,255,259
Fair value of plan assets	**1,018,497**	895,320	801,434
Accumulated benefit obligation	**1,184,550**	1,096,913	1,064,133

For the year ended December 31	2017	2016	2015
Total plan expense	**$ 44,730**	$ 53,139	$ 63,800
Our allocated share of plan expenses	**2,351**	2,437	2,871
Contributions by participating employers	**90,000**	90,000	62,722
Our allocated share of contributions	**4,604**	4,165	2,835

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in “Salaries and employee benefits” in the Consolidated Statements of Income.

Benefits paid to participants in the District were $103.7 million in 2017. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2018 is $90.0 million. Our allocated share of these pension contributions is expected to be $4.2 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands) As of December 31	2017	2016	2015
Our unfunded liability	**$ 957**	$ 227	$ 659
Projected benefit obligation for the Combined District	**37,190**	28,514	31,650
Accumulated benefit obligation for the Combined District	**29,844**	22,778	26,323

For the year ended December 31	2017	2016	2015
Total plan expense	**$ 8,336**	$ 5,767	$ 472
Our allocated share of plan expenses	**212**	135	264
Our cash contributions	**567**	567	567

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. Beginning in 2017, the recognition of the unfunded liability includes the impact of prior service cost and unamortized gain/loss. The increase in the liability was offset against accumulated other comprehensive loss and had no impact to net income. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of plan expenses is included in “Salaries and employee benefits” in the Consolidated Statements of Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee’s active status.

Retiree Medical Plan Information

(in thousands) For the year ended December 31		2017		2016		2015
Postretirement benefit expense	**$**	**65**	$	58	$	114
Our cash contributions		**92**		88		91

Postretirement benefit costs are included in "Salaries and employee benefits" in the Consolidated Statements of Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Income, were $1.4 million, $1.3 million, and $1.2 million in 2017, 2016, and 2015, respectively. These expenses were equal to our cash contributions for each year.

NOTE 9: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2017, involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands) As of December 31		2017		2016		2015
Total related party loans	**$**	**35,319**	$	11,682	$	11,437
For the year ended December 31		**2017**		2016		2015
Advances to related parties	**$**	**12,262**	$	5,118	$	5,642
Repayments by related parties		**8,424**		6,569		4,228

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Information in the preceding chart is related to those considered related parties at year end.

As discussed in Note 5, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Income was paid to AgriBank. Total patronage received from AgriBank in 2017 was $23.3 million. See Note 3 to the accompanying Consolidated Financial Statements for participations sold to AgriBank information. See Note 4 to the accompanying Consolidated Financial Statements for stock investment in AgriBank information.

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $931 thousand, $872 thousand, and $793 thousand in 2017, 2016, and 2015, respectively.

On December 14, 2017, we purchased two million shares at $5 per share of Financial Partners, Inc. (FPI) stock in exchange for a one fifth ownership. FPI, a System service corporation, provides core technology solutions including network infrastructure, loan accounting, and general ledger and document management. FCI will be transitioning from AgriBank, its current provider of these services, to the FPI platform of solutions in 2018. We will incur implementation costs through the transition date of August 17, 2018. Implementation costs through December 31, 2017, totaled $791 thousand, of which none were capitalized and $791 thousand were expensed.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2017, 2016, and 2015, our investment in Foundations was $29 thousand. The total cost of services purchased from Foundations was $255 thousand, $197 thousand, and $166 thousand in 2017, 2016, and 2015, respectively.

NOTE 10: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, 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.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2017, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $1.0 billion. Additionally, we had $8.3 million of issued standby letters of credit as of December 31, 2017.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 11: 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 input levels that may be used to measure fair value. Refer to Note 2 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 December 31, 2017, 2016, or 2015.

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 December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 157**	**$ 157**

As of December 31, 2016	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 857	$ 857

As of December 31, 2015	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 123	$ 123

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 12: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 8, 2018, 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 2017 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Illinois, ACA
(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Belleville	Owned	Held for Sale**
Decatur	Owned	Branch
Effingham	Owned	Branch
Highland	Owned	Branch
Jacksonville	Owned	Branch
Jerseyville	Owned	Branch
Marion	Owned	Branch
Lawrenceville	Owned	Branch
Mahomet	Owned	Headquarters/Branch
Mt. Vernon	Owned	Branch
Paris	Owned	Branch
Red Bud	Owned	Branch
Sherman	Owned	Branch
St. Paul, MN	Leased	ITU*
Taylorville	Owned	Branch
Watseka	Owned	Branch

*During 2017, we were the facilitating association for the ITU group. See Other Programs and Relationships for more information on the ITU group.

**The Belleville building was sold during 2017; however, there is an attached lot that remains for sale.

Legal Proceedings

Information regarding legal proceedings is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2017.

Additional Regulatory Capital Disclosure

Pursuant to FCA Regulation 620.5, the permanent capital ratio, total surplus ratio, and core surplus ratios were 14.7%, 14.4%, and 14.4% as of December 31, 2012, respectively. Refer to the Consolidated Five Year Summary of Selected Financial Data for capital ratio calculations for the past five years.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 6 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 7, 8, and 10 the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of the Consolidated Financial Statements in this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

Board of Directors

The Board of Directors has established the following committee to carry out Board responsibilities:

- The **Audit Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of our internal audit program, the independence of outside auditors, and the processes for monitoring compliance with laws and regulations and the code of ethics. The Audit Committee also oversees the adequacy of management's action with respect to recommendations arising from auditing activities.

Board of Directors as of December 31, 2017, including business experience during the last five years

Name	Term	Principal occupation and other business affiliations
Clayton Bloome Service Began: 2017	2017-2020	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: Rural Electric Convenience Cooperative
Kent Brinkmann** Service Began: 1998	2014-2017	**Principal Occupation:** Self-employed grain farmer and seed dealer **Other Affiliations:** President: Carlyle FFA Alumni Vice President: Clinton County Extension Foundation
Mike Carls** Service Began: 2014	2014-2017	**Principal Occupation:** Self-employed farmer primarily growing non-genetically modified corn for the Japanese market
Wesley Durbin Service Began: 2010	2015-2018	**Principal Occupation:** Self-employed grain and livestock farmer **Other Affiliations:** Treasurer: Shelby County Pork Producers
David Haase*** Service Began: 2017	2017-2017	**Principal Occupation:** Self-employed grain farmer
Larry Hasheider Vice Chairperson Service Began: 2005	2016-2019	**Principal Occupation:** Self-employed grain and livestock farmer
Jack Hastings* Service Began: 1985	2014-2017	**Principal Occupation:** Self-employed grain and livestock farmer and former real estate agent **Other Affiliations:** Chairperson: Clay County Board of Review
Lisa Helmink Service Began: 2017	2017-2020	**Principal Occupation:** Self-employed grain and livestock farmer Clinic Manager: Clinton County Veterinary Services, Ltd. **Other Affiliations:** Treasurer: Breese District 12 Band Boosters
Kevin Miller Service Began: 2012	2016-2019	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: South American Soy, a Brazilian farm investment group Treasurer: Lutheran Care Center Chairperson: North Island Creek Drainage District Treasurer: South Island Creek Drainage District
Mark Miller Chairperson Service Began: 1997	2016-2019	**Principal Occupation:** Self-employed grain farmer and seed dealer **Other Affiliations:** Director: Farmers Grain Co. of Central Illinois

Name	Term	Principal occupation and other business affiliations
Eric Mosbey Service Began: 2015	2015-2018	**Principal Occupation:** Self-employed grain farmer General Manager: Lincolnland Agri-Energy, LLC **Other Affiliations:** Vice President: Mosbey Farms, Inc.
Karen Neff Service Began: 2007	2015-2018	**Principal Occupation:** Self-employed grain and livestock farmer Former Project Manager: Unisys **Other Affiliations:** Member: Illinois Corn Marketing Board
K. Bridget Schneider Appointed Director Service Began: 2010	2017-2020	**Principal Occupation:** Certified Financial Planner™ Professional Managing Member: G&S Financial Group, LLC Managing Member: G&S Properties of Illinois, LLC
Robin Yockey Appointed Director Service Began: 2015	2015-2018	**Principal Occupation:** Self-employed CPA

*Retired from the Board as of December 31, 2017

**Reappointed in January 2018 to a term that expires December 2021

***Filled a vacant term mid-year, reappointed in January 2018 to a term that expires December 2021

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Our Board of Directors has adopted a rate of $500 per day along with a $2,500 per quarter retainer fee, except for the Chairperson and Vice Chairperson whose retainer fee is $3,500 and $3,000 per quarter, respectively.

Information regarding compensation paid to each director who served during 2017 follows:

	Number of Days Served				
Name	Board Meetings	Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2017
Clayton Bloome	10.0	15.0	$ --		$ 25,000
Kent Brinkmann	10.0	16.0	--		23,000
Mike Carls	10.0	9.5	--		19,750
Dale Crawford***	3.0	6.0	--		4,500
Wesley Durbin	10.0	22.0	2,500	Audit	26,000
David Haase*	5.0	11.5	--		18,250
Larry Hasheider	10.0	28.5	--		31,250
Jack Hastings**	10.0	22.0	2,500	Audit	23,500
Lisa Helmink	10.0	7.0	--		21,000
Kevin Miller	10.0	20.5	2,500	Audit	25,250
Mark Miller	10.0	13.0	--		25,500
Eric Mosbey	9.0	14.0	2,000	Audit	21,500
Karen Neff	10.5	25.5	--		28,000
K. Bridget Schneider	10.0	15.0	2,500	Audit	22,500
Robin Yockey	9.0	9.0	2,500	Audit	19,000
					$ 334,000

*Elected to the Board in April 2017

**Retired from the Board as of December 31, 2017

***Took a position on the AgriBank Board in 2017

Senior Officers

Senior Officers as of December 31, 2017, including business experience during the last five years

Name and Position	Business experience and other business affiliations
Thomas H. Tracy President and Chief Executive Officer	**Business experience:** President and Chief Executive Officer since January 2015 Senior Vice President of Operations from 2010-2014
Stephen W. Carson Senior Vice President and Chief Credit Officer	**Business experience:** Senior Vice President and Chief Credit Officer since February 2017 Senior Vice President of Credit from 2014-2017 Regional Vice President of Commercial Lending from 2008-2014 **Other business affiliations:** Director: ProPartners Financial Board Member: Capital Markets Group
Kelly D. Loschen Senior Vice President and Chief Financial Officer	**Business experience:** Senior Vice President and Chief Financial Officer since January 2016 Public Accountant: Martin, Hood, Friese & Associates from 2000-2016 **Other business affiliations:** Board Member: Parkland College Foundation
Aaron S. Johnson Executive Vice President and Chief Operations Officer	**Business experience:** Executive Vice President and Chief Operations Officer since July 2014 Senior Vice President of Operations from 2007-2014 **Other business affiliations:** Trustee: Farm Credit Foundations Trust Committee
Ryan W. Berg Senior Vice President and Chief Administrative Officer	**Business experience:** Senior Vice President and Chief Administrative Officer since November 2014 Vice President of Operations from 2007-2014
Robert H. Rhode Senior Vice President and General Counsel	**Business experience:** Senior Vice President and General Counsel since January 2014 Attorney: Sutkowski & Rhoads Ltd. from 1991-2014

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our CEO and senior officer compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our members. The design of our CEO and senior officer compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: The CEO and senior officers are compensated with base salary and short-term incentives as well as retirement plans generally available to all employees. Base salary and short-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations.

Base Salary: The CEO and senior officer base salaries reflect their experience and level of responsibility. Base salaries are subject to review and approval by the Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

Short-term Incentives: The CEO and senior officer incentives are paid annually based on performance criteria established by our Board of Directors. The criteria related to the overall association performance include capital measures, loan volume, customer satisfaction, operating efficiency, and credit quality. These measures include risk score, permanent capital ratio, total loan volume (owned and managed), customer satisfaction (very satisfied), and efficiency ratio. The amount of the short-term incentive paid is based solely on the Association's performance. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year end. In addition, the CEO and senior officers, and generally all employees are eligible for discretionary bonuses based on performance on special projects, service awards based on years of service, and retirement awards.

Retirement Plans: We have various post-employment benefit plans which are generally available to all Association employees, including the CEO and senior officers, based on dates of service to the Association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 8 to the Consolidated Financial Statements in this Annual Report.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums, or other taxable reimbursements may be made available to the CEO and senior officers based on job criteria or similar plans available to all employees.

Compensation to the CEO and Senior Officers

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Thomas H. Tracy, CEO	**2017**	**$ 375**	**$ 222**	**$ 9**	**$ 52**	**$ 658**
Thomas H. Tracy, CEO	2016	332	197	26	50	605
Thomas H. Tracy, CEO	2015	325	195	5	37	562
Aggregate Number of Senior Officers, excluding CEO						
Seven[1]	**2017**	**$ 1,220**	**$ 554**	**$ 38**	**$ 1,690**	**$ 3,502**
Seven[2]	2016	1,465	610	46	754	2,875
Six	2015	1,224	467	57	785	2,533

[1]Includes compensation for two senior officers who retired in 2017, one in January and one in July.

[2]Includes two Chief Financial Officer positions, the CFO and the CFO Designee at that time.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on qualified and nonqualified defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 8 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.
- Amounts paid related to senior officer retirements in 2017.

No tax reimbursements are made to the CEO and senior officers.

The value of the pension benefits from December 31, 2016 to December 31, 2017 changed primarily due to interest cost, accumulation of an additional year of credited service by plan participants, and changes in actuarial assumptions.

Members may request information on the compensation to the individuals included in the preceding table during 2017.

Pension Benefits Attributable to the Senior Officers

(dollars in thousands) **2017** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Aggregate Number of Senior Officers				
Four[1]	AgriBank District Retirement Plan	**34.8**	**$ 6,202**	**$ 1,455**
Two[1]	AgriBank District Pension Restoration Plan	**38.1**	**370**	**--**

[1]Includes pension benefits for one senior officer who retired in January 2017.

The change in composition of the aggregate senior officer can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 9 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.farmcreditIL.com

The total directors' travel, subsistence, and other related expenses were $250 thousand, $204 thousand, and $220 thousand in 2017, 2016, and 2015, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2018, or at any time during 2017.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2017 were $61 thousand. We also paid $3 thousand for tax services.

Financial Statements

The Report of Management, Report on Internal Control Over Financial Reporting, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements, and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Farm Credit Illinois, ACA
(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning, and small farmers and ranchers (YBS) in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

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

Young, Beginning, and Small Farmer Demographics

We have used a special tabulation of the 2012 United States Department of Agriculture (USDA) Census of Agriculture as our source of demographic data for comparison to our performance in serving young, beginning, and small farmers and ranchers. This special tabulation included only those farms in our chartered territory that have debt and annual gross sales of at least $10 thousand.

The following table is a comparison of our results compared to the 2012 USDA Census data for our territory:

	Percentages by Number		
As of December 31, 2017	Young	Beginning	Small
Farm Credit Illinois, ACA	15.9%	18.1%	36.2%
2012 Census data	15.0%	17.0%	51.8%

The Association's business activity with young and beginning farmers is just above the demographics of the marketplace. Business activity with small farmers is below the demographics of the marketplace. Grain and livestock prices have fluctuated since the 2012 Census data was released. In general, farms have been able to generate excellent production of grain and livestock even as the price has trended downward, and we have seen more small farmers' incomes rising above the $250 thousand threshold. Thus, the Association's business activity with the small farmers continues to be below the census data.

Mission Statement

Our mission is to provide farm families and the rural marketplace with constructive credit, related services, and financial expertise. This applies to all eligible customers, and specifically to young, beginning, and small farmers and ranchers. We will accomplish this mission by:

- Providing discounted interest rates for up to a maximum period of five years through our YBS loan program for young and/or beginning farmers
- Making full use of guaranteed loan programs through the State of Illinois and the USDA Farm Service Agency (FSA)
- Establishing both quantitative portfolio targets and qualitative goals for services offered
- Continuing to participate in numerous outreach programs which benefit YBS farmers
- Fully utilizing a streamlined application and approval process for small loans

In order to limit the risk to the Association for those loans approved under the YBS loan program, total loans to one borrower are limited to an aggregate amount of $500 thousand. Exceptions to this limit and other credit standards under this program are considered when there are other adequate offsetting credit strengths.

Quantitative Targets and Qualitative Goals

Quantitative targets and qualitative goals for YBS loans are established on an annual basis for the succeeding three years. The following targets and goals were established for 2017:

(dollars in thousands)

Category	Number of New Loans Closed	Number of Loans Outstanding	Total Loan Volume	Percent of Total Loans
Young Farmer	3,400	6,000	$ 550,000	12.0%
Beginning Farmer	3,600	6,800	655,000	13.0%
Small Farmer	7,300	13,500	735,000	33.0%
Outreach Program - Goal for total number of activities			70	

As of December 31, 2017, all targets and goals except for the total volume of beginning farmers for the YBS loan program were met. The beginning farmer volume at December 31, 2017, was $649.0 million and the target was $655.0 million.

The following tables detail the level of new business generated in 2017 plus the level of business outstanding as of December 31, 2017, both by number of loans and by volume for young and beginning farmers and ranchers:

(dollars in thousands)

	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
Total gross new loans and commitments made during the year	23,595		$ 1,458,966	
Total loans and commitments made to young farmers and ranchers	3,613	15.3%	232,893	16.0%
Total loans and commitments made to beginning farmers and ranchers	3,915	16.6%	211,806	14.5%
Total loans and commitments outstanding at year end	39,310		$ 4,922,603	
Young farmers and ranchers	6,247	15.9%	557,588	11.3%
Beginning farmers and ranchers	7,111	18.1%	649,222	13.2%

The following tables detail the level of new business generated in 2017 plus the level of business outstanding as of December 31, 2017, both by number of loans and by volume for small farmers and ranchers:

(dollars in thousands)

	$0 - $50,000	$50,001 - $100,000	$100,001 - $250,000	$250,001 and greater
Total number of new loans and commitments made during the year	19,475	1,017	1,202	1,901
Total number of loans made to small farmers and ranchers during the year	6,969	386	380	147
Number of loans to small farmers and ranchers as a % of total number of loans	35.8%	38.0%	31.6%	7.7%
Total gross loan volume of all new loans and commitments made during the year	$ 203,048	$ 76,473	$ 206,772	$ 972,672
Total gross loan volume to small farmers and ranchers	$ 47,051	$ 28,782	$ 60,335	$ 72,250
Loan volume to small farmers and ranchers as a % of total gross new loan volume	23.2%	37.6%	29.2%	7.4%
Total number of loans and commitments outstanding at year end	26,985	3,473	4,530	4,322
Total number of loans to small farmers and ranchers	10,495	1,564	1,548	615
Number of loans to small farmers and ranchers as a % of total number of loans	38.9%	45.0%	34.2%	14.2%
Total loan volume outstanding at year end	$ 306,662	$ 259,485	$ 749,234	$ 3,607,223
Total loan volume to small farmers and ranchers	$ 101,130	$ 114,683	$ 241,840	$ 286,821
Loan volume to small farmers and ranchers as a % of total loan volume	33.0%	44.2%	32.3%	8.0%

Government Guarantees

As a means to control risk in some situations, comakers or guaranteed loan programs through the State of Illinois and the USDA FSA are utilized when possible. During the past few years, we have utilized several types of FSA programs for real estate loans:

- FSA 50-45-5. The lender loans 50.0% of the real estate purchase for a 30-year term, FSA loans 45.0% for a 20-year term at a 1.5% fixed interest rate, and the customers are required to put 5.0% down.
  - The FSA direct loan limit under this program is $300 thousand.
  - One additional advantage of this program, that we have utilized in most cases to reduce our loan risk, is that we can obtain a 95.0% FSA loan guarantee on our loan at no additional charge to the customer.

During 2017, the Association originated 23 new FSA guaranteed loans to young, beginning, and/or small farmers with a year end volume of $4.1 million. Total volume for YBS government guaranteed loans was $32.8 million at December 31, 2017.

Outreach Activities

The Association develops an annual marketplace engagement plan, which includes special emphasis on the young, beginning, and small farmer segments to promote Farm Credit products and services and demonstrate our commitment to serving these market populations.

Farm Credit Illinois staff participated in a total of 68 YBS outreach activities in 2017. Outreach activities to YBS farmers include but are not limited to:

- Young Farmer Retreat
- Member Advisory Council meetings
- Farm Credit College educational workshops
- Cultivating Master Farmers mentoring program
- Illinois Farm Bureau's Young Leader sponsorship
- Farm Credit Illinois Agriculture Scholarship program
- Farm Credit Illinois Community Improvement Grants
- The Association's Community College Outreach Initiative partners
- Farm Credit Newsroom at the Illinois State FFA Convention
- Farm Progress Show

Quantitative Targets and Qualitative Goals

The Association's quantitative targets and qualitative goals for the next 3 years are as follows:

(dollars in thousands)

Category	Number of New Loans Closed	Number of Loans Outstanding	Total Loan Volume	Percent of Total Loans
2018 Young Farmer	3,600	6,300	$ 550,000	16.0%
2019 Young Farmer	3,800	6,500	560,000	16.0%
2020 Young Farmer	4,000	6,700	565,000	17.0%
2018 Beginning Farmer	3,800	6,900	$ 650,000	17.0%
2019 Beginning Farmer	3,900	7,100	670,000	18.0%
2020 Beginning Farmer	4,000	7,200	690,000	18.0%
2018 Small Farmer	7,600	14,000	$ 740,000	35.0%
2019 Small Farmer	7,800	14,500	750,000	36.0%
2020 Small Farmer	8,100	15,000	760,000	38.0%
YBS Government Guaranteed Loan Goal	N/A	N/A	20,000	N/A
Outreach Program - Goal for total number of activities			70	

Safety and Soundness of the Program

In order to control our risk for loans approved under the YBS loan program, we have established specific lending limits and credit standards for clients who use the program.

VOLUNTARY ADVANCE CONDITIONAL PAYMENTS PROGRAM

Farm Credit Illinois, ACA

(Unaudited)

The Association offers a Voluntary Advance Conditional Payments (VACP) program that provides customers the ability to make advance payments on designated real estate and intermediate term loans less than $5 million. The following terms and conditions apply to all VACP funds unless the loan agreement, or related documents, between the Association and customer provide for other limitations.

Payment Application

Loan payments received by the Association before the loan has been billed will normally be placed into a VACP account and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Funds received in excess of the billed amount will be placed into a VACP account unless the customer has specified the funds to be applied as a special prepayment of principal.

When a loan installment becomes due, monies in the VACP account for the loan will be automatically applied toward the installment on the due date. Any accrued interest on the VACP account will be applied first. If the balance in the VACP account does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum

The amount in VACP may not exceed the unpaid principal balance of the loan.

The following limits also apply:

- Multi Flex Option Loans: Up to 100% of the loan's outstanding balance or the next payment amount, whichever is greater.
- Flex Option Loans: No more than 10% of the loan's original balance.
- Exceptional Rate Option Loans: No more than 10% of the loan's original balance.

Interest Rate

Interest will accrue on the VACP account at a simple rate of interest that may be changed by the Association from time to time. Currently, the rate paid is the bill rate less 200 basis points. In no instances will the rate paid on the VACP account exceed the bill rate on the related loan.

Withdrawals

Funds in the VACP account may be available to be returned to borrowers upon request. Members may request up to 12 withdrawals in any calendar year. The minimum withdrawal amount will be $500 or the balance in the VACP account, whichever is less.

Association Options

In the event of default on any loan or if the Association discontinues their VACP program, the Association may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

Uninsured Account

VACP is not a depository account and is not insured. In the event of liquidation of the Association, customers having balances in VACP shall be notified according to FCA Regulations.

Questions: **Please direct any questions regarding VACP to your local Farm Credit Illinois representative**.

FARM CREDIT
ILLINOIS

1100 Farm Credit Drive
Mahomet, IL 61853