



Premier Farm Credit

The Gold Standard in Ag Lending | PREMIERACA.com

3rd QUARTER REPORT 2016



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
(Dollars in Thousands, Except as Noted)
(Unaudited)

The following discussion summarizes the financial position and results of operations of Premier Farm Credit, ACA for the nine months ended September 30, 2016, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2015 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

The shareholders' investment in Premier Farm Credit, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2015 CoBank Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 202 Poplar Street, Sterling, Colorado 80751, or calling (970) 522-5295.

CURRENT OVERVIEW

The Association's territory continues to experience favorable general economic conditions. The local economy reflects stability with low unemployment, strong housing demand, and new business investment. More agricultural operations are exhibiting some degree of financial stress related to continued depressed commodity prices. While many operations continue to maintain adequate financial stability and credit strength resulting from prior earnings and asset appreciation, a general erosion of working capital is taking place. Cash grain prices continue to be below breakeven levels for many producers, and feedlot and stocker operations continue to suffer losses due to significant market price decreases in this sector. These segments of our loan portfolio are exhibiting more credit stress as capital levels and loan margins have deteriorated.

Production within the territory has generally been favorable for most operators. The territory has received adequate and timely moisture and irrigation water supplies have been favorable. Wheat and millet yields were above average and it is anticipated that corn and sugar beet production will be above average as well. Cow calf and stocker operations have benefited from favorable pasture conditions and lower feed costs. Credit quality within the direct loan portfolio has declined since the beginning of the year and some additional deterioration is anticipated prior to year-end. Overall credit quality is anticipated to remain relatively sound, insulated in part with the current credit quality strength of our participation loan portfolio.

LOAN PORTFOLIO

Loans outstanding at September 30, 2016 totaled \$656,931, an increase of \$13,188, or 2.05%, from loans of \$643,743 at December 31, 2015. The increase was primarily due to new loan volume booked during the first nine months of the year partially offset by term loan repayments and other principal reductions. New loan demand continues to be reduced compared to prior years as producers remain more conservative given current economic conditions.

The Association is a party to a shared lending operation known as the Commercial Finance Group (CFG). The alliance includes our Association along with several other Associations within the CoBank and AgriBank Districts. Along with these Associations, we pool our resources to coordinate and enhance the marketing, originating and servicing of large, complex commercial and mortgage loans, as well as diversify risk. This agreement was consummated in December 2010.

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2016 was \$8,836, an increase of \$618, or 7.52%, from the same period ended one year ago. The increase in net income is primarily attributed to increased net interest income partially offset by increased provision for credit losses, reduced noninterest income, and increased noninterest expense.

Net interest income for the nine months ended September 30, 2016 was \$12,859, an increase of \$783, or 6.48%, compared with September 30, 2015. Net interest income increased as a result of higher average loan volume compared to the same prior year period.

The provision for credit losses for the nine months ended September 30, 2016 was \$148, compared to a provision for credit losses of \$120 for the same period ended one year ago. The provision for credit losses increased as a result of

declining credit quality primarily in the direct loan portfolio and revised weight factors utilized to calculate the allowance for loan losses.

Noninterest income decreased \$47 during the first nine months of 2016 compared with the first nine months in 2015. The reduction was primarily due to reduced mineral income partially offset by increased patronage refunds, financially related services income, and loan fees. We received mineral income of \$315 during the first nine months of 2016, which is distributed to us quarterly by the Bank.

During the first nine months of 2016, noninterest expense increased \$78 to \$6,776, primarily due to increased purchased services from AgVantis, Farm Credit Insurance Fund premiums, supervisory and examination costs, and other noninterest expenses. These increases were partially offset by reductions in salary and employee benefits and occupancy and equipment. Purchased services from AgVantis, Farm Credit Insurance Fund premium, and supervisory and examination costs increased due to rate increases in addition to a higher Association loan volume base. Salary and employee benefit expense decreased due to a combination of reduced net salary expenses and reduced pension costs.

CAPITAL RESOURCES

Our shareholders' equity at September 30, 2016 was \$144,132, an increase from \$135,303 at December 31, 2015. This increase is due to net income and the amortization of pension costs included in the net periodic benefit cost, partially offset by net stock reductions.

REGULATORY MATTERS

On March 10, 2016, the FCA approved new rules ("New Capital Regulations") relating to regulatory capital requirements for System Banks, including CoBank, and Associations. The New Capital Regulations are scheduled to become effective January 1, 2017. The date the New Capital Regulations become effective is referred to herein as the "Effective Date." The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

The New Capital Regulations, among other things, replace existing core surplus and total surplus requirements with common equity tier 1 ("CET1"), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also add a tier 1 leverage ratio for all System institutions, which replaces the existing net collateral ratio for System Banks. In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public disclosures. The revisions to the risk weightings include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

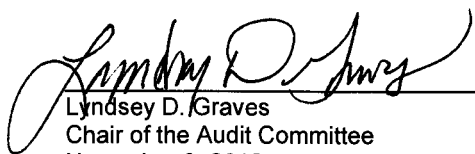
- A CET1 capital ratio of 4.5 percent;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings ("URE") and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.

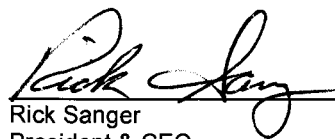
The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirements. If capital ratios fall below these buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage

payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations establish a three-year phase-in of the capital conservation buffer, expected to begin on January 1, 2017. There will be no phase-in of the leverage buffer.

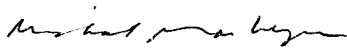
The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.



Lindsey D. Graves
Chair of the Audit Committee
November 3, 2016



Rick Sanger
President & CEO
November 3, 2016



Michael Grauberger
Chief Financial Officer
November 3, 2016

Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2016	December 31 2015
	UNAUDITED	AUDITED
ASSETS		
Loans	\$ 656,931	\$ 643,743
Less allowance for loan losses	2,355	2,133
Net loans	654,576	641,610
Cash	1,941	7,181
Accrued interest receivable	13,743	8,030
Investment in CoBank, ACB	19,713	19,670
Premises and equipment, net	1,125	1,242
Prepaid benefit expense	201	368
Deferred tax asset	80	82
Other assets	7,568	4,347
Total assets	\$ 698,947	\$ 682,530
LIABILITIES		
Note payable to CoBank, ACB	\$ 540,160	\$ 528,720
Advance conditional payments	10,374	11,233
Accrued interest payable	851	846
Patronage distributions payable	-	3,000
Accrued benefits liability	358	353
Reserve for unfunded commitments	394	218
Other liabilities	2,678	2,857
Total liabilities	554,815	547,227
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	944	956
Unallocated retained earnings	143,238	134,402
Accumulated other comprehensive (loss)/income	(50)	(55)
Total shareholders' equity	144,132	135,303
Total liabilities and shareholders' equity	\$ 698,947	\$ 682,530

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended September 30		For the nine months ended September 30	
	2016	2015	2016	2015
INTEREST INCOME				
Loans	\$ 7,072	\$ 6,627	\$ 20,631	\$ 19,323
Total interest income	7,072	6,627	20,631	19,323
INTEREST EXPENSE				
Note payable to CoBank	2,618	2,480	7,745	7,217
Other	8	9	27	30
Total interest expense	2,626	2,489	7,772	7,247
Net interest income	4,446	4,138	12,859	12,076
(Credit loss reversal)/Provision for credit losses	(118)	5	148	120
Net interest income after credit loss reversal/provision for credit losses	4,564	4,133	12,711	11,956
NONINTEREST INCOME				
Financially related services income	202	183	326	285
Loan fees	128	86	301	280
Patronage refund from Farm Credit Institutions	637	606	1,877	1,685
Mineral income	130	198	315	612
Other noninterest income	31	32	118	122
Total noninterest income	1,128	1,105	2,937	2,984
NONINTEREST EXPENSE				
Salaries and employee benefits	1,295	1,371	3,540	3,940
Occupancy and equipment	108	135	318	353
Purchased services from AgVantis, Inc.	330	249	994	744
Farm Credit Insurance Fund premium	222	153	603	439
Supervisory and examination costs	57	41	171	148
Other noninterest expense	428	375	1,150	1,074
Total noninterest expense	2,440	2,324	6,776	6,698
Income before income taxes	3,252	2,914	8,872	8,242
Provision for income taxes	12	4	36	24
Net income	3,240	2,910	8,836	8,218
OTHER COMPREHENSIVE INCOME				
Amortization of retirement costs	1	3	5	9
Total comprehensive income	\$ 3,241	\$ 2,913	\$ 8,841	\$ 8,227

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2014	\$ 960	\$ 126,593	\$ (68)	\$ 127,485
Comprehensive income		8,218	9	8,227
Stock issued	37			37
Stock retired	(40)			(40)
Balance at September 30, 2015	\$ 957	\$ 134,811	\$ (59)	\$ 135,709
Balance at December 31, 2015	\$ 956	\$ 134,402	\$ (55)	\$ 135,303
Comprehensive income		8,836	5	8,841
Stock issued	45			45
Stock retired	(57)			(57)
Balance at September 30, 2016	\$ 944	\$ 143,238	\$ (50)	\$ 144,132

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands, Except as Noted)
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Premier Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited third quarter 2016 financial statements should be read in conjunction with the 2015 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015 as contained in the 2015 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2016. Descriptions of the significant accounting policies are included in the 2015 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." 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. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements – Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the

date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

Certain amounts in the prior period financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 372,064	\$ 364,923
Production and intermediate-term	149,638	150,739
Agribusiness:		
Loans to cooperatives	28,072	12,093
Processing and marketing	65,522	70,339
Farm-related business	6,047	7,892
Rural infrastructure:		
Communication	10,429	12,627
Energy	20,415	19,862
Water and waste water	611	2,909
Rural residential real estate	143	359
Agricultural export finance	3,990	2,000
Total loans	\$ 656,931	\$ 643,743

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2016:

	Other Farm Credit Institutions	
	Purchased	Sold
Real estate mortgage	\$ 16,298	\$ 11,554
Production and intermediate-term	14,241	8,100
Agribusiness	98,236	-
Rural infrastructure	31,455	-
Agricultural export finance	3,990	-
Total	\$ 164,220	\$ 19,654

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2016	December 31, 2015
Real estate mortgage		
Acceptable	91.23%	97.06%
OAEM	6.96%	2.07%
Substandard	1.81%	0.87%
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	87.52%	93.74%
OAEM	6.99%	1.73%
Substandard	5.49%	4.53%
Total	100.00%	100.00%
Agribusiness		
Acceptable	98.38%	96.57%
OAEM	0.09%	1.65%
Substandard	1.53%	1.78%
Total	100.00%	100.00%
Rural infrastructure		
Acceptable	97.19%	95.29%
OAEM	2.81%	2.11%
Substandard	0.00%	2.60%
Total	100.00%	100.00%
Rural residential real estate		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Agricultural export finance		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Total Loans		
Acceptable	91.78%	96.13%
OAEM	5.71%	1.93%
Substandard	2.51%	1.94%
Total	100.00%	100.00%

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

<i>(dollars in thousands)</i>	September 30, 2016	December 31, 2015
Nonaccrual loans		
Rural infrastructure	\$ -	\$ 922
Total nonaccrual loans	\$ -	\$ 922
Accruing restructured loans		
Rural infrastructure	\$ 887	\$ -
Total accruing restructured loans	\$ 887	\$ -
Total high risk assets	\$ 887	\$ 922

Additional impaired loan information is as follows:

	September 30, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance for credit losses:						
Rural infrastructure	\$ 887	\$ 1,078	\$ -	\$ 922	\$ 1,111	\$ -
Total	\$ 887	\$ 1,078	\$ -	\$ 922	\$ 1,111	\$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

	For the Three Months Ended September 30, 2016		For the Three Months Ended September 30, 2015	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Rural infrastructure	\$ 886	\$ 15	\$ 921	\$ -
Total	\$ 886	\$ 15	\$ 921	\$ -

	For the Nine Months Ended September 30, 2016		For the Nine Months Ended September 30, 2015	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Rural infrastructure	\$ 964	\$ 30	\$ 926	\$ -
Total	\$ 964	\$ 30	\$ 926	\$ -

There were no impaired loans with a related allowance for credit losses for the periods presented.

The following tables provide an age analysis of past due loans (including accrued interest).

September 30, 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	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
	Real estate mortgage	\$ 140	\$ -	\$ 140	\$ 381,861	\$ 382,001
Production and intermediate-term	62	-	62	152,963	153,025	-
Agribusiness	-	-	-	99,957	99,957	-
Rural infrastructure	-	-	-	31,536	31,536	-
Rural residential real estate	-	-	-	143	143	-
Agricultural export finance	-	-	-	4,012	4,012	-
Total	\$ 202	\$ -	\$ 202	\$ 670,472	\$ 670,674	\$ -

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	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	\$ -	\$ -	\$ -	\$ 370,705	\$ 370,705	\$ -
Production and intermediate-term	53	-	53	152,480	152,533	-
Agribusiness	-	-	-	90,710	90,710	-
Rural infrastructure	-	-	-	35,462	35,462	-
Rural residential real estate	-	-	-	361	361	-
Agricultural export finance	-	-	-	2,002	2,002	-
Total	\$ 53	\$ -	\$ 53	\$ 651,720	\$ 651,773	\$ -

A summary of changes in the allowance for loan losses is as follows:

	Balance at June 30, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2016
Real estate mortgage	\$ 939	\$ -	\$ -	\$ 21	\$ 960
Production and intermediate-term	509	1	1	94	603
Agribusiness	557	-	246	(228)	575
Rural infrastructure	220	-	-	(21)	199
Agricultural export finance	33	-	-	(15)	18
Total	\$ 2,258	\$ 1	\$ 247	\$ (149)	\$ 2,355

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2016
Real estate mortgage	\$ 935	\$ -	\$ -	\$ 25	\$ 960
Production and intermediate-term	432	2	6	167	603
Agribusiness	544	-	246	(215)	575
Rural infrastructure	212	-	-	(13)	199
Agricultural export finance	10	-	-	8	18
Total	\$ 2,133	\$ 2	\$ 252	\$ (28)	\$ 2,355

	Balance at June 30, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2015
Real estate mortgage	\$ 723	\$ -	\$ 10	\$ (7)	\$ 726
Production and intermediate-term	298	-	1	6	305
Agribusiness	522	-	-	11	533
Rural infrastructure	215	-	-	-	215
Agricultural export finance	10	-	-	-	10
Total	\$ 1,768	\$ -	\$ 11	\$ 10	\$ 1,789

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2015
Real estate mortgage	\$ 717	\$ -	\$ 10	\$ (1)	\$ 726
Production and intermediate-term	322	-	6	(23)	305
Agribusiness	599	-	-	(66)	533
Rural infrastructure	233	-	-	(18)	215
Agricultural export finance	11	-	-	(1)	10
Total	\$ 1,882	\$ -	\$ 16	\$ (109)	\$ 1,789

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive income, along with the provision for loan losses.

A summary of changes in the reserve for unfunded commitments follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Balance at beginning of period	\$ 363	\$ 234	\$ 218	\$ -
Provision for unfunded commitments	31	(5)	176	229
Total	\$ 394	\$ 229	\$ 394	\$ 229

	Allowance for Credit Losses		Recorded Investments in Loans Outstanding	
	Ending Balance at September 30, 2016		Ending Balance at September 30, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ -	\$ 960	\$ -	\$ 382,001
Production and intermediate-term	-	603	-	153,025
Agribusiness	-	575	-	99,957
Rural infrastructure	-	199	887	30,649
Rural residential real estate	-	-	-	143
Agricultural export finance	-	18	-	4,012
Total	\$ -	\$ 2,355	\$ 887	\$ 669,787

	Allowance for Credit Losses		Recorded Investments in Loans Outstanding	
	Ending Balance at December 31, 2015		Ending Balance at December 31, 2015	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ -	\$ 935	\$ -	\$ 370,705
Production and intermediate-term	-	432	-	152,533
Agribusiness	-	544	-	90,710
Rural infrastructure	-	212	922	34,540
Rural residential real estate	-	-	-	361
Agricultural export finance	-	10	-	2,002
Total	\$ -	\$ 2,133	\$ 922	\$ 650,851

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Association recorded no TDRs during the nine months ended September 30, 2016.

The Association had no TDRs within the previous 12 months for which there were subsequent payment defaults during the period.

There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at September 30, 2016.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table.

	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Rural infrastructure	\$ -	\$ 922	\$ -	\$ 922
Total	\$ -	\$ 922	\$ -	\$ 922

* Represents the portion of loans modified as TDRs (first column) that are in nonaccrual status.

NOTE 3 - CAPITAL

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Pension and other benefit plans:				
Beginning balance	\$ (51)	\$ (62)	\$ (55)	\$ (68)
Other comprehensive income before reclassifications	-	-	-	-
Amounts reclassified from accumulated other comprehensive loss	1	3	5	9
Net current period other comprehensive income/(loss)	1	3	5	9
Ending balance	\$ (50)	\$ (59)	\$ (50)	\$ (59)

The following table represents reclassifications out of accumulated other comprehensive income/(loss).

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		Location of Gain/Loss Recognized in Statement of Income
	For the Three Months Ended September 30		
	2016	2015	
Pension and other benefit plans:			
Net actuarial loss	\$ 1	\$ 3	Salaries and employee benefits
Total reclassifications	\$ 1	\$ 3	

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		Location of Gain/Loss Recognized in Statement of Income
	For the Nine Months Ended September 30		
	2016	2015	
Pension and other benefit plans:			
Net actuarial loss	\$ 5	\$ 9	Salaries and employee benefits
Total reclassifications	\$ 5	\$ 9	

NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2015 Annual Report to Shareholders for a more complete description.

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
September 30, 2016	\$ 672	\$ -	\$ -	\$ 672
December 31, 2015	\$ 590	\$ -	\$ -	\$ 590

During the first nine months of 2016, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association had no liabilities measured at fair value on a recurring basis at September 30, 2016 or December 31, 2015.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Gains/(Losses)
	Level 1	Level 2	Level 3		
September 30, 2016					
Loans	\$ -	\$ -	\$ -	\$ -	\$ -
December 31, 2015					
Loans	\$ -	\$ -	\$ 922	\$ 922	\$ -

With regard to impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

The Association had no liabilities measured at fair value on a non-recurring basis at September 30, 2016 or December 31, 2015.

Valuation Techniques

As more fully discussed in Note 2 to the 2015 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying real estate collateral since the loans are collateral dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 3, 2016, which is the date the financial statements were issued, and no material subsequent events were identified.