Premier Farm Credit

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3rd QUARTER REPORT 2017

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, 2017, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2016 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 2016 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

General economic conditions within our territory remain favorable. The local economy reflects stability with low unemployment, strong housing demand, and new business investment. The rebound in the energy sector continues to contribute to increased economic activity within the region. The Federal Open Market Committee raised the fed funds target rate by 0.25% in March, another 0.25% in June, and projects one more rate increase in 2017.

Cash grain prices continue to be below breakeven levels for many producers and as a result, credit quality within the loan portfolio continues to decline. Overall, credit quality is anticipated to remain adequate in 2017, insulated in part with the diversification of the purchased loan portfolio.

2017 production results have generally been favorable. Although it was dry this summer, the territory received widespread moisture in the spring and again this fall, which improved 2017 production. Wheat harvest for most of the territory had above average yields. Irrigated corn and sugar beets also have average to above average yield potential at this time.

Due to the fall moisture some of the wheat in the area is getting planted a little late, but is nearing completion. Wheat that is planted has germinated and is off to a good start. Water supplies were adequate for this past growing season and moisture conditions appear to be adequate going into the fall/winter months. Pasture conditions continue to be favorable with good sub moisture.

Early reports indicate calves off cows this fall are weaning a little heavier than last year. Calf prices are strong at this time, which should allow profit within the cow/calf sector. Stocker operators have benefited from higher cattle prices this fall. The cattle industry is showing profit potential.

LOAN PORTFOLIO

Loans outstanding at September 30, 2017 totaled $672,878, an increase of $8,991, or 1.35%, from loans of $663,887 at December 31, 2016. The increase was primarily due to new real estate and participation loans booked during the first three quarters of the year, partially offset by operating loan repayments and principal reductions on term loans. New direct loan demand continues to be reduced as producers remain cautious 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, 2017 was $9,106, an increase of $270 or 3.06%, from the same period ended one year ago. The increase is primarily attributed to increased net interest income, partially offset by a larger provision for credit losses and a slight increase in noninterest expense.

Net interest income for the nine months ended September 30, 2017 was $13,589, an increase of $730, or 5.68%, compared with September 30, 2016. Net interest income increased as a result of increased average loan volume compared to the same prior year period and enhanced earnings on equity positioning.

The provision for credit losses for the nine months ended September 30, 2017 was $405, compared to $148 for the same period ended one year ago, an increase of $257, or 173.65%. The provision for credit losses increased as a result of declining credit quality primarily in the cash grain and livestock segments of our direct loan portfolio.

Noninterest income decreased $50 during the first nine months of 2017 compared with the first nine months in 2016 primarily due to reduced loan fee and financially related services income, partially offset with increased mineral and patronage refund income. We received mineral income of $341 during the first nine months of 2017, which is distributed to us quarterly by CoBank.

During the first nine months of 2017, noninterest expense increased $175 to $6,951, primarily due to an increase in salary and employee benefit expenses due to normal merit salary increases and increasing benefit costs. This was partially offset by reduced Farm Credit Insurance Fund premium expense due to a reduced assessment rate and reductions in other noninterest expenses.

CAPITAL RESOURCES

Our shareholders' equity at September 30, 2017 was $152,796, an increase from $143,714 at December 31, 2016. 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 became effective January 1, 2017. 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.

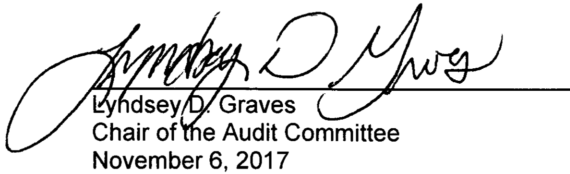
The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirements. If capital ratios fall below the regulatory minimum plus 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, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

Refer to Note 3 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios as of September 30, 2017.

OTHER MATTERS

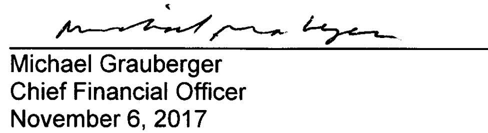
During the second quarter of 2017, the Board of Directors selected current Chief Financial Officer, Michael Grauberger, as the next President & CEO of the Association. He will succeed current President & CEO, Rick Sanger, upon his retirement at the end of the year. Jeff Schumacher, current Vice President – Credit, has been selected to assume the Chief Financial Officer role.

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.



Lyndsey D. Graves
Chair of the Audit Committee
November 6, 2017

Rick Sanger
President & CEO
November 6, 2017



Michael Grauberger
Chief Financial Officer
November 6, 2017

Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2017 UNAUDITED	December 31 2016 AUDITED
ASSETS		
Loans	$ **672,878**	$ 663,887
Less allowance for loan losses	**2,759**	2,508
Net loans	**670,119**	661,379
Cash	**2,303**	7,958
Accrued interest receivable	**14,486**	9,569
Investment in CoBank, ACB	**20,906**	20,860
Premises and equipment, net	**1,061**	1,094
Prepaid benefit expense	**775**	861
Other assets	**3,656**	4,141
Total assets	$ **713,306**	$ 705,862
LIABILITIES		
Note payable to CoBank, ACB	$ **544,546**	$ 544,537
Advance conditional payments	**11,064**	9,005
Accrued interest payable	**949**	873
Patronage distributions payable	**-**	3,500
Accrued benefits liability	**365**	361
Reserve for unfunded commitments	**544**	387
Other liabilities	**3,042**	3,485
Total liabilities	**560,510**	562,148
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	**910**	938
Unallocated retained earnings	**151,932**	142,826
Accumulated other comprehensive (loss)/income	**(46)**	(50)
Total shareholders' equity	**152,796**	143,714
Total liabilities and shareholders' equity	$ **713,306**	$ 705,862

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the three months ended September 30		For the nine months ended September 30	
UNAUDITED	**2017**	2016	**2017**	2016
INTEREST INCOME				
Loans	**$ 7,646**	$ 7,072	**$ 22,282**	$ 20,631
Total interest income	**7,646**	7,072	**22,282**	20,631
INTEREST EXPENSE				
Note payable to CoBank	**3,063**	2,618	**8,656**	7,745
Other	**15**	8	**37**	27
Total interest expense	**3,078**	2,626	**8,693**	7,772
Net interest income	**4,568**	4,446	**13,589**	12,859
(Credit loss reversal)Provision for credit losses	**(22)**	(118)	**405**	148
Net interest income after credit loss reversal/provision for credit losses	**4,590**	4,564	**13,184**	12,711
NONINTEREST INCOME				
Financially related services income	**196**	202	**305**	326
Loan fees	**59**	128	**205**	301
Patronage refund from Farm Credit Institutions	**645**	637	**1,916**	1,877
Mineral income	**113**	130	**341**	315
Other noninterest income	**31**	31	**120**	118
Total noninterest income	**1,044**	1,128	**2,887**	2,937
NONINTEREST EXPENSE				
Salaries and employee benefits	**1,404**	1,295	**3,738**	3,540
Occupancy and equipment	**110**	108	**328**	318
Purchased services from AgVantis, Inc.	**305**	330	**997**	994
Farm Credit Insurance Fund premium	**191**	222	**560**	603
Supervisory and examination costs	**57**	57	**195**	171
Other noninterest expense	**392**	428	**1,133**	1,150
Total noninterest expense	**2,459**	2,440	**6,951**	6,776
Income before income taxes	**3,175**	3,252	**9,120**	8,872
Provision for income taxes	**5**	12	**14**	36
Net income	**3,170**	3,240	**9,106**	8,836
OTHER COMPREHENSIVE INCOME				
Amortization of retirement costs	**1**	1	**4**	5
Total comprehensive income	**$ 3,171**	$ 3,241	**$ 9,110**	$ 8,841

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, 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
Balance at December 31, 2016	$ 938	$ 142,826	$ (50)	$ 143,714
Comprehensive income		9,106	4	9,110
Stock issued	32			32
Stock retired	(60)			(60)
Balance at September 30, 2017	**$ 910**	**$ 151,932**	**$ (46)**	**$ 152,796**

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, 2016, are contained in the 2016 Annual Report to Shareholders. These unaudited third quarter 2017 financial statements should be read in conjunction with the 2016 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, 2016 as contained in the 2016 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, 2017. Descriptions of the significant accounting policies are included in the 2016 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 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations. Currently, the Association has no hedging activity.

In March 2017, the FASB issued guidance entitled “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. 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 but could change the classification of certain items in the results of operations.

In August 2016, the 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 evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the 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 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 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.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	September 30, 2017	December 31, 2016
Real estate mortgage	**$ 384,814**	$ 378,037
Production and intermediate-term	**148,931**	152,897
Agribusiness	**103,658**	97,122
Rural infrastructure	**31,120**	31,840
Agricultural export finance	**4,355**	3,991
Total loans	**$ 672,878**	$ 663,887

The Association purchases and 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, 2017:

	Other Farm Credit Institutions	
	Purchased	Sold
Real estate mortgage	$ 23,251	$ 9,892
Production and intermediate-term	24,471	4,832
Agribusiness	101,168	-
Rural infrastructure	31,120	-
Agricultural export finance	4,355	-
Total	$ 184,365	$ 14,724

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, 2017	December 31, 2016
Real estate mortgage		
Acceptable	**83.98%**	90.98%
OAEM	**7.70%**	6.90%
Substandard	**8.32%**	2.12%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**77.78%**	85.31%
OAEM	**12.46%**	9.59%
Substandard	**9.76%**	5.10%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**98.46%**	98.38%
OAEM	**1.54%**	0.73%
Substandard	**0.00%**	0.89%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**100.00%**	97.22%
OAEM	**0.00%**	2.78%
Total	**100.00%**	100.00%
Agricultural export finance		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**85.63%**	91.10%
OAEM	**7.19%**	6.39%
Substandard	**7.18%**	2.51%
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:

(dollars in thousands)	**September 30, 2017**	December 31, 2016
Nonaccrual loans		
Real estate mortgage	**$ 2,987**	$ 78
Production and intermediate-term	**395**	18
Total nonaccrual loans	**$ 3,382**	$ 96
Accruing restructured loans		
Rural infrastructure	**$ -**	$ 887
Total accruing restructured loans	**$ -**	$ 887
Total high risk assets	**$ 3,382**	$ 983

The Association had no accruing loans 90 days past due and no other property owned for the periods presented.

Additional impaired loan information is as follows:

	September 30, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 2,987**	**$ 2,924**	**$ -**	$ 78	$ 78	$ -
Production and intermediate-term	**395**	**395**	**-**	18	18	-
Rural infrastructure	**-**	**-**	**-**	887	1,067	-
Total	**$ 3,382**	**$ 3,319**	**$ -**	$ 983	$ 1,163	$ -

Note: The recorded investment in the loan 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 loan receivable.

	For the Three Months Ended September 30, 2017		For the Three Months Ended September 30, 2016	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 3,019**	**$ 2**	$ -	$ -
Production and intermediate-term	**405**	**-**	-	-
Rural infrastructure	**-**	**-**	886	15
Total	**$ 3,424**	**$ 2**	$ 886	$ 15

	For the Nine Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 1,211**	**$ 7**	$ -	$ -
Production and intermediate-term	**362**	**1**	-	-
Rural infrastructure	**-**	**-**	964	30
Total	**$ 1,573**	**$ 8**	$ 964	$ 30

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

September 30, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ -	$ 2,466	$ 2,466	$ 392,720	$ 395,186	$ -
Production and intermediate-term	2,568	-	2,568	149,962	152,530	-
Agribusiness	-	-	-	104,022	104,022	-
Rural infrastructure	-	-	-	31,246	31,246	-
Agricultural export finance	-	-	-	4,380	4,380	-
Total	$ 2,568	$ 2,466	$ 5,034	$ 682,330	$ 687,364	$ -

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	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 433	$ -	$ 433	$ 384,424	$ 384,857	$ -
Production and intermediate-term	519	-	519	154,662	155,181	-
Agribusiness	-	-	-	97,438	97,438	-
Rural infrastructure	-	-	-	31,951	31,951	-
Agricultural export finance	-	-	-	4,029	4,029	-
Total	$ 952	$ -	$ 952	$ 672,504	$ 673,456	$ -

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

	Balance at June 30, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2017
Real estate mortgage	$ 1,021	$ -	$ -	$ 47	$ 1,068
Production and intermediate-term	920	-	1	(4)	917
Agribusiness	623	-	-	(44)	579
Rural infrastructure	180	-	-	(2)	178
Agricultural export finance	17	-	-	-	17
Total	$ 2,761	$ -	$ 1	$ (3)	$ 2,759

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2017
Real estate mortgage	$ 988	$ -	$ -	$ 80	$ 1,068
Production and intermediate-term	709	1	4	205	917
Agribusiness	597	-	-	(18)	579
Rural infrastructure	196	-	-	(18)	178
Agricultural export finance	18	-	-	(1)	17
Total	$ 2,508	$ 1	$ 4	$ 248	$ 2,759

	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

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	
	2017	2016	**2017**	2016
Balance at beginning of period	**$ 563**	$ 363	**$ 387**	$ 218
Provision for unfunded commitments	**(19)**	31	**157**	176
Total	**$ 544**	$ 394	**$ 544**	$ 394

Additional information on the allowance for credit losses follows:

	Allowance for Credit Losses Ending Balance at September 30, 2017		Recorded Investments in Loans Outstanding Ending Balance at September 30, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ -	$ 1,068	$ 2,987	$ 392,199
Production and intermediate-term	-	917	395	152,135
Agribusiness	-	579	-	104,022
Rural infrastructure	-	178	-	31,246
Agricultural export finance	-	17	-	4,380
Total	$ -	$ 2,759	$ 3,382	$ 683,982

	Allowance for Credit Losses Ending Balance at December 31, 2016		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ -	$ 988	$ 78	$ 384,779
Production and intermediate-term	-	709	18	155,163
Agribusiness	-	597	-	97,438
Rural infrastructure	-	196	887	31,064
Agricultural export finance	-	18	-	4,029
Total	$ -	$ 2,508	$ 983	$ 672,473

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, 2017.

The Association had no TDRs within the previous 12 months and 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, 2017.

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, 2017	December 31, 2016	**September 30, 2017**	December 31, 2016
Rural infrastructure	**$ -**	$ 887	**$ -**	$ -
Total	**$ -**	$ 887	**$ -**	$ -

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

NOTE 3 - CAPITAL

Effective January 1, 2017, the regulatory capital requirements for 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 earning equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios.

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.

A summary of select capital ratios as of September 30, 2017, based on a three-month average and minimums follows.

	As of September 30, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	17.15%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	17.15%	6.0%	2.5%*	8.5%
Total capital ratio	17.60%	8.0%	2.5%*	10.5%
Permanent capital ratio	17.21%	7.0%	–	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	18.75%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	19.13%	1.5%	–	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.

If capital ratios fall below the regulatory minimum plus 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, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

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	
	2017	2016	**2017**	2016
Pension and other benefit plans:				
Beginning balance	**$ (47)**	$ (51)	**$ (50)**	$ (55)
Amounts reclassified from accumulated other comprehensive loss	**1**	1	**4**	5
Ending balance	**$ (46)**	$ (50)	**$ (46)**	$ (50)

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		For the Nine Months Ended September 30		
	2017	2016	**2017**	2016	
Pension and other benefit plans: Net actuarial loss	**$ 1**	$ 1	**$ 4**	$ 5	Salaries and employee benefits
Total reclassifications	**$ 1**	$ 1	**$ 4**	$ 5	

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 2016 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, 2017	**$ 882**	**$ –**	**$ –**	**$ 882**
December 31, 2016	$ 727	$ –	$ –	$ 727

During the first nine months of 2017, 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, 2017 or December 31, 2016.

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, 2017					
Loans	**$ –**	**$ –**	**$ 3,382**	**$ 3,382**	**$ -**
December 31, 2016					
Loans	$ –	$ –	$ 96	$ 96	$ -

With regard to impaired loans and other property owned, 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 other property owned and takes 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, 2017 or December 31, 2016.

Valuation Techniques

As more fully discussed in Note 2 to the 2016 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 6, 2017, which is the date the financial statements were issued, and no material subsequent events were identified.