Premier Farm Credit

PREMIERACA.com

ANNUAL REPORT 2017

2017

ANNUAL REPORT

PREMIER FARM CREDIT, ACA

MESSAGE TO STOCKHOLDERS

Dear Members:

On behalf of the Board of Directors and staff, we are pleased to present the 2017 Annual Report for Premier Farm Credit, ACA. This report is a comprehensive review of our financial condition and represents the consolidated results of operations for Premier Farm Credit, PCA and Premier Farm Credit, FLCA, the wholly owned subsidiaries of Premier Farm Credit, ACA.

Your Association experienced another successful year in 2017. Despite challenging economic conditions, we achieved modest growth in our loan portfolio. Earnings were strong as a result of continued growth in net interest income and prudent management of expenses. These earnings allowed us to maintain a solid capital base to fund your future needs, and enabled the Board of Directors to declare another strong cash patronage dividend.

The Board of Directors remains committed to a meaningful patronage program, and demonstrated this by declaring a cash patronage dividend of $3.75 million for 2017. This illustrates our financial strength and continued commitment to the true value of the cooperative model, and brings the total amount returned to our member-owners since 1996 to $53.96 million!

Premier remains dedicated to the success of our member-owners and the communities we serve. We are proud of the impact we make by providing a dependable source of credit and sharing our profits, much of which gets reinvested locally. We additionally demonstrate our commitment to community by investing in numerous youth and educational outreach programs, and projects that support agriculture and our rural economy.

We thank you for your business and recognize that you, the member-owners, are the reason for our success. Please accept our sincere appreciation for your continued support and commitment to the Association.

Sincerely,

Michael Grauberger
President and Chief Executive Officer

Premier Farm Credit Mission Statement

Premier Farm Credit supports rural communities by providing sound, competitively priced credit and related services to enhance the economic well-being of farmers, ranchers and ag businesses.

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2017	2016	2015	2014	2013
Statement of Condition Data					
Loans	**$ 673,782**	$ 663,887	$ 643,743	$ 595,554	$ 564,620
Less allowance for loan losses	**2,796**	2,508	2,133	1,882	1,720
Net loans	**670,986**	661,379	641,610	593,672	562,900
Investment in CoBank, ACB	**21,547**	20,860	19,670	17,884	17,444
Other assets	**28,343**	23,623	21,250	24,854	22,469
Total assets	**$ 720,876**	$ 705,862	$ 682,530	$ 636,410	$ 602,813
Obligations with maturities of one year or less	**$ 20,451**	$ 16,351	$ 17,443	$ 20,412	$ 19,715
Obligations with maturities longer than one year	**547,948**	545,410	529,566	488,513	462,810
Reserve for unfunded commitments	**426**	387	218	-	-
Total liabilities	**568,825**	562,148	547,227	508,925	482,525
Capital stock	**901**	938	956	960	985
Unallocated retained earnings	**151,540**	142,826	134,402	126,593	119,343
Accumulated other comprehensive loss	**(390)**	(50)	(55)	(68)	(40)
Total shareholders' equity	**152,051**	143,714	135,303	127,485	120,288
Total liabilities and shareholders' equity	**$ 720,876**	$ 705,862	$ 682,530	$ 636,410	$ 602,813

	For the Year Ended December 31				
	2017	2016	2015	2014	2013
Statement of Income Data					
Net interest income	**$ 18,148**	$ 17,376	$ 16,313	$ 15,123	$ 14,091
Patronage distribution from Farm Credit institutions	**2,568**	2,749	2,285	2,311	2,008
Provision for credit losses/(Credit loss reversal)	**324**	293	451	155	(171)
Noninterest expense, net	**7,923**	7,819	7,401	6,451	6,048
Provision for/(Benefit from) income taxes	**5**	89	(63)	78	117
Net income	**$ 12,464**	$ 11,924	$ 10,809	$ 10,750	$ 10,105
Comprehensive income	**$ 12,124**	$ 11,929	$ 10,822	$ 10,722	$ 10,141
Key Financial Ratios					
For the Year					
Return on average assets	**1.78%**	1.76%	1.68%	1.80%	1.82%
Return on average shareholders' equity	**8.33%**	8.45%	8.13%	8.54%	8.57%
Net interest income as a percentage of average earning assets	**2.73%**	2.70%	2.67%	2.67%	2.68%
Net (recoveries)/charge-offs as a percentage of average net loans	**<(0.01%)**	(0.04%)	<(0.01%)	<(0.01%)	<(0.01%)
At Year End					
Shareholders' equity as a percentage of total assets	**21.09%**	20.36%	19.82%	20.03%	19.95%
Debt as a ratio to shareholders' equity	**3.74:1**	3.91:1	4.04:1	3.99:1	4.01:1
Allowance for loan losses as a percentage of loans	**0.41%**	0.38%	0.33%	0.32%	0.30%
Common equity tier 1 (CET1) capital ratio	**17.37%**	N/A	N/A	N/A	N/A
Tier 1 capital ratio	**17.37%**	N/A	N/A	N/A	N/A
Total regulatory capital ratio	**17.81%**	N/A	N/A	N/A	N/A
Tier 1 leverage ratio	**18.91%**	N/A	N/A	N/A	N/A
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**19.29%**	N/A	N/A	N/A	N/A
Permanent capital ratio	**17.44%**	17.27%	16.71%	17.42%	17.19%
Total surplus ratio	**N/A**	17.14%	16.57%	17.27%	17.03%
Core surplus ratio	**N/A**	17.14%	16.57%	17.10%	16.56%
Net Income Distribution					
Cash patronage distribution paid	**$ 3,500**	$ 3,000	$ 3,500	$ 3,000	$ 4,250
Cash patronage declared	**$ 3,750**	$ 3,500	$ 3,000	$ 3,500	$ 3,000

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Premier Farm Credit, ACA (Association) for the year ended December 31, 2017. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.premieraca.com, or upon request. We are located at 202 Poplar Street, Sterling, Colorado 80751, or may be contacted by calling (970) 522-5295.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of 69 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of northeastern Colorado. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts, and provide additional services to borrowers such as leasing and fee appraisals. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member. CoBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District.

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual 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 by calling (970) 522-5295. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our current service agreement expires on December 31, 2018. We are a shareholder in AgVantis, along with other AgVantis customers. Farm Credit Foundations, a human resource shared service provider for a number of Farm Credit institutions, provides administration for our payroll and benefits and may provide related human resource offerings.

ECONOMIC OVERVIEW

During 2017, economic conditions in our region were stable. While many operations continue to maintain financial stability resulting from prior earnings and asset appreciation, a general erosion of working capital and loan margins is taking place. During 2017, cash grain prices remained depressed relative to previous historic levels. Local weather conditions were mostly favorable in 2017. The territory benefited from generally adequate and timely moisture; however, there were some adverse localized weather events that impacted production.

Crop yields were generally very good across the territory in 2017. Corn, wheat and sugar beet production reflected above average yields. Strong crop production combined with favorable forward marketing by some producers did help to enhance earnings for some operations. Cash grain prices remain below the cost of production for many producers resulting in losses for this sector. This segment of the loan portfolio continues to exhibit more credit stress, as some producers have continued to suffer operating losses resulting in a deterioration of working capital and loan margins. Cow calf operations remain profitable and have shown some improvement from last year due to higher calf prices. Feedlot and stocker operations have also shown some improvement from last year. Producers continue to make strategic decisions and adjustments to their operations to deal with the realization that commodity prices may remain low for an extended period of time. The production outlook for 2018 looks average at this time. The territory has not received much fall or winter moisture. However, irrigation and water supplies are anticipated to be adequate with local reservoirs being full.

General economic conditions outside of agriculture remained favorable in 2017. The national unemployment rate dropped to 4.1%, down 0.6% from December 2016 with the Colorado unemployment rate at 3.1%, down 0.1% from December 2016. The general economy has benefited from job growth, increased household and business spending, tax reform, and continued strength in the housing sector. The Federal Open Market Committee raised the fed funds target rate by 0.75% during 2017 citing a strengthening labor market and economic activity rising at a solid rate. The Committee also cited that household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters. Inflation is expected to remain somewhat below 2.0% in the near term but stabilize to around the Committee's 2.0% objective. The local economy continues to reflect stability with low unemployment and stable housing prices.

Key reforms related to trade, regulatory change, tax reform, healthcare, and immigration are all issues that could impact agriculture and the general economy. The weakening of the U.S. dollar over the past three years has been positive for trade as U.S. produced commodities remain competitive with other exporting nations. Gradual interest rate increases are anticipated; however, the Federal Reserve remains cautious in their approach, closely monitoring economic data and financial market developments.

New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Acts of 2017 (TCJA) were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent. While the Association realized a net expense due to the revaluation of the net deferred tax asset from the decrease in the federal corporate tax rate in its 2017 financial results, the full impact of the TCJA is difficult to predict and may not be fully known for several years. Changes that could affect our business and customers include, but are not limited to, modifications to deductions surrounding interest expense and equipment purchases and the overall changes in the competitive environment impacting financial institutions.

The credit quality of the purchased loan portfolio remained stable in 2017. This is attributed to the continued improvement witnessed in the general economy and lower raw commodity prices, which benefit many of the businesses in this portfolio. The broad commodity sectors financed within the purchased loan portfolio serves as a method to diversify overall portfolio risk. While the purchased loan portfolio does have areas that reflect potential risk, the portfolio is not expected to experience material stress in 2018.

Loan growth was modest in 2017. Portfolio growth was achieved in purchased loans, while a slight reduction was realized in all direct loan categories. Direct new loan demand continues to remain slow compared with prior years as producers have become more conservative given current economic conditions. Land prices within our territory have retreated from the peak levels reached a few years ago. While most of the observed price decreases have been relatively modest, some instances have been more significant for less productive tracts. We continue to monitor real estate price trends and the potential impact to the loan portfolio. Credit quality declined in the direct loan portfolio due

to depressed commodity prices. Some additional deterioration may occur; however, credit quality is anticipated to remain adequate in 2018, insulated in part with the diversification of the purchased loan portfolio.

The Agricultural Act of 2014 (Farm Bill) was signed into law on February 7, 2014. This Farm Bill governs an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs for five years. The Farm Bill eliminates $23 billion in mandatory federal spending over a 10-year period, representing a reduction in the U.S. government farm policy support. The Farm Bill repeals direct payments and limits producers to risk management tools that offer protection when they suffer significant losses. The Farm Bill provides continued support for crop insurance programs, strengthens livestock disaster assistance and provides dairy producers with a voluntary margin protection program without imposing government-mandated supply controls.

During August 2017, CoBank management announced changes to their capital plans and patronage programs for eligible customer-owners designed to address a number of marketplace challenges. The changes are intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance CoBank's ability to capitalize future customer growth, and ensure equitability among different customer segments. For cooperatives and other eligible direct borrowers as well as for loans purchased from other Farm Credit institutions, the new target patronage levels take effect in 2018 calendar year and will be reflected in patronage distributions made in March 2019. Affiliated Associations and non-affiliated Farm Credit and other financing institutions will transition to their new target patronage levels over a multi-year period ending in 2020.

LOAN PORTFOLIO

Total loans outstanding were $673.8 million at December 31, 2017, an increase of $9.9 million, or 1.5%, from loans at December 31, 2016 of $663.9 million, and an increase of $30.1 million, or 4.7%, from loans at December 31, 2015 of $643.7 million. The increase in loans was due to increased participations purchased through our arrangements with the Commercial Finance Group (CFG) and others. The types of loans outstanding at December 31 are reflected in the following table.

	2017		2016		2015	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage loans	**$382,589**	**56.8%**	$ 378,037	56.94%	$ 364,923	56.67%
Production and intermediate-term loans	**153,827**	**22.8%**	152,897	23.03%	150,739	23.42%
Agribusiness loans	**100,027**	**14.8%**	97,122	14.63%	90,324	14.04%
Rural infrastructure loans	**33,353**	**5.0%**	31,840	4.80%	35,398	5.50%
Agricultural export finance loans	**3,986**	**0.6%**	3,991	0.60%	2,000	0.31%
Rural residential real estate loans	**–**	**–**	–	–	359	0.06%
Total	**$ 673,782**	**100.00%**	$ 663,887	100.00%	$ 643,743	100.00%

Real estate mortgage loans outstanding increased 1.2% to $382.6 million, compared with $378.0 million at year-end 2016, primarily due to new loan demand within the territory combined with reduced loan prepayment activity. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 0.6% to $153.8 million compared with 2016 loans of $152.9 million, primarily due to new loan demand, advances on revolving lines of credit, and reduced loan prepayments. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years. Our production and intermediate-term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. 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.

Agribusiness loans increased 3.0% to $100.0 million compared with 2016 loans of $97.1 million, primarily due to new participations purchased within this portfolio segment. An increase was also noted in the rural infrastructure sector due to loan participation activity while a slight decrease occurred in the agriculture export finance sector. At

December 31, 2017 approximately 98% of agribusiness and 100% of rural infrastructure and agricultural export finance volume were a result of loan participations.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size as illustrated in the following four tables.

We purchase loan participations from other System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established.

To increase our market share of broadly syndicated participation loans, we are a party to a shared lending operation known as the Commercial Finance Group (CFG). The agreement includes our Association together with Oklahoma AgCredit, ACA; Farm Credit of Southern Colorado, ACA; and several associations in the AgriBank District. 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 essentially replaced the Agribusiness Finance Group (AFG), which was a similar agreement that terminated in 2011. The AFG agreement included our Association and three other District Associations. The remaining participations through AFG will terminate at maturity or renewal.

Our volume of participations purchased and sold as of December 31 follows.

(dollars in thousands)	**2017**	2016	2015
Participations purchased – CFG	**$ 145,023**	$ 134,917	$ 119,996
Participations purchased – other	**39,076**	32,674	37,112
Total participations purchased	**$ 184,099**	$ 167,591	$ 157,108
Total participations sold	**$ 16,372**	$ 20,414	$ 18,640

Beginning in 2017, AFG amounts are included in Participations purchased – other. These amounts for 2016 and 2015 have also been combined with other for comparative purposes. Prior to this change in the table, participations purchased – other were loans purchased from CoBank and other Farm Credit associations.

Loan volume and growth in the participation portfolio continues with increased credit needs of existing borrowers and new borrower opportunities. The growth in participations is primarily in processing and marketing, agricultural mortgages, and production and intermediate loan types. There have been more opportunities to grow volume with participations due to the favorable general economy.

We have no loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold.

The geographic distribution of loans by county at December 31 follows. As previously mentioned we purchase loan participations outside our territory, which are included in Other in the following table.

	2017	2016	2015
Logan	**11.05%**	10.92%	11.46%
Morgan	**9.27%**	8.39%	8.48%
Phillips	**11.58%**	11.84%	11.05%
Sedgwick	**1.00%**	0.92%	1.38%
Washington	**7.03%**	7.44%	6.96%
Yuma	**19.75%**	20.24%	21.19%
Other Colorado Counties	**11.38%**	12.13%	12.62%
Other States	**28.94%**	28.12%	26.86%
Total	**100.00%**	100.00%	100.00%

Our largest volume concentration is in Yuma County due to its physical size and the scale of operations relative to other counties. The Other – Colorado counties category represents 11.38% of the portfolio, a 0.75% decrease from 2016. The Other States category represents 28.94% of the portfolio, a 0.82% increase from 2016. The increase in Other States relates primarily to participations purchased.

We are party to a Territorial Concurrence Agreement (Agreement) with Farm Credit of Southern Colorado, ACA. The Agreement reduces territorial restrictions and allows each association to make loans in the other association's territory regardless of a borrower's place of residence, location of operations, location of loan security, or location of headquarters. This Agreement can be terminated by either association with 30 days' written notice.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

	December 31		
SIC Category	**2017**	2016	2015
Corn	**32.15%**	34.53%	36.82%
Beef	**19.63%**	18.37%	15.79%
Wheat	**8.98%**	9.95%	10.92%
Landlords	**6.28%**	6.33%	6.33%
Hay	**1.85%**	2.00%	2.29%
Other	**31.11%**	28.82%	27.85%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of corn, beef, and wheat producers. The Other category reflects 31.11% of the volume and is comprised of 93 separate commodity groups, the largest representing 2.24% of the total. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers, which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our outstanding loan volume at December 31, 2017, approximately 56% consists of borrowers with income not solely from agricultural sources, a decrease from 59% for 2016, and an increase from 53% for 2015.

The principal balance outstanding at December 31, 2017 for loans $250 thousand or less accounted for 20.3% of loan volume and 71.2% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loan principal by dollar size at December 31 for the last three years.

	2017		2016		2015	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 136,919**	**1,716**	$149,212	1,959	$150,943	1,994
$251 - $500	**120,818**	**340**	114,908	323	114,897	320
$501 - $1,000	**162,593**	**221**	144,565	199	137,605	188
$1,001 - $5,000	**226,199**	**131**	228,066	133	211,646	118
$5,001 – 25,000	**27,252**	**3**	27,136	3	28,652	3
Total	**$ 673,782**	**2,411**	$663,887	2,617	$643,743	2,623

Approximately 14% of our loans outstanding is attributable to 10 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of $11.9 million at year-end 2017, $9.9 million at year-end 2016 and $8.9 million at year-end 2015 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated 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 contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2017.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 70,979	$ 50,640	$ 47,957	$ 9,409	$ 178,985
Standby letters of credit	1,532	375	256	220	2,383
Total commitments	$ 72,511	$ 51,015	$ 48,213	$ 9,629	$ 181,368

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. We consider potential losses related to unfunded commitments, and a reserve for unfunded commitments is included in the liabilities section of the Consolidated Statement of Condition. The related provision for the reserve for unfunded commitment is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

(dollars in thousands)	**2017**	2016	2015
Nonaccrual loans:			
Real estate mortgage	**$ 2,987**	$ 78	$ –
Production and intermediate term	**291**	18	–
Agribusiness	**1,268**	–	–
Rural Infrastructure	**–**	–	922
Total nonaccrual loans	**4,546**	96	922
Accruing restructured loans:			
Rural Infrastructure	**–**	887	–
Total accruing restructured loans	**–**	887	–
Total high risk assets	**$ 4,546**	$ 983	$ 922
Nonaccrual loans to total loans	**0.67%**	0.01%	0.14%
High risk assets to total loans	**0.67%**	0.15%	0.14%
High risk assets to total shareholders' equity	**2.99%**	0.68%	0.68%

We had no loans classified as 90 days past due still accruing interest and no other property owned for the years presented.

Total high risk assets increased $3.6 million, or 362.5%, to $4.5 million at December 31, 2017 compared with year-end 2016. Contributing to the increase in our high risk assets were loans to borrowers adversely impacted by commodity price volatility and higher farm input costs in the current agricultural environment.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased $4.5 million compared with December 31, 2016 and increased $3.6 million compared with December 31, 2015 due to the transfer of loans to nonaccrual status. These loans were transferred to nonaccrual as a result of borrower stress due to low commodity prices. At December 31, 2017, 13 loans to three borrowers were nonaccrual. The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

(dollars in thousands)	**2017**	2016	2015
Nonaccrual loans current as to principal and interest	**$ 2,081**	$ 29	$ 922
Restructured loans in nonaccrual status	**$ –**	$ –	$ 922

For the years presented, we had no cash basis nonaccrual loans.

Accruing restructured loans including related accrued interest decreased $887 thousand during 2017 primarily as a result of repayments. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

High risk asset volume is anticipated to increase in the future. Adverse economic conditions, low commodity prices, stressed asset values, weather conditions, and deterioration in the agricultural economy may be factors that could contribute to the increase.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Following are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31 for the last three fiscal years.

	2017	2016	2015
Acceptable	**85.31%**	91.10%	96.13%
OAEM	**6.87%**	6.39%	1.93%
Substandard	**7.82%**	2.51%	1.94%
Total	**100.00%**	100.00%	100.00%

Recent economic conditions have created challenges for some borrowers and our credit quality has declined. The decline in credit quality has been mostly related to the direct loan portfolio due to decreased earnings resulting from lower commodity prices. Loans classified as Acceptable and OAEM were 92.18% at December 31, 2017, 97.49% at December 31, 2016 and 98.06% at December 31, 2015. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade through 2014 as a result of strong commodity prices and asset appreciation. While many of our borrowers have maintained generally strong financial positions, a general erosion of working capital has taken place during the past three years. Agriculture remains a cyclical business that is heavily influenced by production, operating costs, and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Overall credit quality is anticipated to remain relatively sound in the near term, insulated in part with the current credit quality strength of our participation loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.03% at December 31, 2017, compared with 0.13% at December 31, 2016 and 0.01% at December 31, 2015.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31 for the last three fiscal years.

(dollars in thousands)	**2017**	2016	2015
Balance at beginning of year	**$ 2,508**	$ 2,133	$ 1,882
Charge-offs:			
Production and intermediate-term	**1**	2	–
Total charge-offs	**1**	2	–
Recoveries:			
Real estate mortgage	**–**	–	10
Production and intermediate-term	**4**	7	8
Rural infrastructure	**–**	246	–
Total recoveries	**4**	253	18
Net recoveries	**(3)**	(251)	(18)
Provision for loan losses	**285**	124	233
Balance at December 31	**$ 2,796**	$ 2,508	$ 2,133
Net recoveries to average net loans	**<(0.01%)**	(0.04%)	<(0.01%)

The following table presents the allowance for loan losses by loan type as of December 31 for the last three fiscal years.

(dollars in thousands)	**2017**	2016	2015
Real estate mortgage	**$ 1,078**	$ 988	$ 935
Production and intermediate-term	**956**	709	432
Agribusiness	**571**	597	544
Rural infrastructure	**175**	196	212
Agricultural export finance	**16**	18	10
Total	**$ 2,796**	$ 2,508	$ 2,133

The allowance for loan losses increased $288 thousand from December 31, 2016, to $2.8 million at December 31, 2017. The increase in allowance for loan losses was primarily due to the provision for loan losses totaling $285 thousand that was recorded due to lower credit quality primarily in the direct loan portfolio and net recoveries of $3 thousand that were recorded during 2017. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2016, our allowance for loan losses increased $375 thousand from 2015 primarily due to the provision for loan losses totaling $124 thousand that was recorded due to lower credit quality primarily in the direct loan portfolio and net recoveries of $251 thousand that were recorded during 2016. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2017	2016	2015
Allowance as a percentage of:			
Loans	**0.41%**	0.38%	0.33%
Impaired loans	**61.50%**	255.14%	231.34%
Nonaccrual loans	**61.50%**	2,612.50%	231.34%

We maintain a separate reserve for unfunded commitment, which is included in Liabilities on our 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 commitment follows.

(dollars in thousands)	**2017**	2016	2015
Balance at beginning of year	**$ 387**	$ 218	$ –
Provision for unfunded commitments	**39**	169	218
Balance at December 31	**$ 426**	$ 387	$ 218

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. Our YBS mission statement is as follows:

PREMIER FARM CREDIT, ACA WILL ENCOURAGE THE FINANCING OF YOUNG, BEGINNING, AND SMALL FARMERS, RANCHERS AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS BY IMPLEMENTING A PROGRAM DESIGNED TO MEET THE NEEDS OF THESE APPLICANTS TO THE FULLEST EXTENT OF THEIR CREDITWORTHINESS. THE ASSOCIATION WILL SUPPORT GOVERNMENT EFFORTS TO PROVIDE YBS PRODUCERS ASSISTANCE THROUGH SPECIAL PROGRAMS.

Following are FCA regulatory definitions for YBS farmers and ranchers.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2012 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	USDA	**2017**	2016	2015
Young	7.67%	**20.43%**	20.56%	19.85%
Beginning	11.07%	**19.84%**	19.92%	19.49%
Small	32.15%	**33.82%**	34.28%	33.45%

Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions. Young farmers are defined as 34 years old and younger by the USDA, while FCA definitions include farmers 35 years old and younger. Beginning farmers are defined by FCA as those with 10 years or less farming experience; however, the USDA identifies beginning farmers as on their current farm less than 10 years. This may include both beginning farmers and experienced farmers who have recently changed farmsteads. Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While these definition differences do exist, the information is the best comparative information available.

We offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory. Such services include crop insurance, credit life insurance, fee appraisals, and equipment/vehicle leasing programs. We increase opportunities for YBS farmers by coordinating credit and credit services in the territory utilizing governmental and private sources. We utilize the Farm Service Agency (FSA) programs such as the 50/50 program or the 50/45/5 program. We continue to utilize FSA loan guarantees to assist us in meeting the needs of YBS borrowers. We have implemented effective outreach programs to attract YBS farmers and ranchers through sponsorships in area YBS organizations. We sponsor seminars that have YBS farmers as members or attendees. Our continued use of social media will strengthen our brand and allows us to reach a wider potential customer base. In addition, we are proud to invest in the future of our area youth by providing four $1,000 scholarships. The eligibility criteria allows the scholar to attend the school of their choice. Furthermore, we continue to maintain a Premier Farm Credit Student Board at Colorado State University, which gives us more visibility with the students and the Ag Department at Colorado State University. We also provide monetary donations to young farmer organizations, as well as area high school events and organizations such as 4-H and FFA. Staff members serve as 4-H Livestock judging coaches or as members of an FFA Advisory Board. Our qualitative efforts are strongly successful as all personnel are actively involved in furthering the opportunities for YBS producers within our territory. Premier continues to support the System’s partnership with the Farmer Veteran Coalition, an

organization aimed at mobilizing veterans to enter agriculture and feed America. We also support the System's "Home Grown by Heroes" program to help boost the marketing efforts for agriculture products produced by U.S. farmer veterans.

During 2017, we donated to 78 different groups or organizations where YBS members are active. We are proud to report that 64% of the members of the Stockholder's Advisory Committee and the Nominating Committee are reflected as young, beginning and/or small in the database.

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress. Quantitative goals established in the 2018 Business Plan reflect an annual growth rate of 3.5% for Young, Beginning and Small Farmers within loan numbers and classified volume.

The three year goals we have established to increase market share of loans to YBS farmers and ranchers are as follows:

(dollars in thousands)	Young Farmer/Rancher		Beginning Farmer/Rancher		Small Farmer/Rancher	
Year	Number	Year	Number	Volume	Number	Volume
12/31/2018	433	$92,060	420	$78,684	716	$66,874
12/31/2019	448	$95,282	435	$81,438	741	$69,215
12/31/2020	463	$98,617	450	$84,288	767	$71,638

As reflected in the following chart, during 2017, we experienced loan and volume reduction in all areas of young, beginning, and small. High capital asset prices continue to make it difficult for young and beginning farmers to begin or expand farming operations. This combined with continued depressed commodity prices and higher living costs present challenges for young and beginning farmers.

($000's)	Young	Beginning	Small
2017 Goal	474	459	790
	$100,501	$82,052	$71,487
2017 Actual	418	406	692
	$88,947	$76,023	$64,613
2016 Actual	451	437	752
	$95,715	$78,144	$68,083

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we have developed specific lending products directed at serving the YBS producers in our territory. These products include YBS specific loan programs, including the YBS Stocker Cattle Program, YBS Breeding Cattle Program and YBS Crop Farming Program. In addition, we utilize loan guarantee programs, fee waivers, and interest rate concessions to qualified YBS farmers. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the terms of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;

- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and,
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions. Separate underwriting standards and approval parameters exist for purchased participations.

By regulation, we cannot have loan commitments to one borrower for more than 15% of our lending and lease limit base. The lending and lease limit base is defined as permanent capital with any applicable adjustments related to preferred stock and any investment held in connection with the sale of loan participation interest. Additionally, we set our own lending limits to manage loan concentration risk. Separate lending limits below the regulatory limit have been established based on loan quality for loans originated by our Association, loans originated outside of our Association, and special lending programs. We have adopted an individual lending limit maximum of 14% of lending and lease limit base for our highest quality borrowers.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

The majority of our lending is first mortgage real estate loans, which must be secured by a first lien on real estate. Production and intermediate-term loans are typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories, A through F, that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B 0% to 3% anticipated principal loss; >5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; >15% to 20% range of economic loss
- D > 7% to 15% anticipated principal loss; >20% to 25% range of economic loss
- E > 15% to 40% anticipated principal loss; >25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

RESULTS OF OPERATIONS

Earnings Summary

In 2017, we recorded net income of $12.5 million, compared with $11.9 million in 2016, and $10.8 million in 2015. The increase in 2017 was primarily due to increases in net interest income and reduced provision for income taxes. These increases were partially offset by decreased noninterest income and higher noninterest expense along with an increase in provision for credit losses. The increased earnings in 2016 were due to increases in net interest income and noninterest income along with reduced provision for credit losses. Those increases were partially offset by

higher noninterest expenses and provision for income taxes. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2017 vs. 2016**	2016 vs. 2015
Net income, prior year	**$ 11,924**	$ 10,809
Increase/(Decrease) from changes in:		
Interest income	**2,209**	1,653
Interest expense	**(1,437)**	(590)
Net interest income	**772**	1,063
Provision for credit losses	**(31)**	158
Noninterest income	**(276)**	168
Noninterest expense	**(9)**	(122)
Provision for income taxes	**84**	(152)
Total increase in net income	**540**	1,115
Net income, current year	**$ 12,464**	$ 11,924

Return on average assets increased to 1.78% from 1.76% in 2016, and return on average shareholders' equity decreased to 8.33% from 8.45% in 2016. The increase in return on average assets was primarily the result of the increase in net income being greater in relation to the increase in average assets. The decrease in return on average shareholders' equity was primarily the result of the increase in net income not being greater in relation to the increase in average shareholders' equity.

Net Interest Income

Net interest income for 2017 was $18.1 million compared with $17.4 million for 2016 and $16.3 million for 2015. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to increased loan volume and higher loan interest rates. These increases were partially offset by increased funding costs. The following table provides an analysis of the individual components of the change in net interest income during 2017 and 2016.

(dollars in thousands)	**2017 vs. 2016**	2016 vs. 2015
Net interest income, prior year	**$ 17,376**	$ 16,313
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**1,239**	239
Interest rates paid	**(1,125)**	(72)
Volume of interest-bearing assets and liabilities	**652**	896
Interest income on nonaccrual loans	**6**	–
Increase in net interest income	**772**	1,063
Net interest income, current year	**$ 18,148**	$ 17,376

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2017	2016	2015
Net interest margin	**2.73%**	2.70%	2.67%
Interest rate on:			
Average loan volume	**4.51%**	4.31%	4.27%
Average debt	**2.16%**	1.95%	1.93%
Interest rate spread	**2.35%**	2.36%	2.34%

The slight decrease in interest rate spread resulted from a 20 basis point increase in interest rates on average loan volume offset by a 21 basis point increase in interest rates on average debt. The increase in net interest margin was due to higher rates earned on our own capital offset slightly by the decrease in the interest rate spread. Interest rates increased during the year, but these increases were mostly offset by higher costs of funds, resulting in minimal changes to interest rate margins and spreads.

Provision for Credit Losses/(Credit Loss Reversals)

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitment is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net provision for credit losses of $324 thousand in 2017, compared with net provision for credit losses of $293 thousand in 2016 and net provision for credit losses of $451 thousand in 2015. The provision for loan losses of $285 thousand recorded during 2017 was primarily due to lower credit quality on direct loans. The provision for reserve for unfunded commitments of $39 thousand was recorded during 2017 due to lower credit quality for commitments on direct loans.

The provision for loan losses recorded in 2016 and 2015 was primarily due to credit quality changes resulting in the cumulative adjustments to both general and management reserves. The provision for reserve for unfunded commitments recorded in 2016 was primarily due to credit quality changes. The provision for reserve for unfunded commitments recorded in 2015 was primarily due to the establishment of a separate provision for unfunded commitments, which had previously been included within the allowance for loan losses, and cumulative adjustments related to changes in credit quality.

Noninterest Income

During 2017, we recorded noninterest income of $4.0 million, compared with $4.2 million in 2016 and $4.1 million in 2015. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was $2.6 million in 2017, $2.5 million in 2016 and $2.2 million in 2015.

During August 2017, CoBank management announced changes to their patronage program. The new plan includes a reduction to our patronage income in 2018 of 5 basis points on participation loans with CoBank. Additionally, a reduction in patronage related to our direct note with CoBank for all other loans of 4 basis points in 2019 and a further reduction of 5 basis points in 2020. In 2017, we received 100 basis points on participation loans and 45 basis points related to our direct note with CoBank for all other loans.

In 2016 and 2015, we received a patronage distribution from AgVantis, based on our services purchased from AgVantis during the respective fiscal year. During 2017, no patronage distribution was issued. We received a Notice of Allocation with our total patronage of $219 thousand in 2016 and $38 thousand in 2015, which includes cash patronage of $44 thousand for 2016 and $8 thousand for 2015. The balance of the allocation is recorded in other assets. Additionally, we recorded a cash patronage of $7 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services. This compares with $7 thousand recorded in 2016 and $5 thousand in 2015. Patronage from these two entities and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received mineral income of $438 thousand during 2017, which is distributed to us quarterly by CoBank. Mineral income increased from $428 thousand in 2016 and decreased from $797 thousand in 2015. The slight increase from 2016 to 2017 is a result of higher mineral prices. The reduction from the 2015 level is primarily attributed to lower mineral prices resulting in reduced production and lease related income.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2017 were $282 thousand, a decrease of $91 thousand from 2016, primarily due to less fee income from the participation portfolio and less loan conversion activity. Loan fees increased $17 thousand in 2016 from 2015, primarily due to higher fee income from the participation portfolio and greater loan conversion activity. Financially related services income in 2017 was $515 thousand, a decrease of $16 thousand, from 2016, primarily due to lower commissions received from crop hail and multi-peril insurance partially offset with an increase in fee appraisal income. Financially related services income in 2016 increased by $62 thousand from 2015, primarily due to higher commissions received from crop hail and multi-peril insurance.

Noninterest Expense

Noninterest expense for 2017 increased $9 thousand, or 0.1%, to $9.3 million, compared with 2016 and $131 thousand, or 1.4% compared with 2015. Noninterest expense for each of the three years ended December 31 is summarized as follows:

(dollars in thousands)	**2017**	2016	2015	**Percent of Change** **2017/2016**	2016/2015
Salaries & employee benefits	**$ 5,078**	$ 4,777	$ 5,322	**6.30%**	(10.24%)
Occupancy & equipment	**449**	449	481	**–**	(6.65%)
Purchased services from AgVantis	**1,221**	1,325	997	**(7.85%)**	32.90%
Supervisory & examination costs	**267**	241	205	**10.79%**	17.56%
Other	**1,542**	1,677	1,574	**(8.05%)**	6.54%
Total operating expense	**8,557**	8,469	8,579	**1.04%**	(1.28%)
Farm Credit Insurance Fund premium	**751**	830	598	**(9.52%)**	38.80%
Total noninterest expense	**$ 9,308**	$ 9,299	$ 9,177	**0.10%**	1.33%

For the year ended December 31, 2017, total operating expense increased $88 thousand, or 1.0%, compared with the year ended December 31, 2016. Salary and employee benefits increased in 2017 due to increased salaries, bonus and incentives, pension expense, and other retirement benefit expenses. Salary and employee benefits decreased in 2016 primarily due to decreased pension and other retirement benefit expenses, decreases in other benefit costs, and reduced bonus and incentive payments. These decreases were offset by a modest increase in salary expenses. Occupancy and equipment was flat in 2017, but decreased in 2016 due to a reduction in furniture and equipment purchases and reduced depreciation expense. Purchased services from AgVantis decreased in 2017, primarily due to a reduction in fees charged during 2017. Purchased services increased in 2016, primarily due to rate increases charged by AgVantis. Supervisory and examination costs increased in 2017 and 2016 due to higher fees charged by FCA. Other expenses decreased in 2017 and increased in 2016 due to fluctuation in CFG loan servicing fees, training, advertising, and public relations expenses. Insurance Fund premium decreased $79 thousand to $751 thousand due to a decrease in the premium rate offset by an increase in volume.

Provision for income taxes/Benefit from income taxes

We recorded $5 thousand in provision for income taxes during 2017, compared with $89 thousand in 2016 and benefit from income taxes of $63 thousand in 2015. The decrease in 2017 was primarily due to the elimination of our deferred tax asset in 2016, which increased the tax provision that year. The tax expense was also impacted by $122 thousand in expense resulting from the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with accounting principles generally accepted in the United State (GAAP), the change to the lower corporate tax rate led to a revaluation of our deferred tax assets and deferred tax liabilities in the period of enactment (2017). Tax expense was also impacted by our patronage refund program. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 9 for additional details.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank. The GFA in effect at December 31, 2017 was scheduled to mature on May 31, 2018; however, a new GFA entered into effective January 1, 2018 will mature on December 31, 2022. The annual average principal balance of the note payable to CoBank was $535.5 million in 2017, $519.7 million in 2016 and $491.0 million in 2015.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's primary source of

funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank at fixed rates for specified terms as a part of CoBank's Association Equity Positioning Program (AEPP). This enables us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position.

Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based rate loans to borrowers. Our Asset/Liability Management Committee determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

We have a relationship with CoBank, and First Tennessee Bank to offer a purchase card program to commercial customers. The purchase cards are similar to credit cards and allow customers to make agricultural-related purchases which are then automatically posted to the customer's loan on a monthly basis. We remit payment to First Tennessee Bank on behalf of the borrowers each month for purchases made with the card.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2017 totaled $152.1 million, compared with $143.7 million at December 31, 2016 and $135.3 million at December 31, 2015. The increase of $8.4 million in shareholders' equity reflects net income partially offset by an increase in accumulated other comprehensive loss, patronage refunds and net stock retirements. Our capital position is reflected in the following ratio comparisons.

	2017	2016	2015
Debt to shareholders' equity	**3.74:1**	3.91:1	4.04:1
Shareholders' equity as a percent of net loans	**22.66%**	21.73%	21.09%
Shareholders' equity as a percent of total assets	**21.09%**	20.36%	19.82%

Debt to shareholders' equity decreased and shareholders' equity as a percent of net loans and of total assets increased from 2016 primarily due to the growth in shareholders' equity exceeding the increases in net loans and total assets on a relative basis.

Retained Earnings

Our retained earnings increased $8.7 million to $151.5 million at December 31, 2017 from $142.8 million at December 31, 2016 and increased $17.1 million from $134.4 million at December 31, 2015. The increase in 2017 was a result of net income of $12.5 million, partially offset by $3.8 million of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $3.5 million in 2017,

$3.0 million in 2016 and $3.5 million in 2015. During 2017, we declared patronage distributions of $3.8 million to be paid in March 2018.

Stock

Our total stock decreased $37 thousand to $901 thousand at December 31, 2017, from $938 thousand at December 31, 2016 and decreased from $956 thousand at December 31, 2015. The decrease during 2017 was due to $75 thousand of stock retirements, partially offset by $38 thousand of stock issuances. We require a stock investment for each borrower. We have a Borrower Level Stock Program, which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive loss totaled $390 thousand at December 31, 2017, an increase of $340 thousand compared with year-end 2016 and an increase of $335 thousand compared with year-end 2015. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive loss.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and,
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

In 2016, the FCA adopted final rules (the New Capital Regulations) relating to regulatory capital requirements for System banks and Associations. The New Capital Regulations took effect 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 (the Dodd-Frank Act).

The New Capital Regulations, among other things, replaced 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 added a tier 1 leverage ratio for all System institutions, which replaced the existing net collateral ratio for System banks. In addition, the New Capital Regulations established a capital conservation buffer and a leverage buffer and enhanced the sensitivity of risk weightings. The revisions to the risk-weightings included 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 capital plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 capital 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 established 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 established a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirement. 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 established a three-year phase-in of the capital conservation buffer beginning January 1, 2017. There is no phase-in of the leverage buffer.

As shown in the following table, at December 31, 2017, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends.

	2017	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**17.37%**	7.00%
Tier 1 Capital ratio	**17.37%**	8.50%
Total Capital ratio	**17.81%**	10.50%
Tier 1 Leverage ratio	**18.91%**	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	**19.29%**	1.50%
Permanent capital ratio	**17.44%**	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2017, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

As displayed in the following table, we exceeded the minimum regulatory capital requirements in effect through December 31, 2016.

	2016	2015	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	17.27%	16.71%	17.42%	17.19%	18.56%	7.00%
Total surplus ratio	17.14%	16.57%	17.27%	17.03%	18.38%	7.00%
Core surplus ratio	17.14%	16.57%	17.10%	16.56%	17.70%	3.50%

Refer to Note 7, Shareholders' Equity, in this report for additional information on our capital and related requirements and restrictions.

REGULATORY MATTERS

As of December 31, 2017, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

GOVERNANCE

Board of Directors

We are governed by an eleven-member board that provides direction and oversees our management. Of these directors, nine are elected by the shareholders and two are appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and,
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of four members of the Board of Directors. During 2017, four meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns, regarding accounting, internal accounting controls or auditing matters.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of ten members of the Board of Directors, all deemed to be independent of any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as Committee members. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

Policy Review Committee

The Policy Review Committee reports to the Board of Directors. The Policy Review Committee is composed of five members of the Board of Directors. During 2017, two meetings were held. The Committee semi-annually reviews, evaluates and recommends for approval to the Board of Directors various policies and procedures utilized by the Association.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints;
- a code of ethics for all employees;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- “plain English” disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and,
- information disclosure through our website.

Code of Ethics

Our directors and employees are responsible for maintaining the highest of standards in conducting our business. In that regard, we established a Code of Ethics for the Board of Directors and a Code of Ethics for all employees, including the Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, and other senior financial professionals who are involved, directly or indirectly, with the preparation of our financial statements and the maintenance of financial records supporting the financial statements. These Codes of Ethics supplement our Standards of Conduct Policies for Directors and Employees. Annually, each employee and director files a written and signed disclosure statement as required under the Standards of Conduct Policies. Likewise, all employees certify compliance with our Code of Ethics on an annual basis.

Whistleblower Program

We maintain a program for employee and general public complaints related to accounting, financial reporting, internal accounting controls, or auditing matters. This program allows employees and the general public to submit confidential, anonymous concerns regarding accounting, financial reporting, internal accounting controls, fraud or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee or individual who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action.

FORWARD-LOOKING INFORMATION

Our discussion contains 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 "anticipates," "believes," "could," "estimates," "may," "should," and "will," or other variations of these terms are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed by our Audit Committee. A summary of critical policies relating to the determination of the allowance for loan losses follows.

Allowance for Loan Losses/Reserve for Unfunded Commitment

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Additionally, we provide line of credit financing to our customers. We have established a reserve for unfunded commitment to cover probable losses. This reserve is reported as a liability in our consolidated balance sheet. The reserve for unfunded commitment is increased through provision for the reserve for unfunded commitments and is decreased through reversals of the reserve for unfunded commitments. Provision for loan losses and provision for reserve for unfunded commitments are referred to as a provision for credit losses on the Consolidated Statement of Comprehensive Income. We determine the allowance for loan losses and the reserve for unfunded commitment based on a regular evaluation of the loan and commitment portfolios, which generally considers recent historical charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 to the accompanying consolidated financial statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

Premier Farm Credit
The Gold Standard in Ag Lending

Premier Farm Credit, ACA
Sterling Administrative Office
202 Poplar Street | P.O. Box 1785
Sterling, CO 80751
www.premieraca.com

Telephone: 970.522.5295
Facsimile: 970.522.6584
Toll Free: 877.650.8240

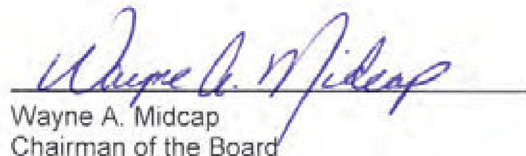
REPORT OF MANAGEMENT

The consolidated financial statements of Premier Farm Credit, ACA (Association) are prepared by management, who is 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 generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2017 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, management engaged Ann Wagner, an independent 3rd party, to perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The Association is also examined by the Farm Credit Administration.

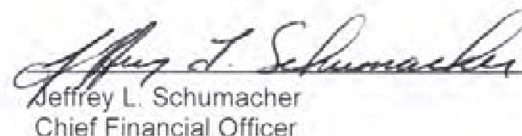
The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

The undersigned certify the Premier Farm Credit, ACA Annual Report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Wayne A. Midcap
Chairman of the Board

Michael Grauberger
President and Chief Executive Officer



Jeffrey L. Schumacher
Chief Financial Officer

March 16, 2018

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes four members from the Board of Directors of Premier Farm Credit, ACA (Association). In 2017, four Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2017.

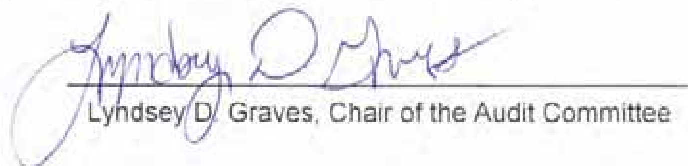
The fees for professional services rendered for the Association by its independent auditor, PwC, during 2017 were $44,700 for audit services and $7,900 for tax services.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

Management is responsible for the Association's 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 Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2017 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2017 and for filing with the Farm Credit Administration.



Lyndsey D. Graves, Chair of the Audit Committee

<u>Audit Committee Members</u>
Lyndsey D. Graves
Rebecca K.W. Lenz
Lisa E. Shinn
Richard P. Starkebaum

March 16, 2018

Report of Independent Auditors

To the Board of Directors of
Premier Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Premier Farm Credit, 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 comprehensive income, of changes in shareholders' equity, and of 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 Premier Farm Credit, ACA and its subsidiaries as of December 31, 2017, 2016, and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 16, 2018

PricewaterhouseCoopers LLP, 1100 Walnut St. Kansas City, MO 64106
T: (816) 472 7921, F: (816) 218 1890, *www.pwc.com/us*

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2017	2016	2015
ASSETS			
Loans	**$ 673,782**	$ 663,887	$ 643,743
Less allowance for loan losses	**2,796**	2,508	2,133
Net loans	**670,986**	661,379	641,610
Cash	**12,252**	7,958	7,181
Accrued interest receivable	**9,408**	9,569	8,030
Investment in CoBank, ACB	**21,547**	20,860	19,670
Premises and equipment, net	**1,023**	1,094	1,242
Prepaid benefit expense	**1,263**	861	368
Deferred tax asset	**-**	-	82
Other assets	**4,397**	4,141	4,347
Total assets	**$ 720,876**	$ 705,862	$ 682,530
LIABILITIES			
Note payable to CoBank, ACB	**$ 546,917**	$ 544,537	$ 528,720
Advance conditional payments	**11,958**	9,005	11,233
Accrued interest payable	**1,031**	873	846
Patronage distributions payable	**3,750**	3,500	3,000
Accrued benefits liability	**711**	361	353
Reserve for unfunded commitments	**426**	387	218
Other liabilities	**4,032**	3,485	2,857
Total liabilities	**568,825**	562,148	547,227
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock	**901**	938	956
Unallocated retained earnings	**151,540**	142,826	134,402
Accumulated other comprehensive loss	**(390)**	(50)	(55)
Total shareholders' equity	**152,051**	143,714	135,303
Total liabilities and shareholders' equity	**$ 720,876**	$ 705,862	$ 682,530

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2017	2016	2015
INTEREST INCOME			
Loans	**$ 29,966**	$ 27,757	$ 26,104
Total interest income	**29,966**	27,757	26,104
INTEREST EXPENSE			
Note payable to CoBank, ACB	**11,766**	10,347	9,752
Other	**52**	34	39
Total interest expense	**11,818**	10,381	9,791
Net interest income	**18,148**	17,376	16,313
Provision for credit losses	**324**	293	451
Net interest income after provision for credit losses	**17,824**	17,083	15,862
NONINTEREST INCOME			
Financially related services income	**515**	531	469
Loan fees	**282**	373	356
Patronage distribution from Farm Credit institutions	**2,568**	2,749	2,285
Mineral income	**438**	428	797
Other noninterest income	**150**	148	154
Total noninterest income	**3,953**	4,229	4,061
NONINTEREST EXPENSE			
Salaries and employee benefits	**5,078**	4,777	5,322
Occupancy and equipment	**449**	449	481
Purchased services from AgVantis, Inc.	**1,221**	1,325	997
Farm Credit Insurance Fund premium	**751**	830	598
Supervisory and examination costs	**267**	241	205
Other noninterest expense	**1,542**	1,677	1,574
Total noninterest expense	**9,308**	9,299	9,177
Income before income taxes	**12,469**	12,013	10,746
Provision for/(Benefit from) income taxes	**5**	89	(63)
Net income	**12,464**	11,924	10,809
COMPREHENSIVE INCOME			
Amortization of retirement costs	**5**	7	11
Actuarial (loss)/gain in retirement obligation	**(345)**	(2)	2
Total comprehensive income	**$ 12,124**	$ 11,929	$ 10,822

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	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		10,809	13	10,822
Stock issued	52			52
Stock retired	(56)			(56)
Patronage Distributions: Cash		(3,000)		(3,000)
Balance at December 31, 2015	956	134,402	(55)	135,303
Comprehensive income		11,924	5	11,929
Stock issued	54			54
Stock retired	(72)			(72)
Patronage Distributions: Cash		(3,500)		(3,500)
Balance at December 31, 2016	938	142,826	(50)	143,714
Comprehensive income		12,464	(340)	12,124
Stock issued	38			38
Stock retired	(75)			(75)
Patronage Distributions: Cash		(3,750)		(3,750)
Balance at December 31, 2017	**$ 901**	**$ 151,540**	**$ (390)**	**$ 152,051**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 12,464**	$ 11,924	$ 10,809
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**160**	183	191
Provision for credit losses	**324**	293	451
Stock patronage from CoBank, ACB	**(37)**	(46)	(43)
Allocated patronage from AgVantis	**-**	(175)	(30)
Gains on sales of premises and equipment	**(1)**	-	-
Change in assets and liabilities:			
Decrease/(Increase) in deferred tax asset	**-**	82	(67)
Decrease/(Increase) in accrued interest receivable	**161**	(1,539)	(1,386)
(Increase)/Decrease in prepaid benefit expense	**(402)**	(493)	130
(Increase)/Decrease in other assets	**(219)**	427	443
Increase/(Decrease) in accrued interest payable	**158**	27	(3,045)
Increase in accrued benefits liability	**10**	13	14
Increase/(Decrease) in other liabilities	**547**	628	(306)
Total adjustments	**701**	(600)	(3,648)
Net cash provided by operating activities	**13,165**	11,324	7,161
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(9,892)**	(19,893)	(48,171)
Increase in investment in CoBank, ACB	**(687)**	(1,190)	(1,786)
Expenditures for premises and equipment, net	**(88)**	(35)	(73)
Net cash used in investing activities	**(10,667)**	(21,118)	(50,030)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	**2,380**	15,817	44,098
Increase/(Decrease) in advance conditional payments	**2,953**	(2,228)	(2,164)
Capital stock retired	**(75)**	(72)	(56)
Capital stock issued	**38**	54	52
Cash patronage distributions paid	**(3,500)**	(3,000)	(3,500)
Net cash provided by financing activities	**1,796**	10,571	38,430
Net increase/(decrease) in cash	**4,294**	777	(4,439)
Cash at beginning of year	**7,958**	7,181	11,620
Cash at end of year	**$ 12,252**	$ 7,958	$ 7,181
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 11,660**	$ 10,354	$ 12,836
Income taxes	**$ 7**	$ 5	$ 2
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Stock patronage from CoBank, ACB	**$ 37**	$ 46	$ 43
Allocated patronage from AgVantis	**$ -**	$ 175	$ 30
Financed sales of other property owned	**$ -**	$ -	$ -
Loans transferred to other property owned	**$ -**	$ -	$ -
Net recoveries	**$ (3)**	$ (251)	$ (18)
Patronage distributions payable	**$ 3,750**	$ 3,500	$ 3,000
Change in accumulated other comprehensive loss	**$ (340)**	$ 5	$ 13

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

Notes To Consolidated Financial Statements

(Dollars in Thousands, Except as Noted)

Note 1 – Organization and Operations

A. Organization: Premier Farm Credit, ACA and its subsidiaries, Premier Farm Credit, FLCA, (Federal Land Credit Association (FLCA)) and Premier Farm Credit, PCA, (Production Credit Association (PCA)), (collectively called "the Association") are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Logan, Morgan, Phillips, Sedgwick, Yuma and Washington in the state of Colorado.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System is comprised of three Farm Credit Banks, one Agricultural Credit Bank and 69 associations.

CoBank, ACB (funding bank or the "Bank") its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. The CoBank District consists of CoBank, 22 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA) and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on its annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate Insured Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2.0 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds as applicable through to each Association based on the Association's average adjusted note payable with the Bank.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses.

The Association also offers credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts and provides additional services to borrowers such as leasing and fee appraisals.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 202 Poplar Street, Sterling, Colorado 80751 or by calling (970) 522-5295. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and District's financial condition, changes in financial condition, and results of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires Association management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's financial statement presentation.

The consolidated financial statements include the accounts of Premier Farm Credit, FLCA and Premier Farm Credit, PCA. All significant inter-company transactions have been eliminated in consolidation. Recently issued accounting pronouncements follow.

In March 2017, the Financial Accounting Standards Board (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 its 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 did not 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 determined the effect was not material to its financial condition or results of operations.

Below is a summary of our significant accounting policies.

A. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

   Impaired loans are loans for which it is probable that principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred is collected in full or otherwise discharged.

   Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

   A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

   When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

   In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

   The Association purchases loan participations from other System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System entities to reduce risk and comply with established lending limits. Loans are accounted for following the accounting requirements for sale treatment.

   The Association uses a two-dimensional loan rating model based on internally generated combined System risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower

will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model as previously discussed.

B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

C. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the prior ten-year average of such participations sold to CoBank.

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for the buildings ranges from 24 to 40 years, from 1 to 10 years for furniture and equipment, and from 1 to 5 years for automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

E. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions. Significant components of other liabilities primarily include accounts payable and employee benefits.

F. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while non-restricted are primarily related to production and intermediate-

term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

G. Employee Benefit Plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Pension Plan was closed to employees beginning January 1, 2007.

The 401(k) Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue code. The Association matches a certain percentage of employee contributions. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

The Association also participates in the Ninth District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the pension plan.

Certain eligible employees may also participate in a nonqualified deferred compensation plan where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

H. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned.

I. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of accounting guidance on income taxes. Association management's intent is to permanently invest these and other undistributed earnings in CoBank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings.

J. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

K. Fair Value Measurement: Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds which relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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 the following: (a) quoted prices for similar assets or liabilities in active markets; (b) 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, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and, (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are 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. Level 3 assets include other property owned.

The fair value disclosures are presented in Note 14.

L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2017	2016	2015
Real estate mortgage	**$ 382,589**	$ 378,037	$ 364,923
Production and intermediate-term	**153,827**	152,897	150,739
Agribusiness	**100,027**	97,122	90,324
Rural infrastructure	**33,353**	31,840	35,398
Agricultural export finance	**3,986**	3,991	2,000
Rural residential real estate	**–**	–	359
Total loans	**$ 673,782**	$ 663,887	$ 643,743

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2017:

	Other Farm Credit Institutions	
	Purchased	Sold
Real estate mortgage	$ 23,201	$ 9,892
Production and intermediate-term	25,992	6,480
Agribusiness	97,567	–
Rural infrastructure	33,353	–
Agricultural export finance	3,986	–
Total	$ 184,099	$ 16,372

A substantial portion of the Association's loans are collateralized. 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, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed or enhanced by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

Credit enhancements with federal government agencies of $11,910 at year-end 2017, $9,936 at year-end 2016 and $8,863 at year-end 2015 were outstanding. The Association utilizes Farm Service Agency (FSA) 90% guarantees. The United States Government guarantees to pay 90% of any loss incurred on the FSA guaranteed loans.

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and,
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2017	2016	2015
Real estate mortgage			
Acceptable	**83.61%**	90.98%	97.06%
OAEM	**7.77%**	6.90%	2.07%
Substandard	**8.62%**	2.12%	0.87%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**77.58%**	85.31%	93.74%
OAEM	**10.72%**	9.59%	1.73%
Substandard	**11.70%**	5.10%	4.53%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**98.40%**	98.38%	96.57%
OAEM	**–**	0.73%	1.65%
Substandard	**1.60%**	0.89%	1.78%
Total	**100.00%**	100.00%	100.00%
Rural infrastructure			
Acceptable	**100.00%**	97.22%	95.29%
OAEM	**–**	2.78%	2.11%
Substandard	**–**	–	2.60%
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**–**	–	100.00%
Total	**–**	–	100.00%
Agricultural export finance			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**85.31%**	91.10%	96.13%
OAEM	**6.87%**	6.39%	1.93%
Substandard	**7.82%**	2.51%	1.94%
Total	**100.00%**	100.00%	100.00%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	December 31		
	2017	2016	2015
Nonaccrual loans:			
Current as to principal and interest	**$ 2,081**	$ 29	$ 922
Past due	**2,465**	67	–
Total nonaccrual loans	**4,546**	96	922
Impaired accrual loans:			
Restructured accrual loans	**–**	887	–
Total impaired loans	**$ 4,546**	$ 983	$ 922

There were no loans classified as accruing loans 90 days or more past due for the years presented.

There were no material commitments to lend additional funds to debtors whose loans were classified impaired for the years presented.

High risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These nonperforming assets (including related accrued interest) are as follows:

(dollars in thousands)	December 31 2017	2016	2015
Nonaccrual loans			
Real estate mortgage	**$ 2,987**	$ 78	$ –
Production and intermediate term	**291**	18	–
Rural infrastructure	**1,268**	–	922
Total nonaccrual loans	**4,546**	96	922
Accruing restructured loans:			
Rural infrastructure	**–**	887	–
Total accruing restructured loans	**–**	887	–
Total high risk assets	**$ 4,546**	$ 983	$ 922

There was no other property owned for the years presented.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/17	Unpaid Principal Balance*	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 2,987	$ 2,904	$ 1,659	$ 5
Production and intermediate-term	291	290	353	1
Agribusiness	1,268	1,268	83	–
Total	$ 4,546	$ 4,462	$ 2,095	$ 6

	Recorded Investment at 12/31/16	Unpaid Principal Balance*	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 78	$ 78	$ 1	$ –
Production and intermediate-term	18	18	–	–
Rural infrastructure	887	1,067	944	45
Total	$ 983	$ 1,163	$ 945	$ 45

	Recorded Investment at 12/31/15	Unpaid Principal Balance*	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Rural infrastructure	$ 922	$ 1,111	$ 927	$ –
Total	$ 922	$ 1,111	$ 927	$ –

* Unpaid principal balance represents the recorded principal balance of the loan

There were no impaired loans with a related allowance for loan losses at December 31, 2017, 2016 or 2015.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	Year Ended December 31		
	2017	2016	2015
Interest income recognized on:			
Nonaccrual loans	**$ 6**	$ –	$ –
Restructured accrual loans	**–**	45	–
Interest income recognized on impaired loans	**$ 6**	$ 45	$ –

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

	Year Ended December 31		
	2017	2016	2015
Interest income which would have been recognized under the original loan terms	**$ 215**	$ 49	$ 92
Less: interest income recognized	**6**	45	–
Interest income not recognized	**$ 209**	$ 4	$ 92

The following table provides an age analysis of past due loans (including accrued interest).

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	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 173	$ 2,465	$ 2,638	$ 386,403	$ 389,041	$ –
Production and intermediate-term	–	–	–	156,341	156,341	–
Agribusiness	–	–	–	100,357	100,357	–
Rural infrastructure	–	–	–	33,453	33,453	–
Agricultural export finance	–	–	–	3,998	3,998	–
Total	$ 173	$ 2,465	$ 2,638	$ 680,552	$ 683,190	$ –

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 Outstanding	Recorded Investment > 90 Days and Accruing
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	$ –

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 Outstanding	Recorded Investment > 90 Days and Accruing
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	$ –

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.

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 2017, 2016 and 2015. Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable 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.

There were no TDRs that occurred within the previous 12 months of that year and for which there was a payment default during the period for any of the periods presented. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2017. There were additional commitments of $19 at December 31, 2016 and 2015.

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 at December 31.

	Loans Modified as TDRs			TDRs in Nonaccrual Status*		
	2017	2016	2015	**2017**	2016	2015
Rural infrastructure	**$ –**	$ 887	$ 922	**$ –**	$ –	$ 922
Total	**$ –**	$ 887	$ 922	**$ –**	$ –	$ 922

*Represents the portion of loans modified as TDRs that are in nonaccrual status.

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2017
Real estate mortgage	$ 988	$ –	$ –	$ 90	$ 1,078
Production and intermediate-term	709	1	4	244	956
Agribusiness	597	–	–	(26)	571
Rural infrastructure	196	–	–	(21)	175
Agricultural export finance	18	–	–	(2)	16
Total	$ 2,508	$ 1	$ 4	$ 285	$ 2,796

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2016
Real estate mortgage	$ 935	$ –	$ –	$ 53	$ 988
Production and intermediate-term	432	2	7	272	709
Agribusiness	544	–	–	53	597
Rural infrastructure	212	–	246	(262)	196
Agricultural export finance	10	–	–	8	18
Total	$ 2,133	$ 2	$ 253	$ 124	$ 2,508

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2015
Real estate mortgage	$ 717	$ –	$ 10	$ 208	$ 935
Production and intermediate-term	322	–	8	102	432
Agribusiness	599	–	–	(55)	544
Rural infrastructure	233	–	–	(21)	212
Agricultural export finance	11	–	–	(1)	10
Total	$ 1,882	$ –	$ 18	$ 233	$ 2,133

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on our 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 Year Ended December 31		
	2017	2016	2015
Balance at beginning of period	**$ 387**	$ 218	$ –
Provision for unfunded commitments	**39**	169	218
Total	**$ 426**	$ 387	$ 218

Additional information on the allowance for loan losses follows.

	Allowance for Credit Losses Ending Balance at December 31, 2017		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 1,078	$ 2,987	$ 386,054
Production and intermediate-term	–	956	291	156,050
Agribusiness	–	571	1,268	99,089
Rural infrastructure	–	175	–	33,453
Agricultural export finance	–	16	–	3,998
Total	$ –	$ 2,796	$ 4,546	$ 678,644

	Allowance for Credit Losses Ending Balance at December 31, 2016		Recorded Investment 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

	Allowance for Credit Losses Ending Balance at December 31, 2015		Recorded Investment in Loans Outstanding 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

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2017, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. The current requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned approximately 0.67 percent of the outstanding common stock of CoBank at December 31, 2017.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2017	2016	2015
Land	**$ 290**	$ 290	$ 290
Buildings and leasehold improvements	**2,390**	2,370	2,363
Furniture, equipment and automobiles	**1,311**	1,284	1,276
	3,991	3,944	3,929
Less: accumulated depreciation	**2,968**	2,850	2,687
Total	**$ 1,023**	$ 1,094	$ 1,242

NOTE 6 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). According to the agreement, the aggregate outstanding amount of principal and accrued interest shall not at any time exceed the line of credit. The GFA is subject to periodic renewals in the normal course of business. The GFA in effect at December 31, 2017 was scheduled to mature on May 31, 2018; however, a new GFA entered into effective January 1, 2018 will mature on December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2017. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

	December 31		
	2017	2016	2015
Line of credit	**$ 610,000**	$ 645,681	$ 624,065
Outstanding principal and accrued interest balance	**$ 547,935**	$ 545,404	$ 529,559
Average outstanding principal balance under the line of credit	**$ 535,546**	$ 519,694	$ 490,997
Weighted average interest rate	**2.20%**	1.99%	1.99%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. Other than our funding relationship with the Bank, and our advanced conditional payments, we have no other uninsured or insured debt. See Note 2 for additional information. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2017, the Association's notes payable was within the specified limitations.

The Association has the opportunity to commit loanable funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed loanable funds balance classified as a reduction of interest expense. These committed funds are netted against the note payable to the Bank. The average committed funds as of December 31 are as follows:

	2017	2016	2015
Average committed funds	**$ 135,410**	$ 130,793	$ 126,839
Average rates	**1.60%**	1.30%	1.14%

NOTE 7 – SHAREHOLDERS' EQUITY

Descriptions of the Association's capitalization, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. Protected Borrower Stock

Protection of certain stock is provided under the Farm Credit Act which requires the Association, when retiring protected stock, to retire it at par or stated value regardless of its book value. Protected stock

includes stock and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988.

B. Capital Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock. Our bylaws generally permit stock to be retired at the discretion of the Board of Directors and in compliance 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.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent of the amount of the loan to 10.00 percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower's combined loan volume.

C. Regulatory Capitalization Requirements and Restrictions

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. Effective January 1, 2017, new regulatory capital surplus requirements for Banks and Associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2017:

Ratio	Primary Components of Numerator	Denominator	Ratios as of December 31, 2017	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	17.37%	7.0%	4.5%
Tier 1 Capital	CET1 Capital, non-cumulative perpetual preferred stock	Risk-adjusted assets	17.37%	8.5%	6.0%
Total Capital	Tier 1 Capital, allowance for loan losses[2], common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	17.81%	10.5%	8.0%
Tier 1 Leverage**	Tier 1 Capital	Total assets	18.91%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	19.29%	—	1.5%

Ratio *(continued)*	**Primary Components of Numerator**	**Denominator**	**Ratios as of December 31, 2017**	**Minimum with Buffer***	**Minimum Requirement**
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	17.44%	—	7.0%

* The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

** Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.
[1] Equities outstanding 7 or more years
[2] Capped at 1.25% of risk-adjusted assets
[3] Outstanding 5 or more years, but less than 7 years
[4] Outstanding 5 or more years

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.

The Board of Directors has established, adopted, and maintains a formal Capital Adequacy Plan for the Association. The Capital Adequacy Plan establishes minimum capital standards to protect against credit and other general risks which are inherent in the Association's operations. These minimum standards are established above regulatory minimums which would allow the Association to react to a stressed capital environment before regulatory minimums are reached. The Association retires protected stock as established by Association Bylaws provided that the Association shall not retire stock if the action would result in failure of the Association to meet minimum capital requirements. The Association may also be subject to capital calls by CoBank to meet capital requirements for its joint and several liability obligations under the Farm Credit Act and regulations. Refer to Management's Discussion and Analysis (MDA) for further information.

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2017. Unless otherwise indicated all classes of stock have a par value of $5.00. All classes of stock are transferable to any holder to which such respective classes of stock may be issued. Refer to the MDA Capital Resources discussion for further information.

Class A — Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Represents Association retained earnings, dividends or patronage distributions allocated on or after October 6, 1988. This stock may also represent Class B or Class C Common Stock of a borrower which automatically converts to Class A two years after repayment of the loan in full. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

Class B — Common Stock (Voting, at-risk, 178,954 shares outstanding) - Issued on or after October 6, 1988, for farm and ranch loans. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations. If the Association is unable to retire Class B Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class C Common Stock (Nonvoting, at-risk, 1,200 shares outstanding) - Issued on or after October 6, 1988, for farm-related and rural home loans and to other persons or organizations who are eligible to borrow but are not eligible to hold voting stock. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations. If the Association is unable to retire Class C Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class D Investor Stock (Nonvoting, at-risk, no shares outstanding, par value of 1,000 dollars) – Shall be issued only to CoBank. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value as may be determined by any agreement of financial assistance between the Association and CoBank) - Issued only to CoBank in consideration of financial assistance to the Association from CoBank. Retirement is at the sole discretion of the Board of Directors. Class E Preferred Stock shall be retired in accordance with the provisions of any agreement entered into between the Association and CoBank in consideration of CoBank providing financial assistance to the Association.

Class F Common Stock (Voting, protected, no shares outstanding) - Issued prior to October 6, 1988, to borrowers entitled to vote. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. If so, the stock must be converted to Class G Common Stock within two years after loan repayment in full. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

Class G Common Stock (Nonvoting, protected, no shares outstanding) - Formerly participation certificates, this represents stock issued prior to October 6, 1988, to rural residence borrowers and others not eligible to vote. This stock may also represent Class F Common Stock of a borrower which automatically converts to Class G Common Stock two years after repayment of the loan in full. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

If at any time the Association does not meet the minimum capital adequacy standards established by FCA, all stock required to be purchased as a condition of obtaining a loan shall be purchased from the Association and may not be purchased from persons other than the Association.

The changes in the number of shares of capital stock outstanding during 2017 are summarized in the following table.

Shares in whole numbers	Capital
Balance outstanding at January 1, 2017	187,597
Issuances	7,501
Retirements	(14,944)
Balance outstanding at December 31, 2017	180,154

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock, System institutions and non-System institutions with or for whom the Association conducts certain business transactions out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained

earnings. The Association made a cash patronage distribution of $3,500 in 2017, $3,000 in 2016 and $3,500 in 2015. The Association declared a patronage distribution of $3,750 in 2017 to be paid in 2018.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: First, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former Patrons on a patronage basis, to the extent practicable.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2017, the Association allocated 30.17 percent of its patronage-sourced net income to its patrons.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association has accumulated other comprehensive loss of $390 in 2017, $50 in 2016 and $55 in 2015. There were no other items affecting comprehensive income or loss.

The following table presents activity in the accumulated other comprehensive income/(loss), net of tax by component:

	2017	2016	2015
Pension benefit plan:			
Beginning balance	**$ (50)**	$ (55)	$ (68)
Other comprehensive (loss)/income before reclassifications	**(345)**	(2)	2
Amounts reclassified from accumulated other comprehensive loss	**5**	7	11
Net current period other comprehensive (loss)/income	**(340)**	5	13
Year-end balance	**$ (390)**	$ (50)	$ (55)

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
	December 31			
	2017	2016	2015	
Pension benefit plan:				
Net actuarial loss	**$ 5**	$ 7	$ 11	Salaries and employee benefits
Total reclassifications	**$ 5**	$ 7	$ 11	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

Patronage income recognized from Farm Credit institutions to the Association follows.

	2017	2016	2015
CoBank	**$ 2,561**	$ 2,523	$ 2,242
AgVantis	–	219	38
Farm Credit Foundations	**7**	7	5
Total	**$ 2,568**	$ 2,749	$ 2,285

Patronage distributed from CoBank was in cash and stock. The amount earned in 2017 was accrued and will be paid by CoBank in March 2018. The amount earned and accrued in 2016 and 2015 was paid by CoBank in March of the following year.

Patronage distribution from AgVantis was in the form of a Notice of Allocation; 20 percent was distributed in cash with the balance of the allocation recorded as an investment in AgVantis which is recorded in other assets in the year received.

Patronage distributed by Farm Credit Foundations was accrued at the end of the year and will be paid in March 2018. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 9 – INCOME TAXES

The provision for/(benefit from) income taxes follows.

	Year Ended December 31		
	2017	2016	2015
Current:			
Federal	**$ 5**	$ 7	$ 4
State	**–**	1	–
Deferred:			
Federal	**–**	71	(59)
State	**–**	10	(8)
Provision for/(Benefit from) income taxes	**$ 5**	$ 89	$ (63)

The provision for/(benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows.

	Year Ended December 31		
	2017	2016	2015
Federal tax at statutory rate	**$ 4,239**	$ 4,085	$ 3,654
State tax, net	**–**	7	(5)
Effect of non-taxable entity	**(3,999)**	(3,826)	(3,485)
Change to valuation allowance	**(6)**	219	–
Patronage refunds	**(345)**	(390)	(224)
Change in tax rates	**122**	–	–
Other	**(6)**	(6)	(3)
Provision for/(Benefit from) income taxes	**$ 5**	$ 89	$ (63)

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2017	2016	2015
Deferred income tax assets:			
Allowance for loan losses	**$ 291**	$ 341	$ 179
Interest on nonaccrual loans	**6**	–	–
Depreciation	**58**	78	68
Gross deferred tax assets	**355**	419	247
Deferred tax asset valuation allowance	**(243)**	(239)	–
Deferred income tax liabilities:			
Sale of fixed assets	**–**	(5)	(4)
Bank patronage allocation	**(106)**	(167)	(153)
Investment in partnership	**(6)**	(8)	(8)
Gross deferred tax liability	**(112)**	(180)	(165)
Net deferred tax asset	**$ –**	$ –	$ 82

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

In 2017, tax expense of $122 resulted from the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of the Association's deferred tax assets and deferred tax liabilities in the period of enactment (2017).

The Association recorded a valuation allowance of $243 in 2017and $239 in 2016. The Association recorded no valuation allowance in 2015. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

The Association has no uncertain tax positions as of December 31, 2017, 2016 or 2015. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2014 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth Retirement Plan, a 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 eligible 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 the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves 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.

The defined benefit pension plan reflects an unfunded liability totaling $84.6 million at December 31, 2017. The pension benefits funding status 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 projected benefit obligation of the plan was $292.6 million at December 31, 2017, $270.6 million at December 31, 2016 and $244.3 million at December 31, 2015. The fair value of the plan assets was $208.0 million at December 31, 2017, $175.6 million at December 31, 2016 and $155.1 million at December 31, 2015. The amount of the pension benefits 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 its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $12.7 million in 2017, $11.3 million in 2016 and $16.1 million in 2015. The Association's allocated share of plan expenses included in salaries and employee benefits was $704 in 2017, $610 in 2016, and $854 in 2015. Participating employers contributed $20.0 million in 2017, $20.4 million in 2016 and $13.6 million in 2015 to the plan. The Association's allocated share of these pension contributions was $1.1 million in 2017, $1.1 million in 2016 and $724 in 2015. 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 employer contributions expected to be paid into the pension plans during 2018 is $20.0 million. The Association's allocated share of these pension contributions is expected to be $1.2 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 anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were income of $2 in 2017, nominal income in 2016, and expense of $5 in 2015. The Association made cash contributions of $10 in 2017, $10 in 2016 and $21 in 2015.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were $22 in 2017, $23 in 2016 and $29 in 2015.

The funding status and the amounts recognized in the Consolidated Statement of Condition for the Association's Pension Restoration Plan follows:

	Nonqualified Pension Benefits		
	2017	2016	2015
Change in projected benefit obligation:			
Benefit obligation at the beginning of the period	**$ 277**	$ 259	$ 242
Service cost	**9**	9	9
Interest cost	**8**	7	10
Actuarial loss /(gain)	**345**	2	(2)
Benefit obligation at the end of the period	**$ 639**	$ 277	$ 259
Fair value of plan assets at the end of the period	**–**	–	–
Funded status of the plan	**$ (639)**	$ (277)	$ (259)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 639**	$ 277	$ 259
Net amount recognized	**$ 639**	$ 277	$ 259

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan at December 31:

	2017	2016	2015
Net actuarial loss	**$ (390)**	$ (50)	$ (55)
Total amount recognized in AOCI/(loss)	**$ (390)**	$ (50)	$ (55)

An estimated net actuarial loss of $81 for the Pension Restoration Plan will be amortized into income over the next year.

The projected and accumulated benefit obligation for the Pension Restoration Plan at December 31 was:

	2017	2016	2015
Projected benefit obligation	**$ 639**	$ 277	$ 259
Accumulated benefit obligation	**$ 639**	$ 172	$ 161

The net periodic pension expense for the Pension Restoration Plan included in the Consolidated Statement of Comprehensive Income is comprised of the following at December 31.

	Pension Benefits		
	2017	2016	2015
Components of net periodic benefit cost			
Service cost	**$ 9**	$ 9	$ 8
Interest cost	**8**	7	10
Net amortization and deferral	**5**	7	11
Net periodic benefit cost	**$ 22**	$ 23	$ 29

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2017	2016	2015
Current year net actuarial gain/(loss)	**$ (345)**	$ (2)	$ 2
Amortization of net actuarial loss	**5**	7	11
Total recognized in other comprehensive income/(loss)	**$ (340)**	$ 5	$ 13

Weighted average assumptions used to determine benefit obligation at December 31:

	2017	2016	2015
Discount rate	**3.35%**	3.51%	3.60%
Rate of compensation increase	**5.00%**	5.00%	5.00%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	2017	2016	2015
Discount rate			4.10%
Projected benefit obligation	**3.51%**	3.60%	
Service cost	**3.58%**	3.77%	
Interest cost	**3.04%**	2.86%	
Rate of compensation increase	**5.00%**	5.00%	5.00%

The Association does not expect to contribute to the Pension Restoration Plan in 2018.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Restoration Benefits
2018	$ –
2019	$ –
2020	$ –
2021	$ –
2022	$ –
2023 – 2027	$ 793

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to the Contribution Plan were $258 in 2017, $242 in 2016 and $255 in 2015.

NOTE 11 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are 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 unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board of Directors or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2017	2016	2015
Beginning balance	**$ 24,984**	$ 25,633	$ 16,457
New loans	**42,239**	48,914	59,094
Repayments	**(43,244)**	(48,128)	(52,766)
Reclassifications*	**4,373**	(1,435)	2,848
Ending balance	**$ 28,352**	$ 24,984	$ 25,633

* Represents loans that were once considered related party, but are no longer considered related party, or loans that were not related party that subsequently became related party loans.

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2017 involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid $1,221 in 2017, $1,325 in 2016 and $997 in 2015 to AgVantis for technology services and paid nothing in 2017 and 2016, and $34 in 2015 to CoBank for operational services. One Association officer, elected by AgVantis' owners, serves as an AgVantis' director. The Association paid $101 in 2017, $102 in 2016, and $94 in 2015 to Foundations for human resource services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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 contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2017, $179.0 million of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2017, $2.4 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2018 to 2025. The maximum potential amount of future payments the Association is required to make under the guarantees is $2.4 million.

NOTE 14 – 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 an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
2017	**$ 955**	**$**	**$**	**$ 955**
2016	$ 727	$ –	$ –	$ 727
2015	$ 590	$ –	$ –	$ 590

The Association has no liabilities measured at fair value on a recurring basis for the periods presented. During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Loan Assets				
2017	**$ –**	**$ –**	**$ –**	**$ –**
2016	$ –	$ –	$ 96	$ 96
2015	$ –	$ –	$ 922	$ 922

The Association has no assets measured at fair value on a non-recurring basis for 2017 and no liabilities measured at fair value on a non-recurring basis for any of the periods presented.

Valuation Techniques

As more fully discussed in Note 2, 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. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. 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 collateral since the loans are collateral-dependent loans for which real estate is the collateral. 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 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2017, 2016 and 2015, follow.

	2017				
	First	Second	Third	Fourth	Total
Net interest income	**$ 4,633**	**$ 4,388**	**$ 4,568**	**$ 4,559**	**$ 18,148**
Provision for credit losses/(Credit loss reversal)	**236**	**191**	**(22)**	**(81)**	**324**
Noninterest expense, net	**1,270**	**1,388**	**1,420**	**1,282**	**5,360**
Net income	**$ 3,127**	**$ 2,809**	**$ 3,170**	**$ 3,358**	**$ 12,464**

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,139	$ 4,274	$ 4,446	$ 4,517	$ 17,376
Provision for credit losses/(credit loss reversal)	244	22	(118)	145	293
Noninterest expense, net	1,306	1,245	1,324	1,284	5,159
Net income	$ 2,589	$ 3,007	$ 3,240	$ 3,088	$ 11,924

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,915	$ 4,023	$ 4,138	$ 4,237	$ 16,313
Provision for credit loss	12	103	5	331	451
Noninterest expense, net	1,259	1,256	1,223	1,315	5,053
Net income	$ 2,644	$ 2,664	$ 2,910	$ 2,591	$ 10,809

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 16, 2018 which is the date the financial statements were issued, and no material subsequent events were identified.

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

(Amounts in Whole Dollars)

DESCRIPTION OF BUSINESS

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the financial statements, “Organization and Operations,” included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from “Management’s Discussion and Analysis” (MD&A) included in this annual report to shareholders.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding the properties of the Association:

Location	Description	Form of Ownership
202 Poplar Street Sterling, Colorado 80751	Office Building (Administrative Office)	Owned
229 South Third Street Sterling, Colorado 80751	Office Building	Owned
225 East Railroad Avenue Ft. Morgan, Colorado 80701	Office Building	Owned
700 West Eighth Avenue Yuma, Colorado 80759	Office Building	Owned
143 South Campbell, Suite 100 Holyoke, Colorado 80734	Office Building	Leased*
210 North 2nd Street Sterling, Colorado 80751	Vacant	Owned

** Automatically renewable month-to-month lease, currently leased for $500.00 per month.*

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, “Regulatory Enforcement Matters,” and Note 13 to the financial statements, “Commitments and Contingencies,” included in this annual report to shareholders.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, “Shareholders’ Equity,” included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 6 to the financial statements, “Note Payable to CoBank,” included in this annual report to shareholders.

The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, “Summary of Significant Accounting Policies,” included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 13 included in this annual report to shareholders.

Unaudited

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2017, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors and senior officers of the Association.

DIRECTORS

Wayne A. Midcap	Chairman - Mr. Midcap represents the Northwest Region – Seat 1, serving a three-year term which expires in 2020. Business Experience: Farming and selling certified seed wheat. Mr. Midcap is a shareholder in four family farm operations, Midcap Seed & Grain, LLC; Midcap Farms; Longview Farms, LLC; and Rock Creek Farms, Inc. which are diversified dryland farming operations that raise certified seed wheat and millet. He is a director and past president of Colorado Seed Growers Association. He has been a member of the Farm Credit System for 29 years. Mr. Midcap serves on the Compensation Committee and represents the Association as a member of the District Farm Credit Council Board.
Bruce W. Kokes	Vice Chairman - Mr. Kokes represents the Northeast Region – Seat 2, serving a three-year term which expires in 2018. Business Experience: Farming and ranching. Mr. Kokes operates Bruce Kokes Farm and is a partner in the MMB Partnership. Mr. Kokes raises wheat, millet, and hay and runs a cow/calf operation. Mr. Kokes serves as a Director and Treasurer for the Crook Fire Protection District. He is also a member of the Northeastern Junior College Young Farmers. Mr. Kokes has been a member of the Farm Credit System for 21 years.
Michael J. Brownell	Outside Appointed Director – Mr. Brownell is from Fleming, Colorado, serving a three-year term which expires in 2019. Business Experience: Mr. Brownell has farmed since 1986 and owns and operates Brownell Farms, raising dryland wheat, millet, and sunflowers. In 2014, Mr. Brownell retired as a Professor at Northeastern Junior College (NJC) after teaching Agriculture Business Management and agronomy for over 22 years. Mr. Brownell received numerous awards including NJC Faculty Member of the Year in 1998 and in 2008. Mr. Brownell serves on the Board of the Fleming Rural Fire District and is the Treasurer and Assistant Fire Chief of the Fleming Fire Department. He also serves as a member of the NJC Ag Business Advisory Committee and is on the Logan County Farm Bureau Board where he holds the position of Secretary. Mr. Brownell and his wife, Laural, own the Sterling Trophy Shop. In addition, Mr. Brownell serves as Co-Personal Representative for the Kendall and Les Smith Estates and is a partner in N.C.S. Management Systems. Mr. Brownell serves on the Compensation Committee and Policy Review Committee.
Ryan W. Godsey	Director – Mr. Godsey was appointed in October of 2015 to fill the vacant position in the South Region – Seat 2, with his term expiring in 2018. Business Experience: Farming and ranching. Mr. Godsey operates R & S Godsey Farms, Inc. with his wife, Susan, and raises corn, beans, wheat and cattle in a family operation with his parents. Ryan serves on the Board of Directors of CHS Cooperative and attends New Life Christian Center. His wife, Susan, owns and operates HC Insurance in Wray, CO. He has been a member of the Farm Credit System since 2006. Mr. Godsey serves on the Compensation Committee and is Chairman of the Policy Review Committee.
Lyndsey D. Graves	Outside Appointed Director and Financial Expert – Mrs. Graves is from the Holyoke area – serving a 3-year term expiring in 2018, having served since 2012. Business experience: Corporate accounting, banking, and auditing. Lyndsey is a CPA providing tax and consulting services to clients in Northeast Colorado. In addition to owning her own firm, Just Numbers, LLC, Lyndsey and her husband operate 926 Farms, LLC, an irrigated farming operation near Holyoke. Mrs. Graves and her husband also own Decked Out Truck Parts LLC, a retail truck parts business. Lyndsey is also a certified Annie's Project Trainer. Mrs. Graves graduated Summa Cum Laude from UNC/Monfort

	College of Business in Greeley and received her Master's in Taxation from DU/Sturm College of Law. Mrs. Graves serves on the Compensation Committee and is Chair of the Audit Committee.
Allen Hutt	Director – Mr. Hutt represents the Northwest Region – Seat 3, serving a three-year term which expires in 2019. Business Experience: Mr. Hutt is a fourth generation diversified farmer producing irrigated corn, wheat, hay, and millet. He also has a custom hay business and cow/calf operation. Mr. Hutt serves as a 4-H Leader and raises show pigs. He and his wife, Melinda, own Country Creations, an embroidery and screen printing business. Mr. Hutt has been a member of Premier Farm Credit for 13 years. He serves on the Compensation Committee and Policy Review Committee.
Randall W. Kirkwood	Director – Mr. Kirkwood represents the Northeast Region, Seat 1, serving a three-year term which expires in 2020. Business Experience: Farming and ranching. Mr. Kirkwood raises dryland wheat and operates a cow/calf operation, with help from his wife, Jolene. He currently serves as President of the Fleming School Board and is the Fleming Jr. High and High School Girls' Basketball Coach. Mr. Kirkwood has been a member of Premier Farm Credit for 7 years. He serves on the Compensation Committee and Policy Review Committee.
Rebecca K.W. Lenz	Director – Mrs. Lenz represents the South Region – Seat 3, serving a three-year term which expires in 2019. Business Experience: Farming and controller for several family companies. Mrs. Lenz has been involved in farming with her husband, George, and their family partnerships, Six by Two Land Company, LLLP; Eagle Acres, LLC; and Wildcat Ag, LLC. She is also involved in Lenz Farms GP; Lenz Family Farms, LLC; LFE, LLC; Sand Creek Charolais, LLC; Five Aces, LLC; Royal Flush Farms, LLC; ProGrain Farms; Ag Legacy, LLC; Full House, LLLP; and Wy Hold'em, LLC. They produce corn, potatoes, dry edible beans and wheat as well as operate a cow/calf operation, background calves and raise a registered Charolais herd. Mrs. Lenz serves on the Wray Community District Hospital Board of Directors, is a Leader for Wauneta 4-H Club in Yuma County, member of St. Andrew's Catholic Church and Rocky Mountain Farmers Union. She is also a certified Annie's Project trainer. Mrs. Lenz has been a member of the Farm Credit System for 29 years. Mrs. Lenz serves on the Audit Committee and is Chair of the Compensation Committee.
Mark A. Oestman	Director – Mr. Oestman represents the South Region – Seat 1, serving a three-year term which expires in 2020. Business Experience: Farming and ranching. Mr. Oestman farms and ranches with his father, Terry Oestman, and is the Managing Partner of Oestman Farms, LLC which operates a diversified irrigated farm with a crop rotation of corn, soybeans, white wheat, and canola. His other affiliated entities include: Boo Farms, LLC; Lazy J-3 Limited; James P. Brophy Homeplace, LLLP. Mr. Oestman enjoys carrying on the family tradition of growing watermelons. He currently serves as Secretary on the Kitzmiller Grazing Association Board, Financial Secretary for the Yuma Knights of Columbus, and President of the Yuma Conservation District Board. Mr. Oestman is a member of St. John the Evangelist Catholic Church and serves on the Pastoral Council. He previously served as President of the Colorado Corn Administrative Committee. Mr. Oestman has been a member of Premier Farm Credit for 14 years. He serves on the Compensation Committee and is Secretary of the Policy Review Committee.
Lisa E. Shinn	Director – Mrs. Shinn represents the Northwest Region – Seat 2, serving a three-year term which expires in 2018. Business Experience: Mrs. Shinn is a partner in CTL Farm & Ranch, LLC, a family farming operation with her sisters that is leased to a local farmer. She is also involved in Eckley Land & Oil, LLC and Lyle & Viola Myers Trust. Mrs. Shinn is a retired Professor at Northeastern Junior College where she taught Agriculture Business Management for 25 years to local farmers and ranchers. In addition, Mrs. Shinn provides private accounting consulting for a few producers in northeast Colorado. She served as a Rural Rascals 4-H Club Leader; Merino FCCLA and FBLA Club Parent; and Co-Sponsor for NJC Aggies Club. Mrs. Shinn also serves as a member of NJC's ABM Advisory Committee. She has been a member of the Farm Credit System for 26 years. She serves on the Compensation Committee and Audit Committee.
Richard P. Starkebaum	Director – Mr. Starkebaum represents the Northeast Region – Seat 3, serving a three year term which expires in 2019. Business Experience: Farming and ranching. Mr.

	Starkebaum is President of Starkebaum Farms, Inc., Manager of C-Star Farms, LLC, Trustee of Starkebaum Family Revocable Trust, and Partner in L&P Starkebaum LLP. He raises wheat, corn, millet and hay as well as running a cow/calf operation. He is currently President of the Haxtun School Board. He also serves as Chairman of the Phillips County Planning Commission, Chairman of Region One Translator Association and Chairman of the Phillips County Recreation District. Mr. Starkebaum has been a member of the Farm Credit System for 37 years. He serves on the Audit Committee and is Vice Chairman of the Compensation Committee.
Eldon Herrmann	Director - Mr. Herrmann represented the Northeast Region – Seat 1, having served a three-year term which expired in 2017.
Timothy Trim	Director - Mr. Trim represented the South Region – Seat 1, having served a three-year term which expired in 2017.

SENIOR OFFICERS

Michael Grauberger	President - Chief Executive Officer (Effective 1/1/2018) Mr. Grauberger assumed the President and Chief Executive Officer role on January 1, 2018. Prior to 2018, he served as the Chief Financial Officer. Mr. Grauberger has been a Farm Credit System employee since June 9, 1986. All of his years of service have been with associations that formed Premier Farm Credit, ACA, except for three years in which he was employed by the FLBA of Colorado Springs. During his tenure, Mr. Grauberger has served in various capacities and was appointed Chief Financial Officer on March 1, 2014.
Richard Sanger	President - Chief Executive Officer Mr. Sanger retired December 31, 2017. During his tenure, Mr. Sanger has served in various capacities and was appointed President and Chief Executive Officer on April 27, 2006. Mr. Sanger had been a Farm Credit System employee since June 3, 1985. All of his years of service have been with associations that formed Premier Farm Credit, ACA, except for five years in which he was employed by the Federal Land Bank of Pueblo and the Eighth Farm Credit District.
Jeffrey L. Schumacher	Chief Financial Officer (Effective 1/1/2018) Mr. Schumacher has been a Farm Credit employee since February 19, 1992. All of his years of service have been with associations that formed Premier Farm Credit, ACA. During his tenure, Mr. Schumacher has served in various capacities. Mr. Schumacher became Chief Financial Officer effective January 1, 2018. Prior to 2018, he served as Vice President – Credit.
Douglas D. Keil	Chief Credit Officer Mr. Keil has been a Farm Credit System employee since August 19, 1986. All of his years of service have been with associations that formed Premier Farm Credit, ACA, except for two years in which he was employed by the Eighth Farm Credit District and Farm Credit Services of the Mountain Plains, ACA. During his tenure, Mr. Keil has served in various capacities and was appointed Chief Credit Officer in May 2000.
Phyllis P. Luft	Vice President - Administration Mrs. Luft has been a Farm Credit System employee since October 10, 1983. All of her years of service have been with associations that formed Premier Farm Credit, ACA, except for three and a half years in which she was employed by Farm Credit Services of the Mountain Plains, ACA. During her tenure, Mrs. Luft has served in various capacities and was appointed Vice President - Administration in April 2000.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $500 per day. The chairman was compensated for services on a per diem basis at the rate of $600 per day. During 2017, mileage was reimbursed at a rate of $0.535 per mile while on official business. The Compensation Committee meetings were held in conjunction with the regular board meetings, so no additional compensation was paid to the directors for these meetings.

Additional information for each director is provided as follows.

Name	Number of Days Served at		Compensation for			Total Compensation Paid During 2017
	Board Meetings	Other Official Activities	Board Meetings	Policy Review	Audit	
Wayne A. Midcap	9.0	5.5	$ 8,700	$ –	$ –	$ 8,700
Bruce W. Kokes	10.0	1.0	5,500	–	–	5,500
Michael J. Brownell	8.0	9.5	7,750	1,000	–	8,750
Ryan W. Godsey	9.0	7.5	7,250	1,000	–	8,250
Lyndsey D. Graves	10.0	9.5	7,750	–	2,000	9,750
Allen Hutt	10.0	7.0	7,500	1,000	–	8,500
Randall W. Kirkwood	6.0	8.5	6,250	1,000	–	7,250
Rebecca K.W. Lenz	10.0	9.5	7,750	–	2,000	9,750
Mark A. Oestman	5.0	4.5	3,750	1,000	–	4,750
Lisa E. Shinn	10.0	9.5	8,750	–	1,000	9,750
Richard P. Starkebaum	10.0	7.0	7,500	–	1,000	8,500
Eldon Herrmann	4.0	4.0	4,000	–	–	4,000
Timothy D. Trim	4.0	1.0	2,000	–	500	2,500
Total Compensation			$ 84,450	$ 5,000	$ 6,500	$ 95,950

Directors are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were $71,434 in 2017, $79,131 in 2016 and $68,765 in 2015. There was no non-cash compensation paid to directors in 2017.

President and CEO[2]	Year	Annual				Total
		Salary	Incentive compensation[3]	Deferred/ Perquisites[4]	Other[5]	
Richard Sanger	2017	$ 265,261	$ 65,000	($ 61,025)	$ 31,471	$ 300,707
Richard Sanger	2016	$ 250,119	$ 65,000	$ 328,872	$ 4,170	$ 648,161
Richard Sanger	2015	$ 233,948	$ 65,000	$ 292,204	$ 2,906	$ 594,058

Aggregate Number of Officers/Highly Compensated Individuals (excluding CEO)[2]	Year	Annual				Total
		Salary	Incentive compensation[3]	Deferred/ Perquisites[4]	Other[5]	
7	2017	$ 978,156	$ 141,225	$ 1,121,290	$ 8,718	$2,249,389
7	2016	$ 896,943	$ 144,082	$ 779,686	$ 9,465	$1,830,176
7	2015	$ 848,209	$ 160,252	$ 661,568	$ 7,618	$1,677,647

1. Disclosure of the total compensation paid during 2017 to any designated senior officer or highly compensated employee is available to our shareholders upon request. The Salary and Incentive Compensation columns of the Summary Compensation Table include all amounts earned during 2017 regardless of whether a portion of such compensation has been deferred by the CEO or other Senior Officers' elections pursuant to the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan) and the Farm Credit Foundations Nonqualified Deferred Compensation Plan (NQDC Plan).
2. The senior officers and highly compensated employees included above are those officers defined by FCA regulations Section 619.9310 and Section 620.6.
3. Incentive compensation amounts represent amounts earned in the reported fiscal year, which are paid in February of the subsequent year. The annual incentive compensation amounts are calculated based on relevant performance factors for the reported fiscal year.
4. The Change in Pension Value increased in 2017 primarily due to the increase in years of service and age and changes in actuarial assumptions such as the discount rate. The change in value of the pension benefits is defined as the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year, disclosed in Note 10 of the Financial Statements. Also represents company contributions to retirement plans for all employees and any changes in value of pension benefits. In 2017, the Association's employer matching contribution to the CEO's account in the 401(k) Plan was $9,476 and its contribution to the CEO's account in the NQDC Plan to restore the employer match that was limited due to restrictions in the Internal Revenue Code and compensation deferred was $6,345. Also included is a decrease in Pension value of $76,846 for the CEO. For 2017, the Association's employer matching and non-elective contributions for the other Senior Officers' accounts in the 401(k) Plan were $51,573 and there were no contributions to their accounts in the NQDC Plan. No tax reimbursements are made to senior officers/highly compensated individuals.
5. Includes the payout of unused annual leave.

Unaudited

COMPENSATION PHILOSOPHY

The Association endeavors to provide compensation packages that are competitive in the marketplace to attract and retain a quality, tenured staff. In addition to base salary, all staff, including the CEO and senior officers, can earn additional compensation under annual incentive and bonus plans which are tied to the overall business performance of the Association. The plans are based on a fiscal year and are designed to motivate employees to exceed financial, marketing and credit quality performance targets approved by the Board of Directors. These targets typically include return on assets, cost per hundred, credit quality, credit administration, growth in loan volume and new loan volume booked. The program links pay to performance with appropriate controls in place to ensure sound credit quality and administration is maintained, while focusing on the long-term financial goals of the Association. The plans are short-term in nature and do not create a long-term financial obligation for the Association and they can be amended annually. The plans are reviewed each year by the Compensation Committee and are approved by the Board of Directors.

The Compensation Committee annually reviews market information related to the administration of compensation at all levels of the Association, including the CEO and senior officers. The information consists of surveys for market-based merit increases, peer comparisons, salary levels and incentive plans. The Compensation Committee also has access to a compensation consultant.

Expense Reimbursement – All employees are reimbursed for travel and subsistence expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Information on pension benefits attributable to the CEO, senior officers and other highly compensated individuals as of December 31, 2017 follows.

President and CEO[1]	Plan	Years of Credited Service	Present Value of Accumulated Benefits[2]	Payments Made During the Reporting Period[3]
Richard Sanger	Ninth Pension Plan	34.19	$ 1,462,518	$ –
	Nonqualified Pension Restoration Plan	34.19	$ 640,499	$ –

Aggregate Number of Senior Officers/ Highly Compensated Individuals[1]	Plan	Average Years of Credited Service	Present Value of Accumulated Benefits[2]	Payments Made During the Reporting Period[3]
6	Ninth Pension Plan	31.22	$ 6,407,156	$ –

1 The senior officers and the highly compensated employees included in the pension benefits disclosure are those defined by FCA regulations Section 619.9310 and Section 620.6.
2 For the Pension or Retirement Plan and the Former 9th District Pension Restoration Plan, this represents the total for the aggregate senior officer and highly compensated employee group.
3 Represents post-retirement benefit payments made during the last fiscal year.

Retirement Plan Overview – The CEO and certain Senior Officers participate in the Ninth Farm Credit District Pension Plan (the Pension Plan) which is a qualified defined benefit plan and the Ninth District Pension Restoration Plan, which is a nonqualified retirement plan. Additionally, substantially all employees participate in the 401 (k) Plan, which has an employee matching contribution. Certain eligible employees participate in the Non-qualified Deferred Compensation Plan, which allows individuals to defer compensation and which restores the benefits limited in the 401 (k) Plan by restrictions in the Internal Revenue Code.

Qualified Pension Plan – In general, the Pension Plan provides participants with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of average monthly compensation during the 60 consecutive months in which an individual receives his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which the High 60 exceeds covered compensation multiplied by years of benefit service. The benefit is actuarially adjusted if the individual chooses a different form of distribution than a 50% joint-and-survivor annuity, such as a lump sum distribution. The pension valuation was determined using a blended approach assuming half of the benefits would be paid as a lump sum and half as an annuity at the participants earliest unreduced retirement age. The Pension Plan pays benefits up to the applicable limits under the Internal Revenue Code.

Nonqualified Pension Restoration Plan – The Pension Restoration Plan is unfunded and not qualified for tax purposes. Benefits payable under this plan are equal to the excess of the amount that would be payable under the

terms of the Qualified Pension Plan disregarding the limitations imposed under Internal Revenue Code Sections 401(a)(17) and 415, over the pension actually payable under the Qualified Pension Plan. The plan also restores any benefits attributable to nonqualified deferred compensation excluded from the benefit determined under the Qualified Pension Plan. The nonqualified pension restoration valuation was determined using an assumption that benefits would be paid as a lump sum at the participants earliest unreduced retirement age.

Transactions with Senior Officers and Directors

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 11 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

Involvement of Senior Officers and Directors in Certain Legal Proceedings

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

Borrower Privacy Statement

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

Financial Expert

In October 2012, the Board appointed Lyndsey D. Graves, a CPA, to fill the role of financial expert on the Board. Mrs. Graves is an owner of an accounting firm and has experience in corporate auditing and banking.

Relationship with CoBank, ACB (CoBank)

The Association is materially affected by CoBank's financial condition and results of operations.

The Association's statutory obligation to borrow from CoBank is discussed in Note 6. Financial assistance agreements between the Association and CoBank are discussed in Note 7. Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in CoBank," included in this annual report to shareholders. CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

CoBank is required to distribute its Annual Report to shareholders of the Association if the bank experiences a significant event that has a material effect on the Association as defined by FCA regulations.

Relationship with Independent Auditors

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 16, 2018, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

CoBank Annual and Quarterly Reports to Shareholders

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2017 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 202 Poplar Street, Sterling, Colorado 80751, or may be contacted by calling (970) 522-5295. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.