Premier Farm Credit

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3rd QUARTER REPORT 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands, Except as Noted)
(Unaudited)

The following discussion summarizes the financial position and results of operations of Premier Farm Credit, ACA for the nine months ended September 30, 2019, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2018 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

The shareholders' investment in Premier Farm Credit, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2018 CoBank Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 202 Poplar Street, Sterling, Colorado 80751 or calling (970) 522-5295.

CURRENT OVERVIEW

General economic conditions within our territory continue to remain favorable. The local economy reflects stability with low unemployment, strong housing demand, and new business investment. Stable general economic conditions continue to benefit our participation and direct loan portfolios. The Federal Open Market Committee reduced the fed funds target rate 0.25% in July and 0.25% in September. The Fed has indicated that it may keep the rate flat for the remainder of 2019 or even decrease it more based on concerns related to slowing economic growth.

Cash grain prices remain at depressed levels, creating challenges for loans within this sector. The cash grain segment of our loan portfolio continues to exhibit modest credit stress as capital levels and margins have deteriorated. 2019 crop production has generally been favorable throughout most of the territory due to widespread moisture. Portions of the territory have been impacted by hail which will impact yields for some producers. Fall wheat seeding went well and along with adequate sub moisture, should provide a good start to 2020 wheat crop. Water supplies were adequate for this past growing season and continue to be adequate going into the fall/winter months.

Cow-calf operations are expected to remain profitable due to lower feed costs and lower, but adequate calf prices. Feedlot and stocker operations have benefitted from lower feed costs and lower calf costs, however the fat cattle market has witnessed market stress during portions of the year. Pasture conditions continue to be above average, allowing good weight gains for cattle.

Association credit quality has reflected modest improvement due to a combination of favorable loan performance and borrowers restructuring or retiring debt. Overall, credit quality is anticipated to remain stable for the remainder of 2019, insulated in part with the diversification of the purchased loan portfolio.

LOAN PORTFOLIO

Loans outstanding at September 30, 2019, totaled $693,036, an increase of $13,382, or 1.97%, from loans of $679,654 at December 31, 2018. The increase was primarily due to new loans booked during 2019, partially offset by operating loan repayments and principal reductions on term loans.

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

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2019, was $11,236, an increase of $151, or 1.36%, from the same period ended one year ago. The increase in net income was primarily attributed to increased net interest income after credit loss reversals, partially offset by a decrease in noninterest income and an increase in noninterest expense.

Net interest income for the nine months ended September 30, 2019, was $14,632, an increase of $831, or 6.02%, compared with the nine months ended September 30, 2018. Net interest income increased as a result of increased average loan volume compared to the same prior year period and enhanced earnings on equity positioning.

The credit loss reversal for the nine months ended September 30, 2019, was $576, an increase of $391, or 211.35%, from the credit loss reversal for the same period ended one year ago. The credit loss reversal increased as a result of eliminating a management reserve related to the Republican River Basin Well Users and modest improvement in credit quality.

Noninterest income decreased $797 during the first nine months of 2019 compared with the first nine months in 2018 primarily due to a decrease in patronage distribution of $431 from CoBank and a decrease in refund of $274 from Farm Credit System Insurance Corporation (FCSIC). The refunds are our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to the 2018 Annual Report to Shareholders for additional information. Also, participation loan warrants of $217 were not received this year compared to last year. These decreases in noninterest income were partially offset by increased mineral income, which is distributed to us quarterly by CoBank. We received mineral income of $428 during the first nine months of 2019, compared to $332 for the same time period last year. The increase in mineral income is primarily the result of an increase in production revenue, from increased volumes, attributed to new wells added since October 1, 2018.

During the first nine months of 2019, noninterest expense increased $273 to $7,119, primarily due to increased costs of purchased services from AgVantis, supervisory and examination costs, and other noninterest expense items. These increases were partially offset with lower costs in salaries and benefits and occupancy and equipment expenses.

CAPITAL RESOURCES

Our shareholders' equity at September 30, 2019, was $173,346, an increase from $162,063 at December 31, 2018. This increase is due to net income and the amortization of pension costs included in the net periodic benefit cost along with a slight increase in net stock issuances.

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

Lyndsey D. Graves
Chair of Audit Committee
November 5, 2019

Michael Grauberger
President & CEO
November 5, 2019

Jeffrey L. Schumacher
Chief Financial Officer
November 5, 2019

Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2019	December 31 2018
	UNAUDITED	AUDITED
ASSETS		
Loans	**$ 693,036**	$ 679,654
Less allowance for loan losses	**2,083**	2,790
Net loans	**690,953**	676,864
Cash	**1,820**	11,364
Accrued interest receivable	**15,173**	10,130
Investment in CoBank, ACB	**21,704**	21,639
Premises and equipment, net	**901**	967
Prepaid benefit expense	**2,345**	1,836
Other assets	**3,546**	4,646
Total assets	**$ 736,442**	$ 727,446
LIABILITIES		
Note payable to CoBank, ACB	**$ 547,191**	$ 546,137
Advance conditional payments	**11,213**	9,957
Accrued interest payable	**1,252**	1,304
Patronage distributions payable	**-**	4,500
Accrued benefits liability	**707**	697
Reserve for unfunded commitments	**342**	337
Other liabilities	**2,391**	2,451
Total liabilities	**563,096**	565,383
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	**867**	862
Unallocated retained earnings	**172,722**	161,486
Accumulated other comprehensive loss	**(243)**	(285)
Total shareholders' equity	**173,346**	162,063
Total liabilities and shareholders' equity	**$ 736,442**	$ 727,446

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the three months ended September 30		For the nine months ended September 30	
UNAUDITED	**2019**	2018	**2019**	2018
INTEREST INCOME				
Loans	**$ 8,614**	$ 8,355	**$ 25,943**	$ 24,142
Total interest income	**8,614**	8,355	**25,943**	24,142
INTEREST EXPENSE				
Note payable to CoBank, ACB	**3,733**	3,608	**11,185**	10,265
Other	**41**	31	**126**	76
Total interest expense	**3,774**	3,639	**11,311**	10,341
Net interest income	**4,840**	4,716	**14,632**	13,801
Credit loss reversals	**(66)**	(30)	**(576)**	(185)
Net interest income after credit loss reversals	**4,906**	4,746	**15,208**	13,986
NONINTEREST INCOME				
Financially related services income	**217**	228	**287**	325
Loan fees	**154**	94	**304**	241
Patronage distribution from Farm Credit institutions	**612**	1,042	**1,865**	2,296
Farm Credit Insurance Fund distribution	**-**	-	**163**	437
Mineral income	**130**	145	**428**	332
Other noninterest income	**31**	29	**114**	327
Total noninterest income	**1,144**	1,538	**3,161**	3,958
NONINTEREST EXPENSE				
Salaries and employee benefits	**1,294**	1,336	**3,724**	3,790
Occupancy and equipment	**110**	107	**328**	334
Purchased services from AgVantis, Inc.	**410**	356	**1,230**	1,072
Farm Credit Insurance Fund premium	**111**	114	**333**	337
Supervisory and examination costs	**72**	59	**215**	202
Other noninterest expense	**488**	384	**1,289**	1,111
Total noninterest expense	**2,485**	2,356	**7,119**	6,846
Income before income taxes	**3,565**	3,928	**11,250**	11,098
Provision for income taxes	**5**	4	**14**	13
Net income	**3,560**	3,924	**11,236**	11,085
COMPREHENSIVE INCOME				
Amortization of retirement costs	**14**	21	**42**	62
Total comprehensive income	**$ 3,574**	$ 3,945	**$ 11,278**	$ 11,147

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2017	$ 901	$ 151,540	$ (390)	$ 152,051
Comprehensive income		11,085	62	11,147
Stock issued	19			19
Stock retired	(49)			(49)
Balance at September 30, 2018	$ 871	$ 162,625	$ (328)	$ 163,168
Balance at December 31, 2018	$ 862	$ 161,486	$ (285)	$ 162,063
Comprehensive income		11,236	42	11,278
Stock issued	33			33
Stock retired	(28)			(28)
Balance at September 30, 2019	**$ 867**	**$ 172,722**	**$ (243)**	**$ 173,346**

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

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

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Premier Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2018, are contained in the 2018 Annual Report to Shareholders. These unaudited third quarter 2019 financial statements should be read in conjunction with the 2018 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2018, as contained in the 2018 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2019. Descriptions of the significant accounting policies are included in the 2018 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the fair value measurements disclosures. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled “Leases – Targeted Improvements,” which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not impact the Association’s financial condition and results of operations.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows

	September 30, 2019	December 31, 2018
Real estate mortgage	**$ 369,143**	$ 378,619
Production and intermediate-term	**160,527**	158,114
Agribusiness	**118,342**	102,086
Rural Infrastructure	**37,341**	36,846
Rural residential real estate	**34**	-
Agricultural export finance	**7,649**	3,989
Total Loans	**$ 693,036**	$ 679,654

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2019:

	Other Farm Credit Institutions	
	Purchased	Sold
Real estate mortgage	$ 25,673	$ 29,579
Production and intermediate-term	33,680	3,205
Agribusiness	115,668	-
Rural infrastructure	37,341	-
Agricultural export finance	7,649	-
Total	$ 220,011	$ 32,784

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.
- Loss – assets are considered uncollectible.

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

	September 30, 2019	December 31, 2018
Real estate mortgage		
Acceptable	**86.69%**	84.32%
OAEM	**8.63%**	7.38%
Substandard	**4.68%**	8.30%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**85.27%**	81.26%
OAEM	**6.04%**	9.45%
Substandard	**8.69%**	9.29%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**96.01%**	97.06%
OAEM	**3.31%**	0.86%
Substandard	**0.68%**	2.08%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**90.38%**	97.04%
OAEM	**7.61%**	2.96%
Substandard	**2.01%**	-
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	-
Total	**100.00%**	-
Agricultural export finance		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**88.26%**	86.28%
OAEM	**6.99%**	6.61%
Substandard	**4.75%**	7.11%
Total	**100.00%**	100.00%

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

	September 30, 2019	December 31, 2018
Nonaccrual loans		
Real estate mortgage	$ 78	$ 1,816
Agribusiness	801	1,421
Total nonaccrual loans	$ 879	$ 3,237
Total high risk assets	$ 879	$ 3,237

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

Additional impaired loan information is as follows:

	September 30, 2019			December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for loan losses:						
Agribusiness	$ -	$ -	$ -	$ 337	$ 342	$ 106
Total	$ -	$ -	$ -	$ 337	$ 342	$ 106
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	$ 78	$ 84		$ 1,816	$ 1,992	
Agribusiness	801	1,033		1,084	1,108	
Total	$ 879	$ 1,117		$ 2,900	$ 3,100	
Total impaired loans:						
Real estate mortgage	$ 78	$ 84	$ -	$ 1,816	$ 1,992	$ -
Agribusiness	801	1,033	-	1,421	1,451	106
Total	$ 879	$ 1,117	$ -	$ 3,237	$ 3,443	$ 106

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

	For the Three Months Ended September 30, 2019		For the Three Months Ended September 30, 2018	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	$ 78	$ -	$ 1,815	$ -
Agribusiness	1,037	(15)	1,215	-
Total	$ 1,115	$ (15)	$ 3,030	$ -

	For the Nine Months Ended September 30, 2019		For the Nine Months Ended September 30, 2018	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Agribusiness	**$ 221**	**$ -**	$ -	$ -
Total	**$ 221**	**$ -**	$ -	$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	**$ 1,068**	**$ 303**	$ 2,130	$ 38
Production and intermediate-term	**-**	**-**	92	30
Agribusiness	**1,019**	**1**	1,237	-
Total	**$ 2,087**	**$ 304**	$ 3,459	$ 68
Total impaired loans:				
Real estate mortgage	**$ 1,068**	**$ 303**	$ 2,130	$ 38
Production and intermediate-term	**-**	**-**	92	30
Agribusiness	**1,240**	**1**	1,237	-
Total	**$ 2,308**	**$ 304**	$ 3,459	$ 68

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

September 30, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ -	$ -	$ -	$ 379,389	$ 379,389	$ -
Production and intermediate-term	36	-	36	164,862	164,898	-
Agribusiness	-	-	-	118,751	118,751	-
Rural infrastructure	-	-	-	37,458	37,458	-
Rural residential real estate	-	-	-	34	34	-
Agricultural export finance	-	-	-	7,679	7,679	-
Total	$ 36	$ -	$ 36	$ 708,173	$ 708,209	$ -

December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ -	$ -	$ -	$ 385,609	$ 385,609	$ -
Production and intermediate-term	2,778	-	2,778	158,020	160,798	-
Agribusiness	44	733	777	101,625	102,402	-
Rural infrastructure	-	-	-	36,970	36,970	-
Agricultural export finance	-	-	-	4,005	4,005	-
Total	$ 2,822	$ 733	$ 3,555	$ 686,229	$ 689,784	$ -

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

	Balance at June 30, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2019
Real estate mortgage	$ 479	$ -	$ -	$ 8	$ 487
Production and intermediate-term	653	-	-	30	683
Agribusiness	820	130	-	(42)	648
Rural infrastructure	221	-	-	9	230
Agricultural export finance	18	-	-	17	35
Total	$ 2,191	$ 130	$ -	$ 22	$ 2,083

	Balance at December 31, 2018	Charge-offs	Recoveries	(Loan Loss Reversals)/ Provision for Loan Losses	Balance at September 30, 2019
Real estate mortgage	$ 1,132	$ -	$ -	$ (645)	$ 487
Production and intermediate-term	750	1	5	(71)	683
Agribusiness	683	130	-	95	648
Rural infrastructure	208	-	-	22	230
Agricultural export finance	17	-	-	18	35
Total	$ 2,790	$ 131	$ 5	$ (581)	$ 2,083

	Balance at June 30, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2018
Real estate mortgage	$ 1,110	$ -	$ -	$ 26	$ 1,136
Production and intermediate-term	672	-	2	(10)	664
Agribusiness	639	-	-	(27)	612
Rural infrastructure	194	-	-	14	208
Agricultural export finance	20	-	-	(3)	17
Total	$ 2,635	$ -	$ 2	$ -	$ 2,637

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2018
Real estate mortgage	$ 1,078	$ -	$ -	$ 58	$ 1,136
Production and intermediate-term	956	1	5	(296)	664
Agribusiness	571	-	-	41	612
Rural infrastructure	175	-	23	10	208
Agricultural export finance	16	-	-	1	17
Total	$ 2,796	$ 1	$ 28	$ (186)	$ 2,083

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	**2019**	2018
Balance at beginning of period	**$ 430**	$ 457	**$ 337**	$ 426
(Reversal of reserve for unfunded commitments)/Provision for unfunded commitments	**(88)**	(30)	**5**	1
Total	**$ 342**	$ 427	**$ 342**	$ 427

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at September 30, 2019		Recorded Investments in Loans Outstanding Ending Balance at September 30, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ -	$ 487	$ 78	$ 379,311
Production and intermediate-term	-	683	-	164,898
Agribusiness	-	648	801	117,950
Rural infrastructure	-	230	-	37,458
Rural residential real estate	-	-	-	34
Agricultural export finance	-	35	-	7,679
Total	$ -	$ 2,083	$ 879	$ 707,330

	Allowance for Loan Losses Ending Balance at December 31, 2018		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2018	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ -	$ 1,132	$ 1,816	$ 383,793
Production and intermediate-term	-	750	-	160,798
Agribusiness	106	577	1,421	100,981
Rural infrastructure	-	208	-	36,970
Agricultural export finance	-	17	-	4,005
Total	$ 106	$ 2,684	$ 3,237	$ 686,547

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Association recorded no TDRs during the nine months ended September 30, 2019.

The following table presents additional information regarding troubled debt restructurings that occurred during the periods.

	For the Nine Months Ended			
	September 30, 2019		September 30, 2018	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Agribusiness	$ -	$ -	$ 451	$ 451
Total	$ -	$ -	$ 451	$ 451

* 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 investment.

The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first nine months of 2019 and 2018. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at September 30, 2019 and December 31, 2018.

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

	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2019	December 31, 2018	**September 30, 2019**	December 31, 2018
Agribusiness	**$ 275**	$ 451	**$ 275**	$ 451
Total	**$ 275**	$ 451	**$ 275**	$ 451

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

NOTE 3 - CAPITAL

A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration follows.

	As of September 30, 2019	As of December 31, 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	19.34%	18.47%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	19.34%	18.47%	6.0%	2.5%*	8.5%
Total capital ratio	19.68%	18.87%	8.0%	2.5%*	10.5%
Permanent capital ratio	19.40%	18.53%	7.0%	-	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	21.12%	20.09%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	21.61%	20.56%	1.5%	-	1.5%

* The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The current regulations establish a three-year phase-in of the capital conservation buffer, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	**2019**	2018
Pension and other benefit plans:				
Beginning balance	**$ (258)**	$ (349)	**$ (285)**	$ (390)
Amounts reclassified from accumulated other comprehensive loss	**15**	21	**42**	62
Net current period other comprehensive income	**15**	21	**42**	62
Ending balance	**$ (243)**	$ (328)	**$ (243)**	$ (328)

The following table represents reclassifications out of accumulated other comprehensive loss.

	Amount Reclassified from Accumulated Other Comprehensive Loss		Location of Gain/Loss Recognized in Statement of Income
	For the Three Months Ended September 30		
	2019	2018	
Pension and other benefit plans:			
Net actuarial loss	**$ 15**	$ 21	Salaries and employee benefits
Total reclassifications	**$ 15**	$ 21	

	Amount Reclassified from Accumulated Other Comprehensive Loss		Location of Gain/Loss Recognized in Statement of Income
	For the Nine Months Ended September 30		
	2019	2018	
Pension and other benefit plans:			
Net actuarial loss	**$ 42**	$ 62	Salaries and employee benefits
Total reclassifications	**$ 42**	$ 62	

NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 of the 2018 Annual Report to Shareholders for a more complete description.

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

	Fair Value Measurement Using			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets held in nonqualified benefits trusts				
September 30, 2019	**$ 731**	**$ -**	**$ -**	**$ 731**
December 31, 2018	$ 903	$ -	$ -	$ 903

The Association had no liabilities measured at fair value on a recurring basis at September 30, 2019 or December 31, 2018.

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	**Level 2**	**Level 3**	
September 30, 2019				
Loans	**$ -**	**$ -**	**$ -**	**$ -**
December 31, 2018				
Loans	$ -	$ -	$ 232	$ 232

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

The Association had no liabilities measured at fair value on a non-recurring basis at September 30, 2019 or December 31, 2018.

Valuation Techniques

As more fully discussed in Note 2 of the 2018 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

Assets Held in Non-Qualified Benefits Trusts

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

Loans Evaluated for Impairment

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. The fair value of these loans would fall under Level 2 hierarchy if the process uses independent appraisals and other market-based information.

NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 5, 2019, which is the date the financial statements were issued, and no material subsequent events were identified.