Third Quarter
Financial Report

September 30, 2017

Farm Credit Services of America

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Farm Credit Services of America, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of America, ACA, and its subsidiaries (Farm Credit Services of America). The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. You should also read our 2016 Annual Report for a description of our organization, operations and significant accounting policies.

AgriBank FCB's financial condition and results of operations materially affect shareholders' investment in Farm Credit Services of America, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via electronic mail to $sr@fcsamerica.com or view them at our Web site, www.fcsamerica.com. You may also contact AgriBank, FCB at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or via electronic mail to: financialreporting@agribank.com. The combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank, FCB's Web site at www.agribank.com.

Forward-Looking Information

Any forward-looking statements in this Quarterly Financial Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2016 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Loan Portfolio

Loan volume increased by $729.7 million from year-end, an increase of 2.9 percent. The majority of the increase was in the long-term agricultural mortgage portfolio, followed by an increase in the agribusiness portfolio. The majority of the increase in long-term agricultural mortgage portfolio was due to typical new business development for this product.

We recorded a $32.1 million provision for credit losses for the first nine months of 2017, as compared with $49.8 million during the same period a year ago. The provision for credit losses for the first nine months of 2017 primarily reflected provision for the grain, poultry, swine and beef feedlot industries due to deterioration in credit quality and increased loan volume. The provision for credit losses for the first nine months of 2016 primarily reflected reserves for the grain and beef feedlot industries due to deterioration in credit quality and increased loan volume. Net charge-offs for the first nine months of 2017 were $2.1 million compared to net charge offs of $3.8 million in the same period a year ago.

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions.

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

	September 30 2017	December 31 2016
Risk loans:		
Nonaccrual	**$173,868**	$151,188
Restructured	**51,233**	19,052
90 days past due still accruing interest	**6,104**	5,487
Total risk loans	**231,205**	$175,727
Other property owned, net	**75**	2,922
Total risk assets	**$231,280**	$178,649
Risk loans as a percent of total loans and interest	**0.88%**	0.69%
Nonaccrual loans as a percent of total loans	**0.67%**	0.60%
Total delinquencies as a percent of total loans and interest	**0.55%**	0.66%

Total risk loans have increased since year-end due to increases in nonaccrual loans, restructured loans and loans 90 days past due still accruing interest. The increase in nonaccrual loans is primarily due to accounts in the cow/calf, dairy and poultry industries being classified as nonaccrual. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at acceptable levels.

Comparative allowance coverage of various loan categories follows:

	September 30, 2017	December 31, 2016
Allowance as a percentage of:		
Total loans	**0.51%**	0.41%
Nonaccrual loans	**76.49%**	68.79%
Total risk loans	**57.52%**	59.18%

Our adversely classified assets increased during the first nine months of 2017 ending the quarter at 8.3 percent of the portfolio, compared to 6.3 percent of the portfolio at December 31, 2016. Adversely classified are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses, and in our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2017.

The Farm Credit Services of America Appraisal team monitors real estate value trends through semi-annual appraisals of sixty-four agricultural farms located throughout our territory. The Appraisal team updates benchmark farm values based on the most recently reported real estate sales on January 1st and July 1st each year.

The average change in benchmark farm values at July 1, 2017 is shown below. The number of benchmark farms is shown in parenthesis after each state.

State	Six Month	One Year	Five Year	Ten Year
Iowa (21)	0.4%	(0.4)%	(2.2)%	99.1%
Nebraska (18)	0.0%	(3.3)%	10.1%	164.7%
South Dakota (23)	(1.8)%	(4.9)%	36.8%	151.6%
Wyoming (2)	0.7%	0.7%	35.1%	45.0%

Farmland prices have remained relatively stable over the past year across our territory with slight improvement seen in Iowa and flat to modest deterioration noted in Nebraska and South Dakota. Where declines in values were observed, lower-quality land sales were noted as well. The overall demand for farmland has generally declined over the past year across our territory. The overall volume of sales activity for farmland has declined over the past year across the Association. Public land auction activity for the four-state territory was 21% lower than a year ago.

Commodity Review and Outlook Update

Loan repayment capacity for our loans is largely dependent upon income from corn, soybeans, hogs and cattle. Of somewhat less significance are wheat, dairy and poultry.

The margin outlook for most crop producers continues to look challenging for the next couple of years with most forecasters projecting corn and soybean prices to be at or below cost of production for the average producer. Despite dry conditions through the western corn-belt, the forecast for national yields remains strong with most yield estimates at or above trend line. Dryness continues to persist across a large portion of the Association's footprint leading to reduced yield estimates. Reduced yields and prices below cost of production will result in operating losses and financial deterioration for many producers.

Profit margins within the cattle feeding sector were largely positive during the first half of 2017 resulting in stabilization and improvement of financial positions within this portfolio. While prices for fed cattle retreated during the third quarter, we still expect a majority of producers to reflect a profit for 2017. In addition, profit margins rebounded for the egg industry during the third quarter; however, the longer term outlook remains guarded.

Results of Operations

The following table presents profitability information (dollars in thousands):

	As of September 30,	
	2017	2016
Net income	**$386,441**	$343,890
Return on average assets	**1.94%**	1.83%
Return on average members' equity	**10.65%**	10.27%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the nine months ended September 30, 2017 compared to the same period in 2016 are outlined in the following table (in thousands):

Increase (decrease) in Net Income	**2017 vs. 2016**
Net interest income	**$14,631**
Provision for credit losses	**17,631**
Noninterest income	**27,920**
Noninterest expense	**(16,499)**
Provision for income taxes (net)	**(1,132)**
Total change in net income	**$42,551**

Net interest income was $519.9 million for the first nine months of 2017 compared to $505.3 million for the first nine months of 2016. The annualized net interest margin was 2.73 percent for the first nine months of 2017, compared to 2.81 percent for the same period in 2016.

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the nine months ended September 30 (in thousands):

	2017 vs. 2016
Changes in volume	**$30,247**
Changes in rates	**(16,231)**
Change in nonaccrual income	**615**
Net change	**$14,631**

The variance in the provision for credit losses reflects our assessment of risk in the loan portfolio.

The increase in noninterest income is primarily due to an increase in AgriBank, FCB patronage. The increase in noninterest expense is primarily due to salary, benefits and other expenses for increased staffing levels to support business initiatives.

Farm Credit Services of America recorded $11.8 million of operating expense credits under the income and expense sharing provisions of the alliance agreement in the first nine months of 2017 compared to $14.8 million for the first nine months of 2016. Refer to Note 1 in our 2016 Annual Report for additional information on the alliance.

Funding, Liquidity and Members' Equity

We borrow from AgriBank, FCB under a note payable, in the form of a line of credit. Our note payable matures in June 2020 at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as Farm Credit Services of America is a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at September 30, 2017 or December 31, 2016.

Our members' equity increased to $5.088 billion at September 30, 2017 compared to $4.680 billion at December 31, 2016. The increase was due to the net income recorded for the first nine months of 2017 and net issuance of capital stock.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

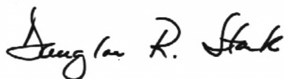
The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section. Refer to Note 5 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of September 30, 2017. Refer to Note 9 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

Relationship with AgriBank

AgriBank has amended its capital plan effective July 1, 2017, to provide for adequate capital at AgriBank under the new capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or stock. A key part of these changes involves maintaining capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

Certification

This report has been prepared under the oversight of the Board Audit Committee. The undersigned certify that they have reviewed this report and it has been 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 their knowledge and belief.



Douglas R. Stark	Nicholas B. Hunt	Craig P. Kinnison
President and CEO	Chairperson, ACA Board of Directors	Senior Vice-President and CFO
October 24, 2017	October 24, 2017	October 24, 2017

Farm Credit Services of America, ACA
Consolidated Balance Sheet
(dollars in thousands)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Loans	**$25,901,120**	$25,171,427
Allowance for loan losses	**133,000**	104,000
Net loans	**25,768,120**	25,067,427
Cash	**21,017**	87,090
Accrued interest receivable	**484,127**	362,060
Investment in AgriBank, FCB	**526,133**	509,580
AgDirect, LLP investment in AgriBank, FCB	**58,068**	66,110
Premises and equipment, net	**162,096**	160,965
Other property owned	**75**	2,922
Investment in RBIC's	**11,120**	7,455
Deferred tax asset, net	**6,136**	6,252
Other assets	**138,735**	102,626
Total assets	**$27,175,627**	$26,372,487
LIABILITIES		
Notes payable	**$21,856,600**	$21,296,054
Accrued interest payable	**110,463**	84,181
Patronage payable	**-**	160,000
Reserve for unfunded lending commitments	**12,000**	11,000
Other liabilities	**108,669**	141,378
Total liabilities	**22,087,732**	21,692,613
MEMBERS' EQUITY		
At-risk capital:		
Class D common stock	**71,911**	51,241
Class E common stock	**2,408**	1,516
Retained earnings	**5,013,576**	4,627,117
Total members' equity	**5,087,895**	4,679,874
Total liabilities and members' equity	**$27,175,627**	$26,372,487

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

Farm Credit Services of America, ACA
Consolidated Statement of Income
(dollars in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
NET INTEREST INCOME				
Interest income	**$289,298**	$253,198	**$830,400**	$747,245
Interest expense	**110,486**	81,483	**310,492**	241,968
Net interest income	**178,812**	171,715	**519,908**	505,277
Provision for credit losses	**11,742**	10,840	**32,140**	49,771
Net interest income after provision for credit losses	**167,070**	160,875	**487,768**	455,506
NONINTEREST INCOME				
Patronage income from AgriBank, FCB	**34,586**	13,936	**75,164**	41,585
Loan fees	**4,487**	5,616	**14,160**	16,880
Insurance services	**14,172**	11,806	**15,796**	13,680
AgDirect program fees	**9,006**	9,016	**26,648**	27,487
AgDirect, LLP patronage income from AgriBank, FCB	**2,441**	3,081	**7,613**	8,801
Servicing fee income from AgriBank, FCB	**202**	249	**628**	777
Other noninterest income	**1,426**	2,183	**5,076**	7,955
Total noninterest income	**66,320**	45,887	**145,085**	117,165
NONINTEREST EXPENSE				
Salaries and employee benefits	**50,746**	46,768	**150,017**	137,677
Occupancy and equipment expense	**7,214**	6,614	**20,312**	18,820
Insurance fund premiums	**8,469**	9,748	**25,211**	26,636
Other operating expenses	**15,209**	13,493	**42,760**	38,724
Loss on other property owned	**-**	-	**403**	30
Capital transaction expense	**-**	70	**-**	317
Total noninterest expense	**81,638**	76,693	**238,703**	222,204
Income before income taxes	**151,752**	130,069	**394,150**	350,467
Provision for income taxes	**2,939**	1,929	**7,709**	6,577
Net income	**$148,813**	$128,140	**$386,441**	$343,890

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

Farm Credit Services of America, ACA
Consolidated Statement of Changes in Members' Equity

(dollars in thousands)
(unaudited)

	At-risk Capital		
	Capital Stock	**Retained Earnings**	**Total Members' Equity**
Balance at December 31, 2015	$47,780	$4,276,976	$4,324,756
Net income		343,890	343,890
Patronage accrual adjustment		21	21
Capital stock:			
Issued	4,049		4,049
Retired	(3,353)		(3,353)
Balance at September 30, 2016	$48,476	$4,620,887	$4,669,363
Balance at December 31, 2016	$52,757	$4,627,117	$4,679,874
Net income		**386,441**	**386,441**
Patronage accrual adjustment		**18**	**18**
Capital stock:			
Issued	**49,014**		**49,014**
Retired	**(27,452)**		**(27,452)**
Balance at September 30, 2017	**$74,319**	**$5,013,576**	**$5,087,895**

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

Notes to Consolidated Financial Statements (unaudited)

Note 1 - Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the year ended December 31, 2017. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2016 Annual Report for the year ended December 31, 2016.

The consolidated financial statements present the consolidated financial results of Farm Credit Services of America, ACA (the parent) and Farm Credit Services of America, FLCA and Farm Credit Services of America, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

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

Recently Issued or Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (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. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020 and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

In May 2014, the Financial Accounting Standards Board (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. The guidance is effective for public entities for the first interim reporting periods within the annual reporting periods beginning after December 15, 2017. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

Refer to Note 2 in our 2016 Annual Report for additional information on other accounting standards that have been issued, but are not yet effective. We are currently evaluating the impact of the guidance on our Consolidated Financial Statements. No accounting pronouncements were adopted during the nine months ended September 30, 2017.

Note 2 – Loans and Allowance for Credit Losses

Loans consisted of the following (dollars in thousands):

	September 30, 2017		December 31, 2016	
	Amount	**Percentage**	Amount	Percentage
Long-term agricultural mortgage	**$15,439,484**	**59.6 %**	$14,953,955	59.4 %
Production and intermediate term	**6,265,639**	**24.2**	6,226,474	24.7
Agribusiness	**2,226,533**	**8.6**	2,088,113	8.3
Rural residential real estate	**1,453,282**	**5.6**	1,449,471	5.8
Rural infrastructure	**345,985**	**1.3**	293,476	1.2
Mission-related investments	**109,011**	**0.4**	100,746	0.4
Agricultural export finance	**61,186**	**0.3**	59,192	0.2
Total loans	**$25,901,120**	**100.0 %**	$25,171,427	100.0 %

Credit Quality

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

- acceptable – loans are expected to be fully collectible and represent the highest quality;
- other assets especially mentioned (OAEM) (special mention) – loans are currently collectible but exhibit some potential weakness;
- substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- doubtful – loans 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 – loans are considered uncollectible.

We had no loans categorized as loss at September 30, 2017 or December 31, 2016.

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

	As of September 30, 2017						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	$13,553,417	85.98%	$1,057,277	6.71%	$1,152,292	7.31%	$15,762,986
Production and intermediate term	4,728,292	73.93%	756,409	11.83%	911,163	14.25%	6,395,864
Agribusiness	2,157,424	96.32%	34,100	1.52%	48,214	2.15%	2,239,738
Rural residential real estate	1,350,020	91.93%	53,480	3.64%	64,967	4.42%	1,468,467
Rural infrastructure	329,777	94.93%	3,966	1.14%	13,697	3.94%	347,440
Mission-related investments	109,461	100.00%	-	-	-	-	109,461
Agricultural export finance	61,291	100.00%	-	-	-	-	61,291
Total	$22,289,682	84.48%	$1,905,232	7.22%	$2,190,333	8.30%	$26,385,247

	As of December 31, 2016						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	$13,584,756	89.43%	$779,661	5.13%	$826,126	5.44%	$15,190,543
Production and intermediate term	4,979,607	78.70%	646,234	10.21%	701,408	11.09%	6,327,249
Agribusiness	2,023,992	96.45%	42,549	2.03%	32,006	1.52%	2,098,547
Rural residential real estate	1,361,485	93.10%	46,439	3.17%	54,495	3.73%	1,462,419
Rural infrastructure	276,173	93.83%	18,150	6.17%	-	-	294,323
Mission-related investments	101,119	100.00%	-	-	-	-	101,119
Agricultural export finance	59,287	100.00%	-	-	-	-	59,287
Total	$22,386,419	87.68%	$1,533,033	6.00%	$1,614,035	6.32%	$25,533,487

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

As of September 30, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	**$14,446**	**$21,714**	**$36,160**	**$15,726,826**	**$15,762,986**	**$388**
Production and intermediate term	**42,147**	**51,460**	**93,607**	**6,302,257**	**6,395,864**	**5,522**
Agribusiness	**2,960**	**1,182**	**4,142**	**2,235,596**	**2,239,738**	**155**
Rural residential real estate	**4,079**	**3,675**	**7,754**	**1,460,713**	**1,468,467**	**39**
Rural infrastructure	**-**	**-**	**-**	**347,440**	**347,440**	**-**
Mission-related investments	**3,734**	**-**	**3,734**	**105,727**	**109,461**	**-**
Agricultural export finance	**-**	**-**	**-**	**61,291**	**61,291**	**-**
Total	**$67,366**	**$78,031**	**$145,397**	**$26,239,850**	**$26,385,247**	**$6,104**

As of December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	$32,625	$ 16,421	$49,046	$15,141,497	$15,190,543	$2,741
Production and intermediate term	60,888	40,793	101,681	6,225,568	6,327,249	2,746
Agribusiness	521	456	977	2,097,569	2,098,546	-
Rural residential real estate	5,872	3,369	9,241	1,453,178	1,462,419	-
Rural infrastructure	-	-	-	294,323	294,323	-
Mission-related investments	6,847	-	6,847	94,272	101,119	-
Agricultural export finance	-	-	-	59,287	59,287	-
Total	$106,753	$61,039	$167,792	$25,365,694	$25,533,486	$5,487

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Accruing loans include principal and interest. The following tables present information concerning risk loans (in thousands):

	As of September 30,	
	2017	2016
Risk loans with specific allowance	**$ 44,640**	$31,161
Risk loans without specific allowance	**186,565**	157,490
Total risk loans	**$231,205**	$188,651
Total specific allowance	**$7,948**	$7,001

	For the nine months ended September 30,	
	2017	2016
Interest income recognized on nonaccrual loans	**$3,944**	$3,329
Interest income on risk accrual loans	**2,267**	922
Interest income recognized on risk loans	**$6,211**	$4,251
Average risk loans	**$221,665**	$140,670

There were approximately $5.6 million in commitments to lend additional funds to customers whose loans were at risk at September 30, 2017.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans. All risk

loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

	2017		2016	
	Premodification Outstanding Recorded Investment	**Postmodification Outstanding Recorded Investment**	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Long-term agricultural mortgage	**$ 5,592**	**$ 5,594**	$ 2,598	$ 2,610
Production and intermediate term	**18,495**	**18,594**	11,063	10,766
Agribusiness	**1,726**	**1,329**	-	-
Total	**$25,813**	**$25,517**	$13,661	$13,376

Pre-modification outstanding represents the recorded investment just prior to restructuring, and post-modification outstanding represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs, and may also reflect a previous direct charge-off of the investment.

The following table presents information regarding troubled debt restructurings that occurred within the previous twelve months for which there was a subsequent payment default during the period ended September 30 (in thousands):

	2017	2016
	Recorded Investment	Recorded Investment
Agribusiness	**$2,803**	$ -

Troubled debt restructurings outstanding at September 30, 2017, totaled $57.6 million, of which $6.4 million were in nonaccrual status. There were $1.9 million in additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at September 30, 2017.

Allowance for Loan Losses

An analysis of changes in the allowance for credit losses follows (in thousands):

	September 30,	
Allowance for loan losses	**2017**	2016
Balance at beginning of year	**$104,000**	$65,000
Provision for loan losses	**31,140**	47,771
Charge-offs	**(6,308)**	(4,560)
Recoveries	**4,168**	789
Balance at end of quarter	**$133,000**	$109,000

	September 30,	
Reserve for unfunded lending commitments	**2017**	2016
Balance at beginning of year	**$11,000**	$8,000
(Reversal of) provision for unfunded lending commitments	**1,000**	2,000
Balance at end of quarter	**$12,000**	$10,000

We recorded a $32.1 million provision for credit losses for the first nine months of 2017, as compared with $49.8 million during the same period a year ago. The provision for credit losses for the first nine months of 2017 primarily reflected provision for the grain, poultry, swine and beef feedlot industries due to deterioration in credit quality and increased loan volume. The provision for credit losses for the first nine months of 2016 primarily reflected reserves for the grain and beef feedlot industries due to deterioration in credit quality and increased loan volume. Net charge-offs for the first nine months of 2017 were $2.1 million compared to net charge offs of $3.8 million in the same period a year ago.

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Note 3 – Investment in AgriBank, FCB

Effective July 1, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. From January 1 to June 30, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate. Previously, the required investment was equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. The balance of our investment in AgriBank, all required stock, was $526 million at September 30, 2017, and $510 million at December 31, 2016.

Note 4 – Other Assets

We and other farm credit institutions are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The Rural Business Investment Company facilitates equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total commitment is $20 million through October 2019. As of September 30, 2017 our investment is $10.9 million compared to $7.5 million at December 31, 2016. The carrying amount of the investment in the Rural Business Investment Company is accounted for under the equity method. During the nine months ended September 30, 2017 we recorded a $90 thousand increase in the investment as a result of recognizing our proportionate share of the partnership's earnings.

We and other farm credit institutions are among the limited partners for a $31.3 million Rural Business Investment Company established in April 2017. Our total commitment is $5 million through the fourth anniversary of the initial closing date, unless extended to the fifth anniversary. As of September 30, 2017 our investment is $163 thousand. The carrying amount of the investment in the Rural Business Investment Company is accounted for under the equity method.

No distributions were made during the nine months ended September 30, 2017. The investments were evaluated for impairment. To date, we have not recognized any impairment on these investments and no income has been distributed. The investments are included in "Other assets" on the Consolidated Balance Sheet.

Note 5– Members' Equity

Regulatory Capitalization Requirements

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System banks and associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications, to align with the new regulations.

	As of September 30, 2017	Regulatory Minimums	Capital Conservations Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**15.64%**	4.5%	2.5% *	7.0%
Tier 1 capital ratio	**15.64%**	6.0%	2.5% *	8.5%
Total capital ratio	**16.11%**	8.0%	2.5% *	10.5%
Permanent capital ratio	**15.72%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**16.87%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.45%**	1.5%	0.0%	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.

Risk-adjusted assets have been defined by Farm Credit Administration (FCA) Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes, which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments with terms at origination of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio. These ratios are based on a three-month average daily balance in accordance with FCA Regulations.

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.

Refer to Note 9 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

Note 6 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with six levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2016 Annual Report for a more complete description of the six input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2017, or December 31, 2016. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

	Fair Value Measurement Using				
As of September 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Total Losses**
Impaired loans	**-**	**-**	**$49,117**	**$49,117**	**$3,874**
Other property owned	-	**-**	**80**	**80**	**-**

	Fair Value Measurement Using				
As of December 31, 2016	Level 1	Level 2	Level 3	Total Fair Value	Total (Gains)
Impaired Loans	-	-	$37,470	$37,470	$(845)
Other property owned	-	-	$5,486	$5,486	$10

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they fall under Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Note 7- Commitments and Contingencies

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We are among the forming limited partners in a Rural Business Investment Company. Refer to Note 4 for additional discussion.

Note 8- Subsequent Events

We have evaluated subsequent events through October 24, 2017 which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.