TOGETHER

Lending Support For Rural Colorado

FARM CREDIT
OF SOUTHERN COLORADO

Third Quarter Report to Shareholders

As of September 30, 2017 (unaudited)

NOTICE TO STOCKHOLDERS

The shareholders' investment in Farm Credit of Southern Colorado, ACA is materially affected by the financial condition and results of operations of CoBank, ACB (CoBank). The 2016 CoBank Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at:

Farm Credit of Southern Colorado, ACA

5110 Edison Avenue, PO Box 75640
Colorado Springs, Colorado 80970-5640
Phone Number: 800-815-8559

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

(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Southern Colorado, ACA for the nine months ended September 30, 2017, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2016 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Drought conditions in the Association's lending territory have remained the same since the last reporting with no drought conditions reported. The territory experienced very wet snow in April and May producing plenty of moisture and minimal freezing temperatures. This was followed by healthy summer rains. All of our branches are reporting good to excellent pasture and crop conditions due to healthy precipitation over the spring and summer months.

The streamflow forecast as of June 1st showed the rivers feeding the Association's lending territory to be at or above 100% of average. With continued rains throughout the summer, these waterways are still strong. This supports the drought monitor forecast that shows no drought conditions are forecast for our lending territory through the end of January.

The Federal Reserve raised the Fed Funds Rate 25 basis points in early March and then again in June. At the July meeting, the Committee decided to maintain the target range at 1.0% to 1.25% with the stance to remain accommodative. The Committee "will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation" in determining the size and timing of future adjustments to the Fed Funds Rate.

The national average corn yield is estimated at 169.6 bushels/acre according to USDA. If realized, this will be the third highest yield and production for corn on record for the U.S. This report by the USDA sent December corn prices down 10 cents and USDA is projecting a range of $2.80 to $3.60 per bushel for the season-average corn price. While U.S. wheat production is down in recent years, global production is booming with record crops for the last nine years. Ending stocks (supplies) for 2017 are at all-time highs. This will continue to put downward pressure on wheat prices. According to Farmer Mac's "The Feed Springs 2017" report, the national average price forecast for wheat is $4.44/bushel for the 2017/2018 crop year.

Fed cattle prices have rebounded from the lows hit in 2016 and are expected to average $110/cwt this year with a range of $98 to $124/cwt. Feeder cattle prices are anticipated to be $150/cwt this year, with a range of $135 to $165/cwt. Longer-term prices are more questionable as USDA numbers indicate that 2.5MM cows have been added to the beef-breeding herd in the last three years. Those calves will hit the sale barns in 2018 and 2019 and could depress prices with the onslaught of supply.

Our customers have endured several years of drought and weak yields. This has resulted in multiple years of operating losses, thereby depleting working capital and owners' equity. With the forecast of further depressed commodity prices, and increasing interest rates, continued deterioration in the financials of our customers, especially our wheat and corn farmers, is possible. However, the timely precipitation that we had in our territory this year has resulted in our farmers experiencing very strong yields. These strong yields will help to mitigate the lower prices and rising interest rates.

LOAN PORTFOLIO

Loans outstanding at September 30, 2017 totaled $987.4 million, an increase of $44.1, or 4.67%, from loans of $943.3 million at December 31, 2016. The increase was due to increases in both our core loan portfolio and capital markets portfolio.

OTHER PROPERTY OWNED

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had other property owned of $2.4 million at September 30, 2017 compared with $2.6 million at December 31, 2016. The decrease was from the sale of chattels and a valuation write down due to an updated appraisal.

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2017 was $10.5 million, an increase of $167 thousand or 1.62%, from the same period ended one year ago. The increase was a result of higher net interest income and a lower provision for credit losses, partially offset by higher noninterest expense.

Net interest income for the nine months ended September 30, 2017 was $20.0 million, an increase of $994 thousand, or 5.23%, compared with September 30, 2016. Net interest income increased as a result of higher average accrual loan volume and spread.

The provision for credit losses for the nine months ended September 30, 2017 was $506 thousand, a decrease of $287 thousand, or 36.19%, from the same period ended one year ago. The provision for credit losses decreased as a result of improvement in credit quality.

Noninterest income decreased $57 thousand during the first nine months of 2017 compared with the first nine months in 2016 primarily due to a decrease in loan fees on participation purchased loans, partially offset by an increase in mineral income. We received mineral income of $511 thousand during the first nine months of 2017, which is distributed to us quarterly by CoBank, compared to $473 thousand received for the same period in 2016.

During the first nine months of 2017, noninterest expense increased $1.1 million to $12.6 million, primarily due to an increase in salaries and employee benefits due to salary increases and more staffing, and a loss on other property owned due to a write down of value based on a new appraisal.

CAPITAL RESOURCES

Our shareholders' equity at September 30, 2017 was $242.8 million, an increase from $231.5 million at December 31, 2016. This increase is primarily due to net income and a net increase in preferred stock.

NOTICE OF MATERIAL EVENTS

There have been leadership changes within the Association. In May, Alan Woodard, CEO gave notice of his intention to leave the Association as of June 9. Shawna Neppl, our CFO, was appointed interim CEO and assumed that position on June 9. The Board engaged Farm Credit Council Services to assist with the CEO search process. Jeremy Anderson has been hired as the new CEO and will start November 13th. Mr. Anderson has 16 years of commercial banking experience. In June, Linda Iverson resigned her position as Chief Operating Officer (COO). Ricky Sellers, our Compliance Officer, was appointed as Interim COO.

Christopher Bledsoe resigned his position from the Board of Directors in June 2017. Mr. Bledsoe was an appointed Director serving as the Chairman of Audit/Risk Committee and Vice Chairman of the Board. The Board is in the process of identifying a replacement Director for this vacancy. The Board members elected Kent Price as Vice Chairman of the Board. The Audit/Risk Committee members elected Mark Peterson as Chairman of the Audit/Risk Committee.

REGULATORY MATTERS

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

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

The New Capital Regulations, among other things, replace existing core surplus and total surplus requirements with common equity tier 1 (CET1), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also add a tier 1 leverage ratio for all System institutions, which replaces the existing net collateral ratio for System Banks. In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public

disclosures. The revisions to the risk weightings include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

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

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

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

The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirements. If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations establish a three-year phase-in of the capital conservation buffer, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

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

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.

//signed//
Gary Pautler
Chairman of Board
November 6, 2017

//signed//
Shawna R Neppl
Interim CEO
November 6, 2017

//signed//
Shawna R Neppl
CFO
November 6, 2017

Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2017	December 31 2016
	UNAUDITED	AUDITED
ASSETS		
Loans	**$ 987,402**	$ 943,326
Less allowance for loan losses	**2,029**	1,535
Net loans	**985,373**	941,791
Cash	**874**	5,035
Accrued interest receivable	**18,915**	14,337
Investment in CoBank, ACB	**30,894**	30,876
Premises and equipment, net	**12,343**	12,642
Other property owned	**2,374**	2,575
Prepaid benefit expense	**990**	1,105
Other assets	**3,776**	4,688
Total assets	**$ 1,055,539**	$ 1,013,049
LIABILITIES		
Note payable to CoBank, ACB	**$ 803,146**	$ 765,542
Advance conditional payments	**5,195**	7,248
Accrued interest payable	**1,266**	1,236
Patronage distributions payable	**-**	4,000
Accrued benefits liability	**180**	189
Reserve for unfunded commitments	**268**	270
Other liabilities	**2,701**	3,101
Total liabilities	**812,756**	781,586
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock	**2,720**	1,879
Capital stock	**1,413**	1,407
Unallocated retained earnings	**238,650**	228,177
Total shareholders' equity	**242,783**	231,463
Total liabilities and shareholders' equity	**$ 1,055,539**	$ 1,013,049

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended September 30 2017	2016	For the nine months ended September 30 2017	2016
INTEREST INCOME				
Loans	**$ 11,383**	$ 10,386	**$ 32,702**	$ 30,630
Total interest income	**11,383**	10,386	**32,702**	30,630
INTEREST EXPENSE				
Note payable to CoBank	**4,576**	3,889	**12,683**	11,610
Other	**4**	2	**11**	6
Total interest expense	**4,580**	3,891	**12,694**	11,616
Net interest income	**6,803**	6,495	**20,008**	19,014
Provision for credit losses	**71**	236	**506**	793
Net interest income after provision for credit losses	**6,732**	6,259	**19,502**	18,221
NONINTEREST INCOME				
Financially related services income	**46**	28	**116**	98
Loan fees	**88**	173	**286**	403
Patronage refund from Farm Credit Institutions	**906**	884	**2,660**	2,636
Mineral income	**168**	196	**511**	473
Other noninterest income	**8**	7	**63**	83
Total noninterest income	**1,216**	1,288	**3,636**	3,693
NONINTEREST EXPENSE				
Salaries and employee benefits	**2,321**	2,047	**7,055**	6,388
Occupancy and equipment	**308**	292	**955**	921
Purchased services from AgVantis, Inc.	**398**	429	**1,302**	1,279
Losses on other property owned, net	**205**	-	**246**	-
Farm Credit Insurance Fund premium	**277**	324	**807**	894
Supervisory and examination costs	**95**	94	**266**	255
Other noninterest expense	**640**	621	**2,018**	1,855
Total noninterest expense	**4,244**	3,807	**12,649**	11,592
Income before income taxes	**3,704**	3,740	**10,489**	10,322
Provision for income taxes	**1**	1	**5**	5
Net income/Comprehensive income	**$ 3,703**	$ 3,739	**$ 10,484**	$ 10,317

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Preferred Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2015	$ 1,761	$ 1,375	$ 217,711	$ 220,847
Comprehensive income			10,317	10,317
Stock issued	225	134		359
Stock retired	(91)	(95)		(186)
Preferred stock dividends	7		(7)	-
Balance at September 30, 2016	$ 1,902	$ 1,414	$ 228,021	$ 231,337
Balance at December 31, 2016	$ 1,879	$ 1,407	$ 228,177	$ 231,463
Comprehensive income			10,484	10,484
Stock issued	842	100		942
Stock retired	(11)	(94)		(105)
Preferred stock dividends	10		(11)	(1)
Balance at September 30, 2017	**$ 2,720**	**$ 1,413**	**$ 238,650**	**$ 242,783**

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 Farm Credit of Southern Colorado ACA, (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2016, are contained in the 2016 Annual Report to Shareholders. These unaudited third quarter 2017 financial statements should be read in conjunction with the 2016 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2016 as contained in the 2016 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2017. Descriptions of the significant accounting policies are included in the 2016 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

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

In March 2017, the FASB issued guidance entitled “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition but could change the classification of certain items in the results of operations.

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

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

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

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

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

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	September 30, 2017	December 31, 2016
Real estate mortgage	**$ 577,629**	$ 539,889
Production and intermediate-term	**179,276**	182,932
Agribusiness	**150,509**	148,944
Rural infrastructure	**69,362**	61,716
Rural residential real estate	**69**	107
Mission-related	**1,186**	1,225
Agricultural export finance	**9,371**	8,513
Total loans	**$ 987,402**	$ 943,326

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 27,717	$ 20,038	$ 4,144	$ -	$ 31,861	$ 20,038
Production and intermediate-term	17,769	1,089	-	-	17,769	1,089
Agribusiness	142,903	-	-	-	142,903	-
Rural infrastructure	69,362	-	-	-	69,362	-
Agricultural export finance	9,371	-	-	-	9,371	-
Total	$ 267,122	$ 21,127	$ 4,144	$ -	$ 271,266	$ 21,127

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

	September 30, 2017	December 31, 2016
Real estate mortgage		
Acceptable	**91.97%**	91.83%
OAEM	**2.60%**	3.17%
Substandard	**5.43%**	5.00%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**89.35%**	86.42%
OAEM	**4.91%**	7.29%
Substandard	**5.74%**	6.29%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**98.96%**	97.81%
OAEM	**0.33%**	1.14%
Substandard	**0.71%**	1.05%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**98.82%**	96.56%
OAEM	**1.18%**	3.44%
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Mission-related		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Agricultural export finance		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**93.10%**	92.10%
OAEM	**2.56%**	3.64%
Substandard	**4.34%**	4.26%
Total	**100.00%**	100.00%

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

(dollars in thousands)	**September 30, 2017**	December 31, 2016
Nonaccrual loans		
Real estate mortgage	**$ 3,285**	$ 4,391
Production and intermediate-term	**352**	1,420
Total nonaccrual loans	**$ 3,637**	$ 5,811
Accruing restructured loans		
Real estate mortgage	**$ 513**	$ 97
Production and intermediate-term	**656**	727
Rural infrastructure	**-**	1,279
Total accruing restructured loans	**$ 1,169**	$ 2,103
Total impaired loans	**$ 4,806**	$ 7,914
Other property owned	**2,374**	2,575
Total high risk assets	**$ 7,180**	$ 10,489

The Association had no accruing loans 90 days past due for the periods presented.

Additional impaired loan information is as follows:

	September 30, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,798**	**$ 3,811**	**$ -**	$ 4,488	$ 4,525	$ -
Production and intermediate-term	**1,008**	**5,344**	**-**	2,147	6,518	-
Rural infrastructure	**-**	**-**	**-**	1,279	1,601	-
Total	**$ 4,806**	**$ 9,155**	**$ -**	$ 7,914	$ 12,644	$ -

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.

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

	For the Three Months Ended September 30, 2017		For the Three Months Ended September 30, 2016	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ -**	**$ -**	$ 169	$ -
Production and intermediate-term	**-**	**-**	1,503	-
Total	**$ -**	**$ -**	$ 1,672	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 3,799**	**$ -**	$ 8,657	$ 31
Production and intermediate-term	**975**	**1**	1,903	6
Rural infrastructure	**-**	**-**	1,276	22
Total	**$ 4,774**	**$ 1**	$ 11,836	$ 59
Total impaired loans:				
Real estate mortgage	**$ 3,799**	**$ -**	$ 8,826	$ 31
Production and intermediate-term	**975**	**1**	3,406	6
Rural infrastructure	**-**	**-**	1,276	22
Total	**$ 4,774**	**$ 1**	$ 13,508	$ 59

	For the Nine Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ -**	**$ -**	$ 224	$ -
Production and intermediate-term	**-**	**-**	1,285	-
Total	**$ -**	**$ -**	$ 1,509	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 5,587**	**$ 127**	$ 9,954	$ 133
Production and intermediate-term	**1,843**	**39**	1,759	19
Rural infrastructure	**-**	**-**	1,428	45
Total	**$ 7,430**	**$ 166**	$ 13,141	$ 197

Total impaired loans:				
Real estate mortgage	**$ 5,587**	**$ 127**	$ 10,178	$ 133
Production and intermediate-term	**1,843**	**39**	3,044	19
Rural infrastructure	**-**	**-**	1,428	45
Total	**$ 7,430**	**$ 166**	$ 14,650	$ 197

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

September 30, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 804	$ 3,183	$ 3,987	$ 587,208	$ 591,195	$ -
Production and intermediate-term	374	118	492	183,197	183,689	-
Agribusiness	-	-	-	151,109	151,109	-
Rural infrastructure	-	-	-	69,666	69,666	-
Rural residential real estate	-	-	-	71	71	-
Mission-related	-	-	-	1,188	1,188	-
Agricultural export finance	-	-	-	9,399	9,399	-
Total	$ 1,178	$ 3,301	$ 4,479	$1,001,838	$1,006,317	$ -

December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 1,301	$ 3,423	$ 4,724	$ 544,757	$ 549,481	$ -
Production and intermediate-term	4,732	118	4,850	181,759	186,609	-
Agribusiness	-	-	-	149,673	149,673	-
Rural infrastructure	-	-	-	62,005	62,005	-
Rural residential real estate	-	-	-	109	109	-
Mission-related	-	-	-	1,228	1,228	-
Agricultural export finance	-	-	-	8,558	8,558	-
Total	$ 6,033	$ 3,541	$ 9,574	$ 948,089	$ 957,663	$ -

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

	Balance at June 30, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2017
Real estate mortgage	$ 549	$ -	$ -	$ 100	$ 649
Production and intermediate-term	478	3	4	73	552
Agribusiness	614	-	-	(66)	548
Rural infrastructure	292	-	-	(25)	267
Mission-related	5	-	-	-	5
Agricultural export finance	8	-	-	-	8
Total	$ 1,946	$ 3	$ 4	$ 82	$ 2,029

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2017
Real estate mortgage	$ 429	$ -	$ -	$ 220	$ 649
Production and intermediate-term	388	19	5	178	552
Agribusiness	443	-	-	105	548
Rural infrastructure	265	-	-	2	267
Mission-related	4	-	-	1	5
Agricultural export finance	6	-	-	2	8
Total	$ 1,535	$ 19	$ 5	$ 508	$ 2,029

	Balance at June 30, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2016
Real estate mortgage	$ 605	$ -	$ -	$ (219)	$ 386
Production and intermediate-term	698	9	32	366	1,087
Agribusiness	432	-	-	42	474
Rural infrastructure	309	-	-	(9)	300
Mission-related	5	-	-	-	5
Agricultural export finance	14	-	-	(7)	7
Total	$ 2,063	$ 9	$ 32	$ 173	$ 2,259

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2016
Real estate mortgage	$ 446	$ -	$ -	$ (60)	$ 386
Production and intermediate-term	335	32	141	643	1,087
Agribusiness	381	-	-	93	474
Rural infrastructure	301	-	-	(1)	300
Mission-related	4	-	-	1	5
Agricultural export finance	7	-	-	-	7
Total	$ 1,474	$ 32	$ 141	$ 676	$ 2,259

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

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	**2017**	2016
Balance at beginning of period	**$ 279**	$ 511	**$ 270**	$ 457
(Reversal of)/Provision for unfunded commitments	**(11)**	62	**(2)**	116
Total	**$ 268**	$ 573	**$ 268**	$ 573

Additional information on the allowance for credit losses follows:

	Allowance for Credit Losses Ending Balance at September 30, 2017		Recorded Investments in Loans Outstanding Ending Balance at September 30, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	**$ -**	**$ 649**	$ 3,798	$ 587,397
Production and intermediate-term	**-**	**552**	1,008	182,681
Agribusiness	**-**	**548**	-	151,109
Rural infrastructure	**-**	**267**	-	69,666
Rural residential real estate	**-**	**-**	-	71
Mission-related	**-**	**5**	-	1,188
Agricultural export finance	**-**	**8**	-	9,399
Total	**$ -**	**$ 2,029**	$ 4,806	$1,001,511

	Allowance for Credit Losses Ending Balance at December 31, 2016		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	**$ -**	**$ 429**	$ 4,754	$ 544,727
Production and intermediate-term	**-**	**388**	2,147	184,462
Agribusiness	**-**	**443**	-	149,673
Rural infrastructure	**-**	**265**	-	62,005
Rural residential real estate	**-**	**-**	-	109
Mission-related	**-**	**4**	-	1,228
Agricultural export finance	**-**	**6**	-	8,558
Total	**$ -**	**$ 1,535**	$ 6,901	$ 950,762

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

	For the Nine Months Ended			
	September 30, 2017		September 30, 2016	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Real estate mortgage	**$ -**	**$ -**	$ 443	$ 443
Production and intermediate-term	**891**	**891**	-	-
Total	**$ 891**	**$ 891**	$ 443	$ 443

* 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 period. Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings were $539 at September 30, 2017.

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

	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2017	December 31, 2016	**September 30, 2017**	December 31, 2016
Real estate mortgage	**$ 513**	$ 540	**$ -**	$ 443
Production and intermediate-term	**656**	727	**-**	-
Rural infrastructure	**-**	1,279	**-**	-
Total	**$ 1,169**	$ 2,546	**$ -**	$ 443

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

NOTE 3 - CAPITAL

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

In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public disclosures. The revisions to the risk weightings include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

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

	As of September 30, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	19.40%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	19.40%	6.0%	2.5%*	8.5%
Total capital ratio	19.62%	8.0%	2.5%*	10.5%
Permanent capital ratio	19.70%	7.0%	–	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	20.26%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	20.86%	1.5%	–	1.5%

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

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

NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2016 Annual Report to Shareholders for a more complete description.

The Association had no assets or liabilities measured at fair value on a recurring basis at September 30, 2017 or December 31, 2016.

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

	Fair Value Measurement Using			Total Fair Value	Total (Losses)/Gains
	Level 1	Level 2	Level 3		
September 30, 2017					
Loans	**$ –**	**$ –**	**$ 352**	**$ 352**	**$ (14)**
Other property owned	**$ –**	**$ –**	**$ 2,640**	**$ 2,640**	**$ -**
December 31, 2016					
Loans	$ –	$ –	$ 356	$ 356	$ 91
Other property owned	$ –	$ –	$ 2,870	$ 2,870	$ (109)

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

The Association had no liabilities measured at fair value on a non-recurring basis at September 30, 2017 or December 31, 2016.

Valuation Techniques

As more fully discussed in Note 2 to the 2016 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

Loans

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

Other Property Owned

Other property owned measured on a non-recurring basis is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 5 - NOTICE OF MATERIAL EVENTS

There have been leadership changes within the Association. In May, Alan Woodard, CEO gave notice of his intention to leave the Association as of June 9. Shawna Neppl, our CFO, was appointed interim CEO and assumed that position on June 9. The Board engaged Farm Credit Council Services to assist with the CEO search process. Jeremy Anderson has been hired as the new CEO and will start November 13th. Mr. Anderson has 16 years of commercial banking experience. In June, Linda Iverson resigned her position as Chief Operating Officer (COO). Ricky Sellers, our Compliance Officer, was appointed as Interim COO.

Christopher Bledsoe resigned his position from the Board of Directors in June 2017. Mr. Bledsoe was an appointed Director serving as the Chairman of Audit/Risk Committee and Vice Chairman of the Board. The Board is in the process of identifying a replacement Director for this vacancy. The Board members elected Kent Price as Vice Chairman of the Board. The Audit/Risk Committee members elected Mark Peterson as Chairman of the Audit/Risk Committee.

NOTE 6 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 6, 2017, which is the date the financial statements were issued, and no material subsequent events were identified.