



**Premier  
Farm  
Credit,  
ACA**

**THIRD QUARTER  
REPORT  
2008**

*The Gold Standard in Ag Lending*

## **DISCLOSURE**

The shareholders' investment in Premier Farm Credit, ACA is materially affected by the financial condition and results of operations of U.S. AgBank, FCB, (AgBank). The 2007 AgBank Annual Report to Shareholders, the 2007 AgBank District Annual Report to Shareholders, the AgBank quarterly shareholders' reports and the AgBank District quarterly shareholders' reports are available on AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by contacting the Administrative Office, Premier Farm Credit, ACA, 202 Poplar, Sterling, CO or by calling 970-522-5295.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Dollars in Thousands, Except as Noted)  
(Unaudited)

The following commentary summarizes the principal aspects of the financial position and results of operations of Premier Farm Credit, ACA (the Association) for the quarter ended September 30, 2008, with comparisons to the prior year and prior quarter. You should read these comments with the accompanying financial statements and footnotes, along with other disclosures contained in this report and the 2007 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of the audit committee.

Commodity prices continue to reflect a great deal of volatility and have dropped substantially from summer highs. This drop can be, in part, attributed to the sell-off of speculative positions by investors in the commodity pits as financial unrest in our economy pervades.

Current prices are still above historical levels, but are much nearer breakeven levels given the high cost of inputs. While margins will narrow, an average to above average crop will be the key to maintaining profitability.

The livestock sector has also been impacted by the sell-off as fat cattle prices have fallen. However, a benefit of this has been a reduction in feed costs.

The financial markets continue to be an area of concern as inflationary pressures seemingly have given way to fears of recession. While the Farm Credit System continues to reflect strong earnings and is very well capitalized, a general lack of investor confidence in the marketplace has created challenges for the issuance of System debt. Because of our strength and disciplined fiscal responsibility, we remain able to attract funding. Yet, the unrest in the global economy has impacted the costs of borrowing throughout the world. We are thankful that the agricultural economy remains strong at this time and our credit quality is sound. With these positive attributes in our arsenal, we anticipate the return of stronger investor confidence in the coming months.

We continue to be a stable, competitive source of funding for our membership. This is a tribute to the fiscal management of the System and is indicative of our focus and dedication to serving agriculture.

Our territory continues to benefit from the ongoing development of renewable energy resources. The latest projects call for the continued expansion of wind power generation capability in the region we serve. The development of "green" energy projects has provided much needed economic stimulus to our rural economy.

## **LOAN PORTFOLIO**

The Association is a party to a shared lending operation known as the Agribusiness Finance Group (AFG). The agreement includes our association, Farm Credit Services of the Mountain Plains, ACA, Farm Credit of Southern Colorado, ACA and Farm Credit of New Mexico, ACA. These associations pool their resources to coordinate and enhance the marketing, originating and servicing of large complex commercial and mortgage loans, as well as diversify risk.

The Association has seen strong growth in its loan volume during the first nine months of the year. Loans outstanding at September 30, 2008 totaled \$384,703, an increase of \$41,176, or 11.99%, from loans of \$343,527 at December 31, 2007. The increase was primarily due to increased activity in the real estate market and loans purchased through the AFG.

## **RESULTS OF OPERATIONS**

Net interest income for the nine months ended September 30, 2008 was \$7,257, a decrease of \$806, or 10.00%, from the same period ended one year ago. Interest income decreased as a result of the reduction in interest rates. The Association has not been able to earn the return on its loanable funds during the first nine months of 2008 that it did during the same time period a year ago. Loanable funds earnings are down \$1,387 in 2008 as compared to 2007. However, due to the increase in loan volume, some of the effect of the loss on loanable funds has been mitigated.

Net income for the nine months ended September 30, 2008 was \$5,059, a decrease of \$1,421, or 21.93%, from the same period ended one year ago. This is primarily due to the decrease in net interest income of \$806, increase in noninterest expenses of \$794 and reduction in patronage from US AgBank of \$183. These items are partially offset by an increase in loan fees of \$134, an increase in other income of \$116, an increase in financially related services of \$112 and \$7 more in the reversal of the provision for loan losses.

Noninterest expenses have primarily increased as a result of \$478 more in salaries and employee benefits. In past years, the annual bonus was not accrued until December. This year we accrued seventy-five percent of the anticipated 2008 bonus in the first nine months of the year, thus causing an additional \$309 in expense. Loan officer incentive payments expense has exceeded the 2007 expense by \$21. Increased employee benefit costs for the employee 401(k) program resulted in an additional \$64 to employee benefits expense in the first nine months of 2008.

Occupancy and equipment increased \$144 in the first nine months of 2008 as compared to the same time period in 2007. This primarily results from accruals for building and equipment leases, as well as real estate taxes being accrued monthly during 2008. In prior years, these expenses were only accrued in December. The accruals have caused occupancy and equipment expenses to be an additional \$131 in the first nine months of 2008 when compared to the same time period in 2007.

The majority of the increase in loan fee income is the result of AFG loans.

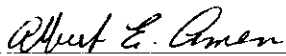
The increase in other income reflects accruals for building, equipment and vehicle leases being accrued in each month during 2008, whereas in prior years this income was only accrued in December. These accruals have been \$112 year-to-date 2008.


The increase in crop prices has increased the premiums for multi-peril insurance which has consequently increased the financially related services income. The Association has also experienced an increase in the number of policies.

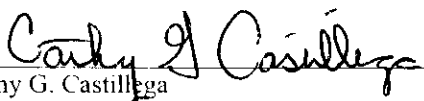
#### **CAPITAL RESOURCES**

Our shareholders' equity at September 30, 2008 was \$95,823, an increase from \$90,768 at December 31, 2007. This increase is primarily due to \$5,059 in net income and the amortization of pension gains included in net periodic benefit cost of \$11, partially offset by stock reductions of \$11 and \$4 from the effect of changing the defined benefit plan measurement date.

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

  
Albert E. Amen  
Chairman of the Board  
November 6, 2008

  
Rick Sanger  
President & CEO  
November 6, 2008

  
Cathy G. Castilleja  
Chief Financial Officer  
November 6, 2008

**PREMIER FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENT OF CONDITION**  
(Dollars in Thousands)

	September 30 2008	December 31 2007
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 384,703	\$ 343,527
Less allowance for loan losses	1,940	2,115
Net loans	382,763	341,412
Cash	2,004	7,860
Accrued interest receivable	11,752	6,760
Investment in U.S. AgBank, FCB	12,586	12,586
Premises and equipment, net	1,428	1,500
Prepaid benefit expense	513	585
Deferred tax asset	1,640	1,634
Other assets	306	474
<b>Total assets</b>	<b>\$ 412,992</b>	<b>\$ 372,811</b>
<b>LIABILITIES</b>		
Note payable to U.S. AgBank, FCB	\$ 298,905	\$ 261,573
Advance conditional payments	9,166	5,179
Accrued interest payable	7,510	9,109
Patronage distributions payable	-	4,300
Accrued benefits liability	255	263
Other liabilities	1,333	1,619
<b>Total liabilities</b>	<b>317,169</b>	<b>282,043</b>
<b>Commitments and contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Protected borrower stock	2	3
Capital stock	1,045	1,055
Unallocated retained earnings	94,815	89,760
Other comprehensive income/ (loss)	(39)	(50)
<b>Total shareholders' equity</b>	<b>95,823</b>	<b>90,768</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 412,992</b>	<b>\$ 372,811</b>

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

**PREMIER FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENT OF INCOME**  
(Dollars in Thousands)

UNAUDITED	For the three months ended September 30		For the nine months ended September 30	
	2008	2007	2008	2007
<b>INTEREST INCOME</b>				
Loans	\$ 5,827	\$ 5,900	\$17,284	\$ 17,490
<b>Total interest income</b>	<b>5,827</b>	<b>5,900</b>	<b>17,284</b>	<b>17,490</b>
<b>INTEREST EXPENSE</b>				
Note payable to U.S. AgBank, FCB	3,377	3,191	9,860	9,212
Other	44	70	167	215
<b>Total interest expense</b>	<b>3,421</b>	<b>3,261</b>	<b>10,027</b>	<b>9,427</b>
Net interest income	2,406	2,639	7,257	8,063
Provision for loan losses/(Loan loss reversal)	51	21	(130)	(123)
Net interest income after provision for loan losses/(Loan loss reversal)	2,355	2,618	7,387	8,186
<b>NONINTEREST INCOME</b>				
Financially related services income	224	156	349	237
Loan fees	93	58	299	165
Patronage distribution from U.S. AgBank, FCB	462	544	1,467	1,650
Other noninterest income	40	1	154	38
<b>Total noninterest income</b>	<b>819</b>	<b>759</b>	<b>2,269</b>	<b>2,090</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	907	778	2,651	2,173
Occupancy and equipment	107	63	331	187
Purchased services from AgVantis, Inc.	104	92	334	291
Farm Credit Insurance Fund premium	136	117	397	342
Supervisory and examination costs	32	33	96	98
Other noninterest expense	298	258	775	699
<b>Total noninterest expense</b>	<b>1,584</b>	<b>1,341</b>	<b>4,584</b>	<b>3,790</b>
Income before income taxes	1,590	2,036	5,072	6,486
Provision for income taxes	6	1	13	6
<b>Net income</b>	<b>\$ 1,584</b>	<b>\$ 2,035</b>	<b>\$ 5,059</b>	<b>\$ 6,480</b>

**PREMIER FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Dollars in Thousands)

	UNAUDITED							
	Protected Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity			
<b>Balance at December 31, 2006</b>	3	\$ 1,057	\$ 86,018	\$ -	\$ 87,078			
Net income	-	76	6,480	-	6,480			
Stock issued	-	76	-	-	76			
Stock retired	-	(73)	-	-	(73)			
<b>Balance at September 30, 2007</b>	3	\$ 1,060	\$ 92,498	\$ -	\$ 93,561			
<b>Balance at December 31, 2007</b>	3	\$ 1,055	\$ 89,760	\$ (50)	\$ 90,768			
Comprehensive income			5,059					
Net income								11
Amortization of gains included in net periodic benefit cost								5,070
Total comprehensive income								(4)
Effect of changing defined benefit plan measurement date								68
Stock issued	-	68			68			
Stock retired	(1)	(78)			(79)			
<b>Balance at September 30, 2008</b>	2	\$ 1,045	\$ 94,815	\$ (39)	\$ 95,823			

The accompanying notes are an integral part of these 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, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited third quarter 2008 financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations, and conform to generally accepted accounting principles and prevailing practices within the banking industry. Certain amounts in the 2007 financial statements have been reclassified to conform to current financial statement presentation. Services previously purchased from U.S. AgBank, FCB are now purchased from Farm Credit Foundations. These services are reflected in other noninterest expense. The results for the nine months ended September 30, 2008, are not necessarily indicative of the results to be expected for the year ended December 31, 2008.

**NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of the allowance for loan losses follows.

	September 30, 2008	September 30, 2007
Balance at beginning of year	\$2,115	\$2,071
Loan loss reversal	(130)	(123)
Charge-offs	45	14
Recoveries	-0-	-0-
Balance at end of quarter	<b>\$1,940</b>	\$1,934

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

	September 30, 2008	September 30, 2007
Impaired loans with related allowance	\$ -0-	\$ -0-
Impaired loans with no related allowance	645	1,080
Total impaired loans	<b>\$ 645</b>	\$1,080
Allowance on impaired loans	<b>\$ -0-</b>	\$ -0-

The following table summarizes impaired loan information.

	For the nine months ended September 30, 2008	September 30, 2007
Average impaired loans	\$ 771	\$1,323
Interest income recognized on impaired loans	\$ 165	\$ 472