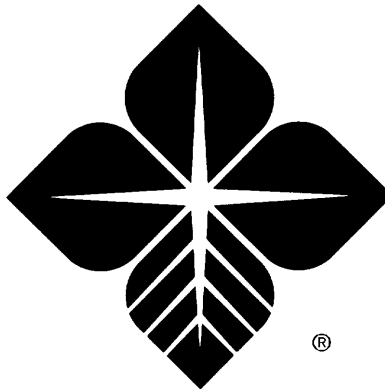


PLAINS LAND BANK, FLCA

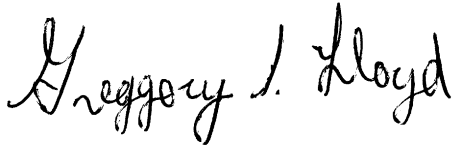
**2016
Quarterly Report
Third Quarter**



For the Quarter Ended September 30, 2016

REPORT OF MANAGEMENT

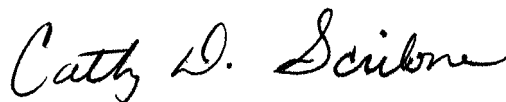
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Greggory S. Lloyd, Chief Executive Officer
October 20, 2016



Don R. James, Chairman, Board of Directors
October 20, 2016



Cathy D. Scribner, Chief Financial Officer
October 20, 2016

**PLAINS LAND BANK, FLCA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter ended September 30, 2016. These comments should be read in conjunction with the accompanying financial statements and the 2015 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

In January 2016, a patronage of \$6,750,000 was declared. The patronage is larger than usual due to a one time interest income from a nonaccrual loan in 2015 of \$1,749,374. This patronage was subsequently paid in March 2016.

In February 2016, the Association purchased a lot in Plainview, Texas for \$121,617. This land will be used to build a new Plainview branch office. The current Plainview office is under contract with an option for the Association to lease back the premise for up to a year.

In September 2016, the Association recorded an allowance on unfunded commitments of \$73,703. The allowance for unfunded commitments is recorded in other liabilities on the balance sheet.

In 2013, the Association, through a purchased participation as part of a lending group, acquired a small ownership interest in a biofuels plant and related assets. In August 2016, a ruling in the case created sufficient doubt as to the recoverability of any funds related to the ownership interest. As a result, the Association charged off the remaining \$59,711 acquired property balance.

The board of directors passed a resolution at a regular called meeting on April 8, 2015 to change the Association's name from Panhandle-Plains Land Bank, FLCA to Plains Land Bank, FLCA. A request was made to the Farm Credit Bank of Texas (Bank) and Farm Credit Administration (FCA) in accordance with section 611.1121 of the FCA's regulation for an amendment to the Association's charter to reflect this name change. The Association received the approval from the Bank and FCA and Plains Land Bank, FLCA became the Association's official name on July 1, 2015.

Loan Portfolio:

Total loans outstanding at September 30, 2016, including nonaccrual loans, were \$529,891,610 compared to \$494,673,008 at December 31, 2015, reflecting an increase of 7.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at September 30, 2016, compared to no nonaccrual loans outstanding at December 31, 2015.

The Association had no recoveries or charge-offs for the quarter ended September 30, 2016, or for the same period in 2015. The Association's allowance for loan losses was 0.4 percent and 0.3 percent of total loans outstanding as of September 30, 2016, and December 31, 2015, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

| | September 30, 2016 | | December 31, 2015 | |
|---|--------------------|--------|-------------------|--------|
| | Amount | % | Amount | % |
| Nonaccrual | \$ 578,009 | 59.0% | \$ - | 0.0% |
| 90 days past due and still accruing interest | 400,982 | 41.0% | - | 0.0% |
| Other property owned, net | - | 0.0% | 59,711 | 100.0% |
| Total | \$ 978,991 | 100.0% | \$ 59,711 | 100.0% |

Results of Operations:

The Association had net income of \$2,881,401 and \$7,986,535 for the three and nine months ended September 30, 2016, as compared to net income of \$3,023,885 and \$7,930,947 for the same period in 2015, reflecting a decrease of 4.7 percent and an increase of 0.7 percent, respectively. Net interest income was \$3,713,842 and \$10,927,597 for the three and nine months ended September 30, 2016, compared to \$3,342,615 and \$9,941,495 for the same period in 2015.

| | Nine months ended: | | | |
|---|-------------------------------|----------------------|-------------------------------|---------------------|
| | September 30, 2016 | | September 30, 2015 | |
| | Average Balance | Interest | Average Balance | Interest |
| Loans | \$ 520,770,844 | \$ 18,378,049 | \$ 460,742,653 | \$ 16,428,129 |
| Interest-bearing liabilities | 429,209,909 | 7,450,452 | 373,567,132 | 6,486,634 |
| Impact of capital | <u>\$ 91,560,935</u> | | <u>\$ 87,175,521</u> | |
| Net interest income | | <u>\$ 10,927,597</u> | | <u>\$ 9,941,495</u> |
| | 2016 | | 2015 | |
| | Average Yield | | Average Yield | |
| Yield on loans | 4.71% | | 4.77% | |
| Cost of interest-bearing liabilities | 2.32% | | 2.32% | |
| Interest rate spread | 2.39% | | 2.45% | |
| Net interest income as a percentage of average earning assets | 2.80% | | 2.88% | |

| | Nine months ended: | | |
|---------------------|--|---------------------|-------------------|
| | September 30, 2016 vs. September 30, 2015 | | |
| | Increase (decrease) due to | | |
| | Volume | Rate | Total |
| Interest income | \$ 2,142,339 | \$ (192,419) | \$ 1,949,920 |
| Interest expense | 967,087 | (3,269) | 963,818 |
| Net interest income | <u>\$ 1,175,252</u> | <u>\$ (189,150)</u> | <u>\$ 986,102</u> |

Interest income for the three and nine months ended September 30, 2016, increased by \$668,607 and \$1,949,920, or 11.9 and 11.9 percent, respectively, from the same period of 2015, primarily due to an increase in average loan volume and slightly offset by a decline in yields on earning assets. Interest expense for the three and nine months ended September 30, 2016, increased by \$297,380 and \$963,818, or 13.1 and 14.9 percent, from the same period of 2015 primarily due to an increase in average debt volume. Average loan volume for the third quarter of 2016 was \$533,036,888, compared to \$473,337,045 in the third quarter of 2015. The average net interest rate spread on the loan portfolio for the third quarter of 2016 was 2.38 percent, compared to 2.38 percent in the third quarter of 2015.

The Association's return on average assets for the nine months ended September 30, 2016, was 1.98 percent compared to 2.23 percent for the same period in 2015. The Association's return on average equity for the nine months ended September 30, 2016, was 10.25 percent, compared to 10.83 percent for the same period in 2015.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (Bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

| | September 30, 2016 | December 31, 2015 |
|----------------------------------|-----------------------|-----------------------|
| Note payable to the Bank | \$ 439,860,619 | \$ 405,094,363 |
| Accrued interest on note payable | 826,815 | 802,213 |
| Total | <u>\$ 440,687,434</u> | <u>\$ 405,896,576</u> |

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$439,860,619 as of September 30, 2016, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.26 percent at September 30, 2016. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2015, is due to the Association's increase in assets since year end. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$90,022,498 at September 30, 2016. The maximum amount the Association may borrow from the Bank as of September 30, 2016, was \$538,372,191 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2018, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by \$1,246,503 at September 30, 2016, compared to December 31, 2015. The Association's debt as a percentage of members' equity was 4.11:1 as of September 30, 2016, compared to 3.83:1 as of December 31, 2015.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2016, was 17.5 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2016, were 17.1 and 17.1 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In August 2016, the Financial Accounting Standards Board (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 currently 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 currently 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.” This 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 August 2014, the FASB issued guidance entitled “Presentation of Financial Statements — Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

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.

Regulatory Matters:

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill their 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 the requirements of section 939A of the Dodd-Frank Act.

The final rule is effective on January 1, 2017. The Association is currently evaluating the impact of the recently announced changes.

Relationship With the Farm Credit Bank of Texas:

The Association’s financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the 2015 Annual Report of Plains Land Bank, FLCA more fully describe the Association’s relationship with the Bank.

The Texas Farm Credit District’s (District) annual and quarterly stockholder reports, as well as those of the Bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the District’s quarterly and annual stockholder reports also can be requested by e-mail at fcb@farmcreditbank.com. The annual and quarterly stockholder reports for the Bank and the District are also available on its website at www.farmcreditbank.com.

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Plains Land Bank, FLCA, 5625 Fulton Drive, Amarillo, Texas 79109-4212 or calling (806) 353-6688. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing cscibner@plainslandbank.com. The Association also makes its annual and quarterly reports available on its website at www.plainslandbank.com.

PLAINS LAND BANK, FLCA

BALANCE SHEET

| | September 30, 2016 (unaudited) | December 31, 2015 |
|---|---|------------------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 44,211 | \$ 3,333,619 |
| Loans | 529,891,610 | 494,673,008 |
| Less: allowance for loan losses | 1,829,653 | 1,609,071 |
| Net loans | <u>528,061,957</u> | <u>493,063,937</u> |
| Accrued interest receivable | 10,883,262 | 7,682,548 |
| Investment in and receivable from the Farm Credit Bank of Texas: | | |
| Capital stock | 7,554,685 | 7,554,685 |
| Other property owned, net | - | 59,711 |
| Premises and equipment, net | 1,852,561 | 1,777,488 |
| Other assets | 1,861,262 | 582,251 |
| Total assets | <u><u>\$ 550,257,938</u></u> | <u><u>\$ 514,054,239</u></u> |
| <u>LIABILITIES</u> | | |
| Note payable to the Farm Credit Bank of Texas | \$ 439,860,619 | \$ 405,094,363 |
| Accrued interest payable | 826,815 | 802,213 |
| Drafts outstanding | 80,000 | 48,000 |
| Other liabilities | 1,850,294 | 1,715,956 |
| Total liabilities | <u>442,617,728</u> | <u>407,660,532</u> |
| <u>MEMBERS' EQUITY</u> | | |
| Capital stock and participation certificates | 1,830,270 | 1,807,680 |
| Unallocated retained earnings | 105,686,817 | 104,450,282 |
| Accumulated other comprehensive income | 123,123 | 135,745 |
| Total members' equity | <u>107,640,210</u> | <u>106,393,707</u> |
| Total liabilities and members' equity | <u><u>\$ 550,257,938</u></u> | <u><u>\$ 514,054,239</u></u> |

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

PLAINS LAND BANK, FLCA

STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|---------------------|------------------------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 |
| <u>INTEREST INCOME</u> | | | | |
| Loans | \$ 6,282,201 | \$ 5,613,594 | \$ 18,378,049 | \$ 16,428,129 |
| <u>INTEREST EXPENSE</u> | | | | |
| Note payable to the Farm Credit Bank of Texas | 2,568,359 | 2,270,979 | 7,450,452 | 6,486,634 |
| Net interest income | 3,713,842 | 3,342,615 | 10,927,597 | 9,941,495 |
| <u>PROVISION FOR LOAN LOSSES</u> | | | | |
| | 76,792 | 5,115 | 294,285 | 61,402 |
| Net interest income after provision for loan losses | 3,637,050 | 3,337,500 | 10,633,312 | 9,880,093 |
| <u>NONINTEREST INCOME</u> | | | | |
| Income from the Farm Credit Bank of Texas: | | | | |
| Patronage income | 443,499 | 411,330 | 1,330,140 | 1,232,394 |
| Loan fees | 30,397 | 19,156 | 115,634 | 115,534 |
| Financially related services income | 3,080 | 3,109 | 8,602 | 8,625 |
| Gain on sale of premises and equipment, net | 377 | 220,718 | 318 | 220,718 |
| Other noninterest income | 5,066 | 3,662 | 66,749 | 74,561 |
| Total noninterest income | 482,419 | 657,975 | 1,521,443 | 1,651,832 |
| <u>NONINTEREST EXPENSES</u> | | | | |
| Salaries and employee benefits | 608,728 | 461,445 | 2,379,507 | 2,171,909 |
| Directors' expense | 27,610 | 24,945 | 172,519 | 162,017 |
| Purchased services | 101,277 | 104,588 | 263,941 | 232,591 |
| Travel | 27,903 | 27,245 | 80,460 | 81,967 |
| Occupancy and equipment | 68,296 | 90,123 | 189,559 | 184,922 |
| Communications | 11,864 | 10,843 | 32,046 | 27,661 |
| Advertising | 47,081 | 35,797 | 137,823 | 76,593 |
| Public and member relations | 15,200 | 16,329 | 77,597 | 67,820 |
| Supervisory and exam expense | 54,208 | 42,924 | 140,055 | 112,386 |
| Insurance Fund premiums | 187,983 | 116,427 | 531,738 | 337,479 |
| Loss on other property owned, net | 59,711 | - | 59,711 | - |
| Other noninterest expense | 28,207 | 40,924 | 103,264 | 145,633 |
| Total noninterest expenses | 1,238,068 | 971,590 | 4,168,220 | 3,600,978 |
| NET INCOME | 2,881,401 | 3,023,885 | 7,986,535 | 7,930,947 |
| Other comprehensive loss: | | | | |
| Change in postretirement benefit plans | (4,207) | (3,732) | (12,622) | (11,196) |
| COMPREHENSIVE INCOME | \$ 2,877,194 | \$ 3,020,153 | \$ 7,973,913 | \$ 7,919,751 |

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

| | <u>Capital Stock/ Participation Certificates</u> | <u>Retained Earnings Unallocated</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Members' Equity</u> |
|---|--|--|--|--------------------------------------|
| Balance at December 31, 2014 | \$ 1,731,005 | \$ 99,034,790 | \$ (71,126) | \$ 100,694,669 |
| Comprehensive income | - | 7,930,947 | (11,196) | 7,919,751 |
| Capital stock/participation certificates issued | 225,175 | - | - | 225,175 |
| Capital stock/participation certificates and allocated retained earnings retired | (160,735) | - | - | (160,735) |
| Patronage refunds: | | | | |
| Cash | - | (7,000,000) | - | (7,000,000) |
| Balance at September 30, 2015 | <u>\$ 1,795,445</u> | <u>\$ 99,965,737</u> | <u>\$ (82,322)</u> | <u>\$ 101,678,860</u> |
| | | | | |
| Balance at December 31, 2015 | \$ 1,807,680 | \$ 104,450,282 | \$ 135,745 | \$ 106,393,707 |
| Comprehensive income | - | 7,986,535 | (12,622) | 7,973,913 |
| Capital stock/participation certificates issued | 219,215 | - | - | 219,215 |
| Capital stock/participation certificates and allocated retained earnings retired | (196,625) | - | - | (196,625) |
| Patronage refunds: | | | | |
| Cash | - | (6,750,000) | - | (6,750,000) |
| Balance at September 30, 2016 | <u>\$ 1,830,270</u> | <u>\$ 105,686,817</u> | <u>\$ 123,123</u> | <u>\$ 107,640,210</u> |

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

PLAINS LAND BANK, FLCA
NOTES TO THE FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Potter, Randall and Roberts in the state of Texas. The Association is a lending institution of the Farm Credit System (System), which was established by Acts of Congress to meet the needs of American agriculture.

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, 2015, as contained in the 2015 Annual Report to Stockholders.

In the opinion of management, the accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015, as contained in the 2015 Annual Report to Stockholders. 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, 2016. Descriptions of the significant accounting policies are included in the 2015 Annual Report to Stockholders. 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 2016, the Financial Accounting Standards Board (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, 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 currently 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 currently 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.” This 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 August 2014, the FASB issued guidance entitled “Presentation of Financial Statements - Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

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.

The preparation of these financial statements requires the use of management’s estimates. The results for the quarter ended September 30, 2016, are not necessarily indicative of the results to be expected for the year ended December 31, 2016. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

| Loan Type | September 30, | December 31, |
|----------------------------------|----------------|----------------|
| | 2016 | 2015 |
| | Amount | Amount |
| Real estate mortgage | \$ 451,281,623 | \$ 418,963,594 |
| Agribusiness: | | |
| Processing and marketing | 32,975,422 | 29,428,305 |
| Loans to cooperatives | 5,798,087 | 2,315,477 |
| Farm-related business | 3,210,068 | 3,007,172 |
| Energy | 17,123,022 | 17,621,376 |
| Production and intermediate term | 7,220,482 | 12,011,140 |
| Communication | 6,045,312 | 5,589,417 |
| Rural residential real estate | 5,122,228 | 4,545,969 |
| Water and waste water | 1,115,366 | 1,190,558 |
| Total | \$ 529,891,610 | \$ 494,673,008 |

The Association purchases or 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, 2016:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|----------------------------------|--------------------------------|----------------|------------------------------|----------------|----------------|----------------|
| | Participations | Participations | Participations | Participations | Participations | Participations |
| | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | \$ 8,400,056 | \$ 4,102,579 | \$ - | \$ - | \$ 8,400,056 | \$ 4,102,579 |
| Agribusiness | 38,677,892 | - | - | - | 38,677,892 | - |
| Energy | 17,123,022 | - | - | - | 17,123,022 | - |
| Production and intermediate term | 7,220,482 | - | - | - | 7,220,482 | - |
| Communication | 6,045,312 | - | - | - | 6,045,312 | - |
| Water and waste water | 1,115,366 | - | - | - | 1,115,366 | - |
| Total | \$ 78,582,130 | \$ 4,102,579 | \$ - | \$ - | \$ 78,582,130 | \$ 4,102,579 |

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s

related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. There were no ACP's at September 30, 2016 or December 31, 2015, respectively.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

| | <u>September 30, 2016</u> | <u>December 31, 2015</u> |
|---|-------------------------------|------------------------------|
| Nonaccrual loans: | | |
| Real estate mortgage | \$ 578,009 | \$ - |
| Accruing loans 90 days or more past due: | | |
| Real estate mortgage | <u>400,982</u> | - |
| Total nonperforming loans | <u>978,991</u> | - |
| Other property owned | - | 59,711 |
| Total nonperforming assets | <u><u>\$ 978,991</u></u> | <u><u>\$ 59,711</u></u> |

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

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

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

| | September 30, 2016 | December 31, 2015 |
|----------------------------------|-------------------------------|----------------------|
| Real estate mortgage | | |
| Acceptable | 96.1 % | 96.5 % |
| OAEM | 2.4 | 2.1 |
| Substandard/doubtful | 1.5 | 1.4 |
| | 100.0 | 100.0 |
| Production and intermediate term | | |
| Acceptable | 80.8 | 88.5 |
| OAEM | - | 11.5 |
| Substandard/doubtful | 19.2 | - |
| | 100.0 | 100.0 |
| Processing and marketing | | |
| Acceptable | 100.0 | 98.0 |
| OAEM | - | 2.0 |
| Substandard/doubtful | - | - |
| | 100.0 | 100.0 |
| Energy | | |
| Acceptable | 81.2 | 100.0 |
| OAEM | 18.8 | - |
| Substandard/doubtful | - | - |
| | 100.0 | 100.0 |
| Communication | | |
| Acceptable | 100.0 | 100.0 |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | 100.0 | 100.0 |
| Rural residential real estate | | |
| Acceptable | 98.1 | 97.8 |
| OAEM | 0.1 | - |
| Substandard/doubtful | 1.8 | 2.2 |
| | 100.0 | 100.0 |
| Water and waste water | | |
| Acceptable | 100.0 | 100.0 |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | 100.0 | 100.0 |
| Loans to cooperatives | | |
| Acceptable | 73.6 | 36.2 |
| OAEM | - | - |
| Substandard/doubtful | 26.4 | 63.8 |
| | 100.0 | 100.0 |
| Farm-related business | | |
| Acceptable | 100.0 | 100.0 |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | 100.0 | 100.0 |
| Total loans | | |
| Acceptable | 95.5 | 96.3 |
| OAEM | 2.6 | 2.2 |
| Substandard/doubtful | 1.9 | 1.5 |
| | 100.0 % | 100.0 % |

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

| <u>September 30, 2016</u> | 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 | Recorded Investment >90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-----------------------|--|
| Real estate mortgage | \$ 193,598 | \$ 637,091 | \$ 830,689 | \$ 461,146,823 | \$ 461,977,512 | \$ 400,982 |
| Processing and marketing | - | - | - | 33,054,369 | 33,054,369 | - |
| Energy | - | - | - | 17,136,176 | 17,136,176 | - |
| Production and intermediate term | - | - | - | 7,240,587 | 7,240,587 | - |
| Communication | - | - | - | 6,045,820 | 6,045,820 | - |
| Loans to cooperatives | - | - | - | 5,827,928 | 5,827,928 | - |
| Rural residential real estate | - | - | - | 5,160,081 | 5,160,081 | - |
| Farm-related business | - | - | - | 3,216,724 | 3,216,724 | - |
| Water and waste water | - | - | - | 1,115,675 | 1,115,675 | - |
| Total | \$ 193,598 | \$ 637,091 | \$ 830,689 | \$ 539,944,183 | \$ 540,774,872 | \$ 400,982 |

| <u>December 31, 2015</u> | 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 | Recorded Investment >90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-----------------------|--|
| Real estate mortgage | \$ 61,541 | \$ - | \$ 61,541 | \$ 426,349,256 | \$ 426,410,797 | \$ - |
| Processing and marketing | - | - | - | 29,518,328 | 29,518,328 | - |
| Energy | - | - | - | 17,633,888 | 17,633,888 | - |
| Production and intermediate term | - | - | - | 12,039,357 | 12,039,357 | - |
| Communication | - | - | - | 5,591,506 | 5,591,506 | - |
| Rural residential real estate | - | - | - | 4,582,574 | 4,582,574 | - |
| Farm-related business | - | - | - | 3,016,648 | 3,016,648 | - |
| Loans to cooperatives | - | - | - | 2,371,751 | 2,371,751 | - |
| Water and waste water | - | - | - | 1,190,707 | 1,190,707 | - |
| Total | \$ 61,541 | \$ - | \$ 61,541 | \$ 502,294,015 | \$ 502,355,556 | \$ - |

Note: The recorded investment in the 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 investment.

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions. There were no troubled debt restructured loans of September 30, 2016 or December 31, 2015.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). The predominant form of concession granted for troubled debt restructuring includes principal concessions. Other types of modifications include extension of the term, accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

| | September 30, 2016 | | | December 31, 2015 | | |
|---|------------------------|---|----------------------|------------------------|---|----------------------|
| | Recorded Investment | Unpaid Principal Balance ^a | Related Allowance | Recorded Investment | Unpaid Principal Balance ^a | Related Allowance |
| Impaired loans with a related allowance for credit losses: | | | | | | |
| Real estate mortgage | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Impaired loans with no related allowance for credit losses: | | | | | | |
| Real estate mortgage | \$ 978,991 | \$ 951,476 | \$ - | \$ - | \$ - | \$ - |
| Total | \$ 978,991 | \$ 951,476 | \$ - | \$ - | \$ - | \$ - |
| Total impaired loans: | | | | | | |
| Real estate mortgage | \$ 978,991 | \$ 951,476 | \$ - | \$ - | \$ - | \$ - |
| Total | \$ 978,991 | \$ 951,476 | \$ - | \$ - | \$ - | \$ - |

^a Unpaid principal balance represents the recorded principal balance of the loan.

| | For the Three Months Ended | | | | For the Nine Months Ended | | | |
|---|------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
| | September 30, 2016 | | September 30, 2015 | | September 30, 2016 | | September 30, 2015 | |
| | Average Impaired Loans | Interest Income Recognized | Average Impaired Loans | Interest Income Recognized | Average Impaired Loans | Interest Income Recognized | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: | | | | | | | | |
| Real estate mortgage | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Impaired loans with no related allowance for credit losses: | | | | | | | | |
| Real estate mortgage | \$ 835,749 | \$ 6,595 | \$ 788,215 | \$ - | \$ 528,685 | \$ 32,270 | \$ 791,116 | \$ - |
| Total | \$ 835,749 | \$ 6,595 | \$ 788,215 | \$ - | \$ 528,685 | \$ 32,270 | \$ 791,116 | \$ - |
| Total impaired loans: | | | | | | | | |
| Real estate mortgage | \$ 835,749 | \$ 6,595 | \$ 788,215 | \$ - | \$ 528,685 | \$ 32,270 | \$ 791,116 | \$ - |
| Total | \$ 835,749 | \$ 6,595 | \$ 788,215 | \$ - | \$ 528,685 | \$ 32,270 | \$ 791,116 | \$ - |

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

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy | Water and Waste Water | Rural Residential Real Estate | Total |
|---|-------------------------|--|--------------|---------------|---------------|--------------------------|-------------------------------------|----------------|
| Allowance for Credit Losses: | | | | | | | | |
| Balance at | | | | | | | | |
| June 30, 2016 | \$ 1,244,594 | \$ 138,741 | \$ 224,325 | \$ 33,539 | \$ 160,954 | \$ 11,679 | \$ 12,732 | \$ 1,826,564 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - | - |
| Provision for loan losses | (5,742) | 15,005 | 15,743 | (44) | 46,129 | 3,282 | 2,419 | 76,792 |
| Other | (4,702) | (18,828) | (38,036) | (567) | (7,795) | (3,775) | - | (73,703) |
| Balance at | | | | | | | | |
| September 30, 2016 | \$ 1,234,150 | \$ 134,918 | \$ 202,032 | \$ 32,928 | \$ 199,288 | \$ 11,186 | \$ 15,151 | \$ 1,829,653 |
| Balance at | | | | | | | | |
| December 31, 2015 | \$ 1,202,847 | \$ 77,629 | \$ 165,168 | \$ 25,648 | \$ 112,013 | \$ 11,999 | \$ 13,767 | \$ 1,609,071 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - | - |
| Provision for loan losses | 36,005 | 76,117 | 74,900 | 7,847 | 95,070 | 2,962 | 1,384 | 294,285 |
| Other | (4,702) | (18,828) | (38,036) | (567) | (7,795) | (3,775) | - | (73,703) |
| Balance at | | | | | | | | |
| September 30, 2016 | \$ 1,234,150 | \$ 134,918 | \$ 202,032 | \$ 32,928 | \$ 199,288 | \$ 11,186 | \$ 15,151 | \$ 1,829,653 |
| Ending Balance: | | | | | | | | |
| Individually evaluated for impairment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Collectively evaluated for impairment | 1,234,150 | 134,918 | 202,032 | 32,928 | 199,288 | 11,186 | 15,151 | 1,829,653 |
| Balance at | | | | | | | | |
| September 30, 2016 | \$ 1,234,150 | \$ 134,918 | \$ 202,032 | \$ 32,928 | \$ 199,288 | \$ 11,186 | \$ 15,151 | \$ 1,829,653 |
| Balance at | | | | | | | | |
| June 30, 2015 | \$ 1,066,382 | \$ 39,232 | \$ 147,752 | \$ 15,134 | \$ 78,188 | \$ 11,565 | \$ 9,049 | \$ 1,367,302 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - | - |
| Provision for loan losses | 5,661 | (3,684) | 4,669 | (298) | (3,514) | (233) | 2,514 | 5,115 |
| Other | - | - | - | - | - | - | - | - |
| Balance at | | | | | | | | |
| September 30, 2015 | \$ 1,072,043 | \$ 35,548 | \$ 152,421 | \$ 14,836 | \$ 74,674 | \$ 11,332 | \$ 11,563 | \$ 1,372,417 |
| Balance at | | | | | | | | |
| December 31, 2014 | \$ 1,012,880 | \$ 13,650 | \$ 154,042 | \$ 9,871 | \$ 106,723 | \$ 4,893 | \$ 8,956 | \$ 1,311,015 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - | - | - |
| Provision for loan losses | 59,163 | 21,898 | (1,621) | 4,965 | (32,049) | 6,439 | 2,607 | 61,402 |
| Other | - | - | - | - | - | - | - | - |
| Balance at | | | | | | | | |
| September 30, 2015 | \$ 1,072,043 | \$ 35,548 | \$ 152,421 | \$ 14,836 | \$ 74,674 | \$ 11,332 | \$ 11,563 | \$ 1,372,417 |
| Ending Balance: | | | | | | | | |
| Individually evaluated for impairment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Collectively evaluated for impairment | 1,072,043 | 35,548 | 152,421 | 14,836 | 74,674 | 11,332 | 11,563 | 1,372,417 |
| Balance at | | | | | | | | |
| September 30, 2015 | \$ 1,072,043 | \$ 35,548 | \$ 152,421 | \$ 14,836 | \$ 74,674 | \$ 11,332 | \$ 11,563 | \$ 1,372,417 |
| | | | | | | | | |
| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy | Water and Waste Water | Rural Residential Real Estate | Total |
| Recorded Investments in Loans Outstanding: | | | | | | | | |
| Ending Balance at | | | | | | | | |
| September 30, 2016 | \$ 461,977,580 | \$ 7,240,587 | \$42,099,021 | \$ 6,045,820 | \$ 17,136,176 | \$ 1,115,675 | \$ 5,160,081 | \$ 540,774,940 |
| Individually evaluated for impairment | \$ 951,476 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 951,476 |
| Collectively evaluated for impairment | \$ 461,026,104 | \$ 7,240,587 | \$42,099,021 | \$ 6,045,820 | \$ 17,136,176 | \$ 1,115,675 | \$ 5,160,081 | \$ 539,823,464 |
| Ending Balance at | | | | | | | | |
| September 30, 2015 | \$ 425,584,352 | \$ 10,179,341 | \$29,083,872 | \$ 3,635,994 | \$ 17,790,437 | \$ 1,234,704 | \$ 4,308,596 | \$ 491,817,296 |
| Individually evaluated for impairment | \$ 788,215 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 788,215 |
| Collectively evaluated for impairment | \$ 424,796,137 | \$ 10,179,341 | \$29,083,872 | \$ 3,635,994 | \$ 17,790,437 | \$ 1,234,704 | \$ 4,308,596 | \$ 491,029,081 |

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan portfolio; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

An additional component of equity is accumulated other comprehensive income (loss) is as follows:

| | |
|---|---------------------------|
| | September 30, 2016 |
| Nonpension postretirement benefits | \$ 123,123 |
| Total | \$ 123,123 |
| | September 30, 2015 |
| Nonpension postretirement benefits | \$ (82,322) |
| Total | \$ (82,322) |

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "salaries and employee benefits" in the statement of comprehensive income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|--------------------|
| Accumulated other comprehensive income (loss) at January 1 | \$ 135,745 | \$ (71,126) |
| Amortization of prior service credits included in salaries and employee benefits | (12,622) | (12,744) |
| Amortization of actuarial loss included in salaries and employee benefits | - | 1,548 |
| Other comprehensive loss, net of tax | (12,622) | (11,196) |
| Accumulated other comprehensive income (loss) at September 30 | <u>\$ 123,123</u> | <u>\$ (82,322)</u> |

NOTE 4 — FAIR VALUE MEASUREMENTS:

FASB 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 12 to the 2015 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

| <u>September 30, 2016</u> | <u>Fair Value Measurement Using</u> | | | <u>Total Fair Value</u> | <u>Total Gains (Losses)</u> |
|---------------------------|-------------------------------------|----------------|----------------|-------------------------|-----------------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | | |
| Assets: | | | | | |
| Loans* | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other property owned | - | - | - | - | - |
| | | | | | |
| <u>December 31, 2015</u> | <u>Fair Value Measurement Using</u> | | | <u>Total Fair Value</u> | <u>Total Gains (Losses)</u> |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | | |
| Assets: | | | | | |
| Loans* | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other property owned | - | - | 59,711 | 59,711 | - |

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance “Accounting by Creditors for Impairment of a Loan.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for 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 take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 12 to the 2015 Annual Report to Stockholders, authoritative 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 represent a brief summary of the valuation techniques used for the Association’s assets and liabilities. For a more complete description, see Notes to the 2015 Annual Report to Stockholders.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

| | Other Benefits | |
|---------------------------------------|------------------|------------------|
| | 2016 | 2015 |
| Service cost | \$ 17,961 | \$ 19,732 |
| Interest cost | 37,485 | 41,999 |
| Amortization of prior service credits | (12,622) | (12,744) |
| Amortization of net actuarial loss | - | 1,548 |
| Net periodic benefit cost | <u>\$ 42,824</u> | <u>\$ 50,535</u> |

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2016, was \$1,114,722 and is included in "Other Liabilities" in the balance sheet.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. As of September 30, 2016, \$291,623 of contributions have been made. The Association presently anticipates contributing an additional \$97,208, to fund the defined benefit pension plan in 2016 for a total of \$388,831.

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 7 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through October 20, 2016, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of October 20, 2016.