

# **PLAINS LAND BANK, FLCA**

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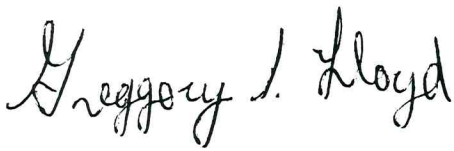
## **2017 Quarterly Report Third Quarter**



**For the Quarter Ended September 30, 2017**

## 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 26,, 2017*



Don James, Chairman, Board of Directors  
*October 26, 2017*



Cathy D. Scribner, Chief Financial Officer  
*October 26, 2017*



## 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, 2017. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2016 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 comprise the operations of the FLCA and its wholly-owned subsidiaries. The financial statements were prepared under the oversight of the Association's audit committee.

### Significant Events:

In January 2017, a patronage of \$6,000,000 was declared. This patronage was subsequently paid in March 2017. In April 2017 the Association determined that a borrower's share of patronage had been improperly calculated in the January 2017 patronage declaration, and an additional patronage of \$2,500 was declared and paid out in May 2017 to remedy the error.

### Loan Portfolio:

Total loans outstanding at September 30, 2017, including nonaccrual loans, were \$570,718,034 compared to \$529,302,933 at December 31, 2016, reflecting an increase of 7.8 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at September 30, 2017 and December 31, 2016.

The Association recorded \$204 in recoveries and no charge-offs for the quarter ended September 30, 2017, and did not record any recoveries or charge-offs for the same period in 2016. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of September 30, 2017 and December 31, 2016.

### 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.

	<u>September 30, 2017</u>		<u>December 31, 2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 3,266,875	100.0%	\$ 3,261,163	88.3%
90 days past due and still accruing interest	-	0.0%	431,464	11.7%
Total	<u>\$ 3,266,875</u>	<u>100.0%</u>	<u>\$ 3,692,627</u>	<u>100.0%</u>



## Results of Operations:

The Association had net income of \$3,291,904 and \$9,110,309 for the three and nine months ended September 30, 2017, as compared to net income of \$2,881,401 and \$7,986,535 for the same periods in 2016, reflecting an increase of 14.2 and 14.1 percent. Net interest income was \$4,029,291 and \$11,858,199 for the three and nine months ended September 30, 2017, compared to \$3,713,842 and \$10,927,597 for the same periods in 2016.

	Nine months ended:			
	September 30, 2017		September 30, 2016	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 550,477,877	\$ 20,263,590	\$ 520,770,844	\$ 18,378,049
Interest-bearing liabilities	455,051,463	8,405,391	429,209,909	7,450,452
Impact of capital	\$ 95,426,414		\$ 91,560,935	
Net interest income		<u>\$ 11,858,199</u>		<u>\$ 10,927,597</u>

	2017	2016
	Average Yield	Average Yield
Yield on loans	4.92%	4.71%
Cost of interest-bearing liabilities	2.47%	2.32%
Interest rate spread	2.45%	2.39%
Net interest income as a percentage of average earning assets	2.88%	2.80%

	Nine months ended:		
	September 30, 2017 vs. September 30, 2016		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 1,047,392	\$ 838,149	\$ 1,885,541
Interest expense	448,160	506,779	954,939
Net interest income	<u>\$ 599,232</u>	<u>\$ 331,370</u>	<u>\$ 930,602</u>

Interest income for the three and nine months ended September 30, 2017, increased by \$786,727 and \$1,885,541, or 12.5 and 10.3 percent respectively, from the same periods of 2016, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2017, increased by \$471,278 and \$954,939, or 18.3 and 12.8 percent, from the same periods of 2016 due to an increase in interest rates offset by an increase in average debt volume. Average loan volume for the third quarter of 2017 was \$566,372,527, compared to \$533,036,888 in the third quarter of 2016. The average net interest rate spread on the loan portfolio for the third quarter of 2017 was 2.45 percent, compared to 2.39 percent in the third quarter of 2016.

The Association's return on average assets for the nine months ended September 30, 2017, was 2.12 percent compared to 1.98 percent for the same period in 2016. The Association's return on average equity for the nine months ended September 30, 2017, was 10.99 percent, compared to 10.25 percent for the same period in 2016.

### 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 System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2017	December 31, 2016
Note payable to the Bank	\$ 476,196,152	\$ 436,304,583
Accrued interest on note payable	1,000,658	858,809
Total	<u>\$ 477,196,810</u>	<u>\$ 437,163,392</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$476,196,152 as of September 30, 2017, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.54 percent at September 30, 2017. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2016, 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 \$94,296,423 at September 30, 2017. The maximum amount the Association may borrow from the Bank as of September 30, 2017, was \$579,489,147 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2020, 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 \$3,166,556 at September 30, 2017, compared to December 31, 2016. The Association's debt as a percentage of members' equity was 4.20:1 as of September 30, 2017, compared to 3.97:1 as of December 31, 2016. Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

### Significant Recent Accounting Pronouncements:

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.

In March 2017, the Financial Accounting Standards Board (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 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 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 became effective for interim and annual periods ending after December 15, 2016. The Association adopted this guidance in the fourth quarter of 2016 and management made its initial assessment as of December 31, 2016.

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 their 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 became effective on January 1, 2017. The Association is in compliance with the required minimum capital standards as of September 30, 2017.

#### **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 2016 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](mailto: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](http://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. The annual and quarterly stockholder reports for the Association are also available on its website at [www.plainslandbank.com](http://www.plainslandbank.com). Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [cscibner@plainslandbank.com](mailto:cscibner@plainslandbank.com).

**PLAINS LAND BANK, FLCA**

**BALANCE SHEET**

	September 30, 2017 (unaudited)	December 31, 2016
<b><u>ASSETS</u></b>		
Cash	\$ 48,985	\$ 3,649,379
Loans	570,718,034	529,302,933
Less: allowance for loan losses	1,903,440	1,797,569
Net loans	568,814,594	527,505,364
Accrued interest receivable	11,966,142	9,195,274
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	8,591,100	8,591,100
Premises and equipment, net	1,885,796	1,822,518
Other assets	2,015,061	559,598
Total assets	<u>\$ 593,321,678</u>	<u>\$ 551,323,233</u>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 476,196,152	\$ 436,304,583
Accrued interest payable	1,000,658	858,809
Drafts outstanding	137,496	1,129,034
Other liabilities	1,907,633	2,117,624
Total liabilities	<u>479,241,939</u>	<u>440,410,050</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	1,908,590	1,837,220
Unallocated retained earnings	112,048,879	108,941,070
Accumulated other comprehensive income	122,270	134,893
Total members' equity	<u>114,079,739</u>	<u>110,913,183</u>
Total liabilities and members' equity	<u>\$ 593,321,678</u>	<u>\$ 551,323,233</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,	
	2017	2016	2017	2016
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 7,068,928	\$ 6,282,201	\$ 20,263,590	\$ 18,378,049
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Farm Credit Bank of Texas	3,039,637	2,568,359	8,405,391	7,450,452
Net interest income	4,029,291	3,713,842	11,858,199	10,927,597
<b><u>PROVISION FOR LOAN LOSSES</u></b>	53,235	76,792	94,872	294,285
Net interest income after provision for loan losses	3,976,056	3,637,050	11,763,327	10,633,312
<b><u>NONINTEREST INCOME</u></b>				
Income from the Farm Credit Bank of Texas:				
Patronage income	504,970	443,499	1,507,862	1,330,140
Loan fees	36,029	30,397	112,450	115,634
Financially related services income	2,369	3,080	7,625	8,602
Gain (loss) on sale of premises and equipment, net	3,415	377	(6,848)	318
Other noninterest income	6,118	5,066	68,615	66,749
Total noninterest income	552,901	482,419	1,689,704	1,521,443
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits	668,234	608,728	2,550,367	2,379,507
Directors' expense	29,333	27,610	190,945	172,519
Purchased services	92,356	101,277	239,417	263,941
Travel	26,533	27,903	89,222	80,460
Occupancy and equipment	66,495	68,296	194,091	189,559
Communications	14,380	11,864	39,928	32,046
Advertising	43,496	47,081	138,681	137,823
Public and member relations	23,601	15,200	126,980	77,597
Supervisory and exam expense	57,961	54,208	156,634	140,055
Insurance Fund premiums	165,314	187,983	514,772	531,738
Gain on other property owned, net	-	59,711	-	59,711
Other noninterest expense	49,350	28,207	101,685	103,264
Total noninterest expenses	1,237,053	1,238,068	4,342,722	4,168,220
<b>NET INCOME</b>	<b>3,291,904</b>	<b>2,881,401</b>	<b>9,110,309</b>	<b>7,986,535</b>
Other comprehensive loss:				
Change in postretirement benefit plans	(4,208)	(4,207)	(12,623)	(12,622)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 3,287,696</b>	<b>\$ 2,877,194</b>	<b>\$ 9,097,686</b>	<b>\$ 7,973,913</b>

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

**PLAINS LAND BANK, FLCA**

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**

(unaudited)

	<b>Capital Stock/ Participation Certificates</b>	<b>Retained Earnings Unallocated</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Members' Equity</b>
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 and allocated retained earnings 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>
Balance at December 31, 2016	\$ 1,837,220	\$ 108,941,070	\$ 134,893	\$ 110,913,183
Comprehensive income	-	9,110,309	(12,623)	9,097,686
Capital stock/participation certificates and allocated retained earnings issued	222,150	-	-	222,150
Capital stock/participation certificates and allocated retained earnings retired	(150,780)	-	-	(150,780)
Patronage refunds:				
Cash	-	(6,002,500)	-	(6,002,500)
Balance at September 30, 2017	<u>\$ 1,908,590</u>	<u>\$ 112,048,879</u>	<u>\$ 122,270</u>	<u>\$ 114,079,739</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:**

The 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 (the 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, 2016, as contained in the 2016 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, 2016, as contained in the 2016 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, 2017. Descriptions of the significant accounting policies are included in the 2016 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 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.

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, 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." 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 became effective for interim and annual periods ending after December 15, 2016. The Association adopted this guidance in the fourth quarter of 2016 and management made its initial assessment as of December 31, 2016.

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 their financial condition or results of operations.

The financial statements comprise the operations of the FLCA. The preparation of these financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2017, are not necessarily indicative of the results to be expected for the year ended December 31, 2017. 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, 2017 Amount	December 31, 2016 Amount
Production agriculture:		
Real estate mortgage	\$ 496,010,117	\$454,024,356
Production and intermediate term	7,613,272	8,859,832
Agribusiness:		
Processing and marketing	30,179,243	32,082,070
Loans to cooperatives	6,707,924	4,924,672
Farm-related business	1,513,344	1,814,188
Energy and water/waste water	15,473,225	16,673,398
Communication	7,759,839	7,089,784
Rural residential real estate	5,461,070	3,834,633
Total	<u>\$ 570,718,034</u>	<u>\$529,302,933</u>

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, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	\$ 35,290,006	\$ -	\$ -	\$ -	\$ 35,290,006	\$ -
Energy and water/waste water	15,473,225	-	-	-	15,473,225	-
Real estate mortgage	9,938,110	3,759,999	-	-	9,938,110	3,759,999
Communication	7,759,839	-	-	-	7,759,839	-
Production and intermediate term	7,613,272	-	-	-	7,613,272	-
Total	<u>\$ 76,074,452</u>	<u>\$ 3,759,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,074,452</u>	<u>\$ 3,759,999</u>

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

	September 30, 2017	December 31, 2016
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 3,266,875	\$ 3,261,163
Total nonaccrual loans	<u>3,266,875</u>	<u>3,261,163</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	-	431,464
Total accruing loans 90 days or more past due	<u>-</u>	<u>431,464</u>
Total nonperforming assets	<u>\$ 3,266,875</u>	<u>\$ 3,692,627</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:

	<b>September 30, 2017</b>		<b>December 31, 2016</b>
Real estate mortgage			
Acceptable	<b>95.0</b> %		95.7 %
OAEM	<b>2.9</b>		2.2
Substandard/doubtful	<b>2.1</b>		2.1
	<b>100.0</b>		100.0
Production and intermediate term			
Acceptable	<b>100.0</b>		85.8
OAEM	-		-
Substandard/doubtful	-		14.2
	<b>100.0</b>		100.0
Agribusiness			
Acceptable	<b>95.8</b>		96.0
OAEM	-		-
Substandard/doubtful	<b>4.2</b>		4.0
	<b>100.0</b>		100.0
Energy and water/waste water			
Acceptable	<b>80.9</b>		81.1
OAEM	<b>19.1</b>		18.9
Substandard/doubtful	-		-
	<b>100.0</b>		100.0
Communication			
Acceptable	<b>100.0</b>		100.0
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.0</b>		100.0
Rural residential real estate			
Acceptable	<b>100.0</b>		100.0
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.0</b>		100.0
Total loans			
Acceptable	<b>94.9</b>		95.1
OAEM	<b>3.0</b>		2.5
Substandard/doubtful	<b>2.1</b>		2.4
	<b>100.0</b> %		100.0 %



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

<u>September 30, 2017</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
Real estate mortgage	\$ 91,258	\$ -	\$ 91,258	\$ 507,694,505	\$ 507,785,763	\$ -
Processing and marketing	-	-	-	30,234,337	30,234,337	-
Energy and water/waste water	-	-	-	15,511,167	15,511,167	-
Communication	-	-	-	7,768,564	7,768,564	-
Production and intermediate term	-	-	-	7,636,504	7,636,504	-
Loans to cooperatives	-	-	-	6,743,798	6,743,798	-
Rural residential real estate	-	-	-	5,485,461	5,485,461	-
Farm-related business	-	-	-	1,518,582	1,518,582	-
<b>Total</b>	<b>\$ 91,258</b>	<b>\$ -</b>	<b>\$ 91,258</b>	<b>\$ 582,592,918</b>	<b>\$ 582,684,176</b>	<b>\$ -</b>

<u>December 31, 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
Real estate mortgage	\$ 482,835	\$ 431,464	\$ 914,299	\$ 462,093,759	\$ 463,008,058	\$ 431,464
Processing and marketing	-	-	-	32,153,390	32,153,390	-
Energy and water/waste water	-	-	-	16,707,477	16,707,477	-
Production and intermediate term	-	-	-	8,887,329	8,887,329	-
Communication	-	-	-	7,092,107	7,092,107	-
Loans to cooperatives	-	-	-	4,972,109	4,972,109	-
Rural residential real estate	-	-	-	3,855,939	3,855,939	-
Farm-related business	-	-	-	1,821,798	1,821,798	-
<b>Total</b>	<b>\$ 482,835</b>	<b>\$ 431,464</b>	<b>\$ 914,299</b>	<b>\$ 537,583,908</b>	<b>\$ 538,498,207</b>	<b>\$ 431,464</b>

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 as of September 30, 2017. As of September 30, 2017 and December 31, 2016, there were no commitments to lend funds to borrowers whose terms have been modified in a troubled debt restructuring.

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). There were no charge-offs recorded at the modification date for the quarter ending September 30, 2017.

The predominant form of concession granted for troubled debt restructuring includes principle 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, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	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	\$ 3,266,875	\$ 3,267,019	\$ -	\$ 3,692,627	\$ 3,664,913	\$ -
Total	\$ 3,266,875	\$ 3,267,019	\$ -	\$ 3,692,627	\$ 3,664,913	\$ -
Total impaired loans:						
Real estate mortgage	\$ 3,266,875	\$ 3,267,019	\$ -	\$ 3,692,627	\$ 3,664,913	\$ -
Total	\$ 3,266,875	\$ 3,267,019	\$ -	\$ 3,692,627	\$ 3,664,913	\$ -

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2017	September 30, 2016			September 30, 2017	September 30, 2016		
	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	\$ 3,098,044	\$ 2,472	\$ 835,749	\$ 6,595	\$ 2,819,088	\$ 5,177	\$ 528,685	\$ 32,270
Total	\$ 3,098,044	\$ 2,472	\$ 835,749	\$ 6,595	\$ 2,819,088	\$ 5,177	\$ 528,685	\$ 32,270
Total impaired loans:								
Real estate mortgage	\$ 3,098,044	\$ 2,472	\$ 835,749	\$ 6,595	\$ 2,819,088	\$ 5,177	\$ 528,685	\$ 32,270
Total	\$ 3,098,044	\$ 2,472	\$ 835,749	\$ 6,595	\$ 2,819,088	\$ 5,177	\$ 528,685	\$ 32,270

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	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
<b>Allowance for Credit Losses:</b>							
Balance at							
June 30, 2017	\$ 1,356,418	\$ 25,576	\$ 211,673	\$ 52,711	\$ 190,242	\$ 12,455	\$ 1,849,075
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	204	-	204
Provision for loan losses	65,264	(859)	(4,550)	(1,491)	(6,100)	971	53,235
Other	1,450	2,142	(136)	1	(2,531)	-	926
Balance at							
September 30, 2017	\$ 1,423,132	\$ 26,859	\$ 206,987	\$ 51,221	\$ 181,815	\$ 13,426	\$ 1,903,440
Balance at							
December 31, 2016	\$ 1,218,496	\$ 126,716	\$ 209,105	\$ 33,335	\$ 201,849	\$ 8,068	\$ 1,797,569
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	204	-	204
Provision for loan losses	206,913	(110,868)	4,548	17,711	(28,790)	5,358	94,872
Other	(2,277)	11,011	(6,666)	175	8,552	-	10,795
Balance at							
September 30, 2017	\$ 1,423,132	\$ 26,859	\$ 206,987	\$ 51,221	\$ 181,815	\$ 13,426	\$ 1,903,440
Ending Balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	1,423,132	26,859	206,987	51,221	181,815	13,426	1,903,440
Balance at							
September 30, 2017	\$ 1,423,132	\$ 26,859	\$ 206,987	\$ 51,221	\$ 181,815	\$ 13,426	\$ 1,903,440
Balance at							
June 30, 2016	\$ 1,244,594	\$ 138,741	\$ 224,325	\$ 33,539	\$ 172,633	\$ 12,732	\$ 1,826,564
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(5,742)	15,005	15,743	(44)	49,411	2,419	76,792
Other	(4,702)	(18,828)	(38,036)	(567)	(11,570)	-	(73,703)
Balance at							
September 30, 2016	\$ 1,234,150	\$ 134,918	\$ 202,032	\$ 32,928	\$ 210,474	\$ 15,151	\$ 1,829,653
Balance at							
December 31, 2015	\$ 1,202,847	\$ 77,629	\$ 165,168	\$ 25,648	\$ 124,012	\$ 13,767	\$ 1,609,071
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	36,005	76,117	74,900	7,847	98,032	1,384	294,285
Other	(4,702)	(18,828)	(38,036)	(567)	(11,570)	-	(73,703)
Balance at							
September 30, 2016	\$ 1,234,150	\$ 134,918	\$ 202,032	\$ 32,928	\$ 210,474	\$ 15,151	\$ 1,829,653
Ending Balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	1,234,150	134,918	202,032	32,928	210,474	15,151	1,829,653
Balance at							
September 30, 2016	\$ 1,234,150	\$ 134,918	\$ 202,032	\$ 32,928	\$ 210,474	\$ 15,151	\$ 1,829,653

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
<b>Recorded Investments in Loans Outstanding:</b>							
Ending Balance at							
September 30, 2017	\$ 507,785,763	\$ 7,636,504	\$ 38,496,717	\$ 7,768,564	\$ 15,511,167	\$ 5,485,461	\$ 582,684,176
Individually evaluated for impairment	\$ 3,266,875	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,266,875
Collectively evaluated for impairment	\$ 504,518,888	\$ 7,636,504	\$ 38,496,717	\$ 7,768,564	\$ 15,511,167	\$ 5,485,461	\$ 579,417,301
Ending Balance at							
December 31, 2016	\$ 463,008,058	\$ 8,887,329	\$ 38,947,297	\$ 7,092,107	\$ 16,707,477	\$ 3,855,939	\$ 538,498,207
Individually evaluated for impairment	\$ 3,664,913	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,664,913
Collectively evaluated for impairment	\$ 459,343,145	\$ 8,887,329	\$ 38,947,297	\$ 7,092,107	\$ 16,707,477	\$ 3,855,939	\$ 534,833,294

### 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 and lease portfolios; 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.

#### Regulatory Capitalization Requirements

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 earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

The Association's ratios were as follows:

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of September 30, 2017
Common equity tier 1 ratio	4.50%	2.50%	7.00%	17.13%
Tier 1 capital ratio	6.00%	2.50%	8.50%	17.13%
Total capital ratio	8.00%	2.50%	10.50%	17.45%
Permanent capital ratio	7.00%	0.00%	7.00%	17.18%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	17.79%
UREE leverage ratio	1.50%	0.00%	1.50%	18.95%

\*The 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.



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

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

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvment, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior offices are restricted or prohibited without prior FCA approval.



The components of the Association's risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2017:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Regulatory capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	109,401,010	109,401,010	109,401,010	109,401,010
Paid-in capital	-	-	-	-
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,899,626	1,899,626	1,899,626	1,899,626
Other required member purchased stock held <5 years	-	-	-	-
Other required member purchased stock held ≥ 5 years but < 7 years	-	-	-	-
Other required member purchased stock held ≥ 7 years	-	-	-	-
Allocated equities:				
Allocated equities held <5 years	-	-	-	-
Allocated equities held ≥ 5 years but < 7 years	-	-	-	-
Allocated equities held ≥ 7	-	-	-	-
Nonqualified allocated equities not subject to retirement	-	-	-	-
Non-cumulative perpetual preferred stock	-	-	-	-
Other preferred stock subject to certain limitations	-	-	-	-
Subordinated debt subject to certain limitation	-	-	-	-
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	1,922,547	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(8,591,100)	(8,591,100)	(8,591,100)	(8,591,100)
Other regulatory required deductions	-	-	-	-
	102,709,536	102,709,536	104,632,083	102,709,536
Denominator:				
Risk-adjusted assets excluding allowance	608,305,237	608,305,237	608,305,237	608,305,237
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(8,591,100)	(8,591,100)	(8,591,100)	(8,591,100)
Allowance for loan losses	-	-	-	(1,852,224)
	599,714,137	599,714,137	599,714,137	597,861,913

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2017:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	109,401,010	109,401,010
Paid-in capital	-	-
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,899,626	-
Other required member purchased stock held <5 years	-	-
Other required member purchased stock held ≥ 5 years but < 7 years	-	-
Other required member purchased stock held ≥ 7 years	-	-
Allocated equities:		
Allocated equities held <5 years	-	-
Allocated equities held ≥ 5 years but < 7 years	-	-
Allocated equities held ≥ 7	-	-
Nonqualified allocated equities not subject to retirement	-	-
Non-cumulative perpetual preferred stock	-	-
Other preferred stock subject to certain limitations	-	-
Subordinated debt subject to certain limitation	-	-
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(8,591,100)	-
Other regulatory required deductions	-	-
	102,709,536	109,401,010
Denominator:		
Total Assets	586,043,570	586,043,570
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(8,591,100)	(8,591,100)
	577,452,470	577,452,470

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes, is as follows:

	September 30, 2017
Nonpension postretirement benefits	\$ 122,270
<b>Total</b>	<b>\$ 122,270</b>
	September 30, 2016
Nonpension postretirement benefits	\$ 123,123
<b>Total</b>	<b>\$ 123,123</b>

The Association's accumulated other comprehensive income relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits 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 for the nine months ended September 30:

	2017	2016
Accumulated other comprehensive income at January 1	\$ 134,893	\$ 135,745
Amortization of prior service credits included in salaries and employee benefits	(12,623)	(12,622)
Amortization of actuarial (gain) loss included in salaries and employee benefits	-	-
Other comprehensive loss, net of tax	(12,623)	(12,622)
Accumulated other comprehensive income at September 30	<b>\$ 122,270</b>	<b>\$ 123,123</b>

#### 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 2016 Annual Report to Stockholders for a more complete description.

There were no assets and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2017 or December 31, 2016.

##### Valuation Techniques

As more fully discussed in Note 12 to the 2016 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 2016 Annual Report to Stockholders.

##### Cash

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

##### Loans

Fair value is estimated by discounting the expected future cash flows using the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

#### *Commitments to Extend Credit*

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

#### *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.

### **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	
	2017	2016
Service cost	\$ 16,369	\$ 17,961
Interest cost	37,914	37,485
Amortization of prior service credits	(12,623)	(12,622)
Net periodic benefit cost	<u>\$ 41,660</u>	<u>\$ 42,824</u>

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2017, was \$1,149,575 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, 2017, \$409,039 of contributions have been made. The Association presently anticipates contributing an additional \$136,347 to fund the defined benefit pension plan in 2017 for a total of \$545,386.

### **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 26, 2017, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of October 26, 2017.