PLAINS LAND BANK, FLCA

2018
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2018

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 18, 2018

Daniel L. Krienke, Chairman, Board of Directors
October 18, 2018

Kay Lynn McLaughlin, Chief Financial Officer
October 18, 2018

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, 2018. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2017 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. The financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

In January 2018, a patronage of $7,100,000 was declared. This patronage was subsequently paid in March 2018. An additional patronage of $1,550 was declared and paid in March 2018 resulting in a total patronage of $7,101,550 for 2018.

Loan Portfolio:

Total loans outstanding at September 30, 2018, including nonaccrual loans and sales contracts, were $618,866,141 compared to $578,709,630 at December 31, 2017, reflecting an increase of 6.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.5 percent at September 30, 2018, compared to 0.6 percent at December 31, 2017.

The Association has no recoveries or charge-offs for the quarter ended September 30, 2018, and no recoveries or charge-offs for the same period in 2017. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of September 30, 2018 and December 31, 2017.

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, 2018		December 31, 2017	
	Amount	**%**	Amount	%
Nonaccrual	**$ 3,204,128**	**100.0%**	$ 3,264,884	100.0%
Total	**$ 3,204,128**	**100.0%**	$ 3,264,884	100.0%

Results of Operations:

The Association had net income of $3,659,826 and $10,409,565 for the three and nine months ended September 30, 2018, as compared to net income of $3,291,904 and $9,110,309 for the same period in 2017, reflecting an increase of 11.2 and 14.3 percent. Net interest income was $4,321,616 and $12,777,599 for the three and nine months ended September 30, 2018, compared to $4,029,291 and $11,858,199 for the same period in 2017.

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	Nine months ended			
	September 30, 2018		September 30, 2017	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 597,572,991**	**$ 23,273,390**	$ 550,477,877	$ 20,263,590
Interest-bearing liabilities	**498,559,446**	**10,495,791**	455,051,463	8,405,391
Impact of capital	**$ 99,013,545**		$ 95,426,414	
Net interest income		**$ 12,777,599**		$ 11,858,199

	2018 Average Yield	2017 Average Yield
Yield on loans	**5.21%**	4.92%
Cost of interest-bearing liabilities	**2.81%**	2.47%
Interest rate spread	**2.40%**	2.45%
Net interest income as a percentage of average earning assets	**2.86%**	2.88%

	Nine months ended: September 30, 2018 vs. September 30, 2017		
	Increase due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,733,612**	**$ 1,276,188**	**$ 3,009,800**
Interest expense	**803,647**	**1,286,753**	**2,090,400**
Net interest income	**$ 929,965**	**$ (10,565)**	**$ 919,400**

Interest income for the three and nine months ended September 30, 2018, increased by $1,043,767 and $3,009,800, or 14.8 and 14.9 percent respectively, from the same period of 2017, 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, 2018, increased by $751,442 and $2,090,400, or 24.7 and 24.9 percent, respectively, for both periods, from the same period of 2017 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the third quarter of 2018 was $612,714,875, compared to $566,372,527 in the third quarter of 2017. The average net interest rate spread on the loan portfolio for the second quarter of 2018 was 2.40 percent, compared to 2.45 percent in the third quarter of 2017.

The Association's return on average assets for the nine months ended September 30, 2018, was 2.25 percent compared to 2.12 percent for the same period in 2017. The Association's return on average equity for the nine months ended September 30, 2018, was 12.03 percent, compared to 10.99 percent for the same period in 2017.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the 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, 2018	December 31, 2017
Note payable to the Bank	**$ 521,512,325**	$ 482,671,262
Accrued interest on note payable	**1,251,215**	1,079,397
Total	**$ 522,763,540**	$ 483,750,659

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 $521,512,325 as of September 30, 2018, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.94 percent at September 30, 2018. 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, 2017, 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 $96,967,955 at September 30, 2018. The maximum amount the Association may borrow from the Bank as of September 30, 2018, was $629,699,312 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, 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 $3,350,716 at September 30, 2018, compared to December 31, 2017. The Association's debt as a percentage of members' equity was 4.35:1 as of September 30, 2018, compared to 4.15:1 as of December 31, 2017.

Farm Credit Administration regulations requires 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. As of September 30, 2018, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the fair value measurements disclosures.

In February 2018, the FASB issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2017, the 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 became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not materially impact the Association's financial condition but did 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 became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did change the classification of certain items in the statement of cash flows.

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

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this update become effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

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

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. The guidance sets forth the requirement for new and enhanced disclosures. The Association adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity or cash flows.

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 2017 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, TX 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*. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *kmclaughlin@plainslandbank.com.*

PLAINS LAND BANK, FLCA

BALANCE SHEET

		September 30, 2018 (unaudited)		December 31, 2017
ASSETS				
Cash	**$**	**561,576**	$	4,284,273
Loans		**618,866,141**		578,709,630
Less: allowance for loan losses		**1,784,429**		1,902,504
Net loans		**617,081,712**		576,807,126
Accrued interest receivable		**13,634,399**		10,466,179
Investment in and receivable from the Farm Credit Bank of Texas:				
Capital stock		**9,176,475**		9,176,475
Other		**-**		9,012
Premises and equipment, net		**2,859,353**		2,325,509
Other assets		**2,051,251**		554,606
Total assets	**$**	**645,364,766**	$	603,623,180
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	**$**	**521,512,325**	$	482,671,262
Accrued interest payable		**1,251,215**		1,079,397
Drafts outstanding		**79,283**		293,669
Other liabilities		**1,900,147**		2,307,772
Total liabilities		**524,742,970**		486,352,100
MEMBERS' EQUITY				
Capital stock and participation certificates		**1,964,425**		1,912,255
Unallocated retained earnings		**118,621,189**		115,313,174
Accumulated other comprehensive income		**36,182**		45,651
Total members' equity		**120,621,796**		117,271,080
Total liabilities and members' equity	**$**	**645,364,766**	$	603,623,180

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

PLAINS LAND BANK, FLCA

STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
INTEREST INCOME				
Loans	**$ 8,112,695**	$ 7,068,928	**$ 23,273,390**	$ 20,263,590
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**3,791,079**	3,039,637	**10,495,791**	8,405,391
Net interest income	**4,321,616**	4,029,291	**12,777,599**	11,858,199
PROVISION FOR LOAN LOSSES (LOAN LOSS REVERSAL)	**32,228**	53,235	**(124,144)**	94,872
Net interest income after provision for loan losses	**4,289,388**	3,976,056	**12,901,743**	11,763,327
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**603,832**	504,970	**1,704,404**	1,507,862
Loan fees	**36,590**	36,029	**113,705**	112,450
Financially related services income	**2,119**	2,369	**7,230**	7,625
Gain (loss) on sale of premises and equipment, net	**19,000**	3,415	**25,114**	(6,848)
Other noninterest income	**5,477**	6,118	**378,771**	68,615
Total noninterest income	**667,018**	552,901	**2,229,224**	1,689,704
NONINTEREST EXPENSES				
Salaries and employee benefits	**678,459**	668,234	**2,803,555**	2,550,367
Directors' expense	**52,071**	29,333	**194,069**	190,945
Purchased services	**103,872**	92,356	**301,566**	239,417
Travel	**34,549**	26,533	**120,961**	89,222
Occupancy and equipment	**92,004**	66,495	**274,825**	194,091
Communications	**13,943**	14,380	**45,571**	39,928
Advertising	**55,573**	43,496	**176,679**	138,681
Public and member relations	**54,598**	23,601	**135,990**	126,980
Supervisory and exam expense	**60,921**	57,961	**166,627**	156,634
Insurance Fund premiums	**107,979**	165,314	**356,413**	514,772
Other noninterest expense	**42,611**	49,350	**145,146**	101,685
Total noninterest expenses	**1,296,580**	1,237,053	**4,721,402**	4,342,722
NET INCOME	**3,659,826**	3,291,904	**10,409,565**	9,110,309
Other comprehensive income:				
Change in postretirement benefit plans	**(3,156)**	(4,208)	**(9,469)**	(12,623)
COMPREHENSIVE INCOME	**$ 3,656,670**	$ 3,287,696	**$ 10,400,096**	$ 9,097,686

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
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	$ 1,908,590	$ 112,048,879	$ 122,270	$ 114,079,739
Balance at December 31, 2017	$ 1,912,255	$ 115,313,174	$ 45,651	$ 117,271,080
Comprehensive income	-	10,409,565	(9,469)	10,400,096
Capital stock/participation certificates and allocated retained earnings issued	227,780	-	-	227,780
Capital stock/participation certificates and allocated retained earnings retired	(175,610)	-	-	(175,610)
Patronage refunds:				
Cash	-	(7,101,550)	-	(7,101,550)
Balance at September 30, 2018	**$ 1,964,425**	**$ 118,621,189**	**$ 36,182**	**$ 120,621,796**

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, the 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, 2017, as contained in the 2017 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, 2017, as contained in the 2017 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, 2018. Descriptions of the significant accounting policies are included in the 2017 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 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

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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 became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the Association's fair value disclosures.

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. The guidance sets forth the requirement for new and enhanced disclosures. The Association has determined that the effect of the adoption is not material to its financial condition or results of operations and will not change its current recognition practices.

The financial statements comprise the operations of the FLCA and its wholly-owned subsidiaries. The preparation of these financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2018, are not necessarily indicative of the results to be expected for the year ended December 31, 2018. Certain amounts in the prior period's financial statements may 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, 2018 Amount**	December 31, 2017 Amount
Production agriculture:		
Real estate mortgage	**$ 535,274,592**	$ 505,858,333
Production and intermediate term	**7,497,450**	7,521,005
Agribusiness:		
Processing and marketing	**34,731,055**	31,134,059
Loans to cooperatives	**8,890,412**	5,539,575
Farm-related business	**1,921,083**	1,800,075
Energy	**15,122,761**	15,298,347
Rural residential real estate	**8,649,616**	5,808,863
Communication	**6,779,172**	5,749,373
Total	**$ 618,866,141**	$ 578,709,630

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, 2018:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 42,445,324	$ -	$ -	$ -	$ 42,445,324	$ -
Energy	15,122,761	-	-	-	15,122,761	-
Real estate mortgage	14,846,859	8,268,358	5,482,300	-	20,329,159	8,268,358
Production and intermediate term	7,497,450	-	-	-	7,497,450	-
Communication	6,779,172	-	-	-	6,779,172	-
Total	$ 86,691,566	$ 8,268,358	$ 5,482,300	$ -	$ 92,173,866	$ 8,268,358

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 such ACPs at September 30, 2018, and December 31, 2017, respectively.

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

	September 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	**$ 3,204,128**	$ 3,264,884
Total nonperforming assets	**$ 3,204,128**	$ 3,264,884

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, 2018	December 31, 2017
Real estate mortgage		
Acceptable	**95.7** %	95.4 %
OAEM	**2.7**	2.7
Substandard/doubtful	**1.6**	1.9
	100.0	100.0
Production and intermediate term		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Agribusiness		
Acceptable	**96.6**	95.8
OAEM	**-**	-
Substandard/doubtful	**3.4**	4.2
	100.0	100.0
Energy		
Acceptable	**90.8**	90.0
OAEM	**9.2**	10.0
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**88.2**	100.0
OAEM	**11.8**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**95.7**	95.4
OAEM	**2.7**	2.7
Substandard/doubtful	**1.6**	1.9
	100.0 %	100.0 %

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

September 30, 2018	**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	**$ 1,155,638**	**$ 315,112**	**$ 1,470,750**	**$ 547,208,751**	**$ 548,679,501**	**$ -**
Processing and marketing	**-**	**-**	**-**	**34,797,323**	**34,797,323**	**-**
Energy	**-**	**-**	**-**	**15,150,728**	**15,150,728**	**-**
Loans to cooperatives	**-**	**-**	**-**	**8,948,526**	**8,948,526**	**-**
Rural residential real estate	**-**	**-**	**-**	**8,691,247**	**8,691,247**	**-**
Production and intermediate term	**-**	**-**	**-**	**7,524,451**	**7,524,451**	**-**
Communication	**-**	**-**	**-**	**6,781,867**	**6,781,867**	**-**
Farm-related business	**-**	**-**	**-**	**1,926,897**	**1,926,897**	**-**
Total	**$ 1,155,638**	**$ 315,112**	**$ 1,470,750**	**$ 631,029,790**	**$ 632,500,540**	**$ -**

December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 282,430	$ -	$ 282,430	$ 515,808,804	$ 516,091,234	$ -
Processing and marketing	-	-	-	31,195,317	31,195,317	-
Energy	-	-	-	15,336,174	15,336,174	-
Production and intermediate term	-	-	-	7,551,082	7,551,082	-
Rural residential real estate	-	-	-	5,837,499	5,837,499	-
Communication	-	-	-	5,761,250	5,761,250	-
Loans to cooperatives	-	-	-	5,597,138	5,597,138	-
Farm-related business	-	-	-	1,806,115	1,806,115	-
Total	$ 282,430	$ -	$ 282,430	$ 588,893,379	$ 589,175,809	$ -

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, 2018. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of September 30, 2018 and December 31, 2017.

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 for the quarter ending September 30, 2018.

The predominant form of concession granted for troubled debt restructuring includes principle concessions. Other types of modifications include extension of the term, principal or 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, 2018			December 31, 2017		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$3,204,128**	**$3,238,428**	**$ -**	$ 3,264,884	$ 3,265,029	$ -
Total	**$3,204,128**	**$3,238,428**	**$ -**	$ 3,264,884	$ 3,265,029	$ -
Total impaired loans:						
Real estate mortgage	**$3,204,128**	**$3,238,428**	**$ -**	$ 3,264,884	$ 3,265,029	$ -
Total	**$3,204,128**	**$3,238,428**	**$ -**	$ 3,264,884	$ 3,265,029	$ -

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2018		September 30, 2017		**September 30, 2018**		September 30, 2017	
	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 no related allowance for credit losses:								
Real estate mortgage	**$3,116,465**	**$ 1,349**	$3,098,044	$ 2,472	**$2,898,831**	**$ -**	$2,819,088	$ 5,177
Total	**$3,116,465**	**$ 1,349**	$3,098,044	$ 2,472	**$2,898,831**	**$ -**	$2,819,088	$ 5,177
Total impaired loans:								
Real estate mortgage	**$3,116,465**	**$ 1,349**	$3,098,044	$ 2,472	**$2,898,831**	**$ -**	$2,819,088	$ 5,177
Total	**$3,116,465**	**$ 1,349**	$3,098,044	$ 2,472	**$2,898,831**	**$ -**	$2,819,088	$ 5,177

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	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2018	$ 1,303,561	$ 20,254	$ 209,565	$ 61,352	$ 144,711	$ 14,993	$ 1,754,436
Provision for loan losses	42,046	(540)	(1,424)	(5,353)	(4,041)	1,540	32,228
Other	(2,231)	1,939	(1,938)	(1)	(4)	-	(2,235)
Balance at September 30, 2018	$ 1,343,376	$ 21,653	$ 206,203	$ 55,998	$ 140,666	$ 16,533	$ 1,784,429
Balance at December 31, 2017	$ 1,458,451	$ 26,496	$ 211,359	$ 50,625	$ 142,371	$ 13,202	$ 1,902,504
Provision for loan losses	(112,639)	(4,699)	(17,385)	5,349	1,899	3,331	(124,144)
Other	(2,436)	(144)	12,229	24	(3,604)	-	6,069
Balance at September 30, 2018	$ 1,343,376	$ 21,653	$ 206,203	$ 55,998	$ 140,666	$ 16,533	$ 1,784,429
Ending Balance:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,343,376	21,653	206,203	55,998	140,666	16,533	1,784,429
Balance at September 30, 2018	$ 1,343,376	$ 21,653	$ 206,203	$ 55,998	$ 140,666	$ 16,533	$ 1,784,429
Balance at June 30, 2017	$ 1,356,418	$ 25,576	$ 211,673	$ 52,711	$ 190,242	$ 12,455	$ 1,849,075
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
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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2018	$548,679,501	$ 7,524,451	$ 45,672,746	$ 6,781,867	$15,150,728	$8,691,247	$632,500,540
Individually evaluated for impairment	$ 3,204,128	$ -	$ -	$ -	$ -	$ -	$ 3,204,128
Collectively evaluated for impairment	$545,475,373	$ 7,524,451	$ 45,672,746	$ 6,781,867	$15,150,728	$8,691,247	$629,296,412
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

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, 2018**	As of September 30, 2017
Common equity tier 1 ratio	4.50%	2.50%	7.00%	**16.76%**	17.13%
Tier 1 capital ratio	6.00%	2.50%	8.50%	**16.76%**	17.13%
Total capital ratio	8.00%	5.00%	13.00%	**17.04%**	17.45%
Permanent capital ratio	7.00%	0.00%	7.00%	**16.81%**	17.18%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	**17.32%**	17.79%
UREE leverage ratio	1.50%	0.00%	1.50%	**18.47%**	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) are 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 revolvement, 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 revolvement 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, 2018 and December 31, 2017, respectively:

September 30, 2018	**Common Equity tier 1 ratio**	**Tier 1 capital ratio**	**Total capital ratio**	**Permanent capital ratio**
Numerator:				
Unallocated retained earnings	**115,663,973**	**115,663,973**	**115,663,973**	**115,663,973**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**1,956,704**	**1,956,704**	**1,956,704**	**1,956,704**
Allowance for loan losses and reserve for credit losses subject to certain limitations			**1,821,920**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(9,176,475)**	**(9,176,475)**	**(9,176,475)**	**(9,176,475)**
	108,444,202	**108,444,202**	**110,266,122**	**108,444,202**
Denominator:				
Risk-adjusted assets excluding allowance	**656,099,535**	**656,099,535**	**656,099,535**	**656,099,535**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(9,176,475)**	**(9,176,475)**	**(9,176,475)**	**(9,176,475)**
Allowance for loan losses				**(1,755,436)**
	646,923,060	**646,923,060**	**646,923,060**	**645,167,624**

December 31, 2017	Common Equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	112,337,518	112,337,518	112,337,518	112,337,518
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,917,712	1,917,712	1,917,712	1,917,712
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,973,513	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(8,597,604)	(8,597,604)	(8,597,604)	(8,597,604)
	105,657,626	105,657,626	107,631,139	105,657,626
Denominator:				
Risk-adjusted assets excluding allowance	626,650,260	626,650,260	626,650,260	626,650,260
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(8,597,604)	(8,597,604)	(8,597,604)	(8,597,604)
Allowance for loan losses				(1,903,305)
	618,052,656	618,052,656	618,052,656	616,149,351

The components of the Association's non-risk-adjusted capital, based on 90-day averages, were as follows at September 30, 2018 and December 31, 2017, respectively:

	September 30, 2018		December 31, 2017	
(dollars in thousands)	**Tier 1 leverage ratio**	**UREE leverage ratio**	Tier 1 leverage ratio	UREE leverage ratio
Numerator:				
Unallocated retained earnings	**115,663,973**	**115,663,973**	112,337,518	112,337,518
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**1,956,704**	**-**	1,917,712	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(9,176,475)**	**-**	(8,597,604)	-
	108,444,202	**115,663,973**	105,657,626	112,337,518
Denominator:				
Total Assets	**636,254,116**	**636,254,116**	605,461,080	605,461,080
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital	**(10,167,725)**	**(10,167,725)**	(9,872,604)	(9,872,604)
	626,086,391	**626,086,391**	595,588,476	595,588,476

An additional component of equity, accumulated other comprehensive income, is as follows:

Accumulated Other Comprehensive Income

	September 30, 2018
Nonpension postretirement benefits	**$ 36,182**
Total	**$ 36,182**

	September 30, 2017
Nonpension postretirement benefits	$ 122,270
Total	$ 122,270

The Association's accumulated other comprehensive income relates entirely to its non-pension 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:

	2018	2017
Accumulated other comprehensive income at January 1	**$ 45,651**	$ 134,893
Amortization of prior service credit included in salaries and employee benefits	**(9,469)**	(12,623)
Other comprehensive loss, net of tax	**(9,469)**	(12,623)
Accumulated other comprehensive income at September 30	**$ 36,182**	$ 122,270

NOTE 4 — FAIR VALUE MEASUREMENTS:

Valuation Techniques

As more fully discussed in Note 12 to the 2017 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 2017 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	
	2018	2017
Service cost	**$ 18,980**	$ 16,369
Interest cost	**36,653**	37,914
Amortization of prior service credits	**(9,469)**	(12,623)
Net periodic benefit cost	**$ 46,164**	$ 41,660

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2018, was $1,270,961 and is included in "Other Liabilities" in the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

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, 2018, $295,702 of contributions have been made. The Association presently anticipates contributing an additional $98,568 to fund the defined benefit pension plan in 2018 for a total of $394,270.

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 18, 2018, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of October 18, 2018.