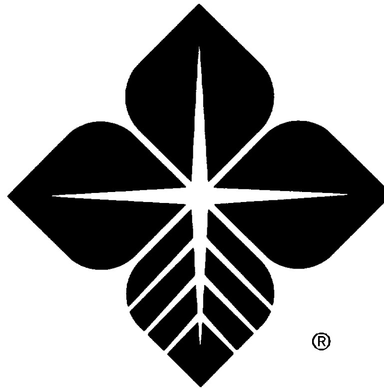
HERITAGE LAND BANK, ACA

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.

Bill Tandy, Chief Executive Officer
October 31, 2017

Gina DeHoyos, Chairman, Audit Committee
October 31, 2017

Adena K. Nichols, Chief Financial Officer
October 31, 2017

HERITAGE LAND BANK, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Heritage Land Bank, ACA (Agricultural 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 consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

The Association is celebrating its 100th year of continual service to rural Texas. Since 1917, the Association has provided its members with quality financial services. The Board of Directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers and rural homeowners throughout its territory.

Loan Portfolio:

Total loans outstanding at September 30, 2017, including nonaccrual loans and sales contracts, were $475,934,736 compared to $416,165,557 at December 31, 2016, reflecting an increase of 14.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at September 30, 2017, compared to 0.3 percent at December 31, 2016.

The Association recorded $220,774 in recoveries and did not record any charge-offs for the quarter ended September 30, 2017, and $266,300 in recoveries and $10,437 in charge-offs for the same periods in 2016. The Association's allowance for loan losses was 1.0 percent and 1.1 percent of total loans outstanding as of September 30, 2017, and December 31, 2016, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. High-risk assets as a percentage of total loans outstanding were 0.6 percent at September 30, 2017, compared to 0.9 percent at December 31, 2016. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2017		December 31, 2016	
	Amount	**%**	Amount	%
Nonaccrual	**$ 553,772**	**19.6%**	$ 1,164,302	29.2%
Formally restructured	**437,576**	**15.5%**	582,007	14.6%
Other property owned, net	**1,828,052**	**64.9%**	2,235,472	56.2%
Total	**$ 2,819,400**	**100.0%**	$ 3,981,781	100.0%

Investments:

During the third quarter of 2017, the Association exchanged $25,250 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The Association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as investments – held-to-maturity.

Results of Operations:

The Association had net income of $2,061,873 and $5,253,274 for the three and nine months ended September 30, 2017, as compared to net income of $1,465,980 and $4,194,158 for the same periods in 2016, reflecting an increase of 40.6 and 25.3 percent. Net interest income was $3,195,192 and $9,852,874 for the three and nine months ended September 30, 2017, compared to $2,783,227 and $8,318,227 for the same periods in 2016.

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	Nine months ended:			
	September 30, 2017		September 30, 2016	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 444,510,331**	**$ 16,495,288**	$ 385,875,604	$ 13,574,199
Investments	**374,642**	**13,690**	525,907	16,920
Total interest-earning assets	**444,884,973**	**16,508,978**	386,401,511	13,591,119
Interest-bearing liabilities	**373,964,275**	**6,656,104**	317,559,135	5,272,892
Impact of capital	**$ 70,920,698**		$ 68,842,376	
Net interest income		**$ 9,852,874**		$ 8,318,227

	2017 Average Yield	2016 Average Yield
Yield on loans	**4.96%**	4.70%
Yield on investments	**4.89%**	4.32%
Total yield on interest-earning assets	**4.96%**	4.70%
Cost of interest-bearing liabilities	**2.38%**	2.22%
Interest rate spread	**2.58%**	2.48%
Net interest income as a percentage of average earning assets	**2.96%**	2.88%

	Nine months ended: September 30, 2017 vs. September 30, 2016		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 2,060,729**	**$ 860,360**	**$ 2,921,089**
Interest income - investments	**(4,862)**	**1,632**	**(3,230)**
Total interest income	**2,055,867**	**861,992**	**2,917,859**
Interest expense	**935,729**	**447,483**	**1,383,212**
Net interest income	**$ 1,120,138**	**$ 414,509**	**$ 1,534,647**

Interest income for the three and nine months ended September 30, 2017, increased by $940,654 and $2,917,859, or 20.2 and 21.5 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 $528,689 and $1,383,212, or 28.4 and 26.2 percent, from the same periods of 2016 due to an increase in interest rates and by an increase in average debt volume. Average loan volume for the third quarter of 2017 was $461,377,652, compared to $399,722,823 in the third quarter of 2016. The average net interest rate spread on the loan portfolio for the third quarter of 2017 was 2.58 percent, compared to 2.48 percent in the third quarter of 2016.

The Association's return on average assets for the nine months ended September 30, 2017, was 1.54 percent compared to 1.42 percent for the same period in 2016. The Association's return on average equity for the nine months ended September 30, 2017, was 9.12 percent, compared to 8.13 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	**$**	**405,207,275**	$	345,169,821
Accrued interest on note payable		**790,682**		663,466
Total	**$**	**405,997,957**	$	345,833,287

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 $405,207,275 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 3.27 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 $71,343,095 at September 30, 2017. The maximum amount the Association may borrow from the Bank as of September 30, 2017, was $474,473,975 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 $3,252,141 at September 30, 2017, compared to December 31, 2016. The Association's debt as a percentage of members' equity was 5.24:1 as of September 30, 2017, compared to 4.68:1 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 Heritage Land Bank, ACA 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 Heritage Land Bank, ACA, 4608 Kinsey Drive, Tyler, TX 75703 or calling (903) 534-4975. The annual and quarterly stockholder reports for the Association are also available on its website at *www.heritagelandbank.com.*

HERITAGE LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash	$ 2,414,830	$ 256,735
Investments	322,878	423,564
Loans	475,934,736	416,165,557
Less: allowance for loan losses	4,876,006	4,655,232
Net loans	471,058,730	411,510,325
Accrued interest receivable	2,251,864	2,022,783
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	6,396,505	6,396,505
Other	1,422,648	491,673
Other property owned, net	1,828,052	2,235,472
Premises and equipment, net	3,075,333	3,166,643
Other assets	294,760	295,679
Total assets	$ 489,065,600	$ 426,799,379
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 405,207,275	$ 345,169,821
Accrued interest payable	790,682	663,466
Drafts outstanding	147,403	13,888
Patronage payable	1,688,843	2,749,838
Other liabilities	2,851,331	3,074,441
Total liabilities	410,685,534	351,671,454
MEMBERS' EQUITY		
Capital stock and participation certificates	2,282,320	2,110,740
Unallocated retained earnings	76,035,187	72,941,069
Accumulated other comprehensive income	62,559	76,116
Total members' equity	78,380,066	75,127,925
Total liabilities and members' equity	$ 489,065,600	$ 426,799,379

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
INTEREST INCOME				
Loans	**$ 5,584,444**	$ 4,643,110	**$ 16,495,288**	$ 13,574,199
Investments	**4,261**	4,941	**13,690**	16,920
Total interest income	**5,588,705**	4,648,051	**16,508,978**	13,591,119
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**2,393,513**	1,864,824	**6,656,104**	5,272,892
Net interest income	**3,195,192**	2,783,227	**9,852,874**	8,318,227
PROVISION FOR LOAN LOSSES	**-**	-	**-**	(150,000)
Net interest income after provision for loan losses	**3,195,192**	2,783,227	**9,852,874**	8,468,227
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**595,918**	462,074	**1,593,796**	1,471,200
Loan fees	**14,160**	14,354	**72,784**	48,736
Refunds from Farm Credit System Insurance Corporation	**-**	-	**4,102**	-
Financially related services income	**691**	658	**1,674**	1,665
Gain on other property owned, net	**405,507**	-	**269,727**	26,940
Gain on sale of premises and equipment, net	**-**	39,916	**-**	39,916
Other noninterest income	**25,314**	20,444	**71,467**	65,267
Total noninterest income	**1,041,590**	537,446	**2,013,550**	1,653,724
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,237,681**	1,072,697	**3,799,209**	3,253,832
Directors' expense	**55,391**	45,953	**213,489**	202,739
Purchased services	**82,993**	48,125	**233,260**	316,198
Travel	**60,929**	64,378	**171,823**	191,243
Occupancy and equipment	**170,424**	153,550	**494,460**	443,930
Communications	**41,688**	38,799	**120,102**	117,180
Advertising	**195,617**	153,687	**499,807**	459,147
Public and member relations	**97,953**	53,056	**387,227**	308,172
Supervisory and exam expense	**31,581**	31,805	**108,581**	95,413
Insurance Fund premiums	**134,254**	134,988	**416,351**	361,735
Loss on other property owned, net	**-**	68	**-**	-
Other noninterest expense	**66,398**	57,587	**168,841**	178,204
Total noninterest expenses	**2,174,909**	1,854,693	**6,613,150**	5,927,793
NET INCOME	**2,061,873**	1,465,980	**5,253,274**	4,194,158
Other comprehensive loss:				
Change in postretirement benefit plans	**(9,038)**	(4,519)	**(13,557)**	(13,557)
COMPREHENSIVE INCOME	**$ 2,052,835**	$ 1,461,461	**$ 5,239,717**	$ 4,180,601

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

HERITAGE LAND BANK, ACA

CONSOLIDATED 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, 2015	$ 1,946,135	$ 70,088,121	$ 71,511	$ 72,105,767
Comprehensive income	-	4,194,158	(13,557)	4,180,601
Capital stock/participation certificates and allocated retained earnings issued	299,380	-	-	299,380
Capital stock/participation certificates and allocated retained earnings retired	(198,895)	-	-	(198,895)
Patronage distributions:				
Cash	-	(1,947,199)	-	(1,947,199)
Balance at September 30, 2016	$ 2,046,620	$ 72,335,080	$ 57,954	$ 74,439,654
Balance at December 31, 2016	$ 2,110,740	$ 72,941,069	$ 76,116	$ 75,127,925
Comprehensive income	-	5,253,274	(13,557)	5,239,717
Capital stock/participation certificates and allocated retained earnings issued	379,830	-	-	379,830
Capital stock/participation certificates and allocated retained earnings retired	(208,250)	-	-	(208,250)
Patronage distributions:				
Cash	-	(2,159,156)	-	(2,159,156)
Balance at September 30, 2017	**$ 2,282,320**	**$ 76,035,187**	**$ 62,559**	**$ 78,380,066**

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

HERITAGE LAND BANK, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Heritage Land Bank, ACA (Agricultural 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 Anderson, Angelina, Cherokee, Collin, Dallas, Henderson, Hunt, Nacogdoches, Panola, Rockwall, Rusk, Sabine, San Augustine, Shelby, Smith and Tarrant in the state of Texas. The Association is a lending institution of the Farm Credit System (System), which was established by Acts of Congress to meet the needs of American agriculture.

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

In the opinion of management, the accompanying consolidated 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 consolidated 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.

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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 consolidated financial statements comprise the operations of the ACA. The preparation of these consolidated 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 — INVESTMENTS:

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	September 30, 2017				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	**$ 322,878**	**$ 1,477**	**$ -**	**$ 324,355**	**4.82 %**

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 423,564	$ 2,162	$ -	$ 425,726	4.27 %

During the third quarter of 2017, the Association exchanged $25,250 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The Association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as investments – held-to-maturity.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

	September 30, 2017	December 31, 2016
Loan Type	**Amount**	Amount
Production agriculture:		
Real estate mortgage	**$ 412,603,395**	$ 368,564,665
Production and intermediate term	**17,696,325**	18,246,903
Agribusiness:		
Processing and marketing	**8,497,543**	-
Farm-related business	**1,344,992**	919,871
Loans to cooperatives	**1,002,469**	2,469
Rural residential real estate	**34,314,201**	28,053,904
Communication	**270,834**	296,882
Mission-related investments	**157,739**	60,000
Lease receivables	**47,238**	-
Water and waste water	**-**	20,863
Total	**$ 475,934,736**	$ 416,165,557

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	$ 4,196,968	$ 1,284,670	$ -	$ -	$ 4,196,968	$ 1,284,670
Real estate mortgage	370,790	77,539,448	-	-	370,790	77,539,448
Communication	270,834	-	-	-	270,834	-
Total	$ 4,838,592	$ 78,824,118	$ -	$ -	$ 4,838,592	$ 78,824,118

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

	September 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	**$ 495,116**	$ 1,164,302
Production and intermediate term	**432**	-
Rural residential real estate	**58,224**	-
Total nonaccrual loans	**553,772**	1,164,302
Accruing restructured loans:		
Real estate mortgage	**431,061**	552,464
Production and intermediate term	**6,515**	29,543
Rural residential real estate	**-**	-
Total accruing restructured loans	**437,576**	582,007
Total nonperforming loans	**991,348**	1,746,309
Other property owned	**1,828,052**	2,235,472
Total nonperforming assets	**$ 2,819,400**	$ 3,981,781

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, 2017	December 31, 2016
Real estate mortgage		
Acceptable	**97.8** %	97.4 %
OAEM	**0.1**	0.6
Substandard/doubtful	**2.1**	2.0
	100.0	100.0
Production and intermediate term		
Acceptable	**99.1**	99.1
OAEM	**-**	-
Substandard/doubtful	**0.9**	0.9
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Water and waste water		
Acceptable	**-**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	-	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**99.7**	99.3
OAEM	**-**	-
Substandard/doubtful	**0.3**	0.7
	100.0	100.0
Lease receivables		
Acceptable	**100.0**	-
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	-
Mission-related investments		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**98.0**	97.6
OAEM	**0.1**	0.5
Substandard/doubtful	**1.9**	1.9
	100.0 %	100.0 %

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

September 30, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 1,407,386	$ 237,020	$ 1,644,406	$ 412,826,892	$ 414,471,298	
Rural residential real estate	-	-	-	34,396,345	34,396,345	-
Production and intermediate term	124,101	432	124,533	17,800,642	17,925,175	
Agribusiness	-	-	-	10,916,298	10,916,298	-
Communication	-	-	-	272,286	272,286	-
Mission-related investments	-	-	-	157,961	157,961	-
Lease receivables	-	-	-	47,237	47,237	-
Water and waste water	-	-	-	-	-	-
Total	$ 1,531,487	$ 237,452	$ 1,768,939	$ 476,417,661	$ 478,186,600	$ -

December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 1,428,019	$ 402,013	$ 1,830,032	$ 367,354,236	$ 369,184,268	$ -
Rural residential real estate	77,138	-	77,138	28,038,212	28,115,350	-
Production and intermediate term	18,802	-	18,802	18,476,937	18,495,739	-
Agribusiness	-	-	-	937,763	937,763	-
Communication	-	-	-	297,911	297,911	-
Mission-related investments	-	-	-	60,288	60,288	-
Water and waste water	-	-	-	20,863	20,863	-
Lease receivables	-	-	-	-	-	-
Total	$ 1,523,959	$ 402,013	$ 1,925,972	$ 415,186,210	$ 417,112,182	$ -

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.

As of September 30, 2017, the total recorded investment of troubled debt restructured loans was $437,576, including no loans classified as nonaccrual and $437,576 classified as accrual, with no specific allowance for loan losses. As of September 30, 2017, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $30,489 at period end and no commitments at December 31, 2016.

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 extensions and/or rearranging of terms. Other types of modifications include 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.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Real estate mortgage	$ 431,061	$ 552,464	$ -	$ -
Production and intermediate term	6,515	29,543	-	-
Total	$ 437,576	$ 582,007	$ -	$ -

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	September 30, 2017			December 31, 2016		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Rural residential real estate	**$ 39,394**	**$ 39,394**	**$ 5,454**	-	-	-
Total	**$ 39,394**	**$ 39,394**	**$ 5,454**	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 926,177**	**$ 923,686**	**$ -**	$ 1,716,766	$ 1,811,552	$ -
Production and intermediate term	**6,947**	**801,698**	**-**	29,543	893,874	-
Processing and marketing	**-**	**5,115,441**	**-**	-	5,115,441	-
Rural residential real estate	**18,830**	**18,829**	**-**	-	-	-
Total	**$ 951,954**	**$ 6,859,654**	**$ -**	$ 1,746,309	$ 7,820,867	$ -
Total impaired loans:						
Real estate mortgage	**$ 926,177**	**$ 923,686**	**$ -**	$ 1,716,766	$ 1,811,552	$ -
Production and intermediate term	**6,947**	**801,698**	**-**	29,543	893,874	-
Processing and marketing	**-**	**5,115,441**	**-**	-	5,115,441	-
Rural residential real estate	**58,224**	**58,223**	**5,454**	-	-	-
Total	**$ 991,348**	**$ 6,899,048**	**$ 5,454**	$ 1,746,309	$ 7,820,867	$ -

[a] 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:								
Rural residential real estate	**10,355**	**374**	-	-	**3,490**	**1,413**	-	-
Total	**$ 10,355**	**$ 374**	$ -	$ -	**$ 3,490**	**$ 1,413**	$ -	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 886,712**	**$ 8,463**	$ 2,402,162	$ 13,031	**$ 884,975**	**$ 556,958**	$ 2,961,183	$ 32,836
Production and intermediate term	**8,324**	**119**	46,971	482	**12,273**	**527**	50,257	1,857
Rural residential real estate	**20,275**	**-**	-	-	**17,083**	**(1)**	-	-
Total	**$ 915,311**	**$ 8,582**	$ 2,449,133	$ 13,513	**$ 914,331**	**$ 557,484**	$ 3,011,440	$ 34,693
Total impaired loans:								
Real estate mortgage	**$ 886,712**	**$ 8,463**	$ 2,402,162	$ 13,031	**$ 884,975**	**$ 556,958**	$ 2,961,183	$ 32,836
Production and intermediate term	**8,324**	**119**	46,971	482	**12,273**	**527**	50,257	1,857
Rural residential real estate	**30,630**	**374**	**-**	**-**	**20,573**	**1,412**	**-**	**-**
Total	**$ 925,666**	**$ 8,956**	$ 2,449,133	$ 13,513	**$ 917,821**	**$ 558,897**	$ 3,011,440	$ 34,693

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	Water and Waste Water	Rural Residential Real Estate	Lease Receivables	Mission-Related Investments	Total
Allowance for Credit Losses:									
Balance at June 30, 2017	$ 2,330,403	$ 730,018	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 4,703,013
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	98,664	74,329	-	-	-	-	-	-	172,993
Provision for loan losses	-	-	-	-	-	-	-	-	-
Balance at September 30, 2017	$ 2,429,067	$ 804,347	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 4,876,006
Balance at December 31, 2016	$ 2,328,403	$ 684,237	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 4,655,232
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	100,664	120,110	-	-	-	-	-	-	220,774
Provision for loan losses	-	-	-	-	-	-	-	-	-
Balance at September 30, 2017	$ 2,429,067	$ 804,347	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 4,876,006
Ending Balance:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 5,454	$ -	$ -	$ 5,454
Collectively evaluated for impairment	2,429,067	804,347	1,619,584	4,840	-	12,714	-	-	4,870,552
Balance at September 30, 2017	$ 2,429,067	$ 804,347	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 4,876,006
Balance at June 30, 2016	$ 2,106,640	$ 647,408	$ 1,618,120	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 4,395,176
Charge-offs	-	(10,437)	-	-	-	-	-	-	(10,437)
Recoveries	239,991	24,845	1,464	-	-	-	-	-	266,300
Provision for loan losses	-	-	-	-	-	-	-	-	-
Balance at September 30, 2016	$ 2,346,631	$ 661,816	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 4,651,039
Balance at December 31, 2015	$ 2,135,430	$ 599,315	$ 1,128,391	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 3,886,144
Charge-offs	(2,682)	(10,437)	-	-	-	-	-	-	(13,119)
Recoveries	363,883	72,938	491,193	-	-	-	-	-	928,014
Provision for loan losses	(150,000)	-	-	-	-	-	-	-	(150,000)
Balance at September 30, 2016	$ 2,346,631	$ 661,816	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 4,651,039
Ending Balance:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	2,346,631	661,816	1,619,584	4,840	-	18,168	-	-	4,651,039
Balance at September 30, 2016	$ 2,346,631	$ 661,816	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ -	$ 4,651,039

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Water and Waste Water	Rural Residential Real Estate	Lease Receivables	Mission-Related Investments	Total
Recorded Investments in Loans Outstanding:									
Ending Balance at September 30, 2017	$414,471,298	$ 17,925,175	$ 10,916,298	$ 272,286	$ -	$ 34,396,345	$ 47,237	$ 157,961	$478,186,600
Individually evaluated for impairment	$ 926,177	$ 6,947	$ -	$ -	$ -	$ 58,224	$ -	$ -	$ 991,348
Collectively evaluated for impairment	$413,545,121	$ 17,918,228	$ 10,916,298	$ 272,286	$ -	$ 34,338,121	$ 47,237	$ 157,961	$477,195,252
Ending Balance at December 31, 2016	$369,184,268	$ 18,495,739	$ 937,763	$ 297,911	$ 20,863	$ 28,115,350	$ -	$ 60,288	$417,112,182
Individually evaluated for impairment	$ 1,716,766	$ 29,543	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,746,309
Collectively evaluated for impairment	$367,467,502	$ 18,466,196	$ 937,763	$ 297,911	$ 20,863	$ 28,115,350	$ -	$ 60,288	$415,365,873

NOTE 4 — 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%	16.25%
Tier 1 capital ratio	6.00%	2.50%	8.50%	16.25%
Total capital ratio	8.00%	2.50%	10.50%	17.36%
Permanent capital ratio	7.00%	0.00%	7.00%	16.43%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	15.47%
UREE leverage ratio	1.50%	0.00%	1.50%	16.36%

*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 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, 2017:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Regulatory capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**76,240,655**	**76,240,655**	**76,240,655**	**76,240,655**
Paid-in capital	-	-	-	-
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,245,579**	**2,245,579**	**2,245,579**	**2,245,579**
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	-	-	**4,917,763**	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(6,396,505)**	**(6,396,505)**	**(6,396,505)**	**(6,396,505)**
Other regulatory required deductions	-	-	-	-
	72,089,729	**72,089,729**	**77,007,492**	**72,089,729**
Denominator:				
Risk-adjusted assets excluding allowance	**450,094,578**	**450,094,578**	**450,094,578**	**450,094,578**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(6,396,505)**	**(6,396,505)**	**(6,396,505)**	**(6,396,505)**
Allowance for loan losses	-	-	-	**(4,795,763)**
	443,698,073	**443,698,073**	**443,698,073**	**438,902,310**

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	**76,240,655**	**76,240,655**
Paid-in capital	-	-
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**2,245,579**	-
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	**(6,396,505)**	-
Other regulatory required deductions	-	-
	72,089,729	**76,240,655**
Denominator:		
Total Assets	**472,293,543**	**472,293,543**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(6,396,505)**	**(6,396,505)**
	465,897,038	**465,897,038**

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

September 30, 2017	**Net of Tax**
Nonpension postretirement benefits	**$ 62,559**
Total	**$ 62,559**

September 30, 2016	Net of Tax
Nonpension postretirement benefits	$ 57,954
Total	$ 57,954

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 Consolidated 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	**$ 76,116**	$ 71,511
Amortization of prior service credits included in salaries and employee benefits	**(13,557)**	(13,557)
Other comprehensive loss, net of tax	**(13,557)**	(13,557)
Accumulated other comprehensive income at September 30	**$ 62,559**	$ 57,954

NOTE 5 — INCOME TAXES:

Heritage Land Bank, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Heritage Land Bank, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Heritage Land Bank, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 6 — 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 2 to the 2016 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2017	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets held in nonqualified benefit trusts	**$ 17,506**	**$ -**	**$ -**	**$ 17,506**

December 31, 2016	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefit trusts	$ 15,466	$ -	$ -	$ 15,466

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

September 30, 2017	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ 33,940**	**$ 33,940**	**$ -**
Other property owned	**-**	**-**	**1,828,052**	**1,828,052**	**269,727**

December 31, 2016	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ -	$ -	$ -
Other property owned	-	-	2,235,472	2,235,472	-

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

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

Valuation Techniques

As more fully discussed in Note 2 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.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include U.S. Treasury and certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including private label-FHA/VA securities and those issued by Farmer Mac.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

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

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.

NOTE 7 — 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	**$ 15,065**	$ 15,615
Interest cost	**37,719**	37,733
Amortization of prior service credits	**(13,557)**	(13,557)
Net periodic benefit cost	**$ 39,227**	$ 39,791

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2017, was $1,132,050 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, $39,228 of contributions have been made. The Association presently anticipates contributing an additional $13,077 to fund the defined benefit pension plan in 2017 for a total of $52,305.

NOTE 8 — 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 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through October 31, 2017, which is the date the financial statements were issued. There are no other significant events requiring disclosure.