CAPITAL FARM CREDIT

PART OF THE FARM CREDIT SYSTEM

Quarterly Report To Stockholders

Quarter Ended September 30, 2018

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements and there are no significant changes in the Association's internal controls or in other factors that could significantly affect such controls during the year.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual consolidated financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration (FCA).

The Audit Committee of the board of directors has oversight responsibility for the Association's systems of internal controls, financial reporting, internal audit and internal credit review. The Audit Committee consults regularly with management, the internal auditors and internal credit reviewers, and meets periodically with the independent auditors to review the scope and results of their work. The independent auditors, internal auditors and internal credit reviewers have direct access to the Audit Committee.

The undersigned certify that this quarterly report has been reviewed and 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 his knowledge and belief.

Ben R. Novosad,
Chief Executive Officer

John Malazzo,
Chairman, Board of Directors

Don VandeVanter,
Chief Financial Officer

November 9, 2018

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in thousands)**

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the Association) for the period ended September 30, 2018. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2017 Annual Report of the Association. Results for interim periods are not necessarily indicative of results to be expected for future periods.

The Texas economy continues to grow at a rapid pace with growth outpacing the U.S growth. Drought conditions have improved throughout the state with approximately 70 percent of the state no longer under drought conditions as compared to 25 percent in the previous quarter. Recent tariffs have created some volatility in the markets, particularly cotton and cattle. Corn yields are expected to be near record levels through much of the High Plains. Hay prices are up due to the previous drought which has also put pressure on farmers to sell cattle. Oil and gas production continues in the state as prices seem to be holding steady. Oil and gas exports are up 126 percent from the prior year. The housing market in the state is beginning to see a deceleration in home prices which is impacted by higher interest rates.

Patronage Refunds by Association

In September 2018, the board of directors approved a resolution to retire $50,000 in nonqualified allocated equities which are to be paid to the recipients in November 2018. The retirement is a distribution of 56 percent of the earnings allocated in 2011.

The board of directors approved a $163,847 patronage distribution for 2017. $77,506 of this distribution was to be paid in cash in March 2018. $86,341 was to be distributed in the form of nonqualified allocated equities. In March 2018 the Association finalized the computation of these distributions which resulted in a reduction in cash patronage payable of $102 for an actual cash distribution of $77,404 and nonqualified allocated equity distributions of $86,341. In addition, there was a reversal of nonqualified allocations of $57 and cash distributions of $14 related to the 2016 patronage distributions which were recorded to reflect proper classification of these amounts. The owners of these nonqualified distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the Association, allowing the stockholders to benefit more fully from the earnings of the Association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made.

In November 2017, the Association retired $36,785 in nonqualified allocated equities. The retirement was a distribution of all the remaining earnings allocated in 2010. In April 2017, the Association made its patronage distribution for 2016, with a cash distribution of $56,146 and nonqualified allocations of $77,852. In 2016, the board of directors approved a $135,000 patronage distribution for 2017, with cash patronage payable of $57,170 and $77,830 in nonqualified allocations. In March 2017 the Association finalized the computation of these distributions which resulted in an increase in nonqualified allocations of $22 resulting in actual allocation of $77,852, and a reduction in cash patronage payable of $24 for an actual cash distribution of $57,146.

Loan Portfolio

Total loans outstanding at September 30, 2018, including nonaccrual loans and sales contracts, were $7,367,926 compared to $7,245,367 at December 31, 2017, reflecting an increase of $122,559, or approximately 1.7 percent. The Association experienced increases in the real estate mortgage, production and intermediate term and farm-related business loans, but saw a slight decrease in rural residential real estate and communication loans. In September 2018, the Association completed a sale of $99,586 in loans to the Farm Credit Bank of Texas as part of their capitalized participation pool (CPP). In accordance with this program, the Association capitalizes this with a 6 percent investment in the Bank in exchange for the net earnings this pool generates. The CPP program allows the Association to manage its capital by controlling the amount of loan volume on the balance sheet without impacting the profitability of the Association. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at September 30, 2018, compared to 1.0 percent at December 31, 2017.

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 Association's high-risk assets have decreased by 9.9 percent in the first nine months of 2018. Most of this decrease has been in nonaccrual loans and other property owned. The following table summarizes the Association's components and trends of high-risk assets:

		September 30, 2018	%		December 31, 2017	%
Nonaccrual loans	$	**59,857**	**80.5**	$	68,953	83.6
Loans 90 days past due and still accruing interest		**470**	**0.6**		23	0.0
Formally restructured loans		**13,275**	**17.8**		9,594	11.6
Other property owned, net		**802**	**1.1**		3,989	4.8
Total	**$**	**74,404**	**100.0**	$	82,559	100.0

Nonaccrual loans decreased $9,096 during the first nine months of 2018, with reductions in the real estate mortgage and production and intermediate term sectors. These decreases were related to several loans that were returned to accrual status due to improved performance while other loans were paid down. There was an increase in nonaccrual loans in the energy sector. This was a single loan that is a participation purchased from another association.

Loans that are 90 or more days past due and still accruing interest increased $447 in the first nine months of 2018 primarily in the real estate sector. Loans in this category are to customers that have a documented plan that details how and when the amount owed will be paid.

Formally restructured loans increased $3,681 during the first nine months of 2018. Most of this increase was recognized in the real estate mortgage and production and intermediate term sectors. Most of these restructurings have been to extend the repayment terms for customers who were significantly affected by lower commodity prices. The Association is cooperating with distressed borrowers to help them work through temporary repayment problems.

Other property owned decreased $3,187 during the first nine months of 2018. The Association is actively working with real estate professionals to ensure properties are accurately valued on the Association's books and that proactive marketing activities are in place.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices that are in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity.

Results of Operations

The association had net income of $52,124 and $147,264 for the three and nine months ended September 30, 2018, as compared to net income of $42,670 and $126,476 for the same period in 2017, reflecting an increase of 22.1 and 16.4 percent, respectively. Net interest income was $58,528 and $173,721 for the three and nine months ended September 30, 2018, compared to $57,976 and $169,315 for the same period in 2017.

The increase in net income was affected by an increase in net interest income, noninterest income, and by a reversal in the provision for loan losses. Net interest income increased by $4,406 during the first nine months of 2018 compared to the same time period for 2017. An increase in average loan volume, higher average capital, and higher interest rates were the catalysts for the improvement in net interest income. This increase was partially offset by a decrease in interest spreads. FCBT increased its cost of debt effective January 1, 2018, from 0.52 percent to 0.75 percent for all new loans and any loans that reprice thereafter. This increase in interest cost will be offset by additional patronage expected from the Bank during the fourth quarter of 2018. The effects of changes in average volume and interest rates on net interest income in the nine months ended September 30, 2018, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the nine months ended September 30, 2018		For the nine months ended September 30, 2017	
	Average Balance	**Interest**	Average Balance	Interest
Accrual loans and investments	**$ 7,279,901**	**$ 295,836**	$ 6,912,694	$ 267,844
Interest-bearing liabilities	**6,222,065**	**122,115**	5,925,835	98,529
Impact of capital	**$ 1,057,836**		$ 986,859	
Net interest income		**$ 173,721**		$ 169,315

	Average Yield	Average Yield
Yield on loans	**5.43%**	5.18%
Cost of interest-bearing Liabilities	**2.62%**	2.22%
Net interest margin	**2.81%**	2.96%

	2018 vs. 2017		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 14,228**	**$ 13,764**	**$ 27,992**
Interest expense	**4,925**	**18,661**	**23,586**
Net interest income	**$ 9,303**	**$ (4,897)**	**$ 4,406**

A provision for loan loss reversal of $4,767 for the nine month period ended September 30, 2018 was recognized, as compared to provision for loan losses of $2,430 for the same period in 2017. The improvement in provision for loan losses was a result of an improvement in credit quality, as well as improvement in general economic factors.

The Association's noninterest income increased from $31,198 in the first nine months of 2017 to $40,066 in the first nine months of 2018. Other income increased $3,602 as compared to the same time period in 2017 primarily due to an increase of $4,512 received from the Farm Credit System Insurance Corporation (FCSIC) for excess insurance fund balances in the allocated insurance reserve accounts and was partially offset by a loss related to the Rural Business Investment Company (RBIC). The Association also recognized $5,278 more in expected patronage income from FCBT as a result of the higher note payable to the Bank and the increased funding cost that went into effect in 2018.

Noninterest expenses decreased $311, or 0.4 percent in the first nine months of 2018 as compared to the same time period in 2017. This decrease is primarily attributable to a decrease of $2,305 FCSIC expense and $660 decrease in other expenses offset by an increase in salaries and employee benefits of $2,734. The decrease in FCSIC was due to a rate decrease by the Farm Credit System Insurance Corporation. The increase in salary and benefits expense is due to new hires, salary increases for existing employees, and higher benefit costs.

Liquidity and Funding Sources

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is its direct loan from the Bank. The Association had an outstanding balance of $6,223,334 at September 30, 2018, as compared to $6,127,915 at December 31, 2017. This increase in note payable to the Bank since December 2017 is the result of the increase in the Association's loan portfolio. The direct loan carried a weighted average interest rate of 2.62 percent for the nine months ended September 30, 2018, compared to 2.26 percent for the year ended December 31, 2017. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement.

The Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At September 30, 2018 the Association's note payable was within the specified limitations. The total direct note commitment from the Bank as of September 30, 2018, was $7,410,000, as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans. Effective October 1, 2018, the Bank increased the total direct note commitment to $7,905,000.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2018. As borrower payments are received they are applied to the Association's note payable with the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the Association are sufficient to fund its operations for the next twelve months.

Capital Resources and Regulatory Matters

The Association's capital position remains strong, with total members' equity of $1,273,482 at September 30, 2018. This represents an increase of $97,445 from the December 31, 2017 total members' equity of $1,176,037. This increase in capital is a direct result of the Association's net income for the period, partially offset by the Board's decision to retire $50,000 in allocated equities. FCA regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which established 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.

	Regulatory Minimums	Capital Conservation Buffers*	Total	As of September 30, 2018
Risk-adjusted:				
Common equity tier 1 ratio	4.50%	2.50% *	7.00%	13.75%
Tier 1 capital ratio	6.00%	2.50% *	8.50%	13.75%
Total capital ratio	8.00%	2.50% *	10.50%	15.20%
Permanent capital ratio	7.00%	0.00%	7.00%	14.90%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00% *	5.00%	14.23%
UREE leverage ratio	1.50%	0.00%	1.50%	8.85%

*By FCA regulation, the Association must maintain all of the above capital ratios at the regulatory minimum plus the capital conservations buffers in order to pay patronage refunds and make other capital distributions, as well as pay incentives to its senior officers. As presented in the table above, all of the Association's capital ratios are well in excess of the regulatory minimums plus capital conservations buffers.

Relationship with the Farm Credit Bank of Texas

The Association's statutory obligation to borrow only from the Bank is described in the section "Liquidity and Funding Sources" of the Management's Discussion and Analysis, included in this quarterly report.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis, included in this quarterly report.

The Bank provides computer systems to support the critical operations of the Association. The Association also has operating systems and facility-based systems that are not supported by the Bank. The Bank also provides other services the Association can utilize.

The Association's financial condition may be impacted by factors that affect the Bank as discussed in Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports 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 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *Bank@farmcreditBank.com*. The District's annual and quarterly stockholder reports are also available on its Website at *www.farmcreditBank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly and annual stockholder reports are also available on its Website at *www.capitalfarmcredit.com* or can be requested by e-mailing *isela.morales@capitalfarmcredit.com*.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Cash	**9**	15
Loans	**$ 7,367,926**	$ 7,245,367
Less: Allowance for losses	**(24,784)**	(29,450)
Net Loans	**7,343,142**	7,215,917
Accrued interest receivable - loans	**78,624**	64,383
Accrued interest receivable - investments	**97**	67
Investment - held-to-maturity	**4,891**	5,566
Investment in and receivable from the Bank:		
Capital stock	**124,727**	118,752
Receivable	**28,905**	14,958
Investments in other Farm Credit Institutions	**9,453**	8,713
Other property owned, net	**802**	3,989
Premises and equipment, net	**13,805**	14,205
Other assets	**26,181**	24,092
Total assets	**$ 7,630,636**	$ 7,470,657
LIABILITIES		
Note payable to the Bank	**$ 6,223,334**	$ 6,127,915
Advanced conditional payments	**10,488**	6,638
Accrued interest payable	**14,379**	12,313
Drafts outstanding	**739**	528
Patronage distributions payable	**50,007**	77,511
Unfunded post retirement medical obligation	**26,469**	25,897
Reserve for unfunded commitments	**319**	806
Other liabilities	**31,419**	43,012
Total liabilities	**6,357,154**	6,294,620
MEMBERS' EQUITY		
Capital stock and participation certificates	**25,734**	25,519
Non-qualified allocated retained earnings	**528,055**	578,054
Unallocated retained earnings	**723,418**	576,158
Accumulated other comprehensive loss	**(3,725)**	(3,694)
Total members' equity	**1,273,482**	1,176,037
Total liabilities and members' equity	**$ 7,630,636**	$ 7,470,657

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(UNAUDITED)

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
INTEREST INCOME				
Loans	**$ 102,209**	$ 92,954	**$ 295,618**	$ 267,599
Investments	**72**	81	**218**	245
Total interest income	**102,281**	93,035	**295,836**	267,844
INTEREST EXPENSE				
Note payable to the Bank and advance conditional payments	**43,753**	35,059	**122,115**	98,529
Net interest income	**58,528**	57,976	**173,721**	169,315
PROVISION FOR LOAN LOSSES				
(Reversal) provision for loan losses	**(2,660)**	1,868	**(4,767)**	2,430
Net interest income after provision for losses	**61,188**	56,108	**178,488**	166,885
NONINTEREST INCOME				
Patronage income from the FCB	**11,426**	7,473	**27,330**	22,052
Loan fees	**881**	929	**2,601**	2,753
Gain on other property owned, net	**15**	219	**844**	704
Other income	**1,310**	1,696	**9,291**	5,689
Total noninterest income	**13,632**	10,317	**40,066**	31,198
NONINTEREST EXPENSES				
Salaries and employee benefits	**15,740**	15,641	**48,791**	46,057
Farm Credit System insurance premium	**1,323**	2,106	**3,927**	6,232
Occupancy and equipment	**1,136**	1,131	**3,566**	3,508
Advertising	**942**	941	**2,860**	2,981
Travel	**848**	923	**2,524**	2,674
Purchased services and allocations	**499**	592	**1,737**	1,645
Public and member relations	**496**	532	**2,360**	2,179
FCA supervisory and exam expense	**402**	378	**1,377**	1,298
Communications	**252**	295	**741**	888
Directors' expense	**218**	218	**617**	689
Other expenses	**839**	996	**2,792**	3,452
Total noninterest expenses	**22,695**	23,753	**71,292**	71,603
Income before federal income tax	**52,125**	42,672	**147,262**	126,480
(Provision for) benefit from federal income tax	**(1)**	2	**2**	4
NET INCOME	**$ 52,124**	$ 42,670	**$ 147,264**	$ 126,476
Other comprehensive loss:				
Change in postretirement benefit plans	**(10)**	(82)	**(30)**	(247)
Income tax expense related items of other comprehensive income	**-**	-	**-**	-
Other comprehensive loss, net of tax	**(10)**	(82)	**(30)**	(247)
COMPREHENSIVE INCOME	**$ 52,114**	$ 42,588	**$ 147,234**	$ 126,229

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Retained Earnings Non-qualified Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2016	$ 25,049	$ 528,533	$ 571,198	$ (1,246)	$ 1,123,534
Net income	-	-	126,476	-	126,476
Other comprehensive loss	-	-	-	(247)	(247)
Capital stock/participation certificates issued	2,943	-	-	-	2,943
Capital stock/participation certificates/ allocated equities retired	(2,499)	(36,785)	-	-	(39,284)
Other adjustments	-	(36)	71	-	35
Balance at September 30, 2017	25,493	491,712	697,745	(1,493)	1,213,457
Net income	-	-	42,260	-	42,260
Other comprehensive loss	-	-	-	(2,201)	(2,201)
Capital stock/participation certificates issued	920	-	-	-	920
Capital stock/participation certificates/ allocated equities retired	(894)	-	-	-	(894)
Patronage distributions declared:	-	-	-	-	-
Cash	-	-	(77,506)	-	(77,506)
Nonqualifed allocations	-	86,341	(86,341)	-	-
Other adjustments	-	1	-	-	1
Balance at December 31, 2017	25,519	578,054	576,158	(3,694)	1,176,037
Net income	-	-	147,264	-	147,264
Other comprehensive loss	-	-	-	(30)	(30)
Capital stock/participation certificates issued	2,811	-	-	-	2,811
Capital stock/participation certificates/ allocated equities retired	(2,596)	(50,000)	-	-	(52,596)
Other adjustments	-	1	(4)	(1)	(4)
Balance at September 30, 2018	**$ 25,734**	**$ 528,055**	**$ 723,418**	**$ (3,725)**	**$ 1,273,482**

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

CAPITAL FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively called the "Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas.

The Association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act).

A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2017 are contained in the 2017 Annual Report to Stockholders.

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.

The Bank and its related Associations are collectively referred to as the "District." The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investment in the Association. Upon request, stockholders of the Association will be provided the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District Associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Farm Credit System Insurance Corporation.

In the opinion of management, the unaudited financial information is complete and reflects, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. 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.

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 Financial Accounting Standards Board (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. Early adoption is permitted. The Association has early adopted this standard during the first quarter of 2018, and as the Association has a full valuation allowance recorded against its deferred tax assets, there is no impact to income tax expense as a result of the revaluation.

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 did not 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 becomes 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 will change the classification of certain items in the annual 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 estimate credit losses. 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.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated 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 have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Investments Held-to-Maturity

The Association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 4,891	$ (1)		$ 4,890	5.62%	2.81

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 5,566	$ 10	$ -	$ 5,576	5.31%	3.47

The Federal Agricultural Mortgage Corporation (Farmer Mac) AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitment to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The Association continues to service the loans included in the transaction.

The association has not experienced impairments of these securities. Farm Mac guarantees the underlying mortgages, and the association has the ability and intent to hold these securities to maturity or pay-off and it is unlikely the association would be required to sell these securities. These AMBS have contractual weighted average maturities of 2.81 years as of September 30, 2018; however, expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Industry	September 30, 2018	%	December 31, 2017	%
Real estate mortgage	**$ 5,576,551**	**75.6**	$ 5,507,371	76.0
Production and intermediate term	**921,812**	**12.5**	910,316	12.6
Farm-related business	**639,459**	**8.7**	595,329	8.2
Rural residential real estate	**102,054**	**1.4**	105,579	1.5
Energy	**60,293**	**0.8**	61,398	0.8
Communication	**40,876**	**0.6**	45,695	0.6
Lease receivables	**12,727**	**0.2**	7,782	0.1
Mission-related investments	**6,653**	**0.1**	7,025	0.1
Water and waste disposal	**7,501**	**0.1**	4,872	0.1
Total	**$ 7,367,926**	**100.0**	$ 7,245,367	100.0

At September 30, 2018, the Association held five transactions, which are reported as loans on the consolidated balance sheet totaling $6,190 and with $44 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold as of September 30, 2018:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 122,628	$ 576,832	$ 8,894	$ -	$ 131,522	$ 576,832
Production and Intermediate-term	202,031	595,715		-	202,031	595,715
Farm-related business	432,095	102,052	5,764	-	437,859	102,052
Energy	60,293	-	-	-	60,293	-
Communication	40,876	-	-	-	40,876	-
Mission-related investments	2,085	-	4,105	-	6,190	-
Lease receivables	12,727	-	-	-	12,727	-
Water and waste disposal	7,501	-	-	-	7,501	-
Total	$ 880,236	$ 1,274,599	$ 18,763	$ -	$ 898,999	$ 1,274,599

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	**$ 38,287**	$ 44,967
Production and intermediate-term	**14,894**	20,557
Farm-related business	**2,805**	2,867
Rural residential real estate	**402**	503
Energy	**3,428**	-
Lease receivable	**41**	59
Total nonaccrual loans	**$ 59,857**	$ 68,953
Accruing restructured loans:		
Real estate mortgage	**$ 5,519**	$ 3,906
Production and intermediate-term	**5,956**	3,723
Mission-related investments	**2,139**	2,170
Total accruing restructured loans	**$ 13,614**	$ 9,799
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 502**	$ 24
Total accruing loans 90 days or more past due	**$ 502**	$ 24
Total nonperforming loans	**$ 73,973**	$ 78,776
Other property owned	**802**	3,989
Total nonperforming assets	**$ 74,775**	$ 82,765

One credit quality indicator utilized by the Association is the FCA 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 classified under the FCA's Uniform Loan Classification System 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	**97.5%**	96.7%
OAEM	**1.4%**	1.5%
Substandard/doubtful	**1.1%**	1.8%
	100.0%	100.0%
Production and intermediate-term		
Acceptable	**91.2%**	90.5%
OAEM	**4.9%**	4.5%
Substandard/doubtful	**3.9%**	5.0%
	100.0%	100.0%
Farm-related business		
Acceptable	**97.3%**	97.6%
OAEM	**0.5%**	-
Substandard/doubtful	**2.2%**	2.4%
	100.0%	100.0%
Rural residential real estate		
Acceptable	**98.5%**	98.1%
OAEM	**0.8%**	1.0%
Substandard/doubtful	**0.7%**	0.9%
	100.0%	100.0%
Energy		
Acceptable	**92.0%**	91.4%
OAEM	**2.3%**	2.5%
Substandard/doubtful	**5.7%**	6.1%
	100.0%	100.0%
Communication		
Acceptable	**100.0%**	100.0%
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Mission-related investments		
Acceptable	**100.0%**	100.0%
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Lease receivables		
Acceptable	**99.7%**	99.2%
OAEM	**-**	-
Substandard/doubtful	**0.3%**	0.8%
	100.0%	100.0%
Water and waste disposal		
Acceptable	**100.0%**	100.0%
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Total Loans		
Acceptable	**96.6%**	96.0%
OAEM	**1.8%**	1.7%
Substandard/doubtful	**1.6%**	2.3%
	100.0%	100.0%

The following table provides 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	Loans > 90 Days and Accruing
Real estate mortgage	$32,718	$ 9,524	$ 42,242	$ 5,590,472	$ 5,632,714	$ 502
Production and intermediate-term	8,272	5,361	13,633	927,132	940,765	-
Farm-related business	413	-	413	641,819	642,232	-
Rural residential real estate	676	-	676	101,767	102,443	-
Energy	-	-	-	60,418	60,418	-
Communication	-	-	-	40,892	40,892	-
Mission-related investments	-	-	-	6,791	6,791	-
Lease receivables	-	41	41	12,747	12,788	-
Water and waste disposal	-	-	-	7,507	7,507	-
Total	$42,079	$ 14,926	$ 57,005	$ 7,389,545	$ 7,446,550	$ 502

December 31, 2017	30-89 Days Past	90 Days or More Past	Total Past Due	Not Past Due or less than 30	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage	$23,845	$ 11,932	$ 35,777	$ 5,519,169	$ 5,554,946	$ 24
Production and intermediate-term	5,929	6,971	12,900	911,463	924,363	-
Farm-related business	5,850	-	5,850	591,529	597,379	-
Rural residential real estate	478	152	630	105,327	105,957	-
Energy	-	-	-	45,756	45,756	-
Communication	-	-	-	61,529	61,529	-
Mission-related investments	-	-	-	7,083	7,083	-
Lease receivables	-	59	59	7,801	7,860	-
Water and waste disposal	-	-	-	4,877	4,877	-
Total	$36,102	$ 19,114	$ 55,216	$ 7,254,534	$ 7,309,750	$ 24

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 (TDR) if the Association 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.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three and nine months ended September 30, 2018. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. 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:

	Troubled Debt Restructuring Activity			
	2018		2017	
Quarter ended September 30:	Pre-TDR Designation Balance	Post-TDR Designation Balance	Pre-TDR Designation Balance	Post-TDR Designation Balance
Real estate mortgage	-	-	-	-
Production and intermediate-term	6,199	4,064	2,239	2,366
Total	$ 6,199	$ 4,064	$ 2,239	$ 2,366
Nine months ended September 30:	Balance	Balance	Balance	Balance
Real estate mortgage	2,065	$ 1,950	-	$ -
Production and intermediate-term	9,129	6,447	4,809	4,963
Total	$ 11,194	$ 8,397	$ 4,809	$ 4,963

The predominant form of concession granted for troubled debt restructuring includes extension 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. During the previous twelve months, the Association had eleven loans that met the accounting criteria for troubled debt restructuring. Of the eleven loans, nine had an extension of terms during that same period, one had an interest rate reduction, and one was a forbearance. As of September 30, 2018 the total troubled debt restructured loans with accrued interest was $18,864, including $5,250 classified as nonaccrual and $13,614 classified as accrual, with specific allowance for loan losses of $903. As of September 30, 2018 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $77.

Additional impaired loan information is as follows:

	At September 30, 2018			At December 31, 2017		
	Loan Balance	Unpaid Principal Balance	Related Specific Allowance	Loan Balance	Unpaid Principal Balance	Related Specific Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	$ 1,765	$ 2,025	$ 238	$ 240	$ 248	$ 30
Production and intermediate-term	8,717	9,348	1,568	3,499	4,035	771
Farm-related business	2,674	2,674	368	2,736	2,736	368
Rural residential real estate	-	-	-	-	-	-
Energy	3,428	3,428	1,092	-	-	-
Mission-related investments	155	155	54	163	163	80
Lease receivables	-		-	-	-	-
Total	$ 16,739	$ 17,630	$ 3,320	$ 6,638	$ 7,182	$ 1,249
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	$ 42,444	$ 45,016	$ -	$ 48,635	$ 51,160	$ -
Production and intermediate-term	11,915	16,453	-	20,619	24,572	-
Farm-related business	131	3,090	-	131	3,107	-
Rural residential real estate	402	616	-	503	737	-
Energy	-	-	-	-	-	-
Mission-related investments	1,930	1,930	-	1,985	1,985	-
Lease receivables	41	64	-	59	81	-
Total	$ 56,863	$ 67,169	$ -	$ 71,932	$ 81,642	$ -
Total impaired loans:						
Real estate mortgage	$ 44,209	$ 47,041	$ 238	$ 48,875	$ 51,408	$ 30
Production and intermediate-term	20,632	25,801	1,568	24,118	28,607	771
Farm-related business	2,805	5,764	368	2,867	5,843	368
Rural residential real estate	402	616	-	503	737	-
Energy	3,428	3,428	1,092	-	-	-
Mission-related investments	2,085	2,085	54	2,148	2,148	80
Lease receivables	41	64	-	59	81	-
Total	$ 73,602	$ 84,799	$ 3,320	$ 78,570	$ 88,824	$ 1,249

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 a related allowance for loan losses:								
Real estate mortgage	$ 2,145	$ 2	$ 1,175	$ -	$ 1,149	$ 6	$ 1,896	$ 3
Production and intermediate-term	8,328	54	6,931	6	6,019	168	8,327	10
Farm-related business	2,680	51	2,813	47	2,701	149	2,833	127
Rural residential real estate	-	-	-	-	4	-	10	-
Energy	3,572	-	-	-	2,833	-	-	-
Mission-related investments	156	3	1,488	3	159	9	1,954	9
Lease receivables	-	-	-	-	-	-	-	-
Total	$ 16,881	$ 110	$ 12,407	$ 56	$ 12,865	$ 332	$ 15,020	$ 149
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	$ 42,421	$ 170	$ 53,959	$ 218	$ 43,439	$ 734	$ 55,138	$ 2,837
Production and intermediate-term	11,907	57	19,155	155	16,441	268	19,941	512
Farm-related business	131	16	505	2	131	29	570	7
Rural residential real estate	408	1	524	-	416	3	550	-
Energy	-	-	-	-	4	-	-	-
Mission-related investments	1,930	29	662	-	1,954	89	221	92
Lease receivables	41	-	81	30	47	-	85	-
Total	$ 56,838	$ 273	$ 74,886	$ 405	$ 62,432	$ 1,123	$ 76,505	$ 3,448
Total impaired loans:								
Real estate mortgage	$ 44,566	$ 172	$ 55,134	$ 218	$ 44,588	$ 740	$ 57,034	$ 2,840
Production and intermediate-term	20,235	111	26,086	161	22,460	436	28,268	522
Farm-related business	2,811	67	3,318	49	2,832	178	3,403	134
Rural residential real estate	408	1	524	-	420	3	560	-
Energy	3,572	-	-	-	2,837	-	-	-
Mission-related investments	2,086	32	2,150	3	2,113	98	2,175	101
Lease receivables	41	-	81	30	47	-	85	-
Total	$ 73,719	$ 383	$ 87,293	$ 461	$ 75,297	$ 1,455	$ 91,525	$ 3,597

A summary of changes in the allowance for loan losses and the ending balance including accrued interest of loans

	Real Esate Mortgage	Production and Intermediate Term	Farm related business	Rual Residential Real Estate	Ennergy and Water/Waste Disposal	Communication	Mission Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at June 30, 2018	$ 9,333	$ 12,323	$ 3,370	$ 116	$ 1,490	$ 140	$ 56	$ 51	$ 26,879
Charge-offs	-	(48)	-	(9)	-	-	-	-	(57)
Recoveries	254	253	1	8	-	-	-	-	516
(Reversal) provision for loan losses	(1,793)	(626)	(207)	(17)	(3)	(12)	(1)	1	(2,660)
Transfer from reserve on unfunded commitments	2	112	(10)	-	2	-	-	-	106
Balance at September 30, 2018	$ 7,796	$ 12,014	$ 3,154	$ 96	$ 1,489	$ 128	$ 55	$ 52	$ 24,784
Balance at December 31, 2017	10,470	12,955	4,002	150	1,615	145	82	31	$ 29,450
Charge-offs	(83)	(971)	-	(9)	-	-	-	-	(1,063)
Recoveries	325	285	20	16	-	31	-	-	677
(Reversal) provision for loan losses	(2,930)	(635)	(928)	(61)	(150)	(48)	(36)	21	(4,767)
Other	14	380	60	-	24	-	9	-	487
Balance at September 30, 2018	$ 7,796	$ 12,014	$ 3,154	$ 96	$ 1,489	$ 128	$ 55	$ 52	$ 24,784
Allowance for loan losses: Ending Balance at September 30, 2018 Individually evaluated for impairment	$ 238	$ 1,568	$ 368	$ -	$ 1,092	$ -	$ 54	$ -	$ 3,320
Allowance for loan losses: Collectively evaluated for impairment	$ 7,558	$ 10,445	$ 2,786	$ 96	$ 397	$ 128	$ 2	$ 52	$ 21,464
Balance at June 30, 2017	$ 9,444	$ 14,057	$ 4,031	$ 159	$ 1,724	$ 181	$ 90	$ 18	$ 29,704
Charge-offs	(8)	(2,585)	-	(11)	-	-	-	-	(2,604)
Recoveries	2	16	14	9	-	-	13	-	54
(Reversal) provision for loan losses	(404)	2,819	(510)	(16)	(7)	(17)	(4)	7	1,868
Other	1	131	-	-	9	-	(9)	-	132
Balance at September 30, 2017	$ 9,035	$ 14,438	$ 3,535	$ 141	$ 1,726	$ 164	$ 90	$ 25	$ 29,154
Balance at December 31, 2016	$ 8,194	$ 15,840	$ 4,954	$ 135	$ 873	$ 183	$ 88	$ 20	$ 30,287
Charge-offs	(8)	(4,151)	-	(18)	-	-	-	-	(4,177)
Recoveries	185	126	66	12	-	-	13	-	402
(Reversal) provision for loan losses	665	2,360	(1,438)	12	848	(20)	(2)	5	2,430
Other	(1)	263	(47)	-	5	1	(9)	-	212
Balance at September 30, 2017	$ 9,035	$ 14,438	$ 3,535	$ 141	$ 1,726	$ 164	$ 90	$ 25	$ 29,154
Allowance for loan losses: Ending Balance at December 31, 2017 individually evaluated for impairment	$ 30	$ 771	$ 368	$ -	$ -	$ -	$ 80	$ -	$ 1,249
Allowance for loan losses: collectively evaluated for impairment	$ 10,440	$ 12,184	$ 3,634	$ 150	$ 1,615	$ 145	$ 2	$ 31	$ 28,201
Recorded Investments in Loans Outstanding:									
Ending Balance at September 30, 2018	$ 5,632,713	$ 940,766	$ 642,232	$ 102,442	$ 67,926	$ 40,892	$ 6,791	$ 12,788	$ 7,446,550
Individually evaluated for impairment	$ 44,209	$ 20,632	$ 2,805	$ 402	$ 3,428	$ -	$ 2,085	$ 41	$ 73,602
Collectively evaluated for impairment	$ 5,588,504	$ 920,134	$ 639,427	$ 102,040	$ 64,498	$ 40,892	$ 4,706	$ 12,747	$ 7,372,948
Ending Balance at December 31, 2017	$ 5,554,945	$ 924,364	$ 597,379	$ 105,957	$ 66,406	$ 45,756	$ 7,083	$ 7,860	$ 7,309,750
Individually evaluated for impairment	$ 48,875	$ 24,118	$ 2,867	$ 503	$ -	$ -	$ 2,148	$ 59	$ 78,570
Collectively evaluated for impairment	$ 5,506,070	$ 900,246	$ 594,512	$ 105,454	$ 66,406	$ 45,756	$ 4,935	$ 7,801	$ 7,231,180

NOTE 4 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 14 "Fair Value Measurements" of the 2017 Annual Report to stockholders for a more complete description.

Assets held in nonqualified benefits trusts related to deferred compensation and supplemental retirement plans are classified as Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net assets values that are quoted in the marketplace. These assets are measured at fair value on a recurring basis and are summarized below:

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	Total Fair Value September 30, 2018	Total Fair Value December 31, 2017
Beginning Balance	**$ 6,478**	**$ 5,834**
Transfers In	**288**	**91**
Other Market Changes	**326**	**553**
Assets held in non-qualified benefits trusts	**$ 7,092**	**$ 6,478**

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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. The Association utilizes appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

These assets are measured at fair value on a nonrecurring basis and are summarized below:

	Total Fair Value September 30, 2018		Total Fair Value December 31, 2017	
Impaired Loans	**$**	**13,419**	$	5,389
Other property owned		**802**		3,989
Total	**$**	**14,221**	$	9,378

NOTE 5 — MEMBERS EQUITY:

In September 2018, the board of directors approved a resolution to retire $50,000 in nonqualified allocated equities which are to be paid to the recipients in November 2018. The retirement is a distribution of 56 percent of the earnings allocated in 2011.

The board of directors approved a $163,847 patronage distribution for 2017. $77,506 of this distribution was to be paid in cash in March 2018. $86,341 was to be distributed in the form of nonqualified allocated equity. In March 2018 the Association finalized the computation of these distributions which resulted in a reduction in cash patronage payable of $102 for an actual cash distribution of $77,404 and a nonqualified allocated equity distribution of $86,341. In addition, there was a reversal of nonqualified allocations of $57 and cash distributions of $14 related to the 2016 patronage distributions which were recorded to reflect proper classification of these amounts. The owners of these nonqualified distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the Association, allowing the stockholders to benefit more fully from the earnings of the Association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made. In 2016, the board of directors approved a $135,000 patronage distribution for 2017, with cash patronage payable of $57,170 and $77,830 in nonqualified allocations. In March 2017 the Association finalized the computation of these distributions which resulted in an increase in nonqualified allocations of $22 resulting in actual allocation of $77,852, and a reduction in cash patronage payable of $24 for an actual cash distribution of $57,146.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The Association expects to contribute $2,920 to its pension plan in 2018, which will be $1,499 less than the 2017 contribution. Pension plan funding expense was $2,190 and $3,314 for the nine months ended September 30, 2018 and 2017 respectively.

NOTE 7 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 9, 2018 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.