CAPITAL FARM CREDIT

PART OF THE FARM CREDIT SYSTEM

Quarterly Report
To Stockholders

Quarter Ended March 31, 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.

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

Ben R. Novosad,
Chief Executive Officer

Phillip Munden

Phillip Munden,
Chairman, Board of Directors

Don VandeVanter

Don VandeVanter,
Chief Financial Officer

May 7, 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 quarter ended March 31, 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.

Precipitation was inconsistent across the Association's territory during the first quarter of 2018 with several regions receiving beneficial rains while others were still in need of rain entering the spring. Some regions remained very dry resulting in a decline of winter wheat conditions. Additionally, lack of moisture limited pasture grazing of cattle in some regions. Rural land prices continue to be strong, especially recreational land and cropland, but ranchland values are under a little pressure. The oil economy continues to show improvement. The credit quality of the Association's loan portfolio has remained stable through 2017 and during the first quarter of 2018. The overall Texas economic outlook reflects continued growth in the coming months.

Patronage Refunds by Association

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 loan volume was $7,276,298 at March 31, 2018. This compares with loan volume at December 31, 2017 of $7,245,367. This represents an increase of $30,931, or approximately 0.4 percent. The Association experienced growth in the real estate mortgage and farm related business loans, but saw a decrease in production and intermediate term loans. The activity in the production and intermediate term loans is consistent with the first quarter of most years.

The Association's high-risk assets have decreased by 8.7 percent in the first quarter of 2018. Most of this decrease has been in nonaccrual loans. The following table summarizes the Association's components and trends of high-risk assets:

		March 31, 2018	%		December 31, 2017	%
Nonaccrual loans	$	**62,669**	**83.1**	$	68,953	83.6
Loans 90 days past due and still accruing interest		**42**	**0.1**		23	0.0
Formally restructured loans		**10,618**	**14.1**		9,594	11.6
Other property owned, net		**2,080**	**2.7**		3,989	4.8
Total	$	**75,409**	**100.0**	$	82,559	100.0

Nonaccrual loans decreased $6,284 during the first three months of 2018. This decrease was recognized primarily in the real estate mortgage sector. This decrease was related to several loans that were returned to accrual status due to improved performance while other loans were paid down.

Loans that are 90 or more days past due and still accruing interest increased $19 in the first three 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 $1,024 during the first three months of 2018. All of this increase was recognized in the production and intermediate term sector. 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 $1,909 during the first three 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 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's net income for the three months ended March 31, 2018 was $52,341 as compared to $40,545 for the three months ended March 31, 2017, an increase of $11,796, or 29.1 percent.

The increase in net income was affected by an increase in net interest income, noninterest income, and by a decrease in the provision for loan losses. Net interest income increased by $3,599 during the first three 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. The effects of changes in average volume and interest rates on net interest income in the three months ended March 31, 2018, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the three months ended March 31, 2018				For the three months ended March 31, 2017			
	Average Balance		**Interest**		Average Balance		Interest	
Accrual loans and investments	**$**	**7,196,152**	**$**	**95,626**	$	6,829,398	$	85,202
Interest-bearing liabilities		**6,129,869**		**37,435**		5,847,076		30,610
Impact of capital	**$**	**1,066,283**			$	982,322		
Net interest income			**$**	**58,191**			$	54,592

	Average Yield	Average Yield
Yield on loans	**5.39%**	5.06%
Cost of interest-bearing Liabilities	**2.48%**	2.12%
Net interest margin	**2.91%**	**2.94%**

	2018 vs. 2017					
	Increase (decrease) due to					
	Volume		**Rate**		**Total**	
Interest income	**$**	**4,575**	**$**	**5,849**	**$**	**10,424**
Interest expense		**1,480**		**5,345**		**6,825**
Net interest income	**$**	**3,095**	**$**	**504**	**$**	**3,599**

A provision for loan loss reversal of $2,647 for the three month period ended March 31, 2018 was recognized, as compared to provision for loan losses of $718 for the same period in 2017. The improvement in provision for loan losses was a result of an improvement in credit quality.

The Association's noninterest income increased from $11,205 in the first three months of 2017 to $16,631 in the first three months of 2018. Other income increased $4,471 as compared to the same time period in 2017 primarily due to an increase in crop insurance income and $4,512 received from the Farm Credit System Insurance Corporation (FCSIC) for excess insurance fund balances in the allocated insurance reserve accounts.

Noninterest expenses increased $596, or 2.4 percent in the first three months of 2018 as compared to the same time period in 2017. This increase is primarily attributable to an increase of $1,360 in salaries and employee benefits, offset by a decrease of $767 in FCSIC expense. The increase in salary and benefits expense is due to new hires, salary adjustments made to existing employees along with higher benefit costs. The decrease in FCSIC was due to decreased premiums paid on accrual loans from 15 basis points during the first quarter in 2017 to 9 basis points in the first quarter 2018.

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 $6,145,513 at March 31, 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 2.48 percent for the three months ended March 31, 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 March 31, 2018 the Association's note payable was within the specified limitations. The total direct note commitment from the Bank as of March 31, 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.

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 capital of $1,228,293 at March 31, 2018. This represents an increase of $52,256 from the December 31, 2017 total capital level of $1,176,037. This increase in capital is a direct result of the Association's net income for the period. 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.

Select Capital Ratios	**Regulatory Minimums**	**Capital Conservation Buffers***	**Total**	**As of March 31, 2018**
Risk-adjusted:				
Common equity tier 1 ratio	4.50%	2.50% *	7.00%	12.92%
Tier 1 capital ratio	6.00%	2.50% *	8.50%	12.92%
Total capital ratio	8.00%	2.50% *	10.50%	14.47%
Permanent capital ratio	7.00%	0.00%	7.00%	14.13%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	13.40%
UREE leverage ratio	1.50%	0.00%	1.50%	7.95%

*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)

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Loans	$ 7,276,298	$ 7,245,367
Less: Allowance for losses	(27,138)	(29,450)
Net Loans	7,249,160	7,215,917
Cash	15	15
Accrued interest receivable - loans	63,840	64,383
Accrued interest receivable - investments	58	67
Investment - held-to-maturity	5,310	5,566
Investment in and receivable from the Bank:	-	-
Capital stock	118,752	118,752
Receivable	7,140	14,958
Investments in other Farm Credit Institutions	9,317	8,713
Other property owned, net	2,080	3,989
Premises and equipment, net	14,827	14,205
Other assets	26,749	24,092
Total assets	$ 7,497,248	$ 7,470,657
LIABILITIES		
Note payable to the Bank	$ 6,145,513	$ 6,127,915
Advanced conditional payments	7,779	6,638
Accrued interest payable	13,102	12,313
Drafts outstanding	152	528
Patronage distributions payable	6	77,511
Unfunded post retirement medical obligation	26,082	25,897
Reserve for unfunded commitments	494	806
Other liabilities	75,827	43,012
Total liabilities	6,268,955	6,294,620
MEMBERS' EQUITY		
Capital stock and participation certificates	25,449	25,519
Non-qualified allocated retained earnings	578,054	578,054
Unallocated retained earnings	628,494	576,158
Accumulated other comprehensive loss	(3,704)	(3,694)
Total members' equity	1,228,293	1,176,037
Total liabilities and members' equity	$ 7,497,248	$ 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 March 31, 2018	For the three months ended March 31, 2017
INTEREST INCOME		
Loans	**$ 95,552**	$ 85,119
Investments	**74**	83
Total interest income	**95,626**	85,202
INTEREST EXPENSE		
Note payable to the Bank and advance conditional payments	**37,435**	30,610
Net interest income	**58,191**	54,592
PROVISION FOR LOAN LOSSES		
(Reversal) provision for loan losses	**(2,647)**	718
Net interest income after provision for losses	**60,838**	53,874
NONINTEREST INCOME		
Patronage income from the FCB	**7,855**	7,226
Loan fees	**861**	821
Gain on other property owned, net	**309**	23
Other income	**7,606**	3,135
Total noninterest income	**16,631**	11,205
NONINTEREST EXPENSES		
Salaries and employee benefits	**16,846**	15,486
Occupancy and equipment	**1,392**	1,355
Farm Credit System insurance premium	**1,296**	2,063
Public and member relations	**966**	911
Advertising	**881**	1,101
Travel	**783**	866
Purchased services and allocations	**699**	366
FCA supervisory and exam expense	**488**	460
Communications	**233**	288
Directors' expense	**199**	222
Other expenses	**1,360**	1,429
Total noninterest expenses	**25,143**	24,547
Income before federal income tax	**52,326**	40,532
Benefit from federal income tax	**15**	13
NET INCOME	**$ 52,341**	$ 40,545
Other comprehensive loss:		
Change in postretirement benefit plans	**(10)**	(83)
Income tax expense related items of other comprehensive income	**-**	-
Other comprehensive loss, net of tax	**(10)**	(83)
COMPREHENSIVE INCOME	**$ 52,331**	$ 40,462

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 Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 25,049	$ 528,533	$ 571,198	$ (1,246)	$ 1,123,534
Net income	-	-	40,545	-	40,545
Other comprehensive loss	-	-	-	(83)	(83)
Capital stock/participation certificates issued	938	-	-	-	938
Capital stock/participation certificates/ allocated equities retired	(916)	-	-	-	(916)
Other adjustments	-	22	-	-	22
Balance at March 31, 2017	25,071	528,555	611,743	(1,329)	1,164,040
Net income	-	-	128,191	-	128,191
Other comprehensive gain	-	-	-	(2,365)	(2,365)
Capital stock/participation certificates issued	2,925	-	-	-	2,925
Capital stock/participation certificates/ allocated equities retired	(2,477)	(36,785)	-	-	(39,262)
Patronage distributions declared:	-	-	-	-	-
Cash	-	-	(77,506)	-	(77,506)
Nonqualifed allocations	-	86,341	(86,341)	-	-
Other adjustments	-	(57)	71	-	14
Balance at December 31, 2017	25,519	578,054	576,158	(3,694)	1,176,037
Net income	-	-	52,341	-	52,341
Other comprehensive loss	-	-	-	(10)	(10)
Capital stock/participation certificates issued	853	-	-	-	853
Capital stock/participation certificates/ allocated equities retired	(923)	-	-	-	(923)
Other adjustments	-	-	(5)	-	(5)
Balance at March 31, 2018	**$ 25,449**	**$ 578,054**	**$ 628,494**	**$ (3,704)**	**$ 1,228,293**

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

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 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 will not impact the Association's financial condition or its results of operations but may 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. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." 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 discloures. The Association adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the Association's revenus are not subject to the new guidance, the adopition of the guidance did not have a material impact on the financial position, results of operations, equity or cash flows.

Certain amounts in the prior period's financial statements have been reclassified to conform to the current period's 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:

March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 5,310	$ 12	$ -	$ 5,322	5.43%	3.23

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 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.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Industry	**March 31 2018**	**%**	December 31 2017	%
Real estate mortgage	**$ 5,552,394**	**76.3**	$ 5,507,371	76.0
Production and intermediate term	**868,871**	**11.9**	910,316	12.6
Farm-related business	**623,059**	**8.6**	595,329	8.2
Rural residential real estate	**102,558**	**1.4**	105,579	1.5
Energy	**61,620**	**0.8**	61,398	0.8
Communication	**41,627**	**0.6**	45,695	0.6
Lease receivables	**13,582**	**0.2**	7,782	0.1
Mission-related investments	**6,972**	**0.1**	7,025	0.1
Water and waste disposal	**5,615**	**0.1**	4,872	0.1
Total	**$ 7,276,298**	**100.0**	$ 7,245,367	100.0

At March 31, 2018, the Association held five transactions, which are reported as loans on the consolidated balance sheet totaling $6,252 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 Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold as of March 31, 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	$ 112,088	$ 456,825	$ 9,202	$ -	$ 121,290	$ 456,825
Production and Intermediate-term	203,465	582,806	4,345	-	207,810	582,806
Farm-related business	432,386	100,628	3,676	-	436,062	100,628
Energy	61,620	-	-	-	61,620	-
Communication	41,627	-	-	-	41,627	-
Mission-related investments	2,147	-	4,105	-	6,252	-
Lease receivables	13,582	-	-	-	13,582	-
Water and waste disposal	5,615	-	-	-	5,615	-
Total	$ 872,530	$ 1,140,259	$ 21,328	$ -	$ 893,858	$ 1,140,259

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

	March 31, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	**$ 38,538**	$ 44,967
Production and intermediate-term	**17,148**	20,557
Farm-related business	**2,846**	2,867
Rural residential real estate	**330**	503
Energy	**3,750**	-
Mission-related investments	**-**	-
Lease receivable	**57**	59
Total nonaccrual loans	**$ 62,669**	$ 68,953
Accruing restructured loans:		
Real estate mortgage	**$ 3,835**	$ 3,906
Production and intermediate-term	**4,708**	3,723
Farm-related business	**-**	-
Rural residential real estate	**-**	-
Energy	**-**	-
Mission-related investments	**2,202**	2,170
Lease receivable	**-**	-
Total accruing restructured loans	**$ 10,745**	$ 9,799
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 43**	$ 24
Production and intermediate-term	**-**	-
Farm-related business	**-**	-
Rural residential real estate	**-**	-
Energy	**-**	
Mission-related investments	**-**	-
Lease receivable	**-**	-
Total accruing loans 90 days or more past due	**$ 43**	$ 24
Total nonperforming loans	**$ 73,457**	$ 78,776
Other property owned	**2,080**	3,989
Total nonperforming assets	**$ 75,537**	$ 82,765

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 classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2018	December 31, 2017
Real estate mortgage		
Acceptable	**97.1%**	96.7%
OAEM	**1.4%**	1.5%
Substandard/doubtful	**1.5%**	1.8%
	100.0%	100.0%
Production and intermediate-term		
Acceptable	**91.0%**	90.5%
OAEM	**5.1%**	4.5%
Substandard/doubtful	**3.9%**	5.0%
	100.0%	100.0%
Farm-related business		
Acceptable	**97.6%**	97.6%
OAEM	**-**	-
Substandard/doubtful	**2.4%**	2.4%
	100.0%	100.0%
Rural residential real estate		
Acceptable	**98.4%**	98.1%
OAEM	**0.9%**	1.0%
Substandard/doubtful	**0.7%**	0.9%
	100.0%	100.0%
Energy		
Acceptable	**91.5%**	91.4%
OAEM	**2.4%**	2.5%
Substandard/doubtful	**6.1%**	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	**99.6%**	99.2%
OAEM	**-**	-
Substandard/doubtful	**0.4%**	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	**96.4%**	96.0%
OAEM	**1.7%**	1.7%
Substandard/doubtful	**1.9%**	2.3%
	100.0%	100.0%

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

March 31, 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	$31,025	$ 8,459	$ 39,484	$ 5,558,503	$ 5,597,987	$ 43
Production and intermediate-term	15,726	7,350	23,076	860,595	883,671	-
Farm-related business	315	-	315	625,418	625,733	-
Rural residential real estate	926	11	937	102,022	102,959	-
Energy	-	-	-	61,760	61,760	-
Communication	-	-	-	41,641	41,641	-
Mission-related investments	-	-	-	7,113	7,113	-
Lease receivables	128	-	128	13,525	13,653	-
Water and waste disposal	-	-	-	5,621	5,621	-
Total	$48,120	$ 15,820	$ 63,940	$ 7,276,198	$ 7,340,138	$ 43

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.

As of March 31, 2018 the total troubled debt restructured loans with accrued interest was $11,804, including $1,059 classified as nonaccrual and $10,745 classified as accrual, with specific allowance for loan losses of $570. As of March 31, 2018 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $196.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation that occurred. Balance of Pre-TDR designation represents quarter-end loans just prior to restructuring and post-TDR represents the quarter-end loans immediately following the restructuring.

	Troubled Debt Restructuring Activity			
	2018		2017	
Three months ended March 31:	Pre-TDR Designation Balance	Post-TDR Designation Balance	Pre-TDR Designation Balance	Post-TDR Designation Balance
Production and intermediate-term	1,479	1,208	2,934	2,477
Total	$ 1,479	$ 1,208	$ 2,934	$ 2,477

During the previous twelve months, the Association had nine loans that met the accounting criteria for troubled debt restructuring. Of the nine loans, eight had an extension of terms during that same period while one had a court ordered debt forgiveness.

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).

Additional impaired loan information is as follows:

	At March 31, 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	$ 515	$ 539	$ 33	$ 240	$ 248	$ 30
Production and intermediate-term	4,924	4,948	1,266	3,499	4,035	771
Farm-related business	2,715	2,715	368	2,736	2,736	368
Rural residential real estate	-		-	-	-	-
Energy	3,712	3,713	1,097	-	-	-
Communication	-		-	-	-	-
Mission-related investments	162	162	73	163	163	80
Lease receivables	-		-	-	-	-
Total	$ 12,028	$ 12,077	$ 2,837	$ 6,638	$ 7,182	$ 1,249
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	$ 41,894	$ 44,599	$ -	$ 48,635	$ 51,160	$ -
Production and intermediate-term	16,866	21,362	-	20,619	24,572	-
Farm-related business	131	3,094	-	131	3,107	-
Rural residential real estate	330	559	-	503	737	-
Energy	37	37				
Mission-related investments	1,985	1,985	-	1,985	1,985	-
Lease receivables	57	80	-	59	81	-
Water and waste disposal	-	-	-	-	-	-
Total	$ 61,300	$ 71,716	$ -	$ 71,932	$ 81,642	$ -
Total impaired loans:						
Real estate mortgage	$ 42,409	$ 45,138	$ 33	$ 48,875	$ 51,408	$ 30
Production and intermediate-term	21,790	26,310	1,266	24,118	28,607	771
Farm-related business	2,846	5,809	368	2,867	5,843	368
Rural residential real estate	330	559	-	503	737	-
Energy	3,749	3,750	1,097	-	-	-
Communication	-	-	-	-	-	-
Mission-related investments	2,147	2,147	73	2,148	2,148	80
Lease receivables	57	80	-	59	81	-
Total	$ 73,328	$ 83,793	$ 2,837	$ 78,570	$ 88,824	$ 1,249

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

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

	March 31, 2018		December 31, 2017	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Real estate mortgage	$ 333	$ 2	$ 1,535	$ 3
Production and intermediate-term	3,792	22	7,448	33
Farm-related business	2,722	48	2,819	174
Rural residential real estate	-	-	8	-
Energy	1,238	1		
Mission-related investments	162	3	1,507	12
Lease receivables	-	-	-	
Total	$ 8,247	$ 76	$ 13,317	$ 222
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	$ 44,649	$ 157	$ 54,031	$ 2,836
Production and intermediate-term	20,137	177	19,685	952
Farm-related business	131	2	461	9
Rural residential real estate	431	-	538	-
Energy	12	-		
Mission-related investments	1,985	30	662	122
Lease receivables	57	-	82	-
Total	$ 67,402	$ 366	$ 75,459	$ 3,919
Total impaired loans:				
Real estate mortgage	$ 44,982	$ 159	$ 55,566	$ 2,839
Production and intermediate-term	23,929	199	27,133	985
Farm-related business	2,853	50	3,280	183
Rural residential real estate	431	-	546	-
Energy	1,250	1		
Mission-related investments	2,147	33	2,169	134
Lease receivables	57	-	82	-
Total	$ 75,649	$ 442	$ 88,776	$ 4,141

A summary of changes in the allowance for loan losses and the ending balance including accrued interest of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Farm related business	Rural Residential Real Estate	Energy and Water/Waste Disposal	Communication	Mission Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2017	$ 10,470	$ 12,955	$ 4,002	$ 150	$ 1,615	$ 145	$ 82	$ 31	$ 29,450
Charge-offs	(17)	(68)	-	-	-	-	-	-	(85)
Recoveries	38	24	14	1	-	31	-	-	108
(Reversal) provision for loan losses	(443)	(1,616)	(274)	(51)	(228)	(49)	(8)	22	(2,647)
Transfer from reserve on unfunded commitments	12	217	62	-	21	-	-	-	312
Balance at March 31, 2018	$ 10,060	$ 11,512	$ 3,804	$ 100	$ 1,408	$ 127	$ 74	$ 53	$ 27,138
Ending Balance at March 31, 2018									
Individually evaluated for impairment	$ 33	$ 1,266	$ 368	$ -	$ 1,097	$ -	$ 73	$ -	$ 2,837
Collectively evaluated for impairment	$ 10,027	$ 10,246	$ 3,436	$ 100	$ 311	$ 127	$ 1	$ 53	$ 24,301
Balance at December 31, 2016	$ 8,194	$ 15,840	$ 4,954	$ 135	$ 873	$ 183	$ 88	$ 20	$ 30,287
Charge-offs	(1)	(1,511)	-	-	-	-	-	-	(1,512)
Recoveries	3	101	39	1	-	-	-	-	145
Provision for loan losses	1,362	160	(687)	5	(121)	(1)	1	(1)	718
Other	2	57	(33)	-	6	1	-	-	32
Balance at March 31, 2017	$ 9,560	$ 14,648	$ 4,273	$ 141	$ 757	$ 183	$ 89	$ 19	$ 29,670
Ending Balance at December 31, 2017									
individually evaluated for impairment	$ 30	$ 771	$ 368	$ -	$ -	$ -	$ 80	$ -	$ 1,249
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 March 31, 2018	$ 5,597,987	$ 883,671	$ 625,733	$ 102,959	$ 67,381	$ 41,641	$ 7,113	$ 13,653	$ 7,340,138
Individually evaluated for impairment	$ 42,409	$ 21,790	$ 2,846	$ 330	$ 3,749	$ -	$ 2,147	$ 57	$ 73,328
Collectively evaluated for impairment	$ 5,555,578	$ 861,881	$ 622,887	$ 102,629	$ 63,632	$ 41,641	$ 4,966	$ 13,596	$ 7,266,810
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:

	Total Fair Value March 31, 2018	Total Fair Value December 31, 2017
Beginning Balance	**$ 6,478**	**$ 5,834**
Transfers In	**114**	**91**
Other Market Changes	**(180)**	**553**
Assets held in non-qualified benefits trusts	**$ 6,412**	**$ 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	Total Fair Value
	March 31, 2018	December 31, 2017
Impaired Loans	**$ 9,191**	$ 5,389
Other property owned	**2,080**	3,989
Total	**$ 11,271**	$ 9,378

NOTE 5 — MEMBERS EQUITY:

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 $730 and $1,105 for the three months ended March 31, 2018 and 2017 respectively.

NOTE 7 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 7, 2018 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.