Quarterly Report
To Stockholders

Quarter Ended June 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.

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

Phillip Munden,
Chairman, Board of Directors

Don VandeVanter,
Chief Financial Officer

August 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 quarter ended June 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 expand as the number of jobs has increased significantly, most notably in the goods producing sectors. Precipitation has slightly improved drought conditions across the Association's territory, but lack of moisture continues to affect pasture conditions for cattle grazing in some regions and crop production in West Texas. While crops are average to good in some parts of the state, the drought has already totaled some of the crops in the High Plains region. Cattle and other livestock prices stabilized during the second quarter. The housing market continues to grow which is signified by a steady demand for housing, an increase in home sales and an appreciation in prices. Oil and gas production continued to increase with oil prices recovering steadily. 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 $7,399,419 at June 30, 2018. This compares with loan volume at December 31, 2017 of $7,245,367. This represents an increase of $154,052, or approximately 2.1 percent. The Association experienced slight increases in the real estate mortgage and farm related business loans, but saw a decrease in production and intermediate term loans. While a decrease in production loans is normal in the first half of the year, this year's decrease is greater than normal due to the dry weather conditions. This may affect loan demand for the remainder of 2018.

The Association's high-risk assets have decreased by 3.3 percent in the first six 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:

	June 30, 2018	%	December 31, 2017	%
Nonaccrual loans	**$ 65,413**	**82.0**	$ 68,953	83.6
Loans 90 days past due and still accruing interest	**71**	**0.1**	23	0.0
Formally restructured loans	**13,307**	**16.7**	9,594	11.6
Other property owned, net	**974**	**1.2**	3,989	4.8
Total	**$ 79,765**	**100.0**	$ 82,559	100.0

Nonaccrual loans decreased $3,540 during the first six 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 $48 in the first six 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 $3,713 during the first six months of 2018. All 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 $3,015 during the first six 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 six months ended June 30, 2018 was $95,140 as compared to $83,806 for the six months ended June 30, 2017, an increase of $11,334, or 13.5 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 $3,853 during the first six 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 six months ended June 30, 2018, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the six months ended June 30, 2018		For the six months ended June 30, 2017	
	Average Balance	**Interest**	Average Balance	Interest
Accrual loans and investments	**$ 7,233,104**	**$ 193,555**	$ 6,860,557	$ 174,810
Interest-bearing liabilities	**6,182,081**	**78,362**	5,879,923	63,470
Impact of capital	**$ 1,051,023**		$ 980,634	
Net interest income		**$ 115,193**		$ 111,340

	Average Yield	Average Yield
Yield on loans	**5.40%**	5.14%
Cost of interest-bearing Liabilities	**2.56%**	2.18%
Net interest margin	**2.84%**	2.96%

	2018 vs. 2017		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 9,492**	**$ 9,253**	**$ 18,745**
Interest expense	**3,262**	**11,630**	**14,892**
Net interest income	**$ 6,230**	**$ (2,377)**	**$ 3,853**

A provision for loan loss reversal of $2,107 for the six month period ended June 30, 2018 was recognized, as compared to provision for loan losses of $562 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 $20,883 in the first six months of 2017 to $26,434 in the first six months of 2018. Other income increased $3,988 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. The Association also recognized $1,325 more in patronage income from FCB, as a result of the higher note payable to the Bank.

Noninterest expenses increased $744, or 1.6 percent in the first six months of 2018 as compared to the same time period in 2017. This increase is primarily attributable to an increase of $2,635 in salaries and employee benefits, offset by a decrease of $1,521 in FCSIC expense. The increase in salary and benefits expense is due to new hires, salary increases for existing employees, and higher benefit costs. The decrease in FCSIC was due to decreased premiums paid on accrual loans from 15 basis points during the first six months in 2017 to 9 basis points in the first six months in 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 $6,289,801 at June 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 2.56 percent for the six months ended June 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 June 30, 2018 the Association's note payable was within the specified limitations. The total direct note commitment from the Bank as of June 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.

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 $1,271,270 at June 30, 2018. This represents an increase of $95,233 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. Farm Credit Administration 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.

Select Capital Ratios	**Regulatory Minimums**	**Capital Conservation Buffers***	**Total**	**As of June 30, 2018**
Risk-adjusted:				
Common equity tier 1 ratio	4.50%	2.50% *	7.00%	13.45%
Tier 1 capital ratio	6.00%	2.50% *	8.50%	13.45%
Total capital ratio	8.00%	2.50% *	10.50%	14.96%
Permanent capital ratio	7.00%	0.00%	7.00%	14.65%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	13.96%
UREE leverage ratio	1.50%	0.00%	1.50%	8.48%

*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)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Loans	$ 7,399,419	$ 7,245,367
Less: Allowance for losses	(26,879)	(29,450)
Net Loans	7,372,540	7,215,917
Cash	10	15
Accrued interest receivable - loans	67,347	64,383
Accrued interest receivable - investments	95	67
Investment - held-to-maturity	5,210	5,566
Investment in and receivable from the Bank:	-	-
Capital stock	118,752	118,752
Receivable	21,657	14,958
Investments in other Farm Credit Institutions	8,965	8,713
Other property owned, net	974	3,989
Premises and equipment, net	14,248	14,205
Other assets	26,270	24,092
Total assets	$ 7,636,068	$ 7,470,657
LIABILITIES		
Note payable to the Bank	$ 6,289,801	$ 6,127,915
Advanced conditional payments	7,689	6,638
Accrued interest payable	13,772	12,313
Drafts outstanding	448	528
Patronage distributions payable	8	77,511
Unfunded post retirement medical obligation	26,263	25,897
Reserve for unfunded commitments	426	806
Other liabilities	26,391	43,012
Total liabilities	6,364,798	6,294,620
MEMBERS' EQUITY		
Capital stock and participation certificates	25,637	25,519
Non-qualified allocated retained earnings	578,054	578,054
Unallocated retained earnings	671,293	576,158
Accumulated other comprehensive loss	(3,714)	(3,694)
Total members' equity	1,271,270	1,176,037
Total liabilities and members' equity	$ 7,636,068	$ 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 June 30, 2018	For the three months ended June 30, 2017	For the six months ended June 30, 2018	For the six months ended June 30, 2017
INTEREST INCOME				
Loans	**$ 97,856**	$ 89,526	**$ 193,409**	$ 174,645
Investments	**73**	82	**146**	165
Total interest income	**97,929**	89,608	**193,555**	174,810
INTEREST EXPENSE				
Note payable to the Bank and advance conditional payments	**40,927**	32,860	**78,362**	63,470
Net interest income	**57,002**	56,748	**115,193**	111,340
PROVISION FOR LOAN LOSSES				
(Reversal) provision for loan losses	**540**	(156)	**(2,107)**	562
Net interest income after provision for losses	**56,462**	56,904	**117,300**	110,778
NONINTEREST INCOME				
Patronage income from the FCB	**8,049**	7,353	**15,904**	14,579
Loan fees	**859**	1,003	**1,720**	1,825
Gain on other property owned, net	**520**	462	**829**	486
Other income	**375**	859	**7,981**	3,993
Total noninterest income	**9,803**	9,677	**26,434**	20,883
NONINTEREST EXPENSES				
Salaries and employee benefits	**16,206**	14,930	**33,051**	30,416
Farm Credit System insurance premium	**1,308**	2,064	**2,605**	4,126
Occupancy and equipment	**1,038**	1,022	**2,430**	2,377
Advertising	**1,036**	939	**1,918**	2,041
Public and member relations	**898**	736	**1,864**	1,647
Travel	**893**	886	**1,676**	1,751
Purchased services and allocations	**538**	686	**1,237**	1,053
FCA supervisory and exam expense	**488**	460	**975**	921
Communications	**255**	305	**488**	593
Directors' expense	**200**	249	**399**	471
Other expenses	**594**	1,028	**1,954**	2,457
Total noninterest expenses	**23,454**	23,305	**48,597**	47,853
Income before federal income tax	**42,811**	43,276	**95,137**	83,808
(Provision for) Benefit from federal income tax	**(12)**	(15)	**3**	(2)
NET INCOME	**$ 42,799**	$ 43,261	**$ 95,140**	$ 83,806
Other comprehensive loss:				
Change in postretirement benefit plans	**(10)**	(82)	**(20)**	(165)
Income tax expense related items of other comprehensive income	**-**	-	**-**	-
Other comprehensive loss, net of tax	**(10)**	(82)	**(20)**	(165)
COMPREHENSIVE INCOME	**$ 42,789**	$ 43,179	**$ 95,120**	$ 83,641

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		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Non-qualified Allocated	Unallocated		
Balance at December 31, 2016	$ 25,049	$ 528,533	$ 571,198	$ (1,246)	$ 1,123,534
Net income	-	-	83,806	-	83,806
Other comprehensive loss	-	-	-	(165)	(165)
Capital stock/participation certificates issued	1,992	-	-	-	1,992
Capital stock/participation certificates/ allocated equities retired	(1,765)	-	-	-	(1,765)
Other adjustments	-	22	-	-	22
Balance at June 30, 2017	25,276	528,555	655,004	(1,411)	1,207,424
Net income	-	-	84,930	-	84,930
Other comprehensive loss	-	-	-	(2,283)	(2,283)
Capital stock/participation certificates issued	1,871	-	-	-	1,871
Capital stock/participation certificates/ allocated equities retired	(1,628)	(36,785)	-	-	(38,413)
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	-	-	95,140	-	95,140
Other comprehensive loss	-	-	-	(20)	(20)
Capital stock/participation certificates issued	1,926	-	-	-	1,926
Capital stock/participation certificates/ allocated equities retired	(1,808)	-	-	-	(1,808)
Other adjustments	-	-	(5)	-	(5)
Balance at June 30, 2018	**$ 25,637**	**$ 578,054**	**$ 671,293**	**$ (3,714)**	**$ 1,271,270**

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 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. 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:

June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 5,210	$ 4		$ 5,214	5.55%	3.17

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	**June 30 2018**	**%**	December 31 2017	%
Real estate mortgage	**$ 5,647,436**	**76.2**	$ 5,507,371	76.0
Production and intermediate term	**887,914**	**12.0**	910,316	12.6
Farm-related business	**629,674**	**8.5**	595,329	8.2
Rural residential real estate	**102,787**	**1.4**	105,579	1.5
Energy	**63,554**	**0.9**	61,398	0.8
Communication	**41,607**	**0.6**	45,695	0.6
Lease receivables	**13,212**	**0.2**	7,782	0.1
Mission-related investments	**6,690**	**0.1**	7,025	0.1
Water and waste disposal	**6,545**	**0.1**	4,872	0.1
Total	**$ 7,399,419**	**100.0**	$ 7,245,367	100.0

At June 30, 2018, the Association held five transactions, which are reported as loans on the consolidated balance sheet totaling $6,192 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 June 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	$ 112,481	$ 457,024	$ 8,894	$ -	$ 121,375	$ 457,024
Production and Intermediate-term	192,241	608,819	5,050	-	197,291	608,819
Farm-related business	436,179	106,859	1,565	-	437,744	106,859
Energy	63,475	-	-	-	63,475	-
Communication	41,304	-	-	-	41,304	-
Mission-related investments	2,087	-	4,105	-	6,192	-
Lease receivables	13,212	-	-	-	13,212	-
Water and waste disposal	6,545	-	-	-	6,545	-
Total	$ 867,524	$ 1,172,702	$ 19,614	$ -	$ 887,138	$ 1,172,702

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

	June 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	**$ 41,111**	$ 44,967
Production and intermediate-term	**17,341**	20,557
Farm-related business	**2,825**	2,867
Rural residential real estate	**455**	503
Energy	**3,640**	-
Mission-related investments	**-**	-
Lease receivable	**41**	59
Total nonaccrual loans	**$ 65,413**	$ 68,953
Accruing restructured loans:		
Real estate mortgage	**$ 5,493**	$ 3,906
Production and intermediate-term	**5,921**	3,723
Farm-related business	**-**	-
Rural residential real estate	**-**	-
Energy	**-**	-
Mission-related investments	**2,108**	2,170
Lease receivable	**-**	-
Total accruing restructured loans	**$ 13,522**	$ 9,799
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 76**	$ 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	**$ 76**	$ 24
Total nonperforming loans	**$ 79,011**	$ 78,776
Other property owned	**974**	3,989
Total nonperforming assets	**$ 79,985**	$ 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:

	June 30, 2018	December 31, 2017
Real estate mortgage		
Acceptable	**97.2%**	96.7%
OAEM	**1.4%**	1.5%
Substandard/doubtful	**1.4%**	1.8%
	100.0%	100.0%
Production and intermediate-term		
Acceptable	**90.8%**	90.5%
OAEM	**5.2%**	4.5%
Substandard/doubtful	**4.0%**	5.0%
	100.0%	100.0%
Farm-related business		
Acceptable	**97.0%**	97.6%
OAEM	**0.6%**	-
Substandard/doubtful	**2.4%**	2.4%
	100.0%	100.0%
Rural residential real estate		
Acceptable	**98.4%**	98.1%
OAEM	**0.7%**	1.0%
Substandard/doubtful	**0.9%**	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	**96.3%**	96.0%
OAEM	**1.8%**	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:

June 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	$30,662	$ 11,093	$ 41,755	$ 5,653,805	$ 5,695,560	$ 76
Production and intermediate-term	5,135	9,771	14,906	889,253	904,159	-
Farm-related business	13	-	13	631,995	632,008	-
Rural residential real estate	540	-	540	102,597	103,137	-
Energy		-	-	63,683	63,683	-
Communication		-	-	41,618	41,618	-
Mission-related investments		-	-	6,746	6,746	-
Lease receivables		41	41	13,262	13,303	-
Water and waste disposal		-	-	6,552	6,552	-
Total	$36,350	$ 20,905	$ 57,255	$ 7,409,511	$ 7,466,766	$ 76

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 June 30, 2018 the total troubled debt restructured loans with accrued interest was $14,844, including $1,321 classified as nonaccrual and $13,523 classified as accrual, with specific allowance for loan losses of $1,070. As of June 30, 2018 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $97.

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	
Quarter ended June 30:	Pre-TDR Designation Balance	Post-TDR Designation Balance	Pre-TDR Designation Balance	Post-TDR Designation Balance
Real estate mortgage	2,327	2,212	-	-
Production and intermediate-term	1,472	1,196	2,570	2,597
Total	$ 3,799	$ 3,408	$ 2,570	$ 2,597
Six months ended June 30:	Balance	Balance	Balance	Balance
Real estate mortgage	2,327	$ 2,212	-	$ -
Production and intermediate-term	2,930	2,383	2,570	2,597
Total	$ 5,257	$ 4,595	$ 2,570	$ 2,597

During the previous twelve months, the Association had eleven loans that met the accounting criteria for troubled debt restructuring. Of the eleven loans, eight had an extension of terms during that same period, one had an interest rate reduction, and two were a forbearance.

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 June 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	$ 2,340	$ 2,601	$ 158	$ 240	$ 248	$ 30
Production and intermediate-term	8,695	9,522	1,831	3,499	4,035	771
Farm-related business	2,694	2,694	368	2,736	2,736	368
Rural residential real estate	32	32	4	-	-	-
Energy	3,640	3,640	1,095	-	-	-
Mission-related investments	157	157	56	163	163	80
Lease receivables	-	-	-	-	-	-
Total	$ 17,558	$ 18,646	$ 3,512	$ 6,638	$ 7,182	$ 1,249
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	$ 44,293	$ 46,796	$ -	$ 48,635	$ 51,160	$ -
Production and intermediate-term	14,415	18,935	-	20,619	24,572	-
Farm-related business	131	3,090	-	131	3,107	-
Rural residential real estate	423	644	-	503	737	-
Energy	-	-	-	-	-	-
Mission-related investments	1,930	1,930	-	1,985	1,985	-
Lease receivables	41	64	-	59	81	-
Total	$ 61,233	$ 71,459	$ -	$ 71,932	$ 81,642	$ -
Total impaired loans:						
Real estate mortgage	$ 46,633	$ 49,397	$ 158	$ 48,875	$ 51,408	$ 30
Production and intermediate-term	23,110	28,457	1,831	24,118	28,607	771
Farm-related business	2,825	5,784	368	2,867	5,843	368
Rural residential real estate	455	676	4	503	737	-
Energy	3,640	3,640	1,095	-	-	-
Mission-related investments	2,087	2,087	56	2,148	2,148	80
Lease receivables	41	64	-	59	81	-
Total	$ 78,791	$ 90,105	$ 3,512	$ 78,570	$ 88,824	$ 1,249

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2018		June 30, 2017		June 30, 2018		June 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	$ 972	$ 5	$ 1,927	$ -	$ 653	$ 4	$ 2,254	$ -
Production and intermediate-term	5,937	57	8,003	4	4,865	95	9,025	6
Farm-related business	2,701	50	2,833	45	2,711	98	2,844	80
Rural residential real estate	11	-	31	1	5	-	16	-
Energy	3,689	-	-	-	2,463	-	-	-
Mission-related investments	158	3	2,169	34	160	6	2,187	68
Lease receivables	-	-	-	-	-	-	-	-
Total	$ 13,468	$ 115	$ 14,963	$ 84	$ 10,857	$ 203	$ 16,326	$ 154
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	$ 43,242	$ 251	$ 55,791	$ 2,263	$ 43,946	$ 515	$ 55,727	$ 2,456
Production and intermediate-term	17,279	54	20,433	88	18,708	146	20,334	166
Farm-related business	131	11	603	2	131	13	603	5
Rural residential real estate	410	1	565	-	421	3	563	-
Energy	-	-	-	-	6	-	-	-
Mission-related investments	1,948	30	-	-	1,967	60	-	-
Lease receivables	43	-	86	3	50	-	87	5
Total	$ 63,053	$ 347	$ 77,478	$ 2,356	$ 65,229	$ 737	$ 77,314	$ 2,632
Total impaired loans:								
Real estate mortgage	$ 44,214	$ 256	$ 57,718	$ 2,263	$ 44,599	$ 519	$ 57,981	$ 2,456
Production and intermediate-term	23,216	111	28,436	92	23,573	241	29,359	172
Farm-related business	2,832	61	3,436	47	2,842	111	3,447	85
Rural residential real estate	421	1	596	1	426	3	579	-
Energy	3,689	-	-	-	2,469	-	-	-
Mission-related investments	2,106	33	2,169	34	2,127	66	2,187	68
Lease receivables	43	-	86	3	50	-	87	5
Total	$ 76,521	$ 462	$ 92,441	$ 2,440	$ 76,086	$ 940	$ 93,640	$ 2,786

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

	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 March 31, 2018	$ 10,060	$ 11,512	$ 3,804	$ 100	$ 1,408	$ 127	$ 74	$ 53	$ 27,138
Charge-offs	(66)	(855)	-	-	-	-	-	-	(922)
Recoveries	33	8	5	8	-	-	-	-	54
(Reversal) provision for loan losses	(694)	1,607	(447)	8	82	13	(27)	(2)	540
Transfer from reserve on unfunded commitments	-	51	8	-	-	-	9	-	68
Balance at June 30, 2018	$ 9,333	$ 12,323	$ 3,370	$ 116	$ 1,490	$ 140	$ 56	$ 51	$ 26,879
Balance at December 31, 2017	10,470	12,955	4,002	150	1,615	145	82	31	$ 29,450
Charge-offs	(83)	(923)	-	-	-	-	-	-	(1,006)
Recoveries	71	32	19	9	-	31	-	-	162
(Reversal) provision for loan losses	(1,136)	(9)	(721)	(43)	(147)	(36)	(35)	20	(2,107)
Other	11	268	70	-	22	-	9	-	380
Balance at June 30, 2018	$ 9,333	$ 12,323	$ 3,370	$ 116	$ 1,490	$ 140	$ 56	$ 51	$ 26,879
Allowance for loan losses: Ending Balance at June 30, 2018 Individually evaluated for impairment	$ 158	$ 1,831	$ 368	$ 4	$ 1,095	$ -	$ 56	$ -	$ 3,512
Allowance for loan losses: Collectively evaluated for impairment	$ 9,175	$ 10,492	$ 3,002	$ 112	$ 395	$ 140	$ -	$ 51	$ 23,367
Balance at March 31, 2017	$ 9,560	$ 14,648	$ 4,273	$ 141	$ 757	$ 183	$ 89	$ 19	$ 29,670
Charge-offs	-	(54)	-	(5)	-	-	-	-	(59)
Recoveries	180	9	13	1	-	-	-	-	203
(Reversal) provision for loan losses	(292)	(620)	(240)	21	977	(2)	1	(1)	(156)
Other	(4)	74	(14)	-	(10)	-	-	-	46
Balance at June 30, 2017	$ 9,444	$ 14,057	$ 4,032	$ 158	$ 1,724	$ 181	$ 90	$ 18	$ 29,704
Balance at December 31, 2016	$ 8,194	$ 15,840	$ 4,954	$ 135	$ 873	$ 183	$ 88	$ 20	$ 30,287
Charge-offs	(1)	(1,565)	-	(6)	-	-	-	-	(1,572)
Recoveries	183	110	53	2	-	-	-	-	348
(Reversal) provision for loan losses	1,070	(460)	(928)	27	856	(3)	2	(2)	562
Other	(2)	132	(47)	-	(5)	1	-	-	79
Balance at June 30, 2017	$ 9,444	$ 14,057	$ 4,032	$ 158	$ 1,724	$ 181	$ 90	$ 18	$ 29,704
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 June 30, 2018	$ 5,695,559	$ 904,159	$ 632,008	$ 103,138	$ 70,235	$ 41,618	$ 6,746	$ 13,303	$ 7,466,766
Individually evaluated for impairment	$ 46,633	$ 23,110	$ 2,825	$ 455	$ 3,640	$ -	$ 2,087	$ 41	$ 78,791
Collectively evaluated for impairment	$ 5,648,926	$ 881,049	$ 629,183	$ 102,683	$ 66,595	$ 41,618	$ 4,659	$ 13,262	$ 7,387,975
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 June 30, 2018	Total Fair Value December 31, 2017
Beginning Balance	$ 6,478	$ 5,834
Transfers In	201	91
Other Market Changes	23	553
Assets held in non-qualified benefits trusts	$ 6,702	$ 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 **June 30, 2018**	Total Fair Value December 31, 2017
Impaired Loans	**$ 14,046**	$ 5,389
Other property owned	**974**	3,989
Total	**$ 15,020**	$ 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 $1,460 and $2,209 for the six months ended June 30, 2018 and 2017 respectively.

NOTE 7 — SUBSEQUENT EVENTS:

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