2 0 1 5 A N N U A L R E P O R T

FARM CREDIT
100
ESTABLISHED 1916

STRONGER

OUR PURPOSE

Dedicated to the prosperity of agriculture and rural America

OUR FINANCIAL RESULTS

AgTexas is pleased to report strong financial results for 2015, highlighted by record new loans closed, exceptional credit quality and a record patronage declaration based on 2015 operating results.

Your Association added a total of $503 million in new loan commitments during its first year as the merged new AgTexas. This resulted in an average loan volume of $1,388 million for the 2015 year, with year-end recorded loan volume of $1,517 million. Most of the portfolio growth resulted from new term-loan financing of $285 million, new production operating loans of $139 million, and the remainder of the growth in purchased and shared loans from other financial institutions.

Net income was strong at $30 million, or a 2.1 percent return on average assets and a 15.4 percent return on members' equity. Due to the new loan growth, the Association's permanent capital ratio was 13.1 percent at year end, after the accrual for a $14.3 million qualified patronage distribution planned for early 2016.

AGTEXAS is pleased to report that 2015 was an excellent year. The AgTexas–Great Plains merger at the end of 2014 created a stronger, more diversified association distinguished by record earnings, an increase in new loans, exceptional credit quality and record patronage.

Highlights of 2015 operations include over $500 million in new business growth. Total net earnings were nearly $30 million, an increase of $5.5 million.

PAYING PATRONAGE AGAIN

AgTexas has a long history of sharing its earnings with its membership, and this year was no different. In 2015, we returned $8.7 million to our customers, based on 2014 earnings. This marks the 22nd consecutive year that we have returned a portion of our earnings to our borrowers. In addition, in 2016 we will distribute over $14.3 million of the 2015 earnings.

OUT AND ABOUT IN RURAL COMMUNITIES

AgTexas was out and about in 2015, continuing to sponsor such events as livestock shows, farmers markets and educational events. One AgTexas sponsorship initiative in 2015 was the new Terrell Emergency Center, part of the Texas Health Harris Methodist Hospital in Stephenville. Our donation allowed us to name a room in the new center in honor of former AgTexas CEO Mitchell Harris, who retired last year after 43 years of service and dedication to the Farm Credit System and the Texas District.

In addition, our staff members have been out there helping to build community relationships volunteering for charities such as Habitat for Humanity, Relay for Life and Meals on Wheels.

HELPING A NEW GENERATION OF PRODUCERS

The next generation of producers has always been a strong priority for AgTexas. In 2015, we continued to help them through our longtime program for young, beginning and small (YBS) farmers and ranchers, many of whom need help starting and growing their operations.

With our flexible loan terms and government guarantee programs, we can tailor loans to fit the unique financial needs of YBS borrowers. In 2015, we had 2,640 loans to borrowers meeting at least one measure as young, beginning or small. These represented 58.8 percent of the total number of loans in our portfolio.

THAN EVER

Highland Park FFA students took this photo at the Potter County Livestock Sale in thanks to AgTexas for funding their concession stand.

In addition, AgTexas supports YBS customers through these programs:

- **Ag Biz Planner** – Hosted locally with AgTexas mentors, this course teaches new producers how to build a strategic business plan. First offered in the Panhandle region in 2011, it was enthusiastically embraced when introduced in the Central Texas region in 2015.
- **Master Marketer Program** – AgTexas endorses the 64-hour intensive marketing education course offered through Texas A&M AgriLife Extension and encourages our YBS members to attend.
- **Tenth District Young Leaders Program** – Each year AgTexas selects young ag leaders to go Washington, D.C., and New York City to get an inside look at how the national Farm Credit System works.

A STRONG FOCUS ON YOUTH

AgTexas is also dedicated to supporting youth in agriculture and has long sponsored local 4-H and FFA groups. Here are a couple of highlights from 2015.

- We were delighted to introduce the AgTexas Farm Credit Services **AgYouth of the Month** program for junior and senior 4-H and FFA students this past year. Each of the branch offices recognizes a local AgYouth monthly as its honoree, featuring that student in a local newspaper ad and social media. AgTexas will hold regional year-end banquets in the spring for the students and present several $1,000 college scholarships.
- AgTexas completed its second year as a sponsor of the **Erath County Real World Simulation**, which teaches financial literacy skills to teens as they prepare for their future after high school. Working hand in hand with Texas AgriLife Extension Service, senior vice president Joe Huddleston has been deeply involved in the project in Dublin, Texas.

LOOKING AHEAD

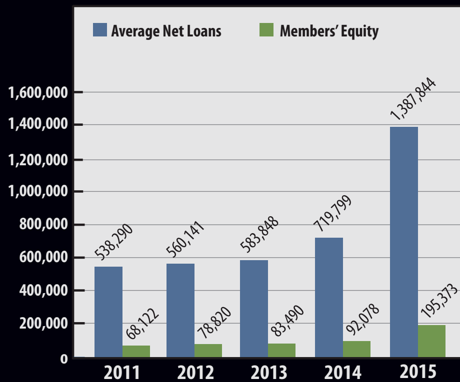
AgTexas will continue to serve its membership by growing the cooperative and delivering high-quality services to its member-owners, including cash management services such as Ag Banking Online, leasing services and insurance programs to help producers manage risk.

Above all, we remain dedicated to our borrowers' success. We look forward to serving our current and future owners for many years to come.

FINANCIAL HIGHLIGHTS

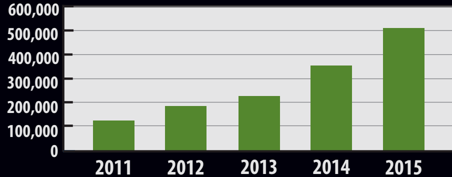
Average Net Loans and Member's Equity

(dollars in thousands)



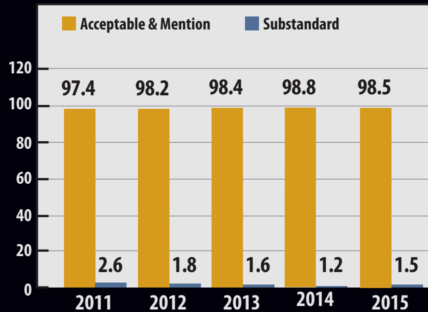
New Loans Closed Including Investments

(dollars in thousands)



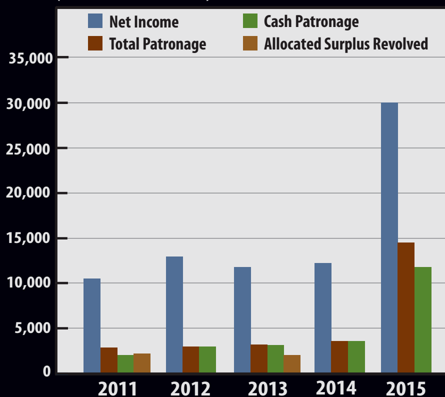
ACA Credit Quality

(percentage)



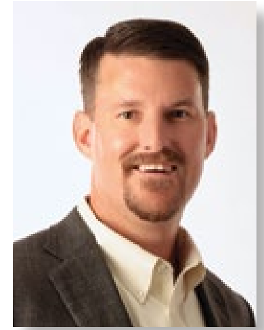
ACA Income and Distributions

(dollars in thousands)



Message From the

CHIEF EXECUTIVE OFFICER



Tim McDonald

I am pleased to present the 2015 annual report following the successful merger of Great Plains Ag Credit with AgTexas Farm Credit Services to form the "new" AgTexas, effective January 1, 2015. Your board of directors' vision is to position AgTexas as a strong and stable organization fit to serve the financial and related service needs of agriculture and our rural communities today and tomorrow.

Diversity is our fundamental strength. We have an employee team complementing one another's skills, experiences and backgrounds. The loan portfolio is made of a diverse commodity mix from loans and investments spanning 43 counties throughout the Texas Panhandle, South Plains and Central Texas.

Financially, AgTexas is well positioned for growth and profitability. New loan commitments of over $500 million led to loan volume growth exceeding 15 percent and net earnings of nearly $30 million in 2015. Honoring the cooperative principle of returning profits to our member-owners through patronage, AgTexas returned $8.7 million in cash from 2014 operations and will return more than $14.3 million in 2016 based on the 2015 earnings. Looking forward, however, we are keenly aware of challenges facing agriculture.

The strengthening dollar, slowdown in foreign economies and geopolitical unrest is all disruptive to exports and the global market. Prices for almost all commodities produced in the territory are depressed. Grain, cotton and livestock operations all face challenging operational scenarios with thin profit margins amidst volatile markets and weather. One bright spot is lower energy prices, which should result in reduced production costs.

At AgTexas it is our goal and desire to add value through consultative lending relationships and to help producers make the best possible long-term decisions for their operations. We are also blessed to serve the very best operators in the territory, who have a track record of making excellent management decisions and maintaining successful operations, regardless of conditions. AgTexas provides a range of services including short-, intermediate- and long-term loans, leasing, and crop and livestock insurance to assist you in managing all aspects of your operation.

Pride of ownership is important to your board and management team. We are working on a facility improvement program throughout the territory. Staff in Stephenville occupied their new regional office building during 2015, and we plan to move into the new regional office building in Amarillo during the first quarter of 2016. Work is under way on a new location in Hillsboro, and a regional office location in Lubbock as well. We hope you share the excitement of the employee team with our new, state-of-the-art facilities.

On the heels of a successful 2015 comes the excitement of Farm Credit's centennial celebration in 2016. Founded by Congress in 1916, Farm Credit has successfully supported agriculture and rural communities with innovative financial products and related services for the past 100 years.

On behalf of the board, management and the entire AgTexas team, I would like to thank you for your business. We look forward to serving you in 2016 and beyond!

Tim McDonald
President and Chief Executive Officer

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Report of Management

AgTexas Farm Credit Services (“**Association**”) management prepares the *consolidated financial statements* (“**CFS**”) and is responsible for the integrity and objectivity of the CFS, including amounts that are necessarily based on judgments and estimates. The Association’s CFS are prepared in conformity with *accounting principles generally accepted in the United States of America* (“**GAAP**”) appropriate in the circumstances. Other financial information included in the Association’s *2015 Annual Report to Stockholders* (“**Annual Report**”) is consistent with the CFS.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas’ 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 CFS are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely to establish a basis to rely thereon to determine the nature, extent, and timing of audit tests applied in the audit of the CFS in accordance with *auditing standards generally accepted in the United States of America* (“**GAAS**”). The *Farm Credit Administration* (“**FCA**”) also examines the Association.

The Association’s board of directors has overall responsibility for the systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the aforementioned audits and examinations.

The undersigned certify that they have reviewed this Annual Report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of their knowledge or belief.

Tim McDonald
Chief Executive Officer

Dennis Anthony
Chairman, Board of Directors

Jerry Spruill
Chief Financial Officer

March 11, 2016

AG TEXAS FARM CREDIT SERVICES

Report of Audit Committee

The *Audit Committee* ("**Committee**") is comprised of Terry Sherrill, Kevin Buxkemper, Myles Frische, Danny Klinefelter, Lance Gaillard, and Joe Reinart. In 2015, four Committee meetings were held. The Committee oversees the scope of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from related audit activities. The Committee's approved responsibilities are described more fully in the *Audit Committee Charter*, which is available on request or on the Association's website (https://www.agtexas.com/). The Committee approved the appointment of PricewaterhouseCoopers LLP as the independent auditor for 2015.

Management is responsible for the Association's internal controls and preparation of the CFS in accordance with GAAP. The CFS are prepared under the oversight of the Committee. PricewaterhouseCoopers LLP is responsible for performance of the independent audit of the Association's CFS in accordance with GAAS and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing the processes.

In this context, the Committee reviewed and discussed the *Association's audited CFS for the year ended December 31, 2015* ("**Audited CFS**") with management and PricewaterhouseCoopers LLP. The Committee also reviews the matters discussed by auditing interpretations of GAAS in AU-C §260, *The Auditor's Communication With Those Charged With Governance*, and AU-C §265, *Communicating Internal Control Matters Identified in an Audit*, with PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP and the Association's internal auditors provide reports on significant matters to the Committee directly.

The Committee discussed with PricewaterhouseCoopers LLP its independence from the Association. The Committee also reviewed nonaudit services provided by PricewaterhouseCoopers LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The Committee discussed other matters with management and PricewaterhouseCoopers LLP and received assurances from them the Committee deemed appropriate.

In reliance on the foregoing review and discussions, the Committee recommended that the board of directors include the Audited CFS in the Association's Annual Report.

Audit Committee Members

Terry Sherrill, Chairman | Kevin Buxkemper, Vice-chairman

Myles Frische | Danny Klinefelter, Ph.D.

Lance Gaillard | Joe Reinart

March 11, 2016

Five-Year Summary
of Selected Consolidated Financial Data

	(Unaudited/ Dollars in Thousands)				
	2015	2014	2013	2012	2011
Balance Sheet Data					
Assets					
Cash	**$ 38**	$ 3,178	$ 1,379	$ 711	$ 545
Investments	**4,531**	2,851	3,118	4,111	4,870
Loans	**1,517,021**	844,869	618,876	578,336	512,672
Less: allowance for loan losses	**5,323**	3,682	2,871	3,246	3,254
Net loans	**1,511,698**	841,187	616,005	575,090	509,418
Investment in & receivable from the Farm Credit Bank of Texas	**40,861**	18,974	14,868	14,028	12,604
Other property owned, net	**1,446**	234	441	244	244
Other assets	**32,918**	15,193	12,031	11,733	11,077
Total assets	**$ 1,591,492**	$ 881,617	$ 647,842	$ 605,917	$ 538,758
Liabilities					
Obligations with maturities of one year or less	**$ 47,599**	$ 21,533	$ 21,217	$ 20,411	$ 20,512
Obligations with maturities greater than one year	**1,342,905**	766,435	540,680	506,686	449,035
Total liabilities	**1,390,504**	787,968	561,897	527,097	469,547
Members' Equity					
Capital stock & participation certificates	**3,989**	2,876	2,726	2,649	2,557
Additional paid-in capital	**75,446**	-	-	-	-
Allocated retained earnings	**22,512**	8,207	8,224	10,177	10,252
Unallocated retained earnings	**99,153**	83,496	75,038	66,662	56,631
Accumulated other comprehensive loss	**(112)**	(930)	(43)	(668)	(229)
Total members' equity	**200,988**	93,649	85,945	78,820	69,211
Total liabilities & members' equity	**$ 1,591,492**	$ 881,617	$ 647,842	$ 605,917	$ 538,758
Statement of Income Data					
Net interest income	**$ 42,073**	$ 19,918	$ 17,684	$ 17,182	$ 16,185
(Provision for loan losses) or loan loss reversal	**(1,672)**	(1,042)	207	(328)	(503)
Income from the Farm Credit Bank of Texas	**10,268**	3,708	2,843	2,251	2,168
Other noninterest income	**4,625**	2,304	1,688	3,189	2,320
Noninterest expense	**(25,294)**	(12,934)	(10,886)	(9,525)	(9,836)
Net income	**$ 30,000**	$ 11,954	$ 11,536	$ 12,769	$ 10,334
Key Financial Ratios for the Year					
Return on average assets	**2.1%**	1.6%	1.9%	2.2%	1.8%
Return on average members' equity	**15.4%**	13.0%	13.8%	16.9%	15.2%
Net interest income as a percentage of average earning assets	**3.0%**	2.8%	3.0%	3.0%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%	0.1%	0.2%

Five-Year Summary
of Selected Consolidated Financial Data

	(Unaudited/ Dollars in Thousands)				
	2015	2014	2013	2012	2011
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**12.6%**	10.6%	13.1%	12.9%	12.7%
Debt as a percentage of members' equity	**691.8%**	841.4%	653.8%	668.7%	678.4%
Allowance for loan losses as a percentage of loans	**0.4%**	0.4%	0.5%	0.6%	0.6%
Permanent capital ratio	**13.1%**	12.9%	15.0%	14.4%	14.7%
Core surplus ratio	**12.8%**	12.5%	14.4%	13.9%	14.1%
Total surplus ratio	**12.8%**	12.5%	14.4%	13.9%	14.1%
Net Income Distribution					
Patronage dividends declared					
Cash	**$ 11,944**	$ 3,500	$ 3,165	$ 2,750	$ 1,960
Allocated retained earnings	**2,399**	-	-	-	840
Allocated surplus revolvements	**-**	-	1,948	-	2,155

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of AgTexas Farm Credit Services, including its wholly-owned subsidiaries AgTexas, PCA and AgTexas, FLCA (collectively referred to as herein as the "**Association**"), for the years ended December 31, 2015, 2014 & 2013, and should be read in conjunction with the accompanying *consolidated financial statements* ("**CFS**"). Management prepared the accompanying CFS under the oversight of the Association's Audit Committee.

Forward-Looking Information. This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These forward-looking statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Economic and Environmental Conditions. The Texas economy has indicated a slowing during all of 2015 largely related to the substantial fall in oil prices. The Texas Business-Cycle Index, which was designed to gauge overall state economic activity, shows the gradual downshifting in economic growth but does not point to a recession at this time.

The Association's region received adequate moisture and positive sentiment during the growing season for most producers in 2015, vastly improved from the last several years. The native pastures recovered to pre-drought stocking rates. This increased the needs of our customers, which generally were down to minimal head counts due to several years of drought-stricken weather patterns. While crop production was generally good, the decline in agricultural commodity prices has impacted most all of the producers, including cotton, corn, wheat, cattle, and dairy. Most producers have experienced very narrow to negative operating margins during 2015 following years of good profitability in the cattle sector. The winter storm, Goliath, impacted many livestock producers in the Panhandle region with inventory death loss as well as production losses. Death losses and storm stress on dairy herds will negatively impact Texas' milk supply for an extended period of time.

Opportunities for profit within the cattle industry have begun to surface. Dairy operators are just under breakeven, and crop producers will be working with marginal projections. A key to profitability will be managing input cost. The Association continues to diversify the loan portfolio and serves vibrant and diverse agricultural and rural communities. Despite the challenges, we remain optimistic about the future of agriculture going forward.

Significant Events. On June 23, 2014, the board of directors approved a mutually beneficial proposal to merge *Great Plains Ag Credit, ACA* ("**GPAg**") with the Association. On October 17, 2014, the voting stockholders for each association approved the proposed Merger. The associations' regulator, the Farm Credit Administration, granted final approval of the Merger on December 15, 2014, and the Merger was effective January 1, 2015. The merged Association operates under the name of AgTexas Farm Credit Services with the headquarters in Lubbock, Texas. Management believes the Merger benefits the shareholders with enhanced loan portfolio diversification, earnings, capital, and patronage and better serves the agricultural market within the associations' territories. The stock and participation certificate holders of the associations also approved new capitalization bylaws for the merged Association and approved a proposal that authorizes the merged Association to issue preferred stock, although there are no current plans to do so. All data and information reported prior to the merger date of January 1, 2015, is pre-merger AgTexas Farm Credit Services only.

Significant Events (continued). Based on 2015 financial results, the Association's board of directors declared a record patronage of $14,343,007, with approximately $11,943,787 to be paid in cash in 2016. The Association added a record $505,381,331 of new business during 2015 comprised of 57% in new term loans, 27% in new production loans, and 16% in loan participation opportunities. Net income was $29,999,743, providing a 2.1% return on average assets. Credit quality continues to be excellent with 98.5% categorized as acceptable and special mention, largely due to our stockholder/customer commitments. The Association has been able to maintain a capital adequacy ratio of 13.1% even with significant growth.

In December 2015, the Association received direct loan patronage of $5,117,026 from *Farm Credit Bank of Texas* ("**FCBT**"), which was 42 *basis points* ("**bps**") on the average daily balance of the Association's direct loan with FCBT. During 2015, the Association received $264,410 in patronage payments from FCBT, based on the Association's stock investment in FCBT. The Association also received income of $593,539 from FCBT related to the Association's participation in the Capitalized Participation Pool. The Association also received $4,293,062 in patronage payments related to participations sold to FCBT.

The Association had strong net income in 2014 of $11,954,000 and originated and purchased $350,816,834 in new loan assets. The capital adequacy ratio was stable at 12.9% after the board declared $3,500,000 in cash patronage (approximately 68bps on average stockholder loans) that was distributed during the spring of 2015.

In December 2014, the Association received direct loan patronage of $2,739,931 from FCBT, which was 43bps on the average daily balance of the Association's direct loan with FCBT. During 2014, the Association received $142,526 in patronage payments from FCBT, based on the Association's stock investment in FCBT. The Association also received a capital markets patronage of $1,064 from FCBT, which was 75bps on the Association's average balance of participations in FCBT's patronage pool program. The Association also received income of $824,543 from FCBT related to the Association's participation in the Capitalized Participation Pool.

The Association had strong net income in 2013 of $11,535,735 and originated and purchased $217,141,885 in new loan assets. The capital adequacy ratio was stable at 15.0% after the board declared $3,164,539 in cash patronage (approximately 70bps on average stockholder loans) that was distributed during the spring of 2014.

In December 2013, the Association received direct loan patronage of $2,230,796 from FCBT, which was 44bps on the average daily balance of the Association's direct loan with FCBT. During 2013, the Association received $128,122 in patronage payments from FCBT, based on the Association's stock investment in FCBT. The Association also received a capital markets patronage of $7,134 from FCBT, which was 75bps on the Association's average balance of participations in FCBT's patronage pool program, and placed loans in a capital participation pool at FCBT that resulted in $477,086 in patronage from FCBT.

Loan Portfolio. The Association originates and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses. The Association's loan portfolio includes long-term farm mortgage loans, production and intermediate-term loans, farm-related business loans, and mission-related loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, and prime-based interest rates. Loan maturities range from 1 to 40 years. Annual operating loans comprise the majority of commercial loans. The majority of mortgage loans have 20- to 30-year maturities. The Association offers several installment payment cycles; the timing usually coincides with borrowers' seasonal cash flow.

The composition of the Association's loan portfolio, including principal less funds held of $1,517,021,023, $844,868,652, & $618,875,806 as of December 31, 2015, 2014, & 2013, respectively, is described in detail in CFS note 5, *Loans & Allowance for Loan Losses*, included later in this Annual Report.

The Association's portfolio included $185,400,243, $216,151,399, & $165,553,375 of loans purchased as *mission related investments* ("**MRIs**"), including the *Rural America Bond Pilot Program* ("**RAB**"), and approved by the *Farm Credit Administration* ("**FCA**") at December 31, 2015, 2014, & 2013, respectively. RAB was designed to meet the growing and changing needs of agricultural enterprises, agribusinesses, and various infrastructure needs in rural communities through investment in these areas. The Association held $60,181,135, $63,761,291, & $38,271,928 of MRIs made under RAB, 4.0%, 7.5%, & 6.2% of the total loan portfolio, at December 31, 2015, 2014, & 2013, respectively. See a discussion of investment regulatory matters in the *Regulatory Matters* section below.

Purchase and Sales of Loans. The Association participates in loans with other lenders. Participations purchased from other lenders totaled $214,788,784, $120,063,985, & $47,817,725, or 14.2%, 14.3%, & 7.8% of loans, at December 31, 2015, 2014, & 2013, respectively. Participations sold to other lenders totaled $790,084,097, $39,775,137, & $43,568,974 at December 31, 2015, 2014, & 2013, respectively.

During 2010, the Association exchanged $5,969,087 of mortgage loans for *Federal Agricultural Mortgage Corporation* ("**Farmer Mac**") guaranteed *agricultural mortgage-backed securities* ("**AMBS**") with the exchanged loans as the underlying mortgages, and the Association continues to service these loans. The loans were previously covered under Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the exchange due to Farmer Mac's standby guarantee. The loans were at market interest rates with adequate servicing fees. Additional AMBS were acquired in the merger. The fair value of these acquired AMBS at date of merger was $2,536,362. The Association carried these AMBS as held-to-maturity investments at an amortized cost balance of $4,531,324, $2,850,679, & $3,117,504 at December 31, 2015, 2014, & 2013, respectively.

Risk Exposure. High-risk assets include impaired loans and other property owned. Impaired loans are comprised of nonaccrual, past due ≥ 90 days and still accruing interest, and formally restructured loans. Composition of high-risk assets follows:

	2015		2014		2013	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 9,559,691**	**44.4%**	$ 1,141,135	46.9%	$ 1,905,858	61.2%
90 days past due & still accruing interest	**749,948**	**3.5%**	1,057,350	43.5%	496,762	15.9%
Formally restructured	**9,785,092**	**45.4%**	-	0.0%	270,735	8.7%
Other property owned, net	**1,445,855**	**6.7%**	233,500	9.6%	441,470	14.2%
Total	**$ 21,540,586**	**100.0%**	$ 2,431,985	100.0%	$ 3,114,825	100.0%

Impaired loans comprised 1.3%, 0.3%, & 0.4% of the loan portfolio at December 31, 2015, 2014, & 2013, respectively. $729,069, $1,020,004, & $486,653 of loans past due ≥ 90 days and still accruing interest as of December 31, 2015, 2014, & 2013, respectively, are 100% guaranteed by the USDA (principal and interest) and are part of the mission related loan portfolio.

The Association's portfolio is affected by production lending seasonality. Installment due dates and borrowers' seasonal cash flows are correlated. The Association's loan operations are affected by the same factors that affect any agricultural real estate and production lender.

Allowance for Loan Losses ("ALL"). The following table provides relevant information regarding the ALL:

	2015	2014	2013
ALL	**$ 5,323,157**	$ 3,682,053	$ 2,870,587
ALL to total loans	**0.4%**	0.4%	0.5%
ALL to nonaccrual loans	**55.7%**	322.7%	150.6%
ALL to impaired loans	**26.5%**	167.5%	107.4%
Net charge-offs to average loans	**0.0%**	0.0%	0.0%

ALL (continued). Management considers numerous factors as they periodically evaluate the ALL, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions, economic conditions, and prior loan loss experience. Management also considers the concentration of lending in agriculture and uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional effects, and weather-related influences to determine an appropriate ALL.

Based on these considerations and ongoing risk assessment, management considers the ALL at December 31, 2015, 2014, & 2013 to be an appropriate estimate of incurred losses in the portfolio.

Results of Operations. Net income in 2015 was $29,999,743, an increase of $18,045,743 (151.0%) from 2014 net income of $11,954,000, which was an increase of $418,265 (3.6%) from 2013 net income of $11,535,735.

Interest margin (interest income less interest expense) is the principal source of earnings and results from relative volumes of interest-earning assets and interest-bearing liabilities, yields on interest-earning assets, and rates on interest-bearing liabilities. Interest margin in 2015 was $42,072,659, an increase of $22,155,252 (111.2%) from 2014 interest margin of $19,917,407, an increase of $2,233,613 (12.6%) from 2013 interest margin of $17,683,794. The effects of changes in average volumes, yields, and rates on interest margin follow:

	2015		2014		2013	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 1,387,843,684**	**$ 62,664,012**	$719,798,710	$ 31,411,881	$583,847,786	$ 26,859,734
Investments	**4,794,269**	**257,642**	2,908,594	157,680	3,627,075	193,620
Total interest-earning assets	**1,392,637,953**	**62,921,654**	722,707,304	31,569,561	587,474,861	27,053,354
Interest-bearing liabilities	**1,233,487,462**	**20,848,995**	647,524,203	11,652,154	517,700,724	9,369,560
Impact of capital	**$ 159,150,491**		$ 75,183,101		$ 69,774,137	
Net interest income		**$ 42,072,659**		$ 19,917,407		$ 17,683,794

	2015 Average Yield	2014 Average Yield	2013 Average Yield
Yield on loans	**4.52%**	4.36%	4.60%
Yield on investments	**5.37%**	5.43%	5.34%
Total yield on interest-earning assets	**4.52%**	4.37%	4.61%
Cost of interest-bearing liabilities	**1.69%**	1.80%	1.81%
Interest rate spread	**2.83%**	2.57%	2.80%

Changes in interest income and expense result from changes in *i*) interest earning asset and liability balances outstanding during the year and *ii*) interest rates thereon. The changes in interest income and expense from these factors from year to year follow:

	2015 vs. 2014			2014 vs. 2013		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$29,153,483**	**$ 2,098,648**	**$31,252,131**	$ 6,254,422	$ (1,702,275)	$ 4,552,147
Interest income - investments	**102,226**	**(2,264)**	**99,962**	(38,354)	2,414	(35,940)
Total interest income	**29,255,709**	**2,096,384**	**31,352,093**	6,216,068	(1,699,861)	4,516,207
Interest expense	**10,544,409**	**(1,347,568)**	**9,196,841**	2,349,545	(66,951)	2,282,594
Net interest income	**$18,711,300**	**$ 3,443,952**	**$22,155,252**	$ 3,866,523	$ (1,632,910)	$ 2,233,613

Results of Operations (continued). Interest income in 2015 increased by $31,352,093 (99.3%) from 2014, primarily due to an increase in average loan assets of $669,930,649 (92.7%). The majority of the increase was due to acquisition of GPAg's loan and investment volume. Yield increase was due to collection of foregone interest on nonaccrual loans. Interest income in 2014 increased by $4,516,207 (16.7%) from 2013, primarily due to an increase in average loan assets offset by lower market interest rates.

Interest expense in 2015 increased by $9,196,841 (78.9%) from 2014, primarily due to an increase in the average interest bearing liabilities of $585,963,259 (90.5%). The increase was due to liabilities acquired in the merger and loan growth. Interest expense in 2014 increased by $2,282,594 (24.4%) from 2013, primarily due to an increase in the average interest bearing liabilities.

The interest rate spread in 2015 was up 24bps from 2014, primarily due to collection of foregone interest on nonaccrual loans. The interest rate spread in 2014 was down 23bps from 2013, primarily due to new loan assets priced at market interest rates.

The Association capitalized loan origination fees of $1,130,602, $905,922, & $824,660 and loan origination costs of $1,504,787, $955,884, & $838,954 in 2015, 2014, & 2013, respectively, which would otherwise have been recognized in those years as noninterest income and expense, respectively. Loan origination costs include compensation and benefits of identified personnel and other direct costs. Origination fees and costs capitalized are amortized over the life of the related loans as an adjustment of loan interest income.

The 2015 *provision for loan losses (reversals)* ("**PLL**") of $1,672,339 was an increase of $630,549 (60.5%) from the 2014 PLL of $1,041,790, primarily due to the renewal of loans acquired with the merger. In addition, cattle, corn, and cotton segments of the loan portfolio are experiencing lower commodity prices. The 2014 PLL was an increase of $1,249,335 (602.0%) from the 2013 PLL of $(207,545), primarily due to provisions with new loan growth and slight deterioration in the fiber industry segment of the loan portfolio.

Noninterest income of $14,893,791 in 2015 was up $8,881,577 (147.7%) from $6,012,214 in 2014, primarily due to an overall increase in FCBT patronage of $6,559,973, which was largely due to increased direct note patronage and large volume of sold note patronage due to the merger.

Noninterest income in 2014 was up $1,481,516 (32.7%) from $4,530,698 in 2013, primarily due to an overall increase in FCBT patronage of $864,925, which was largely due to the growth in the loan assets and related funding at FCBT.

Compensation and benefits are the primary noninterest expense, followed by purchased services, occupancy and equipment costs, and insurance fund premium costs. Purchased services include administrative services, marketing, information systems, accounting, and loan processing, among others.

2015 noninterest expenses of $25,294,368 increased by $12,360,537 (95.6%) from $12,933,831 in 2014 mainly due to additional expenses in all areas due to the merger of GPAg's operations. 2014 noninterest expenses increased by $2,047,529 (18.8%) from $10,886,302 in 2013, mainly due to an increase in salary and benefits of $1,312,894, including $564,376 of merger expenses, and another $252,822 of merger expenses in other noninterest expense.

Return on average assets was 2.1%, 1.6%, & 1.9% in 2015, 2014, & 2013, respectively. Return on average members'equity was 15.4%, 13.0%, & 13.8% in 2015, 2014, & 2013, respectively.

The Association depends on FCBT for funding. Any significant factors that affect FCBT operations would have a similar effect on the Association's operations.

Liquidity & Funding Sources. *Interest rate risk* ("**IRR**") inherent in the loan portfolio is substantially mitigated through the funding relationship with FCBT. FCBT manages IRR through direct loan pricing and asset/liability management.

The Association's primary source of liquidity and funding is a *direct note payable to FCBT* ("**Direct Note**"). The Direct Note balances of $1,340,973,977, $765,294,810, & $539,845,044 at December 31, 2015, 2014, & 2013, respectively, are recognized as liabilities on the Association's consolidated balance sheets. The Direct Note had a weighted average interest rate of 1.71%, 1.82%, & 1.84% at December 31, 2015, 2014, & 2013, respectively. Under the *General Financing Agreement* ("**GFA**") between the Association and FCBT, the Association pledges substantially all assets to FCBT to collateralize the Direct Note.

Liquidity & Funding Sources (continued). The $575,679,167 increase in the Direct Note in 2015 was due to merger and funded growth in the Association's portfolio. The $225,449,766 increase in the Direct Note in 2014 was due to funded growth in the Association's loan portfolio. The Association's members' equity funded $162,419,912, $69,133,866, & $65,884,051 of the loan portfolio at December 31, 2015, 2014, & 2013, respectively.

As determined in accordance with the GFA, the maximum amount the Association could borrow from FCBT at December 31, 2015, was $1,518,510,819; accordingly, the Association had $177,536,842 of availability remaining. The Direct Note and GFA mature on September 30, 2018, unless terminated sooner by FCBT due to an event of default or by the Association due to a breach of the agreement by FCBT (with 30 calendar days' prior written notice to FCBT, or in all other circumstances, with 120 days' prior written notice to FCBT). At December 31, 2015, management believes the Association was in compliance with all GFA covenants.

Association management manages cash balances to maximize debt reduction and increase loan volume in accordance with its liquidity policy. Borrower loan payments received are applied to the Direct Note.

Association management intends to continue to fund operations through the Direct Note, capital surplus, and member/borrower stock. Management believes that funds available to the Association are sufficient to fund operations through 2016.

Capital Resources. The Association's capital position remains strong, with members' equity of $200,988,484, $93,649,491, & $85,944,841 at December 31, 2015, 2014, & 2013, respectively.

The Association must maintain minimum adjusted permanent capital of 7.0% of risk-adjusted assets and off-balance-sheet contingencies, as defined by the FCA, under regulations governing minimum permanent capital adequacy and other capitalization issues. This ratio is an indicator of the Association's financial capacity to absorb potential losses beyond that provided in the ALL. The Association's adjusted permanent capital ratios were 13.1%, 12.9%, & 15.0% at December 31, 2015, 2014, & 2013, respectively.

The FCA requires the Association to maintain minimum available core surplus capital of 3.5% of risk-adjusted assets and off-balance-sheet contingencies. This ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratios were 12.8%, 12.5%, & 14.4% at December 31, 2015, 2014, & 2013, respectively.

The FCA requires the Association to maintain available surplus capital of 7.0% of risk-adjusted assets and off-balance-sheet contingencies. This ratio is an indicator of the reserves existing to protect borrowers' investments in Association stock. The Association's total surplus ratios were 12.8%, 12.5%, & 14.4% at December 31, 2015, 2014, & 2013, respectively.

The Association made qualified patronage distributions of $8.7 million (including GPAg's 2014 declaration of $5.2 million), $3.165 million, & $2.75 million in 2015, 2014, & 2013, respectively. During 2013, the Association board also approved the revolvement of 2001 qualified allocations of $1.9 million. In December 2015, the Association's board of directors approved a $14,343,007 qualified patronage with cash distributions of $11,943,787 to be paid in March 2016. See CFS note 11, *Members' Equity*, in this Annual Report for additional information.

Regulatory Matters. On September 4, 2014, the Farm Credit Administration published a proposed rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The initial public comment period ended on February 16, 2015, and was reopened from June 26 to July 10, 2015. A final rule is expected in the first quarter of 2016, which is expected to become effective for 2017.

FCA published a proposed rule to revise requirements that govern eligibility of investments for *Farm Credit System* ("**System**") banks and associations, which includes the Association and FCBT, on July 25, 2014. The stated objectives of the proposed rule follow:

- Strengthen System banks' and associations' safety and soundness;
- Ensure sufficient liquidity in System banks to continue operations and pay maturing obligations as they become due during market disruptions;
- Enhance ability of System banks to supply credit to agricultural and aquatic producers;
- Comply with §939A of the Dodd-Frank Act;
- Modernize investment eligibility criteria for System banks; and
- Revise System association investment regulations to improve investment management practices so they are more resilient to risk.

The public comment period for this proposed rule ended October 23, 2014. Additionally, the RAB pilot authorities were sunset effective December 31, 2014; all current investments held were grandfathered under the authority.

Relationship With FCBT. The Association has a statutory obligation to borrow only from FCBT, which is discussed in CFS note 10, *Note Payable to FCBT*, in this Annual Report.

FCBT's ability to access Association capital is discussed in CFS note 2, *Summary of Significant Accounting Policies*, in this Annual Report, within the *Farm Credit Bank of Texas Capital Stock* section.

FCBT's role to help mitigate Association exposure to IRR is described in the *Liquidity and Funding Sources* section above and CFS note 10, *Note Payable to FCBT*, in this Annual Report.

FCBT provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by FCBT. As disclosed in CFS note 14, *Related Party Transactions*, in this Annual Report, FCBT provides many services to the Association, which include administrative, marketing, and accounting services and information systems. Additionally, the Bank bills District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary. During 2015, the Association completed a merger to strengthen the Association for the future benefit of stockholders, experienced substantial loan growth, maintained exceptional credit quality and earnings, and approved a record cash patronage distribution to stockholders to be paid in 2016. Over the past 80 years, regardless of the state of the agricultural economy, the Association's and FCBT's board of directors and management have and continue to commit to offer their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the Association's success.

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Independent Auditor's Report

To the Board of Directors of AgTexas Farm Credit Services:

We have audited the accompanying consolidated financial statements of AgTexas Farm Credit Services and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2015, 2014 and 2013, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AgTexas Farm Credit Services and its subsidiaries as of December 31, 2015, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As stated in Note 3, on January 1, 2015, Great Plains Ag Credit, ACA merged with and into AgTexas Farm Credit Services. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

March 11, 2016

PricewaterhouseCoopers LLP, 300 West 6th Street, Suite 1800, Austin, Texas 78701
T: (512) 477-1300, F: (512) 477-8681, www.pwc.com/us

Consolidated Balance Sheets

	December 31,		
	2015	2014	2013
Assets			
Cash	**$ 37,958**	$ 3,178,220	$ 1,379,249
Investments	**4,531,324**	2,850,679	3,117,504
Loans (includes $502,434, $0 & $0 at fair value)	**1,517,021,023**	844,868,652	618,875,806
Less: allowance for loan losses	**5,323,157**	3,682,053	2,870,587
Net loans	**1,511,697,866**	841,186,599	616,005,219
Accrued interest receivable	**17,126,297**	10,441,197	8,201,060
Investment in & receivable from the *Farm Credit Bank of Texas* ("**FCBT**"):			
Capital stock	**25,773,040**	14,601,020	12,279,515
Other	**15,088,199**	4,373,475	2,588,140
Other property owned, net	**1,445,855**	233,500	441,470
Premises & equipment	**14,626,542**	4,377,295	3,480,046
Other assets	**1,164,830**	375,479	350,205
Total assets	**$ 1,591,491,911**	$ 881,617,464	$ 647,842,408
Liabilities			
Note payable to the FCBT	**$ 1,340,973,977**	$ 765,294,810	$ 539,845,044
Advance conditional payments	**13,461,282**	8,172,952	10,517,320
Accrued interest payable	**1,931,498**	1,143,023	844,030
Drafts outstanding	**7,743,673**	1,250,738	1,690,015
Patronage distributions payable	**11,944,645**	3,500,000	3,164,539
Accrued postretirement benefit liability	**6,210,385**	3,968,918	3,014,658
Other liabilities	**8,237,967**	4,637,532	2,821,961
Total liabilities	**1,390,503,427**	787,967,973	561,897,567
Members' Equity			
Capital stock & participation certificates	**3,989,035**	2,875,495	2,725,940
Additional paid-in capital	**75,446,357**	-	-
Allocated retained earnings	**22,511,743**	8,207,167	8,224,491
Unallocated retained earnings	**99,152,953**	83,496,415	75,037,784
Accumulated other comprehensive loss	**(111,604)**	(929,586)	(43,374)
Total members' equity	**200,988,484**	93,649,491	85,944,841
Total liabilities & members' equity	**$ 1,591,491,911**	$ 881,617,464	$ 647,842,408

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

Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
	2015	2014	2013
Interest Income			
Loans	**$ 62,664,012**	$ 31,411,881	$ 26,859,734
Investments	**257,642**	157,680	193,620
Total interest income	**62,921,654**	31,569,561	27,053,354
Interest Expense			
Note payable to FCBT	**20,813,225**	11,619,519	9,338,610
Advance conditional payments	**35,770**	32,635	30,950
Total interest expense	**20,848,995**	11,652,154	9,369,560
Net interest income	**42,072,659**	19,917,407	17,683,794
Provision for loan losses	**1,672,339**	1,041,790	(207,545)
Net interest income after provision for losses	**40,400,320**	18,875,617	17,891,339
Noninterest Income			
Income from the FCBT	**10,268,037**	3,708,064	2,843,139
Loan fees	**731,436**	224,291	341,617
Financially related services income	**2,939,142**	1,390,400	1,164,138
(Loss) gain on other property owned, net	**(152,645)**	576,180	3,994
Gain on sale of premises & equipment, net	**402,089**	26,549	69,042
Other noninterest income	**705,732**	86,730	108,768
Total noninterest income	**14,893,791**	6,012,214	4,530,698
Noninterest Expenses			
Salaries & employee benefits	**16,764,920**	9,030,049	7,717,155
Directors' expense	**421,433**	225,038	195,506
Purchased services	**1,348,188**	536,995	432,109
Travel	**946,534**	473,477	494,667
Occupancy & equipment	**1,243,498**	730,176	708,565
Communications	**342,491**	149,505	145,933
Advertising	**981,275**	222,319	187,984
Public & member relations	**696,064**	317,367	246,715
Supervisory & exam expense	**333,699**	169,884	156,661
Insurance fund premiums	**1,228,251**	506,471	354,316
Other noninterest expense	**988,015**	572,550	246,691
Total noninterest expenses	**25,294,368**	12,933,831	10,886,302
NET INCOME	**29,999,743**	11,954,000	11,535,735
Other comprehensive income (loss)	**817,982**	(886,212)	624,471
COMPREHENSIVE INCOME	**$ 30,817,725**	$ 11,067,788	$ 12,160,206

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

Consolidated Statements of Changes in Members' Equity

	Capital Stock & Participation Certificates	Additional Paid-in Capital	Retained Earnings		Accumulated Other Comprehensive Loss	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2012	$ 2,648,860	$ -	$ 10,177,271	$ 66,661,614	$ (667,845)	$ 78,819,900
Comprehensive income	-	-	-	11,535,735	624,471	12,160,206
Capital stock & participation certificates:						
Issued	533,040	-	-	-	-	533,040
Retired	(455,960)	-	-	-	-	(455,960)
Patronage dividends (paid or declared):						
Cash	-	-	(1,952,780)	(3,164,539)	-	(5,117,319)
Allocated retained earnings	-	-	-	4,974	-	4,974
Balance at December 31, 2013	2,725,940	-	8,224,491	75,037,784	(43,374)	85,944,841
Comprehensive income	-	-	-	11,954,000	(886,212)	11,067,788
Capital stock & participation certificates:						
Issued	357,930	-	-	-	-	357,930
Retired	(208,375)	-	-	-	-	(208,375)
Patronage dividends (paid or declared):						
Cash	-	-	(12,693)	(3,500,000)	-	(3,512,693)
Allocated retained earnings	-	-	(4,631)	4,631	-	-
Balance at December 31, 2014	2,875,495	-	8,207,167	83,496,415	(929,586)	93,649,491
Comprehensive income	-	-	-	29,999,743	817,982	30,817,725
Capital stock & participation certificates:						
Issued	848,625	-	-	-	-	848,625
Retired	(776,040)	-	-	-	-	(776,040)
Equity issued or re-characterized upon merger	1,040,955	75,446,357	11,923,506	-	-	88,410,818
Patronage dividends (paid or declared):						
Cash	-	-	(18,150)	(11,943,985)	-	(11,962,135)
Allocated retained earnings	-	-	2,399,220	(2,399,220)	-	-
Balance at December 31, 2015	**$ 3,989,035**	**$ 75,446,357**	**$ 22,511,743**	**$ 99,152,953**	**$ (111,604)**	**$ 200,988,484**

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

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	**$ 29,999,743**	$ 11,954,000	$ 11,535,735
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for:			
Loan losses or (loan loss reversal)	**1,672,339**	1,041,790	(207,545)
Acquired property	**152,646**	-	-
Net gain on:			
Loan sales	**-**	-	(21,576)
Other property owned sales, net	**-**	(576,180)	(3,994)
Premises & equipment disposals	**(402,089)**	(26,549)	(69,042)
Amortization (accretion) of:			
Purchased loans, net	**2,134,510**	2,344,236	1,588,232
Deferred loan costs & fees	**16,226**	5,671	(10,887)
Net discounts on acquired net assets	**(1,949,016)**	-	-
Depreciation	**596,664**	365,241	299,006
(Increase) decrease in:			
Accrued interest receivable	**(974,523)**	(2,240,137)	322,653
Receivable from FCBT, other	**(4,696,429)**	(1,785,335)	1,674,788
Other assets	**38,892**	(25,274)	20,590
Increase (decrease) in:			
Accrued interest payable	**235,361**	298,993	(9,317)
Other liabilities	**(1,001,755)**	1,629,931	794,261
Net cash provided by operating activities	**25,822,569**	12,986,387	15,912,904
Cash flows from investing activities:			
Cash acquired in merger	**34,028**	-	-
Investments, held to maturity:			
Maturities, calls & prepayments	**841,013**	266,825	993,534
Proceeds from loans held for sale	**-**	-	4,157,031
Increase in loans, net	**(153,822,463)**	(228,888,601)	(46,681,216)
Cash recoveries of loans previously charged off	**846,388**	83,419	14,973
Purchase of investment in FCBT	**(3,314,160)**	(2,321,505)	(2,513,945)
Other property owned sales proceeds	**-**	1,269,943	52,694
Purchases of premises & equipment	**(5,967,163)**	(1,263,410)	(962,511)
Proceeds from sales of premises & equipment	**803,238**	27,469	90,306
Net cash used in investing activities	**(160,579,119)**	(230,825,860)	(44,849,134)

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

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2015	2014	2013
Cash flows from financing activities:			
Net draws on note payable to FCBT	**$ 134,170,404**	$ 225,449,766	$ 33,158,305
Increase (decrease) in:			
Advance conditional payments	**(420,095)**	(2,344,368)	1,459,461
Drafts outstanding	**6,492,935**	(439,277)	(392,732)
Capital stock & participation certificates:			
Issuance	**848,625**	357,930	533,040
Retirement	**(776,040)**	(208,375)	(455,960)
Cash dividends paid	**(8,699,065)**	(3,164,539)	(2,750,000)
Allocated retained earnings revolvement	**(476)**	(12,693)	(1,947,806)
Net cash provided by financing activities	**131,616,288**	219,638,444	29,604,308
Net (decrease) increase in cash	**(3,140,262)**	1,798,971	668,078
Cash at the beginning of the year	**3,178,220**	1,379,249	711,171
Cash at the end of the year	**$ 37,958**	$ 3,178,220	$ 1,379,249
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 20,613,634**	$ 11,353,161	$ 9,378,877
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**$ 1,365,000**	$ 485,793	$ 246,200
Loans charged off	**292,257**	60,055	182,480
Allocated equities offset to loan	**17,673**	-	-
Patronage distributions declared	**14,343,007**	3,500,000	3,164,539
Net assets acquired with merger (See Note 3 for detail of assets & liabilities acquired.)	**88,376,790**	-	-

Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 20,613,634**	$ 11,353,161	$ 9,378,877

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

AG TEXAS FARM CREDIT SERVICES

Note 1: Organization & Operations

Organization. *AgTexas Farm Credit Services* ("**AgTX ACA**") and its wholly-owned subsidiaries, AgTexas, PCA, and AgTexas, FLCA, are collectively referred to herein as the "**Association**." 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 the Texas counties of Armstrong, Bailey, Briscoe, Brown, Carson, Castro, Cochran, Comanche, Crosby, Dallam, Deaf Smith, Floyd, Eastland, Ellis, Erath, Gaines, Garza, Hamilton, Hale, Hansford, Hartley, Hill, Hockley, Hood, Hutchinson, Johnson, Lamb, Lubbock, Lynn, Moore, Navarro, Oldham, Parker, Parmer, Potter, Randall, Sherman, Somervell, Swisher, Tarrant, Terry, Wise, and Yoakum.

Effective January 1, 2015, the Association merged with *Great Plains Ag Credit, ACA* ("**GPAg**"), a similarly sized farm credit association previously headquartered in Amarillo, Texas. The merger added the remaining west counties in the Panhandle and South Plains of the state of Texas to the Association's service area. See note 3, *Merger*, below. All data and information reported prior to the merger date of January 1, 2015, is pre-merger AgTX ACA only.

The Association is a lending institution of the *Farm Credit System* ("**System**"), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the *Farm Credit Act of 1971, as amended* ("**Act**"). At December 31, 2015, the System consisted of three *Farm Credit Banks* ("**FCBs**") and their affiliated associations, one *Agricultural Credit Bank* ("**ACB**") and its affiliated associations, the *Federal Farm Credit Banks Funding Corporation* ("**Funding Corporation**"), and various service and other organizations.

The *Farm Credit Bank of Texas* ("**FCBT**") and its related associations, which includes the Association, are collectively referred to as the "**District**." FCBT funds all associations in the District and has responsibility to supervise certain activities of District associations. At December 31, 2015, the District consisted of FCBT, one freestanding FLCA and thirteen ACA parent companies; each ACA has two wholly-owned subsidiaries, a FLCA and a PCA, and operate in or service the states of Alabama, Louisiana, Mississippi, New Mexico, and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. FLCAs make secured long-term agricultural real estate and rural home mortgage loans. PCAs make short- and intermediate-term loans for agricultural production or operating purposes.

Congress has delegated authority to regulate the FCBs and associations to the *Farm Credit Administration* ("**FCA**"). The FCA examines Association activities to ensure compliance with the Act, FCA regulations, and safe and sound banking practices.

The Act established the *Farm Credit System Insurance Corporation* ('**FCSIC**") to administer the *Farm Credit Insurance Fund* ("**Insurance Fund**"). The Insurance Fund is required to be used *i*) to ensure the timely payment of principal and interest on System-wide debt obligations, *ii*) to ensure the retirement of protected borrower capital at par or stated value, and *iii*) for other specified purposes. The Insurance Fund is also available for discretionary uses by the FCSIC to provide assistance to certain troubled System institutions and to cover FCSIC operating expenses. Each of the FCB's is required to pay premiums (this requirement may be passed on to the Association) into the Insurance Fund based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Act as 2.0% of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0% level. The Insurance Corporation may return excess funds above the secure base amount to System institutions as required by the Act.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers, and employees. Directors and employees of Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

Note 1: Organization & Operations (continued)

Operations. The Act specifies authorized lending activity, persons eligible to borrow, and financial services that can be offered by the Association. The Association is authorized to provide credit, credit commitments, and related services to eligible borrowers directly or in participation with other lenders. Eligible borrowers include farmers, ranchers, producers, or harvesters of aquatic products, rural residents, and farm-related businesses. The Association originates and services short- and intermediate-term loans, for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from FCBT.

The Association offers credit life, livestock, and crop insurance as an intermediary and provides additional services to borrowers which include financial management and an investment bond program.

The Association's financial condition may be affected by factors that affect FCBT. FCBT financial condition and results of operations may materially affect Association stockholders' investments. FCBT and District Associations' *Annual Report to Stockholders*, which include their respective consolidated financial statements, are available upon request. The District's *Annual Report to Stockholders* discusses the material aspects of the financial condition, changes in financial condition, and results of operations for FCBT and the District; it also identifies favorable and unfavorable trends, significant events, uncertainties, and the impact of activities of the Insurance Fund. FCBT lending and financial services are described in Note 1, *Organization and Operations*, in the District's *Annual Report to Stockholders*.

Note 2 — Summary of Significant Accounting Policies

Accounting Standards Codification. Since 1973, the *Financial Accounting Standards Board* ("**FASB**") has been the private sector organization designated to establish standards for financial accounting and presentation of financial statements known as *accounting principles generally accepted in the United States of America* ("**GAAP**"). GAAP are officially recognized as authoritative by the *Securities and Exchange Commission* ("**SEC**"), the American Institute of Certified Public Accountants ("**AICPA**"), and the banking regulators, including FCA. The SEC has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934; although, throughout its history, the SEC's policy has been to rely on the FASB and its predecessors for this function.

Recently Issued or Adopted Accounting Pronouncements. In January 2016, FASB issued guidance entitled *Recognition and Measurement of Financial Assets and Liabilities*. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled, *Presentation of Financial Statements – Going Concern*, which establishes management's responsibility to evaluate whether there is "substantial doubt" about the ability to continue as a going concern and to provide related footnote disclosures. Management will be required to perform interim and annual assessments of going concern ability in the one year period after financial statements are issued or available to be issued, as applicable. "Substantial doubt" exists when it is probable that the entity will be unable to meet its obligations during the assessed period. The guidance will be effective for the Association's annual reporting period ending December 31, 2016, and interim and annual periods thereafter and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, FASB issued guidance entitled, *Revenue from Contracts with Customers*, which governs revenue recognition from contracts with customers and requires recognition of 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 FASB are excluded from the scope of this new revenue recognition guidance. Accordingly, most of the Association's contracts will be excluded from the scope of this new guidance. In August 2015, FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

Note 2 — Summary of Significant Accounting Policies (continued)

Recently Issued or Adopted Accounting Pronouncements (continued).

In February 2016, 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 will evaluate the impact of adoption on the Association's financial condition and its results of operations.

Basis of Presentation. Management strives to prepare and present *these notes and the encompassing consolidated financial statements* (collectively referred to herein as "**CFS**") in accordance with GAAP and prevailing practices within the banking industry, in all material respects. AgTX ACA consolidates *i*) subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control, when benefits outweigh costs and/or material, and *ii*) *variable interest entities* ("**VIE**") in which AgTX ACA is the primary beneficiary. These CFS include the accounts of AgTexas, PCA and AgTexas, FLCA. All significant intercompany balances and transactions are eliminated in consolidation.

Fair Value. Fair value, as defined by GAAP and used herein, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date.

Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be:

- Observable, meaning those that reflect the assumptions *market participants* would use in pricing the asset or liability developed based on market data obtained from independent sources, or
- Unobservable, meaning those that reflect the Association's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In that regard, the fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 Inputs: Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability. These might include *i*) quoted prices for similar assets or liabilities in active markets; *ii*) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current, or principal market information is not released publicly; *iii*) inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves, volatilities, prepayment speeds, credit risks, default rates, etc.); or *iv*) inputs derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs: Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities used to determine the fair values of assets or liabilities that reflect the Association's own assumptions about the assumptions that market participants would use to price the assets or liabilities.

Fair values of assets held in trust funds, which relate to deferred compensation and the supplemental retirement plan, are level 1 measurements. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Fair values of pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also level 1. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are level 2. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in level 3.

Note 2 — Summary of Significant Accounting Policies (continued)

Fair Value Option. The Association has the option to choose to measure many financial instruments (including financial assets and liabilities) and certain other items, that are not required to be measured at fair value, at fair value (the "**FVO**") to improve financial reporting by reduced volatility in reported earnings caused by measuring related assets and liabilities differently. Unrealized gain and loss from changes in fair value of items where the FVO has been elected are recognized in earnings. Upfront costs and fees related to items for which the FVO is elected are recognized in earnings as incurred. When the FVO is elected, the Association reports those items in a manner that separates those fair values from reported amounts for similar assets and liabilities measured with another measurement attribute.

Comprehensive Income ("**CI**"). GAAP defines *comprehensive income* ("**CI**") as the change in equity of a business entity during a period from transactions and other events and circumstances from nonowner sources. Therefore, CI includes all changes in equity for a specified period (e.g., a year) except those resulting from investments by stockholders and distributions to stockholders; CI is comprised of *net income or loss* ("**Earnings**") and *other comprehensive income or loss* ("**OCI**"). GAAP generally requires that recognized revenue, expenses, gains, and losses be included in the determination of Earnings. However, certain changes in assets and liabilities are classified as OCI and presented as a separate component of comprehensive income; *accumulated OCI* ("**AOCI**") is reported as a separate component of stockholders' equity. AOCI, OCI, and components of OCI are presented net of income taxes, as applicable. Relevant examples of OCI items follow:

- Gains or losses associated with *other postretirement benefits* ("**OPBs**") that are not recognized immediately as a component of net periodic benefit cost,
- Prior service costs or credits associated with OPBs,
- Transition assets or obligations associated with OPBs that are not recognized immediately as a component of net periodic benefit cost, and
- Other than credit loss component of other-than-temporary-impairment on securities held-to-maturity.

Reclassification adjustments for components of OCI are recognized to avoid double counting items in CI that are presented as part of Earnings for a year that also had been presented as part of OCI in that year or earlier years.

Use of Estimates. The preparation of CFS that conform with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the CFS. Significant estimates are discussed further in these notes. Actual results could differ from management's estimates.

Cash & Equivalents. The Association has no items management considers to be cash equivalents and presents cash, comprised of cash on hand and on deposit in local banks, in the accompanying consolidated statements of cash flows.

Investment Securities. Under GAAP, investment securities may be classified into trading, *held-to-maturity* ("**HTM**"), or *available-for-sale* ("**AFS**") portfolios. Securities principally held for resale in the near term would be classified as trading and recorded at fair value, with changes in fair value included in Earnings. The Association does not hold investment securities for trading purposes. Debt securities that management has the ability and positive intent to hold to maturity are classified as HTM and recorded at amortized cost. Securities not classified as trading or HTM would be AFS and reported at fair value, with unrealized gains and losses excluded from Earnings but included in the determination of OCI.

Interest and dividend income from securities are included in Earnings when earned or declared, respectively. Purchase premiums and discounts on debt securities, if any, are recognized as an adjustment to interest income over the term of the related securities under the effective interest method. Gains and losses on security sales are recorded on the trade date and are determined under the specific identification method.

Note 2 — Summary of Significant Accounting Policies (continued)

Other-Than-Temporary-Impairments ("**OTTI**") of Debt Securities. Individual AFS and HTM securities are *impaired* when fair value is less than the amortized cost basis; impairment can be temporary or other-than-temporary and is comprised of "credit loss" and "other loss" (e.g., losses due to increased market interest rates; highly volatile, disorderly, or inactive markets; increased prepayment speeds; or other factors).

The impairment is considered temporary unless there is a *credit loss* component to the impairment. *Credit loss* is the difference between *i*) the amortized cost basis and *ii*) the present value of the principal cash flows currently expected over the remaining term of the security discounted at the effective interest rate implicit in the security at acquisition.

If there is a *credit loss* component to the impairment, the impairment would be *other-than-temporary*. OTTI is the difference between the amortized cost basis and the fair value. The credit loss component of OTTI is realized in Earnings. The other loss component of OTTI is recognized in OCI. However, if the Association intended to sell, or it is more-likely-than-not that the Association would have to sell, prior to recovery of the other loss component, the other loss component would be charged to Earnings.

Loans. The Association originates and services the majority of loans to farmers, ranchers, rural homeowners, and farm-related businesses to finance asset acquisitions, provide working capital to finance agricultural operations, and for other purposes in exchange for interest on outstanding principal balances from origination to maturity or pay-off. Long-term real estate mortgages generally have original maturities of 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Decisions about whether to extend credit to customers are based on anticipated sources of repayment, credit history, availability of collateral, and other considerations. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically includes farmland and income-producing property, such as crops, livestock, equipment, receivables, and assignments of government payments. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (or 97% if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum.

Management purchases loans and extends credit in accordance with mission related investment programs, approved by FCA, including the *Rural America Bond Pilot Program* ("**RAB**"). This activity allows the Association to provide credit that furthers the System's mission to serve rural America. These transactions generally involve government guarantees and purchase premiums and discounts. Management applies the FVO to loans purchased with a premium greater than 10%. During the November 2013 FCA board meeting, a resolution passed that discontinued the authorities granted to originate under RAB effective as of December 31, 2014.

Loans *Held for Sale* ("**HFS**"). In 2013, management reassessed the classification of the purchased loans because the Association acquires loans initially and primarily with the intent to hold to maturity, but from time to time for varying reasons these purchased loans are sold. Accordingly, purchased loans previously categorized as held for sale have been reclassified to held to maturity; there had been no adjustments to the value of these loans while they were classified as held for sale. When management makes the decision to sell loans, they will be reclassified as held for sale and carried at the lower of amortized cost or fair value on a loan-by-loan basis. Fair value determinations for loans held for sale are level 3 measurements based on discounted expected cash flows.

Loans Held to Maturity or Pay-Off. At origination, *loans and leases that management has the ability and intent to hold for the foreseeable future or until maturity or pay-off* ("**HTM Loans**") are recorded at the amount of cash advanced. The portfolio of HTM Loans is reported at the outstanding principal balances adjusted for partial charge-offs, the ALL, any deferred fees or costs on originated loans, and unamortized purchase premiums and discounts. Interest income is accrued on outstanding principal balances. Origination fees are generally charged when warranted by related costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan interest income. Loan purchase premiums and discounts are amortized and accreted, respectively, as an adjustment of the related loan interest income.

Note 2 — Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). The fair value of HTM Loans is subject to changes in market interest rates and credit quality. The carrying value of an HTM Loan is not adjusted for changes in market interest rates unless its credit quality is also impaired, but management seeks to manage risks associated with changes in market interest rates on selected loans through adjustable, minimum, and/or maximum rates specified in their loan agreements.

The *allowance for loan losses* ("**ALL**") is a recognized credit risk valuation account that, at periodic reporting dates, reduces outstanding loan balances to the estimated amount expected to be collected. Earnings are reduced for estimated credit losses through *provisions for loan losses* ("**PLL**") that are added to the ALL. When losses due to credit risks are confirmed, the losses are recognized as reductions of the outstanding principal balance and the ALL (a "**Charge-Off**") which has no effect on Earnings, assets, or capital. Subsequent recoveries of amounts previously charged off against the ALL ("**Recoveries**"), if any, are added back to the ALL and do not directly affect Earnings.

Prior to charge-off, a loan is considered **impaired** when, based on current information and events, it is **probable** (interpreted as "likely to occur" which is a higher likelihood than "more likely than not" but does not require virtual certainty) that scheduled payments of principal or interest will not be collected when due according to the contractual terms of the loan agreement. The amount of **impairment** on a specifically identified *impaired* loan is the estimated amount of *probable* loss of the *recorded investment* based on current information and events at the corresponding reporting date. The **recorded investment** in a loan, as defined by GAAP, includes the outstanding principal adjusted as applicable for accrued interest, direct partial charge-offs, deferred fees or costs on originated loans, and unamortized purchase premiums and discounts; the recorded investment in a loan does not include an allocation of the ALL or any specific valuation adjustments.

Loans are routinely restructured to accommodate changes in borrower needs and circumstances and market terms. However, when a restructure involves a *concession* to the borrower for economic or legal reasons related to the borrower's financial difficulties that would not otherwise be considered, a *troubled debt restructuring* ("**TDR**") has occurred. A **concession** results when, as a result of the restructure, the Association does not expect to collect all amounts due, including interest accrued at the original contract rate. A restructuring that results in an insignificant delay in payment is not a TDR. A TDR is indicated by interest rates below market for similar credits, extensions or other reductions in debt service requirements outside of market terms (e.g., conversion to interest only or no payments for a period of time or an extended amortization period that exceeds market norms), or forgiveness of principal or accrued interest. The Association enters TDRs to minimize its losses or to otherwise increase the likelihood of eventual recovery.

When principal is forgiven in a TDR, the amount forgiven is immediately charged off. When accrued interest is forgiven in a TDR, the interest accrued in the current year is reversed and interest accrued in prior years is charged off.

The concession predominantly granted in TDRs includes a modification in the payment terms and interest rates below a risk-based market rate. Other concessions include principal or accrued interest reductions, payment delays, and others. These terms might be offset with incremental payments, additional collateral, or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall restructure is a TDR.

A TDR is an *impaired* loan and is evaluated for impairment if it has not already been done.

Note 2 — Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). The ALL represents management's best estimate of *impairment* in the existing loan portfolio as a whole at periodic reporting dates based on current information and events (consideration of expectations for or projections of economic and environmental factors is precluded by GAAP). To determine and support the estimated ALL, management considers: *i*) the general agricultural concentration and underlying geographic, commodity, and other concentrations; *ii*) related experience of the Association and its personnel; *iii*) prevailing economic and environmental conditions in general and specific to agriculture (e.g., farmland values, commodity prices, exports, government assistance programs, and regional economic and weather-related influences); *iv*) experience from comparable historical periods; v) effects of adverse circumstances on borrower and guarantor ability to pay; *vi*) estimated value of underlying collateral; and *vii*) any other factors identified as relevant to the current circumstances. The estimation process and assessment of the preceding factors require numerous judgments, evaluations, and appraisals that involve varying degrees of uncertainty, imprecise measurement, and variation over time. Accordingly, actual circumstances and their implications could vary significantly from management's assessments.

Management develops its estimate of an appropriate ALL at periodic reporting dates based upon aggregation of loan impairment for *i*) specifically identified loans, *ii*) groups of remaining loans with similar risk characteristics, and *iii*) special allocations for other identified adverse circumstances. While management attributes portions of the ALL to individual *impaired* loans, specific portfolio segments, and other identified adverse circumstances, the entire ALL is available to absorb credit losses inherent in the total loan portfolio.

To facilitate timely identification of *i*) declining credit quality in individual loans to manage credit risk in the loan portfolio and *ii*) *impaired* loans to be evaluated for *impairment* in the periodic estimation of the ALL, management uses a two-dimensional loan rating model, based on System-generated combined risk-rating guidance that incorporates a 14-point risk-rating scale, to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate of the anticipated economic loss on the specific loan, assuming default has occurred or is expected to occur within the next 12 months.

The 14 points on the risk rating scale also reconcile with the credit quality indicators in FCA's *Uniform Loan Classification System* ("**ULCS**"), which is also used by the Association and is comprised 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.

Note 2 — Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). Each probability of default category carries a distinct percentage of default probability which is generally used to determine ALL estimates for groups of loans with similar risk characteristics that are not judged to be *impaired*. The 14-point risk-rating scale provides granularity of the probability of default, especially in the acceptable ratings, beyond the FCA's ULCS. The first nine rating points are considered *acceptable* categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default for these *acceptable* categories is very narrow and reflects almost no default to a minimal default percentage. The probability of default increases notably as a loan moves from a "9" to "10" (*OAEM* category) and significantly as a loan moves to an "11" (*substandard-viable* category). A "12" rating (*substandard-nonviable* category) indicates that the probability of default is almost certain. Ratings of "13" and "14" equate to doubtful and loss credit quality categories, respectively. This credit risk-rating methodology is a key component of the Association's ALL estimation process and is generally incorporated into its loan underwriting standards and internal lending limit.

When a specific loan is risk-rated, management considers factors specific to that loan that include scheduled timing and amounts of principal and interest payments in relation to actual payment status (past due status is based on contractual terms) and demonstrated and projected sources of repayment to determine whether that specific loan or relationship is *impaired*. Loans that experience insignificant payment delays or shortfalls are not necessarily considered *impaired*, but loans that have not yet experienced payments delays or shortfalls may be considered *impaired* if identifiable and expected sources of repayment appear inadequate or otherwise unlikely to comply with the schedule specified by the contractual terms of the loan agreement. The significance of payment delays and shortfalls are considered on a case-by-case basis. All of the circumstances surrounding the loan and the borrower are considered, which includes the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. *Probable* foreclosure on collateral generally indicates *impaired* status since it is not repayment in accordance with the schedule in the loan agreement and requires actions and costs that are not incurred in routine receipt of borrower payments.

Specific loans that have been identified as *impaired* are then individually evaluated to measure the amount of *impairment*, if any. *Impairment* for *specific loans* is measured by either *i*) the present value of expected future cash flows discounted at the loan's effective interest rate, *ii*) the loan's obtainable market price, or *iii*) the fair value of the collateral, if foreclosure is *probable* or the loan is otherwise considered *collateral dependent*. A loan is ***collateral dependent*** when repayment of the loan is expected to be provided solely by the underlying collateral. Regulatory guidance requires use of the collateral method for loans that are *collateral dependent* and the collateral method is the predominant method used by management. In general, any portion of the *recorded investment* in a *collateral dependent* loan in excess of the fair value of the collateral is recognized as *impairment*. If repayment of a *collateral dependent* loan depends on the sale of the collateral, the fair value of the collateral is reduced by estimated selling costs to measure *impairment*. A loan evaluated and classified as *impaired*, but judged to have no *impairment*, is excluded from any other impairment calculations in accordance with GAAP.

Classification of loans and determination of *impairment* is inherently subjective and requires judgments and estimates that are susceptible to significant revision as more information becomes available due to changing circumstances and/or the passage of time. Judgments by knowledgeable professionals are subject to variations, even given the same facts and circumstances. FCA routinely reviews the adequacy of the Association's ALL and may require the Association to increase its ALL based on their policies and/or judgments about individual borrowers, economic conditions, and other factors available to them at the time of their examinations.

Aside from individual loans identified as *impaired*, it is *probable* that the Association will not collect all the principal or interest due on all the *other loans* in the portfolio in accordance with the contractual terms of those loan agreements. Therefore, the portfolio includes *impaired* loans other than the loans individually identified as *impaired*, even though they are not specifically identified, and additional *impairment* in the portfolio is *probable*. Accordingly, *impairment* on any remaining HTM Loans that are not *impaired* is determined in aggregate for groups of loans with similar risk characteristics. *Impairment* determined in aggregate for groups of loans is not specific to individually identifiable loans or relationships.

Note 2 — Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). Management has identified segments of the loan portfolio based on borrower categories and the nature and purpose of loans and underlying collateral as groups of loans with similar risk characteristics that are used to analyze the portfolio, manage credit risks, and make detailed disclosures herein.

Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. If not previously placed on nonaccrual status, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest is reversed if accrued in the current year or charged against the ALL if accrued in prior years. Loans are charged off at the time they are determined to be uncollectible.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs, and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

Transfers of Financial Assets. Transfers of financial assets (primarily "loan participations sold" at the Association) must be evaluated to determine whether the transfer meets all of the following conditions to qualify for sale accounting: *i*) isolation of the transferred assets from the transferor, *ii*) the transferee has the right to pledge or exchange the assets received and *iii*) the transferor's lack of effective control over the transferred assets. In general, a loan participation must have all of the following characteristics to meet the definition of a participating interest and qualify for sale treatment:

- It must represent a proportionate (pro rata) ownership interest in an entire financial asset;
- All cash flows received from the entire financial asset, except any cash flows allocated as compensation for servicing or other services performed (which must not be subordinated and must not significantly exceed an amount that would fairly compensate a substitute service provider should one be required), must be divided proportionately among the participating interest holders in an amount equal to their share of ownership;
- The rights of each participating interest holder (including the lead lender) must have the same priority, no interest is subordinated to another interest, and no participating interest holder has recourse to the lead lender or another participating interest holder other than standard representations and warranties and ongoing contractual servicing and administration obligations; and
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

If a transfer of a portion of a financial asset does not meet the definition of a participating interest, both the lead lender transferring the participation and the party acquiring the participation must account for the transaction as a secured borrowing.

Note 2 — Summary of Significant Accounting Policies (continued)

Transfers of Financial Assets (continued). "Last-in, first-out" ("**LIFO**") participations in which all principal cash flows collected on the loan are paid first to the party acquiring the participation do not meet the definition of a participating interest. Similarly, so-called "first-in, first-out" ("**FIFO**") participations in which all principal cash flows collected on the loan are paid first to the lead lender do not meet the definition of a participating interest. As a result, neither LIFO nor FIFO participations qualify for sale accounting and would be reported as secured borrowings.

Upon the completion of a transfer of a participating interest that satisfies the conditions to be accounted for as a sale, the transferor (seller) must allocate the previous carrying amount of the entire financial asset between the participating interests sold and any that are retained based on their relative fair values at the transfer date, derecognize the participating interests sold, recognize and initially measure at fair value servicing assets (or servicing liabilities) and any other assets obtained and liabilities incurred in the sale, recognize in Earnings any gain or loss on the sale, and report any retained participating interests as the difference between the previous carrying amount of the entire financial asset and the amount derecognized.

Farm Credit Bank of Texas Capital Stock. The Association's investment in FCBT is in the form of Class A voting capital stock and allocated retained earnings. This investment is required to borrow from FCBT and is adjusted periodically based on the Association's use of FCBT proportional to other District associations. FCBT requires a minimum stock investment of 2.0% of the Association's average borrowing from FCBT. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheets.

FCBT's board of directors may increase the percentage of stock held by the Association from 2.0% of the average outstanding balance of borrowings from FCBT to a maximum of 5.0% if needed to meet regulatory capital adequacy requirements.

Other Property Owned ("**OPO**"). OPO, if any, consists of real and personal property received in full or partial satisfaction of a loan through, or in lieu of, foreclosure, repossession, or restructure. OPO is held for sale and is initially recorded at estimated fair value less cost to sell at the date acquired, establishing a cost basis for the asset. Differences between the loan investment carrying value and the cost basis of the OPO asset(s) are charged to the OPO allowance. Subsequently, capital improvements to these assets that increase the value, if any, are added to the cost basis and management performs periodic valuations, on at least an annual basis, and these assets are carried at the lower of the cost basis or estimated fair value less cost to sell. Revenue from holding and/or operating OPO, changes in the valuation allowance, and gains and losses from sales are included in other noninterest income. Expenses from holding and/or operating OPO are included in other noninterest expense.

Premises & Equipment. Acquisitions are recorded at cost. Land is carried at cost. Depreciation on depreciable assets is provided over the estimated useful life of the asset, except for assets under capital lease obligations, which are depreciated over the shorter of the non-cancelable lease term or the estimated useful life of the leased asset, under the straight-line method. Maintenance, repairs, renewals, and betterments that do not significantly extend the useful life of the asset are recognized as expense as incurred. Book value (cost less accumulated depreciation at disposal) of asset disposals are removed from the accounts and the differences between the proceeds, if any, and the book value are netted and reported as gain or loss in Earnings for the corresponding period. The proceeds from trade-ins are added to the cost basis of the new asset, and any difference between the proceeds and book value of the trade-in is reflected as gain or loss in Earnings.

Advance Conditional Payments. The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance in the accompanying consolidated balance sheets. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheets. Advance conditional payments are not insured. Interest is generally paid by the Association on these accounts at rates established by the board of directors.

Note 2 — Summary of Significant Accounting Policies (continued)

Employee Benefit Plans. Association employees participate in either the **Farm Credit Bank of Texas Pension Plan** ("**DB Plan**") or in a *nonelective defined contribution feature* ("**DC Plan**") within the *Farm Credit Benefits Alliance 401(k) Plan* ("**401k**"). All employees are also eligible to participate in the 401k.

The DB Plan sponsor is the FCBT board of directors (Employer Identification Number 74-1110170). Actuarial information regarding the DB Plan accumulated benefit obligation and plan assets is calculated for the District as a whole and is presented in the District's *Annual Report to Stockholders*. The DB Plan is a multiemployer plan and none of the plan assets, liabilities, or costs of the plan are segregated or separately accounted for by the Association. No portion of any surplus plan assets is available to the Association. The DB Plan is closed to new participants, but is not subject to any contractual expiration dates. The Association recognizes the required contribution to the DB Plan annually as pension cost. Contributions due and unpaid are accrued as a liability. The Association uses the "projected unit credit" actuarial method for DB Plan financial reporting and funding purposes.

Contributions to the DC Plan are determined based on an annual specified percentage of eligible compensation which is approved by the Association's board of directors. Matching contributions to the 401k are funded and expensed each pay period.

In addition to pension benefits, the Association provides other postretirement health care benefits to qualifying retired employees. This plan is not funded and the benefit obligation is recognized in other liabilities in the accompanying consolidated balance sheets. Net periodic benefit costs are recognized in compensation and benefits expense and certain gains and losses and prior service costs or credits that arise each period are recognized in other comprehensive income in the accompanying consolidated statements of comprehensive income.

Income Taxes. The Association files a consolidated *Federal income tax* ("**FIT**") return and recognizes FIT for the tax effects of the transactions reported in the CFS, although there is no FIT expense or benefit in Earnings.

AgTexas ACA and AgTexas, PCA are subject to FIT, while AgTexas, FLCA is exempt from FIT and other income taxes as provided in the Act. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the *Internal Revenue Code* ("**IRC**"). Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated retained earnings. Provisions for FIT are made only on those earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, that they will not be realized.

Deferred FIT have not been provided by the Association on patronage stock distributions from FCBT prior to January 1, 1993. Management's intent is *i*) to permanently invest these and other undistributed earnings in FCBT, thereby indefinitely postponing their conversion to cash, or *ii*) to pass through any distribution related to pre-1993 earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred FIT on amounts allocated to the Association which relate to FCBT's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred FIT have not been provided on FCBT's post-1992 unallocated earnings. FCBT currently has no plans to distribute its unallocated earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid by the Association.

Patronage Refunds. The Association records expected FCBT patronage refunds quarterly and then records actual refunds when declared in December. The Association records patronage refunds from other associations when received. Patronage refunds from other associations are included in other noninterest income.

Note 2 — Summary of Significant Accounting Policies (continued)

Off-balance-sheet credit exposures. Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Reclassifications. Certain prior year amounts have been reclassified to conform with the current presentation.

Note 3: Merger With GPAg (the "Merger")

Effective January 1, 2015, the Association and GPAg merged. In accordance with current governance over financial accounting and reporting, AgTexas Farm Credit Services acquired GPAg. All assets and liabilities of the acquired association were adjusted to reflect the fair market value as of the date of acquisition and are included in the respective line-item balance of the merged Association's Consolidated Balance Sheet. Any discounts or premiums resulting from the fair value adjustments made to the acquired assets and liabilities were offset as an adjustment to the merged Association's additional paid-in-capital line-item of the Consolidated Balance Sheet. The acquired association's total member's equity, with the exception of its capital stock, participation certificates, and patronage allocated surplus, was reported as additional paid-in-capital in the merged Association's Consolidated Balance Sheet. The acquired association's capital stock, participation certificates and patronage allocated surplus are included in the respective line-item balance in the merged Association's Consolidated Balance Sheet.

Since the Association operates for the mutual benefit of its customer-owners and other customers and not for the benefit of any other equity investors, capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of stock in one association that were converted to shares of another association had identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio. Management believes that because the stock in each association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the acquiring association identified and estimated the acquisition date fair value of the net assets of the acquired association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. The excess value received, by the acquiring Association from the acquired Association, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital. The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed as of the date of merger with GPAg.

Note 3: Merger (continued)

	Gross Value	Contractual Amounts Not Expected to be Collected	Fair-value & Other Merger-related Adjustments	Fair Value
Assets				
Cash	$ 34,028	$ -	$ -	$ 34,028
Investments	2,509,747	-	26,615	2,536,362
Loans	525,309,053	-	119,671	525,428,724
Less: ALL	(2,363,057)	2,363,057	-	-
Loan credit mark	-	-	(2,363,057)	(2,363,057)
Loan yield mark	-	-	(4,250,044)	(4,250,044)
Net loans	522,945,996	2,363,057	(6,493,430)	518,815,623
Accrued interest receivable	5,710,577	-	-	5,710,577
Capital stock of FCBT	7,857,860	-	-	7,857,860
Receivable from FCBT	6,018,295	-	-	6,018,295
Deferred taxes, net	1,511,546	-	(1,511,546)	-
Premises & equipment	5,279,897	-	-	5,279,897
Goodwill & other intangible	569,722	-	(569,722)	-
Other assets	828,243	-	-	828,243
Total assets	553,265,911	2,363,057	(8,548,083)	547,080,885
Liabilities				
Note payable to FCBT	443,233,680	-	-	443,233,680
Note payable yield mark	-	-	(3,485,036)	(3,485,036)
Advance conditional payments	5,708,425	-	-	5,708,425
Accrued interest payable	553,114	-	-	553,114
Patronage distributions payable	5,198,892	-	-	5,198,892
Other liabilities	7,460,992	(760,101)	-	6,700,891
Allowance for unfunded credit mark	-	-	760,101	760,101
Total liabilities	462,155,103	(760,101)	(2,724,935)	458,670,067
Net assets acquired	$ 91,110,808	$ 3,123,158	$ (5,823,148)	$ 88,410,818

The assets acquired from GPAg included loans at fair value of $518,815,623 with a contractual amount of $525,309,053. As of January 1, 2015, the gross contractual amount of loans not expected to be collected was $2,363,057. Additional contractual amounts not expected to be collected included $760,101 in unfunded commitments as of January 1, 2015. The fair value of impaired loans at January 1, 2015, was $5,288,273 (including a credit mark of $60,471) and the recorded investment of these loans as of January 1, 2015, was $5,304,084. The gross contractual amount of these loans as of December 31, 2015 and January 1, 2015, was $229,315 and $6,255,230, respectively. The recorded investment of these loans as of December 31, 2015, was $2. The amount of accretable yield related to impaired loans acquired was $24,011 and $48,512 as of December 31, 2015, and January 1, 2015, respectively. The amount of accretable yield on non-impaired loans was $2,079,546 and $4,201,532 as of December 31, 2015, and January 1, 2015, respectively. The amount of non-accretable yield to all loans and commitments acquired was $1,545,805 and $3,123,158 as of December 31, 2015 and January 1, 2015, respectively. The Association recognized $371,664 in net income related to the accretion of the fair value adjustments related to the fair value adjustments in the year ended December 31, 2015. There is a net discount of $366,730 of accretable fair value adjustments of all assets and liabilities remaining as of December 31, 2015.

Note 4: *Held to Maturity* ("HTM") Investment Securities

Federal Agricultural Mortgage Corporation ("**Farmer Mac**") guaranteed *agricultural mortgage-backed securities* ("**AMBS**") comprise the Association's investment portfolio, and the Association services the underlying loans. Additional information follows:

	AMBS				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
December 31, 2015	**$4,531,324**	**$ 32,417**	**$ -**	**$4,563,741**	**5.30%**
December 31, 2014	$ 2,850,679	$ 37,023	$ -	$ 2,887,702	5.42%
December 31, 2013	$ 3,117,504	$ 26,851	$ -	$ 3,144,355	5.40%

The Association has not experienced impairments of these securities. Farmer Mac guarantees the underlying mortgages, and the Association has the ability and intent to hold these securities to maturity or pay-off and it is unlikely the Association would be required to sell these securities. These AMBS have contractual maturities in excess of five years and a weighted average life of 1.86 years at December 31, 2015, however, expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Note 5: Loans & *Allowance for Loan Losses* ("ALL")

Loans. Loan carrying amounts (outstanding principal adjusted as applicable for capitalized accrued interest, direct partial charge-offs, deferred fees or costs on originated loans, and unamortized purchase premiums and discounts; excludes uncapitalized accrued interest) by portfolio *segment* follow:

	2015		2014		2013	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 634,678,058**	**41.9%**	$ 318,831,864	37.6%	$ 251,862,612	40.9%
Production & intermediate term	**573,704,746**	**37.8%**	259,225,298	30.7%	157,215,928	25.4%
Agribusiness:						
Loans to cooperatives	**3,414,054**	**0.2%**	1,552,177	0.2%	1,523,285	0.2%
Processing & marketing	**64,023,372**	**4.2%**	19,974,136	2.4%	20,071,772	3.2%
Farm-related business	**26,790,359**	**1.8%**	8,410,294	1.0%	6,416,366	1.0%
Communication	**13,656,047**	**0.9%**	5,246,169	0.6%	3,824,909	0.6%
Energy	**4,633,946**	**0.3%**	5,642,171	0.7%	4,314,789	0.7%
Water & waste water	**626,355**	**0.0%**	822,419	0.1%	1,507,736	0.2%
Rural residential real estate	**10,033,541**	**0.7%**	8,892,641	1.1%	6,448,103	1.0%
Agricultural export finance	**-**	**0.0%**	120,084	0.0%	136,931	0.0%
Lease receivables	**60,302**	**0.0%**	-	0.0%	-	0.0%
Mission-related investments	**185,400,243**	**12.2%**	216,151,399	25.6%	165,553,375	26.8%
Total	**$1,517,021,023**	**100.0%**	$ 844,868,652	100.0%	$ 618,875,806	100.0%

Management purchases loans and extends credit in accordance with mission related investment programs, including the RAB program, approved by FCA. This activity allows the Association to provide credit that furthers the System's mission to serve rural America. These transactions generally involve government guarantees or taxing authority and purchase premiums and discounts. Mission related investment loan carrying amount details follow:

Note 5: Loans & ALL (continued)

Loan Type	**2015** Amount	**2015** %	2014 Amount	2014 %	2013 Amount	2013 %
100% USDA guaranteed loans	**$ 125,219,108**	**67.5%**	$ 152,390,109	70.5%	$ 127,281,447	76.9%
Loans under RAB Program	**60,181,135**	**32.5%**	63,761,290	29.5%	38,271,928	23.1%
Total	**$ 185,400,243**	**100.0%**	$ 216,151,399	100.0%	$ 165,553,375	100.0%

Mission related investment loans purchased with 100% U.S. government agency or government sponsored enterprise guarantees present essentially no credit risk other than purchase premiums, which are forfeited when borrowers prepay or refinance their loans before the premiums are fully amortized. Management anticipates and considers potential prepayments to estimate an appropriate amortization period. Net purchased premiums included in the mission related investment loans above follow:

	2015 Amount	2014 Amount	2013 Amount
Beginning of year	**$ 6,318,179**	$ 5,839,700	$ 4,651,408
Paid	**79,826**	2,822,715	2,776,524
Amortizations & dispositions	**(2,134,510)**	(2,344,236)	(1,588,232)
Net premium at risk	**$ 4,263,495**	$ 6,318,179	$ 5,839,700

The Association has obtained Farmer Mac loan guarantees in the form of standby commitments to purchase qualifying loans. The agreements, which remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. At December 31, 2015, 2014, & 2013, loans totaling $116,571,723, $15,204,567, & $7,846,683, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $293,483, $53,113, & $61,761 in 2015, 2014, & 2013, respectively, and are included in “other noninterest expense” in the accompanying consolidated statements of comprehensive income.

The Association may purchase or sell participations in loans to diversify risk, manage loan volume, and comply with FCA regulations. Participation details follow:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 20,177,616	$ 92,311,713	$ 55,488,061	$ 4,909,393	$ 75,665,677	$ 97,221,106
Production & intermediate term	46,895,865	690,030,538	-	2,832,453	46,895,865	692,862,991
Agribusiness	73,405,431	-	-	-	73,405,431	-
Communication	13,598,264	-	-	-	13,598,264	-
Energy	4,633,946	-	-	-	4,633,946	-
Water & waste water	529,299	-	-	-	529,299	-
Lease receivables	-	-	60,302	-	60,302	-
Total	$159,240,421	$782,342,251	$ 55,548,363	$ 7,741,846	$214,788,784	$790,084,097

Note 5: Loans & ALL (continued)

Loans (continued). The Association's lending concentrations/diversification geographically and across various agricultural commodities and other loan categories are provided in the following tables. Concentration/diversification do not necessarily equate to credit risk since loans are collateralized and borrowers' abilities to repay vary widely and do not necessarily correspond with the geography, commodity, and other loan categories provided below, although there may be strong correlations from time-to-time. Management considers myriad factors to assess and manage credit risks, and these factors influence credit risk assessments, which are a significant input in management's estimate of an appropriate ALL.

Geographic distribution by percentage of dollar carrying amounts of loans follow:

County	2015	2014	2013
Castro	**5.1%**	0.0%	0.0%
Erath	**3.9%**	6.5%	6.7%
Dallam	**3.7%**	0.3%	0.4%
Gaines	**3.5%**	5.5%	6.3%
Hale	**3.4%**	2.3%	0.4%
Terry	**3.0%**	5.2%	5.8%
Potter	**2.5%**	1.7%	0.1%
Lubbock	**2.1%**	4.0%	4.0%
Parmer	**2.1%**	0.0%	0.0%
Hockley	**2.1%**	3.1%	3.2%
Sherman	**2.0%**	0.0%	0.0%
Deaf Smith	**1.9%**	0.6%	0.2%
Lynn	**1.8%**	3.0%	3.4%
Lamb	**1.8%**	0.3%	0.2%
Moore	**1.7%**	0.3%	0.4%
Hood	**1.6%**	2.6%	2.2%
Parker	**1.4%**	2.2%	2.6%
Swisher	**1.4%**	0.0%	0.0%
Hill	**1.3%**	2.4%	2.8%
Hartley	**1.3%**	0.6%	0.4%
Tarrant	**1.2%**	0.4%	0.6%
Floyd	**1.1%**	0.1%	0.2%
Comanche	**1.1%**	1.6%	1.8%
Hansford	**1.1%**	0.0%	0.0%
Randall	**1.1%**	0.5%	0.0%
Yoakum	**1.0%**	1.5%	1.6%
Ellis	**0.8%**	1.8%	2.8%
Cochran	**0.8%**	1.8%	2.0%
Navarro	**0.8%**	1.6%	2.1%
Johnson	**0.8%**	1.8%	2.1%
Hamilton	**0.8%**	1.3%	1.5%
Eastland	**0.8%**	1.4%	2.1%
Crosby	**0.7%**	1.1%	1.3%
Bosque	**0.7%**	1.1%	1.2%
Other Texas Counties	**11.2%**	14.0%	14.1%
Other States	**28.4%**	29.4%	27.5%
Totals	**100.0%**	**100.0%**	**100.0%**

Note 5: Loans & ALL (continued)

Loans (continued). Distribution by percentage of dollar carrying amounts of loans by commodity and other loan categories follow:

Operation/Commodity	**2015**	2014	2013
Livestock other than dairy & poultry	**24.1%**	11.3%	10.2%
Field crops other than cash grains	**15.2%**	21.3%	23.1%
Wholesale trade - nondurable goods	**11.1%**	20.6%	22.8%
Cash grains	**8.6%**	0.9%	1.4%
General farms, primarily crops	**8.4%**	4.7%	5.1%
Dairy farms	**7.2%**	6.1%	3.8%
Hunting, trapping & game propagation	**5.0%**	8.2%	8.1%
General farms, primarily livestock	**3.8%**	5.1%	7.0%
Poultry & eggs	**3.1%**	3.2%	0.2%
Health Services	**2.7%**	5.2%	4.6%
Real estate	**1.6%**	2.5%	2.2%
Food & kindred products	**1.6%**	0.9%	1.0%
Agricultural services	**1.5%**	2.1%	2.7%
Timber, lumber & wood products, except furniture	**1.4%**	1.5%	2.1%
Chemical & allied products	**1.4%**	1.6%	0.7%
Communication	**0.9%**	0.6%	0.6%
Rural home loans	**0.7%**	1.1%	0.8%
Farm & garden machinery & equipment	**0.4%**	0.5%	0.7%
Electric services	**0.3%**	0.8%	0.9%
Animal specialties	**0.3%**	0.5%	0.7%
Fruit & tree nuts	**0.3%**	0.4%	0.5%
Public warehousing & storage	**0.2%**	0.4%	0.5%
Horticultural specialties	**0.1%**	0.1%	0.1%
Building materials, hardware & garden supplies	**0.0%**	0.0%	0.1%
Other	**0.1%**	0.4%	0.1%
Total	**100.0%**	100.0%	100.0%

Credit Quality. Loans are the Association’s primary asset. Collectibility of these assets is critical to the Association’s financial position and results of operations. Collectibility is primarily a function of credit quality.

Loans that have not performed in accordance with terms demonstrate heightened credit risk, and the level and trends in nonperforming loans is a strong indicator of credit quality. Nonperforming loans and OPO comprise nonperforming assets. The *recorded investment* in nonperforming asset balances by loan portfolio *segment* and OPO follow:

Note 5: Loans & ALL (continued)

Credit Quality (continued).

	December 31, 2015	December 31, 2014	December 31, 2013
Nonaccrual loans:			
Real estate mortgage	**$ 3,021,910**	$ 1,012,204	$ 1,778,860
Production & intermediate term	**3,393,427**	128,930	126,998
Rural residential real estate	**51,464**	-	-
Mission-related investments	**3,092,890**	-	-
Total nonaccrual loans	**9,559,691**	1,141,134	1,905,858
Accruing restructured loans:			
Real estate mortgage	**6,712,457**	-	270,735
Production & intermediate term	**3,072,635**	-	-
Total accruing restructured loans	**9,785,092**	-	270,735
Accruing loans 90 days or more past due:			
Production & intermediate term	**20,879**	-	-
Mission-related investments	**729,069**	1,057,351	496,762
Total accruing loans 90 days or more past due	**749,948**	1,057,351	496,762
Total nonperforming loans	**20,094,731**	2,198,485	2,673,355
Other property owned	**1,445,855**	233,500	441,470
Total nonperforming assets	**$ 21,540,586**	$ 2,431,985	$ 3,114,825

Foregone interest income on nonaccrual and accruing restructured loans that would have been recognized under the original loan terms follows:

	2015	2014	2013
Interest income which would have been recognized under the original terms	**$ 1,837,453**	$ 485,996	$ 403,497
Less: interest income recognized	**(1,409,802)**	(165,568)	(6,225)
Foregone interest income	**$ 427,651**	$ 320,428	$ 397,272

Note 5: Loans & ALL (continued)

Credit Quality (continued). Age analysis of the *recorded investment* in past due loans by loan *segment* follows:

December 31, 2015:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days & Accruing**
Real estate mortgage	**$ 312,326**	**$ 2,281,384**	**$ 2,593,710**	**$ 640,035,530**	**$ 642,629,240**	**$ -**
Production & intermediate term	**5,102,617**	**2,580,769**	**7,683,386**	**572,782,045**	**580,465,431**	**20,879**
Loans to cooperatives	**-**	**-**	**-**	**3,469,464**	**3,469,464**	**-**
Processing & marketing	**-**	**-**	**-**	**64,128,537**	**64,128,537**	**-**
Farm-related business	**-**	**-**	**-**	**26,971,910**	**26,971,910**	**-**
Communication	**-**	**-**	**-**	**13,662,241**	**13,662,241**	**-**
Energy	**-**	**-**	**-**	**4,644,598**	**4,644,598**	**-**
Water & waste water	**-**	**-**	**-**	**626,838**	**626,838**	**-**
Rural residential real estate	**203,205**	**51,464**	**254,669**	**9,860,876**	**10,115,545**	**-**
Lease receivables	**-**	**-**	**-**	**60,392**	**60,392**	**-**
Mission-related investments	**226,969**	**3,821,958**	**4,048,927**	**183,161,456**	**187,210,383**	**729,069**
Total	**$ 5,845,117**	**$ 8,735,575**	**$ 14,580,692**	**$ 1,519,403,887**	**$ 1,533,984,579**	**$ 749,948**

December 31, 2014:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days & Accruing
Real estate mortgage	$ 400,772	$ 680,920	$ 1,081,692	$ 321,719,451	$ 322,801,143	$ -
Production & intermediate term	433,224	80,311	513,535	262,929,400	263,442,935	-
Loans to cooperatives	-	-	-	1,602,780	1,602,780	-
Processing & marketing	-	-	-	19,995,469	19,995,469	-
Farm-related business	-	-	-	8,563,283	8,563,283	-
Communication	-	-	-	5,246,887	5,246,887	-
Energy	-	-	-	5,650,946	5,650,946	-
Water & waste water	-	-	-	822,425	822,425	-
Rural residential real estate	80,653	-	80,653	8,884,277	8,964,930	-
Agricultural export finance	-	-	-	120,084	120,084	-
Mission-related investments	616,110	1,057,350	1,673,460	216,425,507	218,098,967	1,057,351
Total	$ 1,530,759	$ 1,818,581	$ 3,349,340	$ 851,960,509	$ 855,309,849	$ 1,057,351

December 31, 2013:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days & Accruing
Real estate mortgage	$ 2,109,328	$ 1,206,744	$ 3,316,072	$ 252,048,506	$ 255,364,578	$ -
Production & intermediate term	886,122	126,991	1,013,113	159,213,238	160,226,351	-
Loans to cooperatives	-	-	-	1,580,872	1,580,872	-
Processing & marketing	-	-	-	20,101,293	20,101,293	-
Farm-related business	-	-	-	6,514,024	6,514,024	-
Communication	-	-	-	3,825,815	3,825,815	-
Energy	-	161	161	4,323,482	4,323,643	-
Water & waste water	-	-	-	1,508,089	1,508,089	-
Rural residential real estate	196,574	-	196,574	6,316,240	6,512,814	-
Agricultural export finance	-	-	-	136,931	136,931	-
Mission-related investments	6,170,355	496,600	6,666,955	160,315,501	166,982,456	496,762
Total	$ 9,362,379	$ 1,830,496	$ 11,192,875	$ 615,883,991	$ 627,076,866	$ 496,762

Note 5: Loans & ALL (continued)

Credit Quality (continued). Management has rated each loan in the portfolio using the System's 14-point rating system. These aggregated classifications are a significant indicator of credit quality. The following table presents the Association's loan portfolio *segment* balances, including accrued interest thereon, as a percentage of the total category, as classified by management and aggregated under the FCA's ULCS:

	2015	2014	2013
Acceptable	**97.1 %**	97.3 %	95.8 %
OAEM	**1.4**	1.4	1.8
Substandard/doubtful	**1.5**	1.3	2.4
Real estate mortgage	**100.0**	100.0	100.0
Acceptable	**96.1**	96.9	99.0
OAEM	**2.2**	2.0	0.7
Substandard/doubtful	**1.7**	1.1	0.3
Production & intermediate term	**100.0**	100.0	100.0
Acceptable	**92.8**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**7.2**	-	-
Loans to cooperatives	**100.0**	100.0	100.0
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
Processing & marketing	**100.0**	100.0	100.0
Acceptable	**100.0**	100.0	99.2
OAEM	**-**	-	0.8
Substandard/doubtful	**-**	-	-
Farm-related business	**100.0**	100.0	100.0
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
Communication	**100.0**	100.0	100.0
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
Energy	**100.0**	100.0	100.0
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
Water & waste water	**100.0**	100.0	100.0
Acceptable	**97.1**	98.0	96.9
OAEM	**1.7**	0.9	1.2
Substandard/doubtful	**1.2**	1.1	1.9
Rural residential real estate	**100.0**	100.0	100.0
Acceptable	**-**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
Agricultural export finance	**-**	100.0	100.0
Acceptable	**100.0**	-	-
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
Lease receivables	**100.0**	-	-
Acceptable	**98.3**	98.5	97.9
OAEM	**-**	-	-
Substandard/doubtful	**1.7**	1.5	2.1
Mission-related investments	**100.0**	100.0	100.0
Acceptable	**97.1**	97.6	97.4
OAEM	**1.4**	1.2	1.0
Substandard/doubtful	**1.5**	1.2	1.6
Total Loans	**100.0 %**	100.0 %	100.0 %

Note 5: Loans & ALL (continued)

Credit Quality (continued). Based on current information and events, management has determined it is probable that scheduled payments of principal or interest on the following loans will not be collected when due according to the contractual terms of the loan agreements and has classified these loans as *impaired*. Once classified as impaired, management then determines the amount of *impairment*, if any, on each individual *impaired* loan; aggregated *impairment* on individual *impaired* loans is included in management's estimate of an appropriate ALL at each reporting date. *Impaired* loan information, by loan portfolio *segment*, follows:

	Recorded Investment at 12/31/2015	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 300,934	$ 300,934	$ 7,000	$ 26,383	$ 15,355
Production & intermediate term	718,527	732,560	551,340	196,828	131
Rural residential real estate	51,413	51,413	10,100	5,916	2,167
Mission-related investments	-	-	-	-	-
Total	$ 1,070,874	$ 1,084,907	$ 568,440	$ 229,127	$ 17,653
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 9,433,433	$ 9,342,844	$ -	$ 7,861,515	$ 952,728
Production & intermediate term	5,768,415	7,581,865	-	4,023,227	257,511
Rural residential real estate	51	1,155	-	2	-
Mission-related investments	3,821,958	3,753,401	-	677,459	181,910
Total	$ 19,023,857	$ 20,679,265	$ -	$ 12,562,203	$ 1,392,149
Total impaired loans:					
Real estate mortgage	$ 9,734,367	$ 9,643,778	$ 7,000	$ 7,887,898	$ 968,083
Production & intermediate term	6,486,942	8,314,425	551,340	4,220,055	257,642
Rural residential real estate	51,464	52,568	10,100	5,918	2,167
Mission-related investments	3,821,958	3,753,401	-	677,459	181,910
Total	$ 20,094,731	$ 21,764,172	$ 568,440	$ 12,791,330	$ 1,409,802

	Recorded Investment at 12/31/2014	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production & intermediate term	34,512	34,512	14,600	14,186	-
Rural residential real estate	-	-	-	-	-
Mission-related investments	-	-	-	-	-
Total	$ 34,512	$ 34,512	$ 14,600	$ 14,186	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,012,204	$ 1,209,196	$ -	$ 1,267,189	$ 36,145
Production & intermediate term	94,418	3,208,637		89,734	77,678
Rural residential real estate	-	1,105	-	-	-
Mission-related investments	1,057,351	1,603,691	-	1,020,203	51,745
Total	$ 2,163,973	$ 6,022,629	$ -	$ 2,377,126	$ 165,568
Total impaired loans:					
Real estate mortgage	$ 1,012,204	$ 1,209,196	$ -	$ 1,267,189	$ 36,145
Production & intermediate term	128,930	3,243,149	14,600	103,920	77,678
Rural residential real estate	-	1,105	-	-	-
Mission-related investments	1,057,351	1,603,691	-	1,020,203	51,745
Total	$ 2,198,485	$ 6,057,141	$ 14,600	$ 2,391,312	$ 165,568

Note 5: Loans & ALL (continued)

Credit Quality (continued).

	Recorded Investment at 12/31/2013	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production & intermediate term	-	-	-	-	-
Mission-related investments	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,049,595	$ 2,206,986	$ -	$ 2,057,638	$ 44,039
Production & intermediate term	126,998	3,302,150	-	208,012	1,918
Mission-related investments	496,762	1,070,340	-	486,963	23,132
Total	$ 2,673,355	$ 6,579,476	$ -	$ 2,752,613	$ 69,089
Total impaired loans:					
Real estate mortgage	$ 2,049,595	$ 2,206,986	$ -	$ 2,057,638	$ 44,039
Production & intermediate term	126,998	3,302,150	-	208,012	1,918
Mission-related investments	496,762	1,070,340	-	486,963	23,132
Total	$ 2,673,355	$ 6,579,476	$ -	$ 2,752,613	$ 69,089

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 reflect a previous direct write-down of investment.

There were commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2015, 2014, & 2013 of $137,382, $0 & $0, respectively.

Note 5: Loans & ALL (continued)

Credit Quality (continued). From time-to-time, the Association restructures troubled-debt and grants concessions to borrowers to minimize losses incurred due to borrowers' inability to perform in accordance with the loan agreements. Loans classified as TDR are impaired loans. Accordingly, TDRs are included in the impaired loan information above. Additional information on *recorded investments* in TDR loans, by portfolio *segment* and accrual status, follows:

	Loans Modified as TDRs		
	December 31, 2015	December 31, 2014	December 31, 2013
Troubled debt restructurings:			
Real estate mortgage	**$ 6,876,207**	$ 200,512	$ 726,628
Production & intermediate term	**3,094,351**	-	18,851
Total	**$ 9,970,558**	$ 200,512	$ 745,479

	TDRs on Nonaccrual Status (included in above)		
	December 31, 2015	December 31, 2014	December 31, 2013
Troubled debt restructurings:			
Real estate mortgage	**$ 163,751**	$ 200,512	$ 455,893
Production & intermediate term	**21,715**	-	18,851
Total	**$ 185,466**	$ 200,512	$ 474,744

Information on TDR loans by portfolio *segment* that were restructured during 2015 follows. The pre-restructure amounts presented are the *recorded investments* as of the quarter end immediately preceding the restructure; the post-restructure amounts presented are the *recorded investments* as of the quarter end immediately following the restructure.

December 31, 2015:	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
Troubled debt restructurings:		
Real estate mortgage	**$ 631,409**	**$ 633,563**
Production & intermediate term	**1,718,015**	**1,740,576**
Total	**$ 2,349,424**	**$ 2,374,139**

No TDRs were charged off in 2015, 2014, & 2013.

The *recorded investments* in TDR loans that were restructured within the 12-month period preceding the date indicated below and then had a payment default during the year are presented below by portfolio segment. A payment default is a payment that becomes 30 days past due after restructuring the loan.

Troubled debt restructurings that subsequently defaulted:	**Recorded Investment at December 31, 2015**	Recorded Investment at December 31, 2014	Recorded Investment at December 31, 2013
Real estate mortgage	**$ -**	$ -	$ -
Production & intermediate term	**-**	-	-
Total	**$ -**	$ -	$ -

Note 5: Loans & ALL (continued)

Allowance for Loan Losses ("**ALL**"). Annual ALL activity by portfolio segment follows: The recorded investment in loans and ALL disaggregated by portfolio segment and impairment methodology follows:

ALL:	Real Estate Mortgage	Production & Intermediate Term	Agri-business	Commun-cation	Energy	Water & Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivable	Mission-Related Investments	Total
Balance at December 31, 2014	$ 3,561,415	$ 120,638	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,682,053
Charge-offs	(3,963)	(288,293)	-	-	-	-	-	-	-	-	(292,256)
Recoveries	63,750	782,638	-	-	-	-	-	-	-	-	846,388
Provision for loan losses	(2,224,049)	3,334,461	443,587	29,358	33,521	15,083	25,762	-	194	14,422	1,672,339
Other	96,779	(534,462)	(128,128)	(759)	(3,746)	(10,722)	(4,329)	-	-	-	(585,367)
Balance at December 31, 2015	$ 1,493,932	$ 3,414,982	$ 315,459	$ 28,599	$ 29,775	$ 4,361	$ 21,433	$ -	$ 194	$ 14,422	$ 5,323,157
Ending Balance:											
Individually evaluated for impairment	$ -	$ 568,440	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 568,440
Collectively evaluated for impairment	$ 1,493,932	$ 2,846,542	$ 315,459	$ 28,599	$ 29,775	$ 4,361	$ 21,433	$ -	$ 194	$ 14,422	$ 4,754,717
Acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Recorded Investment in Loans Outstanding:											
Ending Balance for Loans: December 31, 2015	$642,629,240	$ 580,465,431	$94,569,911	$13,662,241	$4,644,598	$ 626,838	$10,115,545	$ -	$ 60,392	$187,210,383	$1,533,984,579
Individually evaluated for impairment	$ 9,734,367	$ 6,486,940	$ -	$ -	$ -	$ -	$ 51,464	$ -	$ -	$ 3,821,958	$ 20,094,729
Collectively evaluated for impairment	$632,894,873	$ 573,978,489	$94,569,911	$13,662,241	$4,644,598	$ 626,838	$10,064,081	$ -	$ 60,392	$183,388,425	$1,513,889,848
Acquired with deteriorated credit quality	$ -	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2

ALL:	Real Estate Mortgage	Production & Intermediate Term	Agri-business	Commun-cation	Energy	Water & Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivable	Mission-Related Investments	Total
Balance at December 31, 2013	$ 2,660,802	$ 209,785	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ 2,870,587
Charge-offs	(38,434)	(21,621)	-	-	-	-	-	-	-	-	(60,055)
Recoveries	12,806	70,613	-	-	-	-	-	-	-	-	83,419
Provision for loan losses	1,039,908	1,882	-	-	-	-	-	-	-	-	1,041,790
Other	(113,663)	(140,025)	-	-	-	-	-	-	-	-	(253,688)
Balance at December 31, 2014	$ 3,561,419	$ 120,634	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,682,053
Ending Balance:											
Individually evaluated for impairment	$ -	$ 14,600	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14,600
Collectively evaluated for impairment	$ 3,561,419	$ 106,034	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,667,453
Acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Recorded Investment in Loans Outstanding:											
Ending Balance at December 31, 2014	$322,801,143	$ 263,442,935	$30,161,532	$ 5,246,887	$5,650,946	$ 822,425	$ 8,964,930	$ 120,084	$ -	$218,098,967	$ 855,309,849
Individually evaluated for impairment	$ 1,012,204	$ 128,930	$ -	$ -	$ 161	$ -	$ -	$ -	$ -	$ 1,057,189	$ 2,198,484
Collectively evaluated for impairment	$321,788,939	$ 263,314,005	$30,161,532	$ 5,246,887	$5,650,785	$ 822,425	$ 8,964,930	$ 120,084	$ -	$217,041,778	$ 853,111,365
Acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Note 5: Loans & ALL (continued)

ALL (continued).

ALL:	Real Estate Mortgage	Production & Intermediate Term	Agri-business	Commun-cation	Energy	Water & Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivable	Mission-Related Investments	Total
Balance at December 31, 2012	$ 2,674,546	$ 271,093	$ -	$ 300,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,245,639
Charge-offs	(49,916)	(132,563)	-	-	-	-	-	-	-	-	(182,479)
Recoveries	200	14,772	-	-	-	-	-	-	-	-	14,972
Provision for loan losses	35,972	56,483	-	(300,000)	-	-	-	-	-	-	(207,545)
Balance at December 31, 2013	$ 2,660,802	$ 209,785	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,870,587
Ending Balance:											
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 2,660,802	$ 209,785	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,870,587
Acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Recorded Investment in Loans Outstanding:											
Ending Balance at December 31, 2013	$255,364,578	$ 160,226,351	$28,196,189	$ 3,825,815	$4,323,643	$1,508,089	$ 6,512,814	$ 136,931	$ -	$166,982,456	$ 627,076,866
Individually evaluated for impairment	$ 2,049,595	$ 127,001	$ -	$ -	$ 161	$ -	$ -	$ -	$ -	$ 496,599	$ 2,673,356
Collectively evaluated for impairment	$253,314,983	$ 160,099,350	$28,196,189	$ 3,825,815	$4,323,482	$1,508,089	$ 6,512,814	$ 136,931	$ -	$166,485,857	$ 624,403,510
Acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Note 6: Farm Credit Bank of Texas Capital Stock

The Association owned 10.1%, 6.25%, & 5.5% of the outstanding stock of FCBT at December 31, 2015, 2014, & 2013. At those dates, FCBT's assets totaled $20.0 billion, $18.0 billion, & $16.2 billion and members' equity totaled $1.6 billion, $1.5 billion, & $1.4 billion, respectively. FCBT's earnings were $192.2 million, $188.3 million, & $179.8 million in 2015, 2014, & 2013, respectively.

Note 7: Premises & Equipment

Premises & equipment, net, in the accompanying consolidated balance sheets is comprised as follows:

	Estimated Useful Lives	**2015**	2014	2013
Land & improvements	10-15 years	**$ 3,885,750**	$ 755,881	$ 755,881
Building & improvements	10-40 years	**5,854,253**	2,564,546	2,561,804
Furniture and equipment	3-10 years	**578,845**	670,463	669,474
Computer equipment and software	3-5 years	**521,990**	496,108	457,913
Automobiles	5 years	**1,552,240**	768,890	669,845
Construction in progress		**4,357,564**	1,617,530	542,618
		16,750,642	6,873,418	5,657,535
Accumulated depreciation		**(2,124,100)**	(2,496,123)	(2,177,489)
Total		**$ 14,626,542**	$ 4,377,295	$ 3,480,046

The Association leases office space under non-cancelable operating leases. Lease expense was $227,316, $254,916, & $284,215 in 2015, 2014, & 2013, respectively. Minimum annual lease payments under these leases are $227,316 and 170,487 for 2016 & 2017, respectively.

Note 8: *Other Property Owned* ("OPO")

Revenues, expenses, gains, and losses associated with OPO are comprised as follow:

	2015	2014	2013
Gain on sale, net	$ -	$ 576,180	$ 3,994
Carrying value adjustments	(152,646)	-	-
Operating expense, net	(8,517)	(4,814)	(6,929)
Net gain (loss) on other property owned	$ (161,163)	$ 571,366	$ (2,935)

Note 9: Other Assets & Other Liabilities

Other assets in the accompanying consolidated balance sheets were comprised as follow:

	2015	2014	2013
FCS captive insurance & other stock	$ 851,355	$ 331,774	$ 301,963
Prepaids	278,534	20,487	23,286
Other	34,941	23,218	24,956
Total	$ 1,164,830	$ 375,479	$ 350,205

Other liabilities in the accompanying consolidated balance sheets were comprised as follow:

	2015	2014	2013
Employee incentives payable	$ 4,690,956	$ 3,430,505	$ 2,043,841
FCS insurance premium payable	1,228,251	506,471	354,316
Allowance for unfunded commitments	1,215,266	253,688	-
Accrued annual leave	527,117	226,951	201,447
Other	576,377	219,917	222,357
Total	$ 8,237,967	$ 4,637,532	$ 2,821,961

Note 10: Note Payable to FCBT

Interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with FCBT. FCBT manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's note to FCBT represents Association borrowings to fund the majority of its loan portfolio. The note is collateralized by a pledge of substantially all of the Association's assets, and is governed by a *General Financing Agreement* ("**GFA**"). The interest rate on the note is based on FCBT's cost of funds. The note continues in effect until the expiration date specified in the GFA, which is September 30, 2018, unless sooner terminated by FCBT upon the occurrence of an event of default, or by the Association, in the event of a breach of the agreement by FCBT, upon giving FCBT 30 calendar days' prior written notice, or in all other circumstances, upon giving FCBT 120 days' prior written notice.

The balance outstanding on the Association's Direct Note from FCBT and the weighted average interest rate at December 31, 2015, 2014, & 2013, was $1,340,973,977 at 1.71%, $765,294,810 at 1.82%, & $539,845,044 at 1.84%, respectively.

Note 10: Note Payable to FCBT

Under the Act, the Association is obligated to borrow only from FCBT unless FCBT approves borrowing from other funding sources. FCBT 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 December 31, 2015, 2014, & 2013, the Association's Direct Note was within the specified limitations. The maximum amount the Association could borrow from FCBT as of December 31, 2015, was $1,518,510,819, as defined by the GFA.

In addition to borrowing limits, the GFA contains covenants that include *i*) limits on leases, investments, other debt, and dividend and patronage distributions; *ii*) minimum standards for return on assets and liquidity; and *iii*) provisions that address how the Association conducts business, maintains records, reports financial information, and establishes policies and procedures. Remedies specified in the GFA associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on debt, reduction of lending limits, and repayment of debt. As of and for the years ended December 31, 2015, 2014, & 2013, management believes the Association complied with GFA covenants.

Note 11: Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates, and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class B capital stock (for agricultural loans to producers) or participation certificates (for rural home and farm-related business loans) is equal to 2.0% of the loan amount, up to a maximum amount of $1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10.0% of the loan amount.

Each owner of Class B capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class B capital stock to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class A shares is made solely at the discretion of the Association's board of directors and at the request of the stockholder of record.

Note 11: Members' Equity (continued)

The Association's Class A and B stock and participation certificates outstanding, at a par value of $5 per share, are comprised as follow:

	2015	2014	2013
Class A stock	**6,081**	5,357	5,930
Class B stock	**775,850**	553,069	526,550
Participation certificates	**15,876**	16,673	12,708
Total	**797,807**	575,099	545,188

All borrower stock is at risk; losses that result in impairment of capital stock or participation certificates would be borne on a pro rata basis by all holders of Class A and B capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be used as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to FCBT would be distributed to the Association's stockholders.

Dividends and patronage distributions may be paid on Association capital stock and participation certificates, as the board of directors may determine by resolution, subject to capitalization requirements defined by the FCA and presented below. Amounts not distributed are retained as unallocated retained earnings. The following patronage distributions were declared and paid in 2015, 2014, & 2013, respectively:

	Patronage declared			
Year ended	Cash	Allocated Surplus	Prior year patronage paid	Retirement/ Revolvement of Allocated Surplus
December 31, 2015	**$ 11,943,787**	**$ 2,399,220**	**$ 3,500,000**	**$ 476**
December 31, 2014	3,500,000	-	3,164,539	12,693
December 31, 2013	3,164,539	-	2,750,000	1,947,806

In addition to the amount shown above as prior year patronage paid during 2015, the Association distributed $5,198,882 related to GPAg's 2014 patronage declaration. This amount was included in other liabilities in the merger fair value table in Note 3.

FCA capital adequacy regulations require the Association to achieve and maintain permanent capital, total surplus, and core surplus ratios to risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's CFS. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2015, the Association was not prohibited from retiring stock or distributing earnings. The Association's capital ratios follow:

	December 31,			Regulatory
	2015	2014	2013	Minimun
Permanent Capital Ratio	**13.1 %**	12.9 %	15.0 %	7.0 %
Total Surplus Ratio	**12.8**	12.5	14.4	7.0
Core Surplus Ratio	**12.8**	12.5	14.4	3.5

Note 11: Members' Equity (continued)

The Association's board of directors has established a *Capital Adequacy Plan* ("**CAP**") that includes the capital targets that are necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards. The CAP monitors projected dividends, patronage distributions, equity retirements, and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered to meet the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the ALL to absorb potential loss within the loan portfolio; sufficiency of liquid funds; needs of the Association's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities, or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

Note 12: Income Taxes

A reconciliation of the expected FIT expense on Earnings before income taxes to actual FIT expense follows:

	2015	2014	2013
Federal tax at statutory rate	**$ 10,499,910**	$ 4,183,900	$ 3,922,150
Effect of nontaxable FLCA subsidiary	**(8,509,010)**	(3,321,173)	(3,264,267)
Patronage distributions	**(2,684,313)**	(864,655)	(638,140)
Change in valuation allowance	**818,708**	(2,072)	(58,675)
Other	**(125,295)**	4,000	38,932
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

Net deferred FIT assets included in other assets in the accompanying consolidated balance sheets, are comprised as follow:

	2015	2014	2013
Deferred Tax Assets			
Allowance for loan losses	**$ 1,491,328**	$ 77,740	$ 71,327
Merger costs & adjustments	**261,447**	-	-
Loss carryforwards	**362,850**	130,247	128,673
Postretirement benefits, other	**841,997**	445,162	459,910
Other	**34,334**	73,512	64,679
Gross deferred tax assets	**2,991,956**	726,661	724,589
Deferred tax asset valuation allowance	**(2,991,956)**	(726,661)	(724,589)
Net deferred tax asset	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions about future taxable earnings. At December 31, 2015, nonpatronage income is expected to be 0% of total taxable income (before patronage), and patronage income retained is expected to be at least 10% of total patronage income on a tax basis. Expected future tax rates are based upon enacted tax laws.

Note 12: Income Taxes (continued)

The IRC allows a deduction for patronage distributions of patron sourced income. Deduction of the patronage is allowed during the same year earned by the Association. Due to this deduction, the Association experienced a net operating loss in 2005 which can be carried forward until 2025.

Management is not aware of any tax positions where it is considered reasonably possible that the total amount of unrecognized tax liabilities or benefits will vary significantly from the amounts reported herein.

Note 13: Employee Benefit Plans

Employee Retirement Benefits. Association employees participate in either the DB Plan or the DC Plan. All eligible employees may also participate in the 401k.

DB Plan participants generally include employees hired prior to January 1, 1996. The actuarial present value of vested and nonvested accumulated benefit obligations exceeded the net assets of the DB Plan at December 31, 2015, 2014, & 2013. The Association recognized pension costs of $836,341, $757,811, & $1,064,168 in 2015, 2014, & 2013, respectively. Assets the Association contributes to the DB Plan may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the DB Plan, the unfunded DB Plan obligations may be borne by the remaining participating employers, including the Association. The following table includes additional information regarding the DB Plan:

	2015	2014	2013
DB Plan assets to *projected benefit obligation*	**66.8 %**	67.5 %	77.3 %
DB Plan assets to *accumulated benefit obligation*	**72.5 %**	74.5 %	86.1 %
Association's contribution	**$ 836,341**	$ 757,811	$ 1,064,168
Percentage of Association's contribution to total contributions	**7.8 %**	6.2 %	6.5 %

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. DC Plan participants direct the investment of the Association's contributions, which were 5% of eligible pay for the years ended December 31, 2015, 2014, & 2013, across various investment alternatives. The Association recognized pension costs for the DC Plan of $437,802, $199,201, & $173,943 in 2015, 2014, & 2013, respectively.

In the 401k, the Association matches 100% of employee contributions up to 3% of eligible earnings and 50% of the next 2%, up to a maximum employer contribution of 4% of eligible earnings. Association 401k costs are expensed as incurred. The Association's contributions to the 401k were $446,500, $230,696, & $201,690 in 2015, 2014, & 2013, respectively.

Other Postretirement Health Care Benefits ("**OPRB**"). The Association provides OPRB to qualifying retired employees. These OPRB are not characterized as multiemployer, and the liability for these OPRB is included in accrued postretirement benefit liability in the accompanying consolidated balance sheets. Additional information on these benefits follows:

Note 13: Employee Benefit Plans (continued)

OPRB (continued).

	2015	2014	2013
OPRB accumulated obligation, beginning of year	**$ 3,968,918**	$ 3,014,658	$ 3,487,983
Additional liability acquired with merger	**2,728,965**	-	-
Service cost	**170,528**	78,783	101,119
Interest cost	**301,031**	154,418	151,336
Plan participants' contributions	**14,767**	6,014	6,482
Actuarial loss (gain)	**(797,331)**	813,238	(633,824)
Benefits paid	**(176,493)**	(98,193)	(98,438)
OPRB accumulated obligation, end of year	**6,210,385**	3,968,918	3,014,658
Plan assets at fair value, beginning of year	**-**	-	-
Actual return on plan assets	**-**	-	-
Company contributions	**161,726**	92,179	91,956
Plan participants' contributions	**14,767**	6,014	6,482
Benefits paid	**(176,493)**	(98,193)	(98,438)
Plan assets at fair value, end of year	**-**	-	-
Funded status of the plan	**$ (6,210,385)**	$ (3,968,918)	$ (3,014,658)

Accumulated other comprehensive loss ("**AOCL**") in members' equity includes net actuarial losses and prior service costs/credits that have been included in liabilities, but not amortized into earnings

	2015	2014	2013
Net actuarial loss (gain)	**$ 274,418**	$ 1,157,676	$ 350,047
Prior service cost (credit)	**(162,814)**	(228,090)	(306,673)
AOCL from OPRB	**$ 111,604**	$ 929,586	$ 43,374

Weighted-Average Assumptions Used to Determine OPRB Obligations:

	2015	2014	2013
Measurement date	**12/31/2015**	12/31/2014	12/31/2013
Discount rate	**4.70%**	4.55%	5.20%
Health care cost trend rate assumed for next year (pre-65) - medical	**7.00%**	7.25%	7.50%
Health care cost trend rate assumed for next year (post-65) - medical	**6.50%**	6.75%	6.50%
Health care cost trend rate assumed for next year - Rx	**6.50%**	6.75%	6.50%
Ultimate health care cost trend rate	**4.50%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2025**	2024	2024
Service cost	**$ 170,528**	$ 78,783	$ 101,119
Interest cost	**301,031**	154,418	151,336
Expected return on plan assets	**-**	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	**-**	-	-
Unrecognized prior service cost	**(65,276)**	(78,583)	(78,583)
Unrecognized net loss (gain)	**85,927**	5,609	69,230
Net OPRB Cost	**$ 492,210**	$ 160,227	$ 243,102
Accounting for settlements/curtailments/special termination benefits	**$ -**	$ -	$ -

Note 13: Employee Benefit Plans (continued)

OPRB (continued).

Weighted-Average Assumptions Used to Determine OPRB Obligations (continued):			
Net actuarial loss (gain)	**$ (797,331)**	$ 813,238	$ (633,824)
Recognition of prior service cost	**65,276**	78,583	78,583
Amortization of transition liability (asset)	**(85,927)**	(5,609)	(69,230)
Other comprehensive (income) loss from OPRB obligation	**$ (817,982)**	$ 886,212	$ (624,471)
Unrecognized net transition obligation (asset)	**$ -**	$ -	$ -
Unrecognized prior service cost	**(59,206)**	(65,276)	(78,583)
Unrecognized net loss (gain)	**-**	85,927	5,609
AOCI amounts expected to be amortized into expense	**$ (59,206)**	$ 20,651	$ (72,974)

Weighted-Average Assumptions Used to Determine Benefit Cost:

	2015	2014	2013
Measurement date	**12/31/2014**	12/31/2013	12/31/2012
Discount rate	**4.55%**	5.20%	5.70%
Health care cost trend rate assumed for next year (pre-65) - medical	**7.25%**	7.50%	7.50%
Health care cost trend rate assumed for next year (post-65) - medical	**6.75%**	6.50%	6.50%
Health care cost trend rate assumed for next year - Rx	**6.75%**	6.50%	10.00%
Ultimate health care cost trend rate	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2024**	2024	2017

Expected Benefit Payments (net of employee contributions):	
2016	$ 170,564
2017	207,896
2018	237,532
2019	250,354
2020	292,421
2021–2025	1,769,664
Expected Benefit Payments (net of employee contributions):	$ 2,928,431
Expected Contributions in 2016	$ 170,564

Note 14: Related Party Transactions

Association directors, excluding director-elected directors, are required to be Association borrowers/stockholders. The Association may enter into loan origination or servicing transactions with its *officers, relatives of officers, and directors, or with organizations with which these persons are associated* (collectively referred to as "**Insiders**"), in the ordinary course of business. Insider loans are subject to special approval requirements in FCA regulations and are made on the same terms (including interest rates, amortization schedule, and collateral) as those prevailing at the time for comparable transactions with unrelated borrowers.

	2015	2014	2013
Insider loans at December 31,	**$ 27,757,882**	$ 3,303,696	$ 2,549,007
Insider loans originated	**27,238,609**	3,154,477	2,256,639
Insider loan repayment received	**24,368,127**	2,399,788	2,469,145
Other changes in insider listing, net	**21,583,704**	-	-

In the opinion of management, none of the Insider loans outstanding at December 31, 2015, 2014, & 2013 involved more than a normal risk of collectibility.

Purchased services expenses may include administrative services, marketing, information systems, and accounting services costs which FCBT billed to the Association. These expenses were $1,760,112, $679,193, & $451,808 in 2015, 2014, & 2013, respectively.

The Association received $10,268,037, $3,708,064, & $2,843,139 in patronage payments from FCBT in 2015, 2014, & 2013, respectively.

Note 15: Fair Value Measurements

Valuation Techniques & Inputs. Information about fair value valuation techniques and related inputs for certain financial instruments follow.

Cash. The carrying value of Association cash is fair value.

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

Farmer Mac Guaranteed AMBS, HTM. Fair value measurements for disclosures are estimated using discounted cash flows considering market interest rates, estimated prepayment rates, probabilities of default, and loss severities. Inputs depend significantly on management judgments and experience with these securities and reflect the Association's own assumptions about the assumptions that market participants would use to price the assets. These fair value measurements are level 3 under the fair value hierarchy.

Loans. Fair value is estimated using various methods for different segments of the portfolio. Generally, fair value measurements for disclosures are estimated using discounted cash flows considering market interest rates, prepayment forecasts, probabilities of default, loss severities, and general valuation adjustments included in the ALL. Loans deemed to be impaired involve non-recurring valuation adjustments, if impairment on these impaired loans is identified, generally measured using the collateral method. Inputs to these measurements include independent and internal appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, holding periods, selling costs, and other matters that may result in specific valuation adjustments included in the ALL. Inputs to these measurements depend significantly on management judgments and experience with the portfolio and individual borrowers and reflect the Association's own assumptions about the assumptions that market participants would use to price the assets. These fair value measurements are level 3 under the fair value hierarchy.

Other Property Owned. Fair value is estimated using appraisals or other market-based information and may be used on a non-recurring basis to recognize valuation adjustments. Costs to sell represent transaction costs and are not included as a component of the asset's fair value, although they may be included in the carrying value. These fair value measurements are level 3 under the fair value hierarchy.

Note 15: Fair Value Measurements (continued)

Valuation Techniques & Inputs (continued)

Note Payable to FCBT. Fair value for disclosures are estimated using discounted cash flows considering benchmark yield curve, derived yield spread, and the Association's credit risk. These fair value measurements are level 3 under the fair value hierarchy.

Commitments to Extend Credit. Fair value for disclosures are estimated using discounted cash flows considering the funding rate and risk-adjusted spread. The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations. Currently reported letters of credit reflect letter of credit commitments on capital debt market participations and associated fees. The Association does not normally assess fees on its commitments to extend credit; hence, there is no fair value to be assigned to these commitments until they are funded. These fair value measurements are level 3 under the fair value hierarchy.

Recurring Fair Values. Financial assets measured at fair value on a recurring basis follow:

	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets held in nonqualified benefit trusts				
December 31, 2015	**$ 81,602**	**$ -**	**$ -**	**$ 81,602**
December 31, 2014	-	-	-	-
December 31, 2013	-	-	-	-

NonRecurring Fair Values. Financial assets measured at fair value on a nonrecurring basis follow:

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$ 502,434**	**$ 502,434**
Other property owned	**-**	**-**	**1,445,855**	**1,445,855**

December 31, 2014	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ -	$ -
Other property owned	-	-	233,500	233,500

December 31, 2013	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ -	$ -
Other property owned	-	-	441,470	441,470

Note 15: Fair Value Measurements (continued)

Fair Value Disclosures. Fair value measurements for financial assets and liabilities that are not recorded at fair value follow:

		Fair Value Measurement Using			
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2015:					
Cash	**$ 37,598**	**$ 37,958**	**$ -**	**$ -**	**$ 37,958**
AMBS	**4,531,324**	**-**	**-**	**4,563,741**	**4,563,741**
Net loans	**1,511,195,432**	**-**	**-**	**1,488,302,703**	**1,488,302,703**
Note payable to FCBT	**1,340,973,977**	**-**	**-**	**1,320,737,901**	**1,320,737,901**
December 31, 2014:					
Cash	$ 3,178,220	$3,178,220	$ -	$ -	$ 3,178,220
AMBS	2,850,679	-	-	2,887,702	2,887,702
Net loans	841,186,599	-	-	829,100,097	829,100,097
Note payable to FCBT	765,294,810	-	-	754,036,771	754,036,771
December 31, 2013:					
Cash	$ 1,379,249	$1,379,249	$ -	$ -	$ 1,379,249
AMBS	3,117,504	-	-	3,144,355	3,144,355
Net loans	616,005,219	-	-	603,999,929	603,999,929
Note payable to FCBT	539,845,044	-	-	529,373,061	529,373,061

Note 16: Commitments & Contingencies

In addition to those commitments and contingencies discussed in Note 2, *Summary of Significant Accounting Policies*, the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the CFS. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2015, $455,764,206 of commitments and $4,049,890 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the consolidated balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association entered into a capital lease agreement during 2015 for the purchase of solar panels to be installed at the Amarillo location. Installation began in 2016. Total cost of the project will be approximately $488,000. There will be annual lease payment of approximately $37,000, with a residual payment after 7 years of $122,000.

Note 17: Quarterly Financial Information (Unaudited):

Quarterly results of operations follow:

	2015				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 9,576**	**$ 9,455**	**$ 10,304**	**$ 12,738**	**$ 42,073**
(Provision for) reversal of loan losses	**(601)**	**630**	**(962)**	**(739)**	**(1,672)**
Noninterest income (expense), net	**(3,318)**	**(2,847)**	**(528)**	**(3,708)**	**(10,401)**
Net income	**$ 5,657**	**$ 7,238**	**$ 8,814**	**$ 8,291**	**$ 30,000**

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,345	$ 4,711	$ 5,272	$ 5,589	$ 19,917
(Provision for) reversal of loan losses	(57)	(76)	(582)	(327)	(1,042)
Noninterest income (expense), net	(1,537)	(1,796)	(981)	(2,607)	(6,921)
Net income	$ 2,751	$ 2,839	$ 3,709	$ 2,655	$ 11,954

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,165	$ 4,425	$ 4,447	$ 4,646	$ 17,683
(Provision for) reversal of loan losses	241	172	(158)	(47)	208
Noninterest income (expense), net	(1,594)	(1,657)	(1,201)	(1,904)	(6,356)
Net income	$ 2,812	$ 2,940	$ 3,088	$ 2,695	$ 11,535

Note 18: Subsequent Events

Association management has evaluated subsequent events through March 11, 2016, which is the date the CFS were issued or available to be issued. All significant subsequent events identified have been disclosed in these CFS.

AG TEXAS FARM CREDIT SERVICES

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference from the *Consolidated Financial Statements* (“**CFS**”) note 1, *Organization and Operations*, included in this Annual Report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage or dividends, acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices, and financial assistance provided by or to the Association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from *Management’s Discussion and Analysis of Financial Condition and Results of Operations* (“**MD&A**”) included in this Annual Report.

DESCRIPTION OF PROPERTY

AgTexas Farm Credit Services (“**Association**”) serves its 43-county territory through its main administrative and lending office at 6901 Quaker Avenue, Suite 300 in Lubbock, Texas. Additionally, there are twelve branch lending offices located throughout the territory. The Association owns the office buildings in Amarillo, Brownfield, Burleson, Dimmitt, Dumas, Friona, Hillsboro, Levelland, Plainview, Seminole, Stephenville, and the Muleshoe insurance office, free of debt. Construction of a new building in Amarillo is in process. The Association leases the office building in Lubbock and additional office space in Amarillo.

LEGAL PROCEEDINGS

The Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association’s CFS.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from CFS note 11, *Members’ Equity*, included in this Annual Report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from CFS note 10, *Note Payable to FCBT*, and in the MD&A included in this Annual Report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from CFS note 2, *Summary of Significant Accounting Policies*, and CFS note 16, *Commitments & Contingencies*, included in this Annual Report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the *Farm Credit Bank of Texas* ("**FCBT**"), as discussed in CFS note 1, *Organization and Operations*, included in this Annual Report. FCBT's financial condition and results of operations may materially affect stockholders' investment in the Association.

FCBT's and District associations' (collectively referred to as the "**District**") annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by *i*) writing to FCBT, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204, *ii*) e-mail to *fcb@farmcreditbank.com*, or *iii*) going to the FCBT website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. The annual and quarterly reports are available approximately 75 days after year end and 40 days after quarter ends, respectively, and can be obtained by *i*) writing to AgTexas Farm Credit Services, P.O. Box 53240, Lubbock, Texas 79453 or calling 1-800-228-4575, *ii*) by e-mail to *jspruill@agtexas.com*, *iii*) or by going to the Association's website at *www.agtexas.com* 75 days after year end.

SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 2015, required to be disclosed, is incorporated herein by reference to the *Five-Year Summary of Selected Consolidated Financial Data* included in this Annual Report.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MD&A precedes the CFS in this Annual Report and is incorporated herein by reference.

DIRECTORS & SENIOR OFFICERS

The Association's member- and director-elected board of directors and senior officers follow:

Name	Position	Region Represented	Date Elected/ Employed	Term Expires
James Ray Schronk	Director	I	1992	2017
Dennis Anthony	Chairman	VI	1993	2017
Ronald Luker	Vice Chairman	IV	1998	2016
Royce Lesley	Director	-	2004	2016
Kinley Sorrels	Director	II	2006	2018
Kevin Buxkemper	Director	III	2006	2018
Trent Finck	Director	V	2006	2018
Joe Reinart	Director	VIII	2006	2016
Bryan Reinart	Director	At-Large	2007	2016
Myles Frische	Director	-	2012	2016
Lance Gaillard	Director	VII	2014	2017
Ryan Smith	Director	At-Large	2015	2016
Danny Klinefelter	Director-Elected	-	2001	2016
Terry Sherrill	Director-Elected	-	2004	2016
Tony Crumpton	Director-Elected	-	2008	2017
Chuck Taylor	Director-Elected	-	2013	2016
Tim McDonald	Chief Executive Officer	-	1989	-
Alan Watson	Chief Operating Officer	-	1978	-
Scotty Elston	Chief Credit Officer	-	1983	-
Jerry Spruill	Chief Financial Officer	-	1992	-

Directors & Senior Officers (continued). Directors elected by the stockholders on a regional and at-large residency basis follow:

Region	Counties
I	Ellis, Hill, Johnson, Navarro, Parker, Tarrant, Wise
II	Brown, Comanche, Eastland, Erath, Hamilton, Hood, Somervell
III	Crosby, Garza, Lynn, Lubbock
IV	Cochran, Gaines, Hockley, Terry, Yoakum
V	Armstrong, Briscoe, Floyd, Hale, Randall, Swisher
VI	Bailey, Castro, Deaf Smith, Lamb, Parmer
VII	Carson, Hutchinson, Moore, Oldham, Potter
VIII	Dallam, Hartley, Hansford, Sherman

Each of Regions I through VIII is represented by one stockholder-elected director. Regions I through IV are represented at-large by one stockholder-elected director. Regions V through VIII are represented at-large by one stockholder-elected director. To be nominated or otherwise fill a stockholder-elected director position, the voting stockholder must reside in the region or regions corresponding to the position.

A brief statement of the business and employment background of each director and senior officer, at December 31, 2015, is provided below for informational purposes.

James Ray Schronk currently serves on the Association marketing committee. He has farmed in Hill County for over 40 years. He is a member of the Hill County Crops Committee and is a director for Hill, Johnson, and McLennan County Integrated Pest Management Committee. He also serves on the Natural Resource Conservation Service Agriculture Committee.

Dennis Anthony, board chair**,** is a graduate of Texas Tech University. He has been farming since 1975. He grows dryland milo and wheat, and some irrigated corn in Parmer and Deaf Smith counties with his operation concentrated mostly toward livestock, including cattle feeding. He is also a stockholder in PACO Feedyard, Friona, Texas. He sits on the boards of the Parmer Medical Center and the Parmer County Soil and Water Conservation District.

Ronald Luker, board vice chair, serves on the Terry County Coop Gin board, PYCO Advisory Committee, and Brownfield Farmers Coop Station. He has been engaged in farming cotton, peas, milo, and peanuts in Terry County for 38 years.

Royce Lesley is a member of the human resources committee. His agricultural operation consists of livestock, hay, peanuts, and pecans. He has been farming for over 40 years.

Kinley Sorrells serves on the human resource committee. He has owned and operated Sorrells Farms since 1977, which includes pecan, fruit, and vegetable production and a cow-calf operation in Comanche County. He also serves on Lake Proctor Irrigation Authority board, Extension Horticulture Committee and Extension Planning Committee, and Comanche County Water Corporation.

Kevin Buxkemper serves on the board audit committee and is a member of the Tenth District Benefits Administration Committee and the Tenth District Farm Credit Council. Since 1986, he has farmed in Lynn and Lubbock counties where he also operates a cow-calf operation. He currently serves on Lubbock County Farm Bureau board and Slaton Coop Gin board.

Directors & Senior Officers (continued).

Trent Finck serves on the human resource committee. He has been a farmer and rancher since 1983. He holds a degree from Tech University in agricultural economics. His family partnership encompasses operations in Swisher and Briscoe counties, raising irrigated and dryland wheat, cotton, milo, silage and hay. They also have stocker cattle and a cow-calf herd. He serves on the Swisher County Advisory Board for the High Plains Water District and on the Swisher County Extension Ag Committee.

Joe Reinart serves on the marketing and audit committees. He has been farming since 1973 in the Sherman/Dallam County area – focusing on irrigated corn, wheat, seed milo production, and cotton in addition to stocker cattle. He serves on the Ag Producers Co-op Board.

Bryan Reinart serves on the human resources committee. He is a lifelong farmer and resides in Dimmitt, Castro County, Texas. His operation consists of irrigated cotton, wheat, milo, and corn, in addition to dryland cotton, wheat, milo, and pasture. He also serves on the board of the Hereford Grain Coop.

Myles Frische serves on the audit committee. He is a resident of Dumas and farms and ranches in Hartley, Moore, Sherman, Hansford, and Hutchinson counties. His operation consists of irrigated seed production, corn, wheat, and cotton. He also farms dryland wheat and cotton, runs cattle on grass and wheat, and has a grow yard. He is a partner in a full-service commercial fertilizer sale and application business.

Lance Gaillard serves on the audit committee. A life-long farmer, he owns and leases land in Hutchinson and Hansford counties, producing corn, wheat, seed milo, and cotton on irrigated farmland. He also farms dryland wheat and sorghum and has a stocker cattle operation.

Ryan Smith operates a diversified farming operation in Terry County, including a cow-calf operation, custom baling, cotton, peanuts, watermelon, alfalfa, milo, and hay. He has farmed in Terry County for over 20 years, In addition, he partners with his father in a pump service company.

Scott Nolen resigned from the board in 2015. He has managed the family-owned Nolen Ag Services in Seminole and has farmed cotton, milo, wheat, hay, and peanuts in the area since 1996.

Danny Klinefelter, Ph.D. serves on the audit committee. For over 30 years, he has been a professor and extension economist at Texas A&M University, where he specializes in agricultural finance and management development. He currently serves as chair of the Farm Journal Media Top Producer Executive Network (TPEN) Advisory Board and is an advisory board member for Black Gold Farms, Toms Farms, Granular, and Silent Shade Planting. His varied experience includes positions in commercial banking and with the Farm Credit Capital Corporation in the Fifth Farm Credit District and the Federal Intermediate Credit Bank of Jackson. He grew up on a grain and livestock farm in central Illinois and is currently president of the family farm corporation.

Terry Sherrill serves as chair of the audit committee. He is a certified public accountant, owning and operating a public accounting firm in Gruver since 1999. Previously, he was the chief financial officer for two large agribusinesses in the Panhandle and was also employed by the accounting firm, Arthur Young and Company. He received a bachelor of business administration in accounting from West Texas State University.

Tony Crumpton serves as the chair of the human resource committee. He is executive vice president of Facilities, Fuel, and Supply for United Supermarkets, LLC. He has been with United Supermarkets since 1990 with various positions including chief operating officer of the Traditional Division of United Supermarkets, executive vice president of Sales and Merchandising, and vice president of Logistics. He is a Texas Tech University accounting graduate and is currently serving the community in various capacities including the South Plains Food Bank Advisory Board.

Chuck Taylor serves on the human resource committee. He has been employed as CFO of Anderson Merchandisers, now AN Connect, for more than 16 years. He is a certified public accountant and holds both a bachelor's degree and master's degree in business administration from West Texas State University. He has a business interest in a partnership in which he serves as landlord of a farm in Crosby County.

Directors & Senior Officers (continued).

Tim McDonald is president and chief executive officer of the Association. He began his career with Amarillo PCA in 1989, and in 2006 was named president and chief executive officer of Great Plains Ag Credit. He holds a B.S. in agricultural economics from West Texas State University. He is a member of the Farm Credit System Group of 30 and sits on the board of Southwest Council of Agribusiness. He is involved in several business enterprises associated with agricultural real estate and commercial rental property.

Alan Watson is chief operating officer of the Association. He has been with the System since 1978, moving to Stephenville PCA in 1979 and rising through the ranks until his promotion to COO in 1999. He oversees human resources and audit functions in addition to all areas of operations. He is a graduate of Texas A&M University with a degree in agricultural economics.

Scotty Elston serves as chief credit officer of the Association. He began his Farm Credit career with the Farm Credit Bank of Texas, moving to the Fort Worth office of Stephenville PCA in 1984. He was transferred to the Stephenville office and promoted to Vice President in 1992, and promoted to his current position in 1999. He attended Abilene Christian University and obtained a B.S. in agricultural business. He serves on the Farm Credit System Credit Management Workgroup, the Farm Financial Standards Council executive board, and the 10th Farm Credit District Farmview Association Advisory Committee.

Jerry Spruill serves as chief financial officer of the Association. He has 23 years of service in the System, with 21 years as CFO of system institutions and two years as director of operations at Farm Credit Bank of Texas. He is a certified public accountant licensed in the state of Texas and currently serves on a Professional Standards Committee for the Texas Society of Certified Public Accountants. He also serves on the board for the National Rural Lending Association. He is a 1992 accounting graduate from Tarleton State University. He farmed and ranched prior to beginning a career in Farm Credit.

DIRECTOR COMPENSATION

Directors were compensated for their service to the Association with an honorarium for meetings and a monthly retainer. The honorarium is $700 per day for in-person board and committee meetings. Monthly retainers are paid to the Chairman of the Board at a rate of $850, director-elected directors at a rate of $1,200, and remaining stockholder elected directors at a rate of $600. Mileage for attending official meetings during 2015 was paid at the IRS-approved rate. Directors are reimbursed for certain expenses incurred while representing the Association in an official capacity. A copy of the travel policy is available to stockholders of the Association upon request. The aggregate compensation paid to directors in 2015, 2014, & 2013 was $421,433, $225,038, & $195,505, respectively, which includes reimbursements for travel, subsistence, and other related expenses paid to directors and on their behalf of $97,633, $60,938, & $64,705 in 2015, 2014, & 2013, respectively. Additional detail on director compensation follows:

	Days in		Total
Director	Board and Committee Meetings	Other Official Activities	Compensation in 2015
James Ray Schronk	13	-	$ 16,300
Dennis Anthony	12	4	21,400
Ronald Luker	12	7	20,150
Royce Lesley	13	2	17,350
Kinley Sorrels	13	3	18,400
Kevin Buxkemper	13	17	28,200
Trent Finck	12	2	17,000
Joe Reinart	16	2	19,800
Bryan Reinart	12	2	17,000
Myles Frische	12	-	15,600
Lance Gaillard	12	-	15,600
Ryan Smith	7	2	9,300
Danny Klinefelter	18	4	29,800
Terry Sherrill	18	2	28,400
Tony Crumpton	12	4	25,600
Chuck Taylor	9	-	20,700
Scott Nolen	2	-	3,200
			$ 323,800

Additional detail on director compensation for committee service, included in the table above, follows:

Director	Audit	Human Resource	2015 Total
Kinley Sorrels	$ -	$ 1,400	$ 1,400
Kevin Buxkemper	2,800	-	2,800
Trent Finck	-	1,400	1,400
Joe Reinart	2,100	-	2,100
Bryan Reinart	-	1,400	1,400
Myles Frische	2,100	-	2,100
Lance Gaillard	1,400	-	1,400
Danny Klinefelter	2,800	-	2,800
Terry Sherrill	2,800	-	2,800
Tony Crumpton	-	1,400	1,400
Chuck Taylor	-	1,400	1,400
Scott Nolen	700	-	700
	$ 14,700	$ 7,000	$ 21,700

AG TEXAS FARM CREDIT SERVICES

SENIOR OFFICER COMPENSATION

The Human Resources Committee, comprised as detailed in the preceding table, reviewed and approved the *Compensation Discussion & Analysis – Senior Officers* that follows.

Compensation Discussion & Analysis – Senior Officers

Overview

The Association's compensation philosophy is to pay market salaries and reward extraordinary performance through an employee incentive plan(s). The board, human resource committee, and management team recognize the value of experienced and skilled employees to meet stockholder needs while they also provide risk management and adequate returns to the Association. Incentive plans are designed to achieve the goals established by the board in the Association's business plan. Third-party salary studies are used by management and the human resource committee to establish salary and incentive administration. All Association full-time employees are eligible participants in the defined incentive plans. The 2015 incentive plans incorporated profitability, minimum capital compliance with the Association's General Financing Agreement, and external credit reviews. They covered the Association's fiscal year and included a new business incentive, based on business generated during the calendar year by the employee in his/her given role, and a component/scorecard incentive, based on credit administration, credit quality and earnings. New loan incentives were paid to the lending and administrative team based on the credit quality and net interest earnings of new loans booked. New business incentives for the appraisal team and crop insurance representatives were based on the volume of business generated. The incentive is paid between February 1 and March 31 following the plan year. The 2016 incentive plans incorporate the same components as described above.

Employees who use their personal vehicle for business purposes were reimbursed during 2015 at the IRS-approved rate per mile.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence, and other related expenses while conducting Association business. A copy of the Association's travel policy is available to shareholders upon request.

The Board recognizes the need to retain specific key employees for a definite tenure or until a critical Association project is accomplished. Accordingly, the board has approved an Employee Retention Plan for those employees recommended by the Chief Executive Officer and approved by the human resource committee. The human resource committee approves the commitment period and compensation levels for each individual covered by said plan based on the desired tenure and/or project to be completed.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during 2015 to any senior officer or to any other officer included in the aggregate are available and will be disclosed to Association shareholders upon request.

Compensation Discussion & Analysis – Senior Officers - Overview (continued)

Employee(s)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/ Perquisite (e)	Other (f)	Total
Tim McDonald, CEO	2015	$ 325,013	$ 16,250	$ 61,595	$ 26,990	$ 151,088	$ 580,936
Michell Harris, CEO	2014	252,010	80,996	692,932	34,736	-	1,060,674
Michell Harris, CEO	2013	232,009	62,014	(136,919)	26,674	-	183,778
Aggregate number of senior officers & highly compensated employees (a)							
5	2015	$ 877,734	$ 597,452	$ 604,374	$ 108,250	$ -	$2,187,810
5	2014	767,229	354,137	1,409,107	140,536	-	2,671,009
5	2013	698,527	233,290	613,767	108,889	-	1,654,473

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.

(b) Gross salary, including retention plan compensation for certain senior officers.

(c) Includes bonuses paid within the first 30 days of the subsequent calendar year.

(d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.

(e) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance.

(f) Amounts in the “Other” column are relocation payments.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan in 2015 applicable to the CEO, senior officers, and other highly compensated employees that participated in the plan:

Employee(s)	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2015
Tim McDonald, CEO	FCBT Pension Plan	27.49	$ 1,113,363	$ -
Aggregate number of senior officers & highly compensated employees (a)				
3	FCBT Pension Plan	110.40	$ 7,228,051	$ -

AG TEXAS FARM CREDIT SERVICES

Pension Benefits Table Narrative Disclosure

The CEO and two of the Association's senior management participate in the *Farm Credit Bank of Texas Pension Plan* (the "**Pension Plan**"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation, deferrals to the 401(k), and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("**FAC60**"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of *i*) 1.65% of FAC60 times "Years of Benefit Service" and (b) 0.50% of (i) FAC60 in excess of Social Security covered compensation items and *ii*) "Years of Benefit Service" (not to exceed 35). The present value of the senior officers' accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the senior officer is married on the date the annuity begins, that the spouse is exactly two years younger than the senior officer, and that the benefit is payable in the form of a 50% joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2015, 2014, & 2013.

TRANSACTIONS WITH DIRECTORS & SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from CFS note 14, *Related Party Transactions*, included in this Annual Report.

DIRECTORS' & SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

There has been no involvement in any certain legal proceedings due to bankruptcy, criminal, or judgment findings against any senior officer or director serving for the Association during the past five years.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association Board Audit Committee engaged the independent accounting firm of *PricewaterhouseCoopers LLP* ("**PwC**") to perform the annual CFS audit included in this Annual Report. Total fees paid for professional services rendered during 2015 were $113,523 for annual audit services.

CONSOLIDATED FINANCIAL STATEMENTS

The CFS, PwC's *Independent Auditor's Report* thereon dated March 11, 2016, and the *Report of Management* in this Annual Report are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the association or its members.

CREDIT & SERVICES TO YOUNG, BEGINNING, & SMALL FARMERS & RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

The mission of AgTexas' Young, Beginning, and Small Farmer and Rancher program (YBS) is to provide sound and constructive credit and related services to YBS farmers and ranchers in our territory to the fullest extent of their credit worthiness. AgTexas maintains a viable YBS program for the long-term viability and benefit of the Association, our communities and the agricultural industry. Our objective is to increase the market penetration in numbers and volume in a 3 to 5% range on an annual basis.

The following definitions are used to identify young, beginning, and small agricultural applicants.

- A "Young" farmer/rancher is defined as a producer who is age 35 or younger as of the date the loan was originally made.
- A "Beginning" borrower is a farmer/rancher who has ten years or less farming or ranching experience as of the date the loan was originally made.
- A "Small" producer is one who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.
- Borrowers may qualify for a designation in more than one category dependent upon the above factors.

The Association sets annual and long term quantitative goals within its operational and strategic business plan for the number and volume of loans to this market sector by category. Quarterly status reports are provided to the Board of Directors to monitor the Association's performance in relation to these goals. All 2015 results are within 1% of the goal established for the newly merged Association. Management deems these results acceptable given the first year of operation as the merged Association. The 2015 goals and year-end results are as follows:

	2015	
Category	Goal	Results
Percent of Number of New Loans to Young Producers	18%	19%
Percent of Number of New Loans to Beginning Producers	29%	28%
Percent of Number of New Loans to Small Producers	39%	38%
Percent of Outstanding Volume to Young Producers	18%	17%
Percent of Outstanding Volume to Beginning Producers	34%	33%
Percent of Outstanding Volume to Small Producers	48%	47%

Total new loan commitments to Young, Beginning and Small producers totaled $380,999,000 for 2015, which is 95% of the 2015 goal.

The Association goals and performance are monitored on demographic information provided by the USDA Ag Census. The 2012 census provided the ability to ascertain the number of YBS producers in the territory that borrow funds to allow comparison with Association penetrations. A summary of the Association's results as compared to information provided by the USDA Ag Census information for the 23 county territory is as follows:

		Association	
	2012 USDA Ag Census	2015	% of Market Segment
Young Farmers	5.9%	769	17.10%
Beginning Farmers	8.7%	1,484	33.00%
Small Farmers	25.7%	2,109	46.90%

*USDA numbers are based upon the number of farms *with outstanding debt*; AgTexas numbers are based upon number of loans.

AG TEXAS FARM CREDIT SERVICES

Credit & Services to YBS (continued).

The board also establishes qualitative goals for the Association employees to assure its human capital is appropriately dedicated to attract, retain, and support YBS producers. The Association has accomplished these expectations through the delivery of all related services to YBS producers that are provided to the general membership. To this same end, the Association utilizes state, local, and federal programs to meet the needs of this market, including federal and state loan guarantees and joint educational opportunities. The Association, independently or in affiliation with the above programs, has provided leadership training, business and financial skills training, including the AgBiz Planner program, insurance consultation and services, and appraisal services to our YBS members. Among other opportunities to serve this market sector, AgTexas continues to support the extension service programs, subsidize tuition fees to educational programs, provide credit and Farm Credit System presentations to university students, sponsor beef cattle, game management, and crop field days, sponsor local farmers' markets, support the Future Farmers of America and 4H programs, and increase its community presence in under-served markets. The Association also participated in a cooperative promotion program with the Farm Credit Bank of Texas and District associations to promote the awareness of services provided to the YBS market segment.

OUR LEADERSHIP

AGTEXAS is led by a 16-member board of directors. Elected by their fellow stockholders, 12 directors are farmers and ranchers who understand from personal experience the financing needs of our customers. The other four directors, appointed by their fellow board members, bring diverse business expertise ranging from the grocery industry and accounting to wholesale distribution and agricultural economics.

AGTEXAS 2015 BOARD OF DIRECTORS

Dennis Anthony
Chairman, Friona

Ronald Luker
Vice Chairman, Brownfield

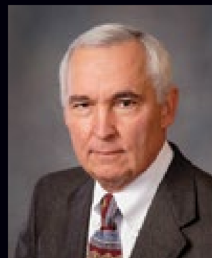
Kevin Buxkemper
Member, Slaton

Tony Crumpton
Member, Lubbock

Trent Finck
Member, Tulia

Myles Frische
Member, Dumas

Lance Gaillard
Member, Morse



Danny Klinefelter
Member, College Station

Royce Lesley
Member, Comanche

Bryan Reinart
Member, Dimmitt

Joe Reinart
Member, Stratford

James Ray Schronk
Member, Hillsboro

Terry Sherrill
Member, Gruver

Ryan Smith
Member, Meadow

Kinley Sorrells
Member, Comanche

Chuck Taylor
Member, Amarillo

AGTEXAS SAYS THANK YOU TO RETIRING DIRECTORS

AgTexas directors Myles Frische and Royce Lesley will retire from the board of directors in April 2016. The two directors' retirement follow a decision by the AgTexas and Great Plains boards during the merger process at the end of 2014 to reduce the size of the new AgTexas board by two positions in 2016.

Frische was elected to the board in April 2012 and has been a stockholder since 2004. He is a farmer and rancher whose operation includes cattle, a grow yard, and seed, corn, wheat and cotton production. Lesley was elected to the board in 2004, and has been an AgTexas member since 1972. His agricultural operation consists of livestock, hay, peanuts and pecans.

Both Frische and Lesley have served on the association's audit committee during their tenure on the board of directors. Although the work is often tedious, Frische and Lesley met the challenge of additional meetings, reports to review and continuing education — graciously accepting reappointment every year.

"As a stockholder and as a board member, I appreciate the efforts that Royce and Myles have contributed in achieving our vision of making AgTexas FCS an effective Farm Credit Association and a leader for agriculture," said AgTexas Board Chairman Dennis Anthony. "I thank them for their service."

AGTEXAS OFFICES

AMARILLO
5701 I-40 West
Amarillo, Texas 79106
(806) 376-4669

BROWNFIELD
121 W. Broadway
Brownfield, Texas 79316
(806) 637-3589

BURLESON
117 S. Burleson Blvd.
Burleson, Texas 76028
(817) 293-6103

DIMMITT
112 E. Jones
Dimmitt, Texas 79027
(806) 647-3169

DUMAS
1315 E. First Street
Dumas, Texas 79029
(806) 935-6851

FRIONA
1602 W. Highway 60
Friona, Texas 79035
(806) 250-2758

HILLSBORO
218 E. Franklin
Hillsboro, Texas 76645
(254) 582-2471

LEVELLAND
301 E. Highway 114
Levelland, Texas 79336
(806) 894-6119

LUBBOCK
6901 Quaker Ave., Suite 300
Lubbock, Texas 79413
(806) 745-4575

PLAINVIEW
104 I-27 North
Plainview, Texas 79072
(806) 296-2782

SEMINOLE
2015 Hobbs Highway
Seminole, Texas 79360
(432) 758-3201

STEPHENVILLE
3145 W. Washington St.
Stephenville, Texas 76401
(254) 965-3151

INSURANCE OFFICES

AMARILLO
2001 S. Soncy Road
Amarillo, Texas 79124
(806) 418-2641

BROWNFIELD
121 W. Broadway
Brownfield, Texas 79316
(806) 637-3589

LUBBOCK
6901 Quaker Ave., Suite 300
Lubbock, Texas 79413
(806) 745-4575

MULESHOE
623 West American Blvd.
Muleshoe, Texas 79347
(806) 272-4271

PLAINVIEW
104 I-27 North
Plainview, Texas 79072
(806) 296-2782