FACES

2017 ANNUAL REPORT

AG TEXAS
FARM CREDIT SERVICES

AG TEXAS®
FARM CREDIT SERVICES

OUR FINANCIAL RESULTS

AgTexas is pleased to report strong financial results for 2017, highlighted by a continuation of new business growth reflected in the loans closed, strong credit quality and a record patronage declaration based on 2017 operating results.

Your Association added a total of $519 million in new loans during 2017. This resulted in an average loan volume of $1,718 million (10.7% increase), with year-end recorded loan volume of $1,853 million (15.1% YoY). Most of the portfolio growth resulted from new commercial loan financing of $188 million, new term loans of $168 million, and the remainder of the growth in purchased and shared loans from other financial institutions of $163 million.

Net income was strong at $27.2 million, or a 1.5 percent return on average assets and an 11.1% return on members' equity. The Association's capital ratios remain strong with the total capital ratio at 13.9% at year end, after the accrual for a $15.6 million patronage with $12.8 million in a cash distribution planned for early 2018.

Do you know a farmer who plays as hard as they work? **Korey Coats** is one — his passions are family, farming, riding dirt bikes full throttle and fine-tuning the artwork on his "sleeve." However, his commitment to his operation is no different from that of his father-in-law and his peers in and around Levelland, Texas.

Korey's parents weren't in agriculture, but as a boy he spent a lot of time on his grandfathers' farms. After obtaining an associate's degree, Korey went to work in the oilfields of Texas — like his dad. In time, he began to work his way toward home and back to school. He completed his business degree at Lubbock Christian University and met Sommer Methvin.

> ***"I'm grateful for the chance to start our own operation," said Korey. "I never take that opportunity for granted."***

After their marriage, Sommer's father, Greg Methvin, began to discuss the possibility of Korey and Sommer starting a farming operation of their own.

Korey and Sommer have been stockholders at AgTexas since 2011. They primarily raise cotton in Hockley and Cochran counties.

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YOUNG ADVISORY BOARD

In October 2016, we kicked off an advisory board made up of producers aged 25 to 35. The time we've spent with these producers has been invaluable, and together we have hammered out the parameters of an organization that is dynamic and evolving.

Farming technology and methods are ever changing — as are the faces of agriculture. Not only are farms transitioning to younger family members, many are the first in their immediate family to farm. Regardless of the path they've taken to becoming the next generation of farmers, AgTexas is present to support them and their operations, and to learn from them as well.

KOREY COATS

# of AGTEXAS

In the spring of 2017, the Young Advisory Board (YAB), together with their AgTexas lenders, traveled to the Farm Credit Bank of Texas (FCBT) in Austin. Several FCBT staff members were on hand to help our group better understand how the Farm Credit System supports AgTexas and our district.

Feedback from our members is how we stay current with their needs, and not only is it welcome, it's essential. While we are teaching them about governance and how their Farm Credit cooperative operates, the members of the YAB and their wives are instructing us about their needs as young operators. For instance, they value technology that facilitates ease of banking transactions — such as loan disbursements, repayments, movement of funds between loans, etc. We have some of these products today and have added their wish list to our must-have list.

YAB Members with their AgTexas lenders and CEO Tim McDonald at the Texas Capital in Austin.

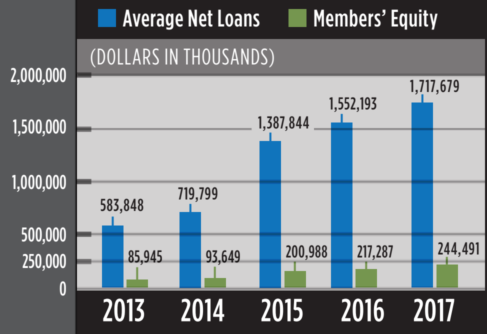
Members of the group also embrace transition planning. AgTexas is working on a program through Nationwide Insurance called Land As Your Legacy that will provide that service for this generation, their parents and their grandparents as well.

Members of the Young Advisory Board are Todd Kimbrell of Itasca, Joshua Drake of Weatherford, Korey Coats of Levelland, Jonathan Williams of Meadow, Jeremy Brown of New Home, Michael Reinart of Stratford, Buster McLain of Gruver and Kody Bessent of Lubbock.

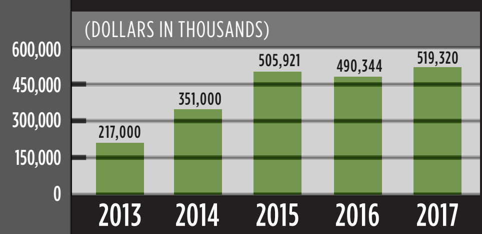
#AGTEXASFACES

Financial Highlights

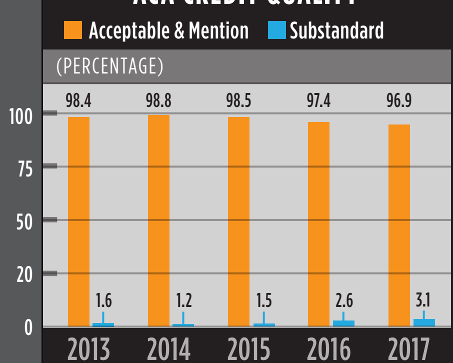
AVERAGE NET LOANS & MEMBERS' EQUITY



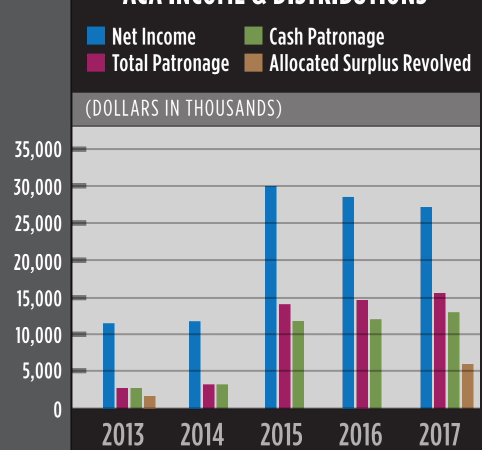
NEW LOANS CLOSED INCLUDING INVESTMENTS



ACA CREDIT QUALITY



ACA INCOME & DISTRIBUTIONS



To Our Stockholders

OUR MISSION:

AGTEXAS IS DEDICATED TO THE PROSPERITY OF AGRICULTURE AND RURAL AMERICA

In opening the cover to this annual report, I can't help but smile as I consider the "faces of AgTexas." It brings me great joy to work for an agricultural lending cooperative that is dedicated to helping its members realize their hopes and dreams. Working with our Young Advisory Board the past two years has been especially rewarding as we endeavor to strengthen relationships, help people understand more about Farm Credit and learn what younger generations value in a lending relationship. These young producers are passionate about family, fun and the success of their own unique agriculture.

Like most of you, AgTexas prepares a business plan each year. The plan is brimming with projections and proposals based on what has worked well in the past and the new challenges ahead. It is a big project but crucial to our success. Looking back at our progress is very often the gratifying part of the business plan, and 2017 was a good year for AgTexas — as you will see in this statement of condition.

While reflecting on our progress in 2017, I feel compelled to compliment our staff. Every year we set reasonable but ambitious goals for our credit quality, credit administration, profitability and loan growth. We don't just ask the staff to add loan volume to the portfolio, but ask them to find good loans with the best producers in the territory we serve. In recent years, these goals were not only met; in most cases they have been surpassed. Our employees are a talented crew and I'm honored to work side by side with every one of them. Just like you, our employees rely on technology to effectively and efficiently manage the ever-increasing workload.

Consider for a moment that the first personal computers appeared 40 years ago and now most of us hold one in our hand — our cell phone. However, while each new generation of technology gives us more convenience and greater speed of access, it can also make us vulnerable to those with criminal intentions. AgTexas is meeting that challenge head on, and spent much of 2017 improving internal controls to protect the security of our stockholders' information. You may have experienced firsthand new processes through your business dealings at AgTexas. Rest assured that these measures were well thought out and put in place for your safety.

AgTexas looks to the Farm Credit Bank of Texas for the majority of our technology — we are appreciative of their support in many ways. The bank is also updating processes and is in the midst of modernizing the software used for our lending and accounting processes. In fact, several AgTexas employees are involved in developing and testing the software. With the implementation, scheduled for 2019, will come even greater safeguards — as well as new products for your convenience.

I enjoy these moments to bring news of our association. It's good to reflect on our past and to tell you our plans for the future. Even more important is today — today I thank you for your business, for your loyalty, for your hard work. Thank you for being a part of AgTexas.

Tim McDonald
President and Chief Executive Officer

Table of Contents

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 *2017 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 14, 2018

Report on Internal Control Over Financial Reporting

The Association's chief executive officer and chief financial officer, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the CFS. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the CFS for external purposes in accordance with GAAP and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its CFS.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2017. In making the assessment, management used the framework in *Internal Control—Integrated Framework,* promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2017. A review of the assessment performed was reported to the Association's audit committee.

Tim McDonald
Chief Executive Officer

Jerry Spruill
Chief Financial Officer

March 14, 2018

Report of Audit Committee

The *Audit Committee* ("**Committee**") is comprised of Terry Sherrill, Kevin Buxkemper, Ryan Smith, James Ray Schronk and Lance Gaillard. In 2017, five 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 2017.

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, 2017* ("**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

Ryan Smith

James Ray Schronk

Lance Gaillard

March 14, 2018

Five-Year Summary of Selected Consolidated Financial Data

	Unaudited/Dollars in Thousands				
	2017	2016	2015	2014	2013
Balance Sheet Data					
Assets					
Cash	**$ 34**	$ 44	$ 38	$ 3,178	$ 1,379
Investments	**2,669**	3,811	4,531	2,851	3,118
Loans	**1,853,250**	1,609,618	1,517,021	844,869	618,876
Less: allowance for loan losses	**8,079**	6,252	5,323	3,682	2,871
Net loans	**1,845,171**	1,603,366	1,511,698	841,187	616,005
Investment in and receivable from the Farm Credit Bank of Texas	**43,647**	47,601	40,861	18,974	14,868
Other property owned, net	**1,000**	1,384	1,446	234	441
Other assets	**42,775**	39,291	32,918	15,193	12,031
Total assets	**$ 1,935,296**	$ 1,695,497	$ 1,591,492	$ 881,617	$ 647,842
Liabilities					
Obligations with maturities of one year or less	**$ 42,002**	$ 46,490	$ 47,599	$ 21,533	$ 21,217
Obligations with maturities greater than one year	**1,648,591**	1,431,720	1,342,905	766,435	540,680
Total liabilities	**1,690,593**	1,478,210	1,390,504	787,968	561,897
Members' Equity					
Capital stock and participation certificates	**4,151**	4,051	3,989	2,876	2,726
Preferred Stock Issued	**20,000**	-	-	-	-
Additional paid-in capital	**75,310**	75,446	75,446	8,207	8,224
Allocated retained earnings	**22,267**	25,144	22,512	83,496	75,038
Unallocated retained earnings	**124,013**	112,924	99,153	(930)	(43)
Accumulated other comprehensive income (loss)	**(1,038)**	(278)	(112)	-	-
Total members' equity	**244,703**	217,287	200,988	93,649	85,945
Total liabilities and members' equity	**$ 1,935,296**	$ 1,695,497	$ 1,591,492	$ 881,617	$ 647,842
Statement of Income Data					
Net interest income	**$ 42,764**	$ 41,649	$ 42,073	$ 19,918	$ 17,684
(Provision for loan losses) or loan loss reversal	**(2,354)**	(1,466)	(1,672)	(1,042)	207
Income from the Farm Credit Bank of Texas	**10,485**	10,427	10,268	3,708	2,843
Other noninterest income	**4,957**	5,702	4,625	2,304	1,688
Noninterest expense	**(28,620)**	(27,666)	(25,294)	(12,934)	(10,886)
Net income (loss)	**$ 27,232**	$ 28,646	$ 30,000	$ 11,954	$ 11,536
Key Financial Ratios for the Year					
Return on average assets	**1.5%**	1.8%	2.1%	1.6%	1.9%
Return on average members' equity	**11.1%**	13.4%	15.4%	13.0%	13.8%
Net interest income as a percentage of average earning assets	**2.5%**	2.7%	3.0%	2.8%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	**0.1%**	0.0%	0.0%	0.0%	0.0%

Five-Year Summary of Selected Consolidated Financial Data

	Unaudited/Dollars in Thousands				
	2017	2016	2015	2014	2013
Key Financial Ratios at Year End*					
Members' equity as a percentage of total assets	**11.6%**	12.8%	12.6%	10.6%	13.1%
Debt as a percentage of members' equity	**752.4%**	680.3%	691.8%	841.4%	653.8%
Allowance for loan losses as a percentage of loans	**0.4%**	0.4%	0.4%	0.4%	0.5%
Common equity tier 1 ratio	**12.3%**	n/a	n/a	n/a	n/a
Tier 1 capital ratio	**12.3%**	n/a	n/a	n/a	n/a
Total capital ratio	**13.9%**	n/a	n/a	n/a	n/a
Permanent capital ratio	**13.5%**	13.2%	13.1%	12.9%	15.0%
Tier 1 leverage ratio	**10.8%**	n/a	n/a	n/a	n/a
UREE leverage ratio	**10.3%**	n/a	n/a	n/a	n/a
Net Income Distribution					
Patronage dividends declared:					
Cash	**$ 12,769**	$ 12,222	$ 11,944	$ 3,500	$ 3,165
Allocated surplus	**2,811**	2,631	2,399	-	-
Allocated surplus revolvements	**5,688**	-	-	-	1,948
Preferred stock dividends paid	**500**	-	-	-	-

Prior regulatory capital ratio information*	2016	2015	2014	2013	2012
Total surplus ratio	13.0%	12.8%	12.5%	14.4%	13.9%
Core surplus ratio	13.0%	12.8%	12.5%	14.4%	13.9%

*Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers as of December 31, 2017**.** Previous regulatory capital ratio information is included for the years 2016 to 2012.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 herein as the "**Association**"), for the years ended December 31, 2017, 2016 and 2015, 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 year 2017 was highlighted with positive economic news where consumer confidence, unemployment and stock market performance were all quite positive and more of the same is forecast for 2018. The Federal Reserve hiked interest rates three times in 2017 and many are forecasting three hikes in 2018 as well. The increase in interest rates will add some pressure to already tight operating margins for leveraged operations, but rates remain reasonable by historical comparison.

AgTexas' loan portfolio is diversified among a variety of commodities including livestock, dairy and farming. Beef cattle numbers are rebuilding since the drought and herd liquidation that occurred earlier in this decade. Increasing supply has been met with excellent demand domestically and globally through export business. Resulting markets and low feed prices have allowed cattle producers from the cow-calf, stocker and feedlot sectors to profit. Beef cattle operations are anticipated to remain profitable in 2018 although margins are expected to tighten some.

The dairy industry is feeling the impact of an oversupply of fluid and powdered milk. Prices that averaged near $17/cwt in 2017 will start off at $13/cwt in 2018 which is below cost of production for most dairies in the area. Despite reasonable feed cost, the dairy sector is expected to struggle in 2018.

Cotton is the primary crop produced on the South Plains and it has become a leading crop in other parts of the territory as well. In 2017 cotton producers in general had good yields but quality adjustments hurt profitability, despite better than expected cash prices. Moving into 2018 a major concern is emerging as the region is once again drought stricken. Over 100 days without measurable moisture has resulted in depleted moisture profiles and concern that dry land crops may not have adequate moisture and irrigated producers are facing an expensive operating year. Other prominent row crops, including corn, milo, seed milo and wheat, will be challenged by moisture conditions and marginal cash prices.

In summary, strength in the general economy is positive and will benefit all producers, but especially those who farm part-time and make their primary living from jobs outside of production agriculture. Full-time farmers remain at the mercy of weather and prices. Successful Farm Bill negotiations will be critical as cotton needs to be added back as a Title 1 covered commodity and dairy producers are in need of programs to help bring stability to their industry. Crop insurance is a critical risk management tool that producers rely on to repay operating loans and service term debt when crop production falls short. While the political landscape around the Farm Bill and trade is uncertain, these remain as critical elements in the success of the Association's loan portfolio and all of America's farmers and ranchers.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Significant Events. Based on 2017 financial results, the Association's board of directors declared a record patronage of $15,579,733, with approximately $12,769,115 to be paid in cash in 2018. The Association added $519,319,701 of new business during 2017 comprised of 32% in real estate loans, 36% in new production loans and 31% in loan participation opportunities. Net income was $27,231,061 providing a 1.5% return on average assets. Credit quality continues to be satisfactory with 96.9% categorized as acceptable and special mention, largely due to our stockholder/customer commitments. The Association has been able to maintain sufficient capital ratios even with significant growth.

In January 2017, the Association received clearance from FCA and the board approved the issuance of 20 million shares of a series of preferred stock, par value of $1.00 per share. The stock was issued March 24, 2017. The stock is designated as *Fixed-to-Floating Rate Perpetual Cumulative Preferred Stock, Series A* ("**Series A Preferred Stock**"). The Series A Preferred Stock has a fixed rate dividend of 5% for ten years, payable semi-annually. After ten years, the dividend rate becomes a floating rate at 5.00% above 6-month LIBOR. On or after 5 years, the Association may, at its option, redeem all or part of the Series A Preferred Stock. The Series A Preferred Stock is non-voting, except: (*i*) to materially change the Association's Charter or Bylaws that would materially adversely affect the holder of Series A Preferred Stock and (*ii*) to create, issue or authorize any class of stock ranking senior to the Series A Preferred Stock as to dividends or liquidation.

In December 2017, the Association received direct loan patronage of $5,892,650 from *Farm Credit Bank of Texas* ("**FCBT**"), which was 39 *basis points* ("**bps**") on the average daily balance of the Association's direct loan with FCBT. During 2017, the Association received $3,651,830 in patronage payments related to participations sold to FCBT. The Association also received income of $428,489 from FCBT related to the Association's participation in the Capitalized Participation Pool. The Association also received $511,599 in patronage payments from FCBT, based on the Association's stock investment in FCBT.

The Association had net income in 2016 of $28,645,537 and added $490,344,175 in new loan assets. The capital adequacy ratio was stable at 13.2% after the board declared $14,852,767 in patronage with $12,221,653 that was distributed in cash in the spring of 2017.

In December 2016, the Association received direct loan patronage of $5,636,210 from FCBT, which was 41 bps on the average daily balance of the Association's direct loan with FCBT. During 2016, the Association received $3,934,484 in patronage payments related to participations sold to FCBT. The Association also received income of $502,884 from FCBT related to the Association's participation in the Capitalized Participation Pool. The Association also received $352,961 in patronage payments from FCBT, based on the Association's stock investment in FCBT.

The Association had strong net income in 2015 of $29,999,743 and added $505,381,331 in new loan assets. The capital adequacy ratio was stable at 13.1% after the board declared $14,343,007 in patronage with $11,943,787 that was distributed in cash in the spring of 2016.

In December 2015, the Association received direct loan patronage of $5,117,026 from FCBT, which was 42 bps on the average daily balance of the Association's direct loan with FCBT. During 2015, the Association received $4,293,062 in patronage payments related to participations sold to 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 $264,410 in patronage payments from FCBT, based on the Association's stock investment in 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 one 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 $1,853,249,655, $1,609,618,017 and $1,517,021,023 as of December 31, 2017, 2016 and 2015, respectively, is described in detail in CFS note 5, *Loans and Allowance for Loan Losses*, included later in this Annual Report.

Loan Portfolio (continued). The Association's portfolio included $84,839,080, $98,211,021 and $135,205,489 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, 2017, 2016 and 2015, 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 $33,197,586, $36,385,349 and $60,181,135 of MRIs made under RAB, 1.8%, 2.3% and 4.0% of the total loan portfolio, at December 31, 2017, 2016 and 2015, 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 $462,489,261, $349,289,353 and $214,788,784, or 25.0%, 21.7% and 14.2% of loans, at December 31, 2017, 2016 and 2015, respectively. Participations sold to other lenders totaled $535,087,373, $577,356,327 and $790,084,097 at December 31, 2017, 2016 and 2015, 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 2015 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 $2,669,098, $3,810,694 and $4,531,324 at December 31, 2017, 2016 and 2015, 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:

	2017		2016		2015	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 22,490,616**	**85.2%**	$ 16,717,072	85.5%	$ 9,559,691	44.4%
90 days past due and still accruing interest	**2,890,170**	**11.0%**	1,439,045	7.4%	749,948	3.5%
Formally restructured	**-**	**0.0%**	-	0.0%	9,785,092	45.4%
Other property owned, net	**1,000,000**	**3.8%**	1,384,355	7.1%	1,445,855	6.7%
Total	**$ 26,380,786**	**100.0%**	$ 19,540,472	100.0%	$ 21,540,586	100.0%

Impaired loans comprised 1.4%, 1.1% and 1.3% of the loan portfolio at December 31, 2017, 2016 and 2015, respectively.

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. As of December 31, 2017, the Association had total commitments to a single borrower totaling $18,300,000. The outstanding balance to this borrower as of December 31, 2017, was $15,156,965, representing 0.8% of total loans.

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

	2017	2016	2015
Allowance for loan losses	**$ 8,079,162**	$ 6,252,551	$ 5,323,157
Allowance for loan losses to total loans	**0.4%**	0.4%	0.4%
Allowance for loan losses to nonaccrual loans	**35.9%**	37.4%	55.7%
Allowance for loan losses to impaired loans	**31.8%**	34.4%	26.5%
Net charge-offs to average loans	**0.1%**	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, 2017, 2016 and 2015 to be an appropriate estimate of incurred losses in the portfolio.

Results of Operations. Net income in 2017 was $27,231,061, a decrease of $1,414,476 (4.9%) from 2016 net income of $28,645,537, which was a decrease of 1,354,206 (4.5%) from 2015 net income of $29,999,743.

Net interest income (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. Net interest income in 2017 was $42,763,812, an increase of $1,114,685 (2.7%) from 2016 net interest income of $41,649,127, a decrease of $423,532 (1.0%) from 2015 net interest income of $42,072,659. The effects of changes in average volumes, yields and rates on interest margin follow:

	2017		2016		2015	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 1,717,679,398**	**$ 74,554,634**	$ 1,552,192,591	$ 66,478,457	$ 1,387,843,684	$ 62,664,012
Investments	**3,017,514**	**168,027**	4,023,051	216,390	4,794,269	257,642
Total interest-earning assets	**1,720,696,912**	**74,722,661**	1,556,215,642	66,694,847	1,392,637,953	62,921,654
Interest-bearing liabilities	**1,527,623,497**	**31,958,849**	1,387,766,308	25,045,720	1,233,487,462	20,848,995
Impact of capital	**$ 193,073,415**		$ 168,449,334		$ 159,150,491	
Net interest income		**$ 42,763,812**		$ 41,649,127		$ 42,072,659

	2017 Average Yield	2016 Average Yield	2015 Average Yield
Yield on loans	**4.34%**	4.28%	4.52%
Yield on investments	**5.57%**	5.38%	5.37%
Total yield on interest-earning assets	**4.34%**	4.29%	4.52%
Cost of interest-bearing liabilities	**2.09%**	1.80%	1.69%
Interest rate spread	**2.25%**	2.48%	2.83%

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:

	2017 vs. 2016			2016 vs. 2015		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 7,087,634**	**$ 988,543**	**$ 8,076,177**	$ 7,420,682	$ (3,606,237)	$ 3,814,445
Interest income - investments	**(54,086)**	**5,723**	**(48,363)**	(41,445)	193	(41,252)
Total interest income	**7,033,549**	**994,265**	**8,027,814**	7,379,237	(3,606,044)	3,773,193
Interest expense	**2,524,143**	**4,388,986**	**6,913,129**	2,608,380	1,588,345	4,196,725
Net interest income	**$ 4,509,406**	**$ (3,394,721)**	**$ 1,114,685**	$ 4,770,857	$ (5,194,389)	$ (423,532)

Results of Operations (continued). Interest income in 2017 increased by $8,027,814 (12.0%) from 2016, primarily due to an increase in average loan assets of $165,486,807 (10.7%). Interest income in 2016 increased by $3,773,193 (6.0%) from 2015. The increase in volume was offset by a decrease in rate due to collection in foregone interest on nonaccrual loans in 2015.

Interest expense in 2017 increased by $6,913,129 (27.6%) from 2016. The increase was due to an increase in the average interest bearing liabilities coupled with increased cost of funds. Interest expense in 2016 increased by $4,196,725 (20.1%) from 2015. The increase was due to an increase in the average interest bearing liabilities coupled with increased cost of funds.

The interest rate spread in 2017 was down 23 bps. The Association experienced spread compression due to market pressures. In addition, much of the growth in 2017 was in segments with lower spreads. The interest rate spread in 2016 was down 35 bps from 2015, primarily due to the collection of foregone interest on nonaccrual loans in 2015. This accounted for approximately 25 bps of the change. The Association also experienced spread compression due to market pressures.

The Association capitalized loan origination fees of $1,342,367, $1,066,676 and $1,130,602 and loan origination costs of $1,389,857, $1,398,443 and $1,504,787 in 2017, 2016 and 2015, 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 2017 *provision for loan losses (reversals)* ("**PLL**") of $2,354,394 was a increase of $888,210 (60.6%) from the 2016 PLL of $1,466,184. There was an increase in specific reserves in 2017. The 2016 PLL was a decrease of $206,155 (12.3%) from the 2015 PLL of $1,672,339. There was a decrease in charge-offs in 2016.

Noninterest income of $15,441,816 in 2017 was down $687,020 (4.3%) from $16,128,836 in 2016 primarily due to a gain recognized on the sale of loans classified as MRIs of $676,714 in 2016.

Noninterest income in 2016 was up $1,235,045 (8.3%) from $14,893,791 in 2015 primarily due the gain on loans classified as MRIs noted above.

Compensation and benefits are the primary noninterest expense, followed by insurance fund premium costs, occupancy and equipment costs, purchased services and other noninterest expense. Other noninterest expense includes Farmer Mac fees and training, among other items.

2017 noninterest expenses of $28,620,173 increased by $953,931 (3.5%) from $27,666,242 in 2016 due to increases in salary and employee benefits and occupancy and equipment. 2016 noninterest expenses increased by $2,371,874 (9.4%) from $25,294,368 due to increases in salary and employee benefits and insurance fund premiums.

Return on average assets was 1.5%, 1.8% and 2.1% in 2017, 2016 and 2015, respectively. Return on average members'equity was 11.1%, 13.4% and 15.4% in 2017, 2016 and 2015, 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 and 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 $1,645,463,626, $1,429,487,047 and $1,340,973,977 at December 31, 2017, 2016 and 2015, respectively, are recognized as liabilities on the Association's consolidated balance sheets. The Direct Note had a weighted average interest rate of 2.19%, 1.80% and 1.71% at December 31, 2017, 2016 and 2015, 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 and Funding Sources (continued). The $215,976,579 increase in the Direct Note in 2017 was due to funded growth in the Association's portfolio. The $88,513,070 increase in the Direct Note in 2016 was also due to funded growth in the Association's portfolio. Members' equity funded $192,287,428, $165,315,091 and $162,419,912 of the loan portfolio at December 31, 2017, 2016 and 2015, respectively.

As determined in accordance with the GFA, the maximum amount the Association could borrow from FCBT at December 31, 2017 was $1,849,063,464; accordingly, the Association had $199,453,873 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, 2017, 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 2018.

Capital Resources. The Association's capital position remains strong, with members' equity of $244,702,697, $217,287,353 and $200,988,484 at December 31, 2017, 2016 and 2015, respectively. A significant portion of the members' equity increase in 2017 was due to the issuance of Series A Preferred Stock. FCA regulations require associations to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and *unallocated retained earnings and equivalents* ("**UREE**") ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. See CFS note 11, *"Members' Equity."*

The Association made qualified patronage distributions of $12.3 million, $12.0 million and $8.7 million (including GPAg's 2014 declaration of $5.2 million) in 2017, 2016 and 2015, respectively. In 2017, the Association paid out $5.7 million in allocated surplus. In December 2017, the Association's board of directors approved a $15,579,733 patronage with qualified cash distributions of $12,769,115 to be paid in the first quarter of 2018. Included in the patronage was $2,810,618 of nonqualified allocated surplus. See CFS note 11, *Members' Equity*, in this Annual Report for additional information.

Significant Recent Accounting Pronouncements. See Note 1 in CFS

Regulatory Matters. At December 31, 2017, the Association was not under written agreements with the Farm Credit Administration.

On July 28, 2016, the Farm Credit Administration published a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule were as follows:

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

The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also replaces the existing net collateral ratio with a tier 1 leverage ratio and is applicable to all banks and associations. The permanent capital ratio will continue to remain in effect with the final rule.

Regulatory Matters (continued). The new capital requirements became effective January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. The Association is in compliance with the required minimum capital standards and met the conservation buffers as of December 31, 2017.

On June 12, 2014, the Farm Credit Administration approved a proposed rule to revise the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014. FCA anticipates release of a final rule in the first quarter of 2018.

Other matters. New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Acts of 2017 ("**TCJA**") were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent. The change in the federal corporate tax rate affects the Association's deferred tax assets and the related valuation allowance. While the full impact of the TCJA is difficult to predict and may not be fully known for several years, changes that could affect the Association's business and customers include, but are not limited to, modifications to deductions surrounding interest expense and equipment purchases, tax incentives related to renewable energy initiatives, deductions impacting agricultural producers who sell their products to cooperatives and the overall changes in the competitive environment impacting financial institutions.

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 2017, the Association experienced substantial loan growth, maintained good credit quality and earnings and approved a record cash patronage distribution to stockholders to be paid in 2018. Over the past 83 years, regardless of the state of the agricultural economy, the Association's and FCBT's board of directors and management have offered and continue to commit to offer members a ready source of financing at a competitive price. Continued stockholder support will be critical to the Association's success.

Report of Independent Auditors

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, 2017, December 31, 2016 and December 31, 2015, and the related consolidated statements of comprehensive income, changes in members' equity and 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.

Auditors' 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, 2017, December 31, 2016 and December 31, 2015, and the results of their operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 14, 2018

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Consolidated Balance Sheets

	December 31, 2017	2016	2015
Assets			
Cash	**$ 33,668**	$ 44,194	$ 37,958
Investments	**2,669,098**	3,810,694	4,531,324
Loans	**1,853,249,655**	1,609,618,017	1,517,021,023
Less: allowance for loan losses	**8,079,162**	6,252,551	5,323,157
Net loans	**1,845,170,493**	1,603,365,466	1,511,697,866
Accrued interest receivable	**22,157,921**	18,901,845	17,126,297
Investment in and receivable from the Farm Credit Bank of Texas ("FCBT"):			
Capital stock	**31,235,885**	28,847,850	25,773,040
Other	**12,410,854**	18,753,596	15,088,199
Other property owned, net	**1,000,000**	1,384,355	1,445,855
Premises and equipment	**19,445,056**	19,233,069	14,626,542
Other assets	**1,172,557**	1,156,372	1,164,830
Total assets	**$ 1,935,295,532**	$ 1,695,497,441	$ 1,591,491,911
Liabilities			
Note payable to the FCBT	**$ 1,645,463,626**	$ 1,429,487,047	$ 1,340,973,977
Advance conditional payments	**11,129,758**	11,873,910	13,461,282
Accrued interest payable	**3,128,827**	2,233,303	1,931,498
Drafts outstanding	**1,046,189**	6,964,428	7,743,673
Patronage distributions payable	**12,769,137**	12,222,647	11,944,645
Accrued postretirement benefit liability	**7,533,991**	6,583,002	6,210,385
Other liabilities	**9,521,307**	8,845,751	8,237,967
Total liabilities	**1,690,592,835**	1,478,210,088	1,390,503,427
Members' Equity			
Capital stock and participation certificates	**4,151,105**	4,050,575	3,989,035
Preferred Stock Issued	**20,000,000**	-	-
Additional paid-in capital	**75,310,003**	75,446,357	75,446,357
Allocated retained earnings	**22,266,970**	25,144,487	22,511,743
Unallocated retained earnings	**124,012,510**	112,924,216	99,152,953
Accumulated other comprehensive income (loss)	**(1,037,891)**	(278,282)	(111,604)
Total members' equity	**244,702,697**	217,287,353	200,988,484
Total liabilities and members' equity	**$ 1,935,295,532**	$ 1,695,497,441	$ 1,591,491,911

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

Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
	2017	2016	2015
Interest Income			
Loans	**$ 74,554,634**	$ 66,478,457	$ 62,664,012
Investments	**168,027**	216,390	257,642
Total interest income	**74,722,661**	66,694,847	62,921,654
Interest Expense			
Note payable to the FCBT	**31,924,855**	25,016,253	20,813,225
Advance conditional payments	**33,994**	29,467	35,770
Total interest expense	**31,958,849**	25,045,720	20,848,995
Net interest income	**42,763,812**	41,649,127	42,072,659
Provision for Loan Losses	**2,354,394**	1,466,184	1,672,339
Net interest income after provision for losses	**40,409,418**	40,182,943	40,400,320
Noninterest Income			
Income from the FCBT:	**10,484,568**	10,426,539	10,268,037
Loan fees	**606,696**	501,447	731,436
Financially related services income	**3,393,784**	3,275,217	2,939,142
(Loss) gain on other property owned, net	**(114,069)**	(61,500)	(152,645)
Gain on sale of premises and equipment, net	**118,316**	546,546	402,089
Other noninterest income	**952,521**	1,440,587	705,732
Total noninterest income	**15,441,816**	16,128,836	14,893,791
Noninterest Expenses			
Salaries and employee benefits	**18,656,787**	17,856,384	16,764,920
Directors' expense	**444,647**	512,497	421,433
Purchased services	**1,261,286**	1,258,843	1,348,188
Travel	**1,263,037**	1,146,084	946,534
Occupancy and equipment	**1,642,985**	1,409,310	1,243,498
Communications	**397,855**	333,203	342,491
Advertising	**546,672**	690,543	981,275
Public and member relations	**837,575**	729,198	696,064
Supervisory and exam expense	**464,487**	413,403	333,699
Insurance Fund premiums	**1,800,887**	1,879,476	1,228,251
Other noninterest expense	**1,303,955**	1,437,301	988,015
Total noninterest expenses	**28,620,173**	27,666,242	25,294,368
NET INCOME	**27,231,061**	28,645,537	29,999,743
Other comprehensive income:			
Other comprehensive income (loss)	**(759,609)**	(166,678)	817,982
COMPREHENSIVE INCOME	**$ 26,471,452**	$ 28,478,859	$ 30,817,725

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

Consolidated Statements of Changes in Members' Equity

	Capital Stock/ Participation Certificates	Preferred Stock	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
				Allocated	Unallocated		
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
Comprehensive income	-	-	-	-	28,645,537	(166,678)	28,478,859
Capital stock/participation certificates:							
Issued	792,975	-	-	-	-	-	792,975
Retired	(731,435)	-	-	-	-	-	(731,435)
Patronage dividends (paid or declared):							
Cash	-	-	-	-	(12,241,530)	-	(12,241,530)
Allocated retained earnings	-	-	-	2,632,744	(2,632,744)	-	-
Balance at December 31, 2016	4,050,575	-	75,446,357	25,144,487	112,924,216	(278,282)	217,287,353
Comprehensive income	-	-	-	-	27,231,061	(759,609)	26,471,452
Capital stock/participation certificates:							
Issued	782,455	-	-	-	-	-	782,455
Retired	(681,925)	-	-	-	-	-	(681,925)
Preferred stock issued		20,000,000					20,000,000
Preferred stock dividend paid	-	-	-	-	(500,000)	-	(500,000)
Issuance costs of preferred stock	-	-	(136,354)	-	-	-	(136,354)
Patronage dividends (paid or declared):							
Cash	-	-	-	(5,688,135)	(12,832,149)	-	(18,520,284)
Allocated retained earnings	-	-	-	2,810,618	(2,810,618)	-	-
Balance at December 31, 2017	**$ 4,151,105**	**$ 20,000,000**	**$ 75,310,003**	**$ 22,266,970**	**$ 124,012,510**	**$ (1,037,891)**	**$ 244,702,697**

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

Notes to Consolidated Financial Statements

	Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	**$ 27,231,061**	$ 28,645,537	$ 29,999,743
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for:			
Loan losses or (loan loss reversal)	**2,354,394**	1,466,184	1,672,339
Acquired property	**178,500**	61,500	152,646
Net (gain) loss on:			
Loan sales	**-**	(676,714)	-
Other property owned, net	**(64,431)**	-	-
Premises and equipment disposals	**(118,316)**	(546,546)	(402,089)
Depreciation	**1,113,804**	934,700	596,664
Amortization (accretion) of :			
Purchased loan premiums	**2,330,926**	2,208,533	2,134,510
Deferred loan costs and fees	**207,932**	126,010	16,226
Net discounts on acquired assets	**-**	(1,912,535)	(1,949,016)
(Increase) decrease in:			
Accrued interest receivable	**(3,256,076)**	(1,775,548)	(974,523)
Receivable from FCBT, other	**6,342,742**	(3,665,397)	(4,696,429)
Other assets	**(16,185)**	8,458	38,892
Increase (decrease) in:			
Accrued interest payable	**895,524**	301,805	235,361
Other liabilities	**1,233,949**	31,256	(1,001,755)
Net cash provided by operating activities	**38,433,824**	25,207,243	25,822,569
Cash flows from investing activities:			
Cash acquired at merger	**-**	-	34,028
Increase in loans, net	**(247,117,827)**	(99,043,438)	(153,822,463)
Cash recoveries of loans previously charged off	**52,535**	171,268	846,388
Proceeds from sale of loans	**-**	8,061,714	-
Purchase of investment in the FCBT	**(2,388,035)**	(3,074,810)	(3,314,160)
Investment, held-to-maturity:			
Proceeds from maturities, calls and prepayments	**1,141,596**	708,719	841,013
Purchases of premises and equipment	**(1,365,572)**	(5,838,442)	(5,967,163)
Proceeds from sales of premises and equipment	**158,097**	1,294,433	803,238
Proceeds from sales of other property owned	**270,286**	-	-
Net cash used in investing activities	**$ (249,248,920)**	$ (97,720,556)	$ (160,579,119)

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2017	2016	2015
Cash flows from financing activities:			
Net draws on note payable to the FCBT	**$ 215,976,579**	$ 86,788,154	$ 134,170,404
Increase (decrease) in:			
Drafts outstanding	**(5,918,239)**	(779,245)	6,492,935
Advance conditional payments	**(744,152)**	(1,587,372)	(420,095)
Capital stock and participation certificates:			
Issuance	**782,455**	792,975	848,625
Retirement	**(681,925)**	(731,435)	(776,040)
Issuance of preferred stock, net of costs	**19,863,646**	-	-
Preferred stock dividend paid	**(500,000)**	-	-
Cash dividends paid	**(12,285,659)**	(11,963,528)	(8,699,065)
Allocated retained earnings revolvement	**(5,688,135)**	-	(476)
Net cash provided by financing activities	**210,804,570**	72,519,549	131,616,288
Net change in cash	**(10,526)**	6,236	(3,140,262)
Cash at the beginning of the year	**44,194**	37,958	3,178,220
Cash at the end of the year	**$ 33,668**	$ 44,194	$ 37,958
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**$ -**	$ -	$ 1,365,000
Loans charged off	**947,331**	51	292,257
Premises and equipment acquired under capital lease	**-**	450,672	-
Patronage distributions declared	**15,579,733**	14,854,397	14,343,007
Allocated equities offset to loan	**-**	-	17,673
Net assets acquired with merger	**-**	-	88,376,790
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 31,063,325**	$ 24,743,915	$ 20,613,634

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

Notes to Consolidated Financial Statements

Note 1: Organization and Operations

Organization. *AgTexas Farm Credit Services* ("**AgTX ACA**") and its wholly-owned subsidiaries, AgTexas, PCA, AgTexas, FLCA and AgTexas Asset Management, LLC ("**ATAM**") 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, 2017, 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, 2017, 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 operates in or services 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 Systemwide 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 and 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. ATAM was formed in August 2010 to hold equities acquired in a loan settlement. ATAM was dissolved during 2017.

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 includes their respective consolidated financial statements, is 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 August 2017, FASB issued guidance entitled *"Targeted Improvements to Accounting for Hedging Activities."* The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In March 2017, the FASB issued guidance entitled *"Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost."* The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled *"Classification of Certain Cash Receipts and Cash Payments."* The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

Note 2: Summary of Significant Accounting Policies (continued)

Recently Issued or Adopted Accounting Pronouncements (continued).

In June 2016, FASB issued guidance entitled "*Measurement of Credit Losses on Financial Instruments.*" The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, FASB issued guidance entitled "*Recognition and Measurement of Financial Assets and Liabilities.*" For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

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 determined the effect was not material to its financial condition or results of operations and will not change its current recognition practices.

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 is currently evaluating the impact of adoption on its financial condition and 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, AgTexas, FLCA and ATAM. 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.

Note 2: Summary of Significant Accounting Policies (continued)

Fair Value (continued)

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.

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.

Note 2: Summary of Significant Accounting Policies (continued)

CI (continued). 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 and 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.

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 five 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 percent (or 97 percent 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.

Note 2: Summary of Significant Accounting Policies (continued)

Loans (continued). 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.

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.

Note 2: Summary of Significant Accounting Policies (continued)

Loans Held to Maturity or Pay-Off (continued). 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.

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 fully 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 payment 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 is 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 noninterest income. Expenses from holding and/or operating OPO are included in other noninterest expense.

Premises and 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 difference between the proceeds, if any, and the book value is 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 Association's Asset-Liability Committee.

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. New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Acts of 2017 ("**TCJA**") were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent.

AgTexas ACA, AgTexas, PCA and ATAM 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. The Association's deferred tax assets decreased as of December 31, 2017 due to the decrease in the federal corporate tax rate. The valuation allowance related to the deferred tax assets decreased as of December 31, 2017.

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 patronage 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 and 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: allowance for loan losses	(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 and equipment	5,279,897	-	-	5,279,897
Goodwill and 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 January 1, 2015, was $6,255,230. The amount of accretable yield related to impaired loans acquired was $48,512 as of January 1, 2015. The amount of accretable yield on non-impaired loans was $4,201,532 as of January 1, 2015. The amount of non-accretable yield to all loans and commitments acquired was $3,123,158 as of January 1, 2015. The Association recognized $366,730 and $371,664 in net income related to the accretion of the fair value adjustments related to the fair value adjustments in the years ended December 31, 2016 and 2015. As of December 31, 2016, no acquired impaired loans remained, no accretable yield related to these loans remained and no accretable or non-accretable yield on non-impaired loans remained. There was no net income effect related to the merger for the year ended 2017.

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, 2017	**$2,669,098**	**$ 9,895**	**$ -**	**$2,678,993**	**5.61%**
December 31, 2016	3,810,694	30,916	-	3,841,610	5.39%
December 31, 2015	4,531,324	32,417	-	4,563,741	5.30%

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 a weighted average life of 3.38 years at December 31, 2017.

Note 5: Loans and *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:

	2017		2016		2015	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 999,829,310**	**53.9%**	$ 839,581,250	52.2%	$ 684,872,812	45.2%
Production and intermediate term	**641,092,903**	**34.6%**	553,610,612	34.4%	573,704,746	37.8%
Agribusiness:						
Loans to cooperatives	**5,799,640**	**0.3%**	5,159,236	0.3%	3,414,054	0.2%
Processing and marketing	**79,503,746**	**4.3%**	72,453,282	4.5%	64,023,372	4.2%
Farm-related business	**19,533,037**	**1.1%**	18,379,677	1.1%	26,790,359	1.8%
Communication	**10,741,186**	**0.6%**	12,116,836	0.8%	13,656,047	0.9%
Energy	**4,962,838**	**0.3%**	4,384,590	0.3%	4,633,946	0.3%
Water and waste water	**-**	**0.0%**	-	0.0%	626,355	0.0%
Rural residential real estate	**6,431,219**	**0.3%**	5,596,877	0.3%	10,033,541	0.7%
Lease receivables	**516,696**	**0.0%**	124,636	0.0%	60,302	0.0%
Mission-related investments	**84,839,080**	**4.6%**	98,211,021	6.1%	135,205,489	8.9%
Total	**$1,853,249,655**	**100.0%**	$ 1,609,618,017	100.0%	$ 1,517,021,023	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. During 2016, the Association reclassified approximately $47 million mission-related investments loans, including $1.2 million in premium, to real estate mortgage loans. This was done to more accurately reflect the purpose of these purchased loans. In order to enhance comparability within the CFS, approximately $50 million of mission-related investments as of December 31, 2015 have been reclassified to real estate mortgage loans. Mission-related investment loan carrying amount details follow:

Note 5: Loans and ALL (continued)

Loans (continued).

Loan Type	2017 Amount	2017 %	2016 Amount	2016 %	2015 Amount	2015 %
100% USDA guaranteed loans	**$ 51,641,494**	**60.9%**	$ 61,825,672	63.0%	$ 75,024,354	55.5%
Loans under RAB Program	**33,197,586**	**39.1%**	36,385,349	37.0%	60,181,135	44.5%
Total	**$ 84,839,080**	**100.0%**	$ 98,211,021	100.0%	$ 135,205,489	100.0%

Mission-related investment and real estate mortgage 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 and real estate mortgage loan balances above as of December 31 follow:

	2017	2016	2015
Real estate mortgage	**$ 6,210,537**	$ 5,032,470	$ 1,926,103
Mission-related investments	**999,190**	1,774,852	2,856,272
Total premium	**$ 7,209,727**	$ 6,807,322	$ 4,782,375

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, 2017, 2016 and 2015, loans totaling $133,643,360, $111,138,971 and $116,571,723, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $593,574, $627,756 and $293,483 in 2017, 2016 and 2015, 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	$ 59,494,528	$ 155,910,927	$ 245,150,399	$ 2,960,116	$ 304,644,927	$ 158,871,043
Production and intermediate term	54,021,728	376,216,330	-	-	54,021,728	376,216,330
Agribusiness	87,743,690	-	-	-	87,743,690	-
Communication	10,741,186	-	-	-	10,741,186	-
Energy	4,962,838	-	-	-	4,962,838	-
Mission-related investments	374,892	-	-	-	374,892	-
Total	$ 217,338,862	$ 532,127,257	$ 245,150,399	$ 2,960,116	$ 462,489,261	$ 535,087,373

Note 5: Loans and 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 follows:

County	**2017**	2016	2015
Castro	**5.9%**	5.4%	5.1%
Erath	**3.9%**	4.1%	3.9%
Hale	**3.4%**	3.6%	3.4%
Dallam	**3.1%**	3.4%	3.7%
Parmer	**2.7%**	2.1%	2.1%
Terry	**2.3%**	2.8%	3.0%
Gaines	**2.3%**	2.8%	3.5%
Deaf Smith	**2.3%**	2.1%	1.9%
Sherman	**2.1%**	1.9%	2.0%
Randall	**2.0%**	1.5%	1.1%
Lubbock	**1.9%**	2.0%	2.1%
Potter	**1.9%**	2.2%	2.5%
Moore	**1.8%**	2.0%	1.7%
Bailey	**1.7%**	0.9%	0.5%
Hockley	**1.6%**	2.1%	2.1%
Lynn	**1.6%**	1.8%	1.8%
Lamb	**1.5%**	1.5%	1.8%
Hill	**1.5%**	1.5%	1.3%
Comanche	**1.4%**	1.4%	1.1%
Hansford	**1.3%**	1.1%	1.1%
Parker	**1.3%**	1.6%	1.4%
Floyd	**1.1%**	1.4%	1.1%
Johnson	**1.1%**	1.0%	0.8%
Yoakum	**1.0%**	1.0%	1.0%
Ellis	**1.0%**	0.9%	0.8%
Swisher	**1.0%**	1.0%	1.4%
Hood	**0.9%**	1.2%	1.6%
Eastland	**0.8%**	0.7%	0.8%
Hamilton	**0.8%**	0.6%	0.8%
Hutchinson	**0.8%**	0.4%	0.5%
Hartley	**0.7%**	0.8%	1.3%
Navarro	**0.6%**	0.7%	0.8%
Cochran	**0.6%**	0.8%	0.8%
Bosque	**0.5%**	0.6%	0.7%
Crosby	**0.5%**	0.6%	0.7%
Tarrant	**0.4%**	0.8%	1.2%
Other Texas Counties	**10.6%**	10.8%	10.2%
Other States	**30.0%**	28.9%	28.4%
Totals	**100.0%**	100.0%	100.0%

Notes to Consolidated Financial Statements

Note 5: Loans and ALL (continued)

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

Operation/Commodity	**2017**	2016	2015
Livestock, except dairy and poultry	**26.3%**	24.6%	24.1%
Field crops except cash grains	**13.9%**	15.0%	15.2%
Cash grains	**9.4%**	8.7%	8.6%
Dairy farms	**9.1%**	8.0%	7.2%
Wholesale trade - nondurable goods	**7.6%**	8.8%	11.1%
General farms, primarily crops	**6.9%**	7.7%	8.4%
Poultry and eggs	**6.9%**	6.3%	3.1%
Hunting, trapping and game propagation	**3.9%**	4.2%	5.0%
General farms, primarily livestock	**3.6%**	3.9%	3.8%
Food and kindred products	**2.4%**	2.3%	1.6%
Agricultural services	**1.9%**	1.5%	1.5%
Health services	**1.7%**	2.1%	2.7%
Real estate	**1.3%**	0.9%	1.6%
Timber, lumber and wood related products	**1.0%**	0.9%	1.4%
Rural home loans	**1.0%**	1.0%	0.7%
Fruit and tree nuts	**0.8%**	1.1%	0.3%
Communication	**0.6%**	0.8%	0.9%
Farm and garden machinery and equipment	**0.4%**	0.5%	0.4%
Animal specialties	**0.4%**	0.3%	0.3%
Electric services	**0.3%**	0.3%	0.3%
Chemical and allied products	**0.3%**	0.6%	1.4%
Horticultural specialties	**0.1%**	0.2%	0.1%
Other	**0.2%**	0.3%	0.3%
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 follows:

Note 5: Loans and ALL (continued)

Credit Quality (continued).

	December 31, 2017	December 31, 2016	December 31, 2015
Nonaccrual loans:			
Real estate mortgage	**$ 11,168,908**	$ 8,925,985	$ 3,021,910
Production and intermediate term	**9,633,858**	4,137,206	3,393,427
Rural residential real estate	**52,308**	194,119	51,464
Mission-related investments	**1,635,542**	3,459,762	3,092,890
Total nonaccrual loans	**22,490,616**	16,717,072	9,559,691
Accruing restructured loans:			
Real estate mortgage	**-**	-	6,712,457
Production and intermediate term	**-**	-	3,072,635
Total accruing restructured loans	**-**	-	9,785,092
Accruing loans 90 days or more past due:			
Real estate mortgage	**-**	240,395	-
Production and intermediate term	**2,890,170**	1,198,650	20,879
Mission-related investments	**-**	-	729,069
Total accruing loans 90 days or more past due	**2,890,170**	1,439,045	749,948
Total nonperforming loans	**25,380,786**	18,156,117	20,094,731
Other property owned	**1,000,000**	1,384,355	1,445,855
Total nonperforming assets	**$ 26,380,786**	$ 19,540,472	$ 21,540,586

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

	2017	2016	2015
Interest income which would have been recognized under the original terms	**$ 1,306,547**	$ 1,132,629	$ 1,837,453
Less: interest income recognized	**(520,454)**	(426,791)	(1,409,802)
Foregone interest income	**$ 786,093**	$ 705,838	$ 427,651

Notes to Consolidated Financial Statements

Note 5: Loans and ALL (continued)

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

December 31, 2017:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 7,073,786**	**$ 5,104,579**	**$ 12,178,365**	**$ 1,000,604,161**	**$ 1,012,782,526**	**$ -**
Production and intermediate term	**6,922,468**	**3,885,180**	**10,807,648**	**638,435,762**	**649,243,410**	**2,890,170**
Loans to cooperatives	**-**	**-**	**-**	**5,828,168**	**5,828,168**	**-**
Processing and marketing	**-**	**-**	**-**	**79,639,308**	**79,639,308**	**-**
Farm-related business	**1,999,154**	**-**	**1,999,154**	**17,752,608**	**19,751,762**	**-**
Communication	**-**	**-**	**-**	**10,772,792**	**10,772,792**	**-**
Energy	**-**	**-**	**-**	**4,975,385**	**4,975,385**	**-**
Rural residential real estate	**-**	**-**	**-**	**6,464,062**	**6,464,062**	**-**
Lease receivables	**-**	**-**	**-**	**523,880**	**523,880**	**-**
Mission-related investments	**-**	**1,635,542**	**1,635,542**	**83,695,133**	**85,330,675**	**-**
Total	**$ 15,995,408**	**$10,625,301**	**$ 26,620,709**	**$ 1,848,691,259**	**$ 1,875,311,968**	**$ 2,890,170**

December 31, 2016:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 479,703	$ 6,056,466	$ 6,536,169	$ 843,555,649	$ 850,091,818	$ 240,395
Production and intermediate term	7,009,478	2,000,628	9,010,106	551,960,577	560,970,683	1,198,650
Loans to cooperatives	-	-	-	5,197,287	5,197,287	-
Processing and marketing	-	-	-	72,663,687	72,663,687	-
Farm-related business	-	-	-	18,459,906	18,459,906	-
Communication	-	-	-	12,120,908	12,120,908	-
Energy	-	-	-	4,394,885	4,394,885	-
Rural residential real estate	238,953	-	238,953	5,381,094	5,620,047	-
Lease receivables	-	-	-	126,604	126,604	-
Mission-related investments	491,060	-	491,060	98,245,959	98,737,019	-
Total	$ 8,219,194	$ 8,057,094	$ 16,276,288	$ 1,612,106,556	$ 1,628,382,844	$ 1,439,045

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 and Accruing
Real estate mortgage	$ 312,326	$ 2,281,384	$ 2,593,710	$ 691,066,160	$ 693,659,870	$ -
Production and 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 and 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 and 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	132,130,826	136,179,753	729,069
Total	$ 5,845,117	$ 8,735,575	$ 14,580,692	$ 1,519,403,887	$ 1,533,984,579	$ 749,948

Note 5: Loans and 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:

	2017	2016	2015
Real estate mortgage			
Acceptable	**95.9** %	96.7 %	97.3 %
OAEM	**1.9**	1.7	1.3
Substandard/doubtful	**2.2**	1.6	1.4
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**91.4**	91.4	96.1
OAEM	**3.5**	4.1	2.2
Substandard/doubtful	**5.1**	4.5	1.7
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	**98.6**	96.8	92.8
OAEM	-	-	-
Substandard/doubtful	**1.4**	3.2	7.2
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**100.0**	96.1	100.0
OAEM	-	3.9	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Communication			
Acceptable	**100.0**	100.0	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Energy			
Acceptable	**100.0**	51.2	100.0
OAEM	-	48.8	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Water and waste water			
Acceptable	-	-	100.0
OAEM	-	-	-
Substandard/doubtful	-	-	-
	-	-	100.0
Rural residential real estate			
Acceptable	**95.3**	95.4	97.1
OAEM	**3.0**	-	1.7
Substandard/doubtful	**1.7**	4.6	1.2
	100.0	100.0	100.0
Lease receivables			
Acceptable	**93.0**	36.1	100.0
OAEM	**7.0**	63.9	-
Substandard/doubtful	-	-	-
	100.0	100.0	100.0
Mission-related investments			
Acceptable	**98.1**	96.4	97.7
OAEM	-	-	-
Substandard/doubtful	**1.9**	3.6	2.3
	100.0	100.0	100.0
Total Loans			
Acceptable	**94.7**	94.8	97.1
OAEM	**2.2**	2.6	1.4
Substandard/doubtful	**3.1**	2.6	1.5
	100.0 %	100.0 %	100.0 %

Note 5: Loans and 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 12/31/2017	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	5,181,200	5,265,207	2,243,200	528,653	41,299
Rural residential real estate	-	-	-	-	-
Mission-related investments	-	-	-	-	-
Total	$ 5,181,200	$ 5,265,207	$ 2,243,200	$ 528,653	$ 41,299
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 11,168,908	$ 11,604,775	$ -	$ 6,754,379	$ 75,474
Production and intermediate term	7,342,828	9,561,723	-	5,416,955	403,681
Rural residential real estate	52,308	52,308	-	57,219	-
Mission-related investments	1,635,542	1,635,542	-	3,136,537	-
Total	$ 20,199,586	$ 22,854,348	$ -	$ 15,365,090	$ 479,155
Total impaired loans:					
Real estate mortgage	$ 11,168,908	$ 11,604,775	$ -	$ 6,754,379	$ 75,474
Production and intermediate term	12,524,028	14,826,930	2,243,200	5,945,608	444,980
Rural residential real estate	52,308	52,308	-	57,219	-
Mission-related investments	1,635,542	1,635,542	-	3,136,537	-
Total	$ 25,380,786	$ 28,119,555	$ 2,243,200	$ 15,893,743	$ 520,454

	Recorded Investment at 12/31/2016	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	353,183	365,930	233,000	400,022	8,645
Rural residential real estate	-	-	-	-	-
Mission-related investments	-	-	-	-	-
Total	$ 353,183	$ 365,930	$ 233,000	$ 400,022	$ 8,645
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 9,166,380	$ 9,620,195	$ -	$ 2,384,031	$ 191,175
Production and intermediate term	4,982,673	6,361,584	-	1,563,561	208,742
Rural residential real estate	194,119	194,119	-	103,576	4,939
Mission-related investments	3,459,762	3,459,762	-	3,561,823	-
Total	$ 17,802,934	$ 19,635,660	$ -	$ 7,612,991	$ 404,856
Total impaired loans:					
Real estate mortgage	$ 9,166,380	$ 9,620,195	$ -	$ 2,384,031	$ 191,175
Production and intermediate term	5,335,856	6,727,514	233,000	1,963,583	217,387
Rural residential real estate	194,119	194,119	-	103,576	4,939
Mission-related investments	3,459,762	3,459,762	-	3,561,823	-
Total	$ 18,156,117	$ 20,001,590	$ 233,000	$ 8,013,013	$ 413,501

Note 5: Loans and ALL (continued)

Credit Quality (continued).

	Recorded Investment at 12/31/2015	Unpaid Principal Balance[a]	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 and 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 and 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 and 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

(a) Unpaid principal balance represents the recorded principal balance of the loan.

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 the loan.

There were commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2017, 2016 and 2015 of $954,834, $598,812 and $137,382, respectively.

Note 5: Loans and 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, 2017	December 31, 2016	December 31, 2015
Troubled debt restructurings:			
Real estate mortgage	**$ 100,363**	$ 1,464,416	$ 6,876,207
Production and intermediate term	**-**	437,089	3,094,351
Mission-related investments	**1,635,542**	3,459,762	-
Total	**$ 1,735,905**	$ 5,361,267	$ 9,970,558

	TDRs on Nonaccrual Status*		
	December 31, 2017	December 31, 2016	December 31, 2015
Troubled debt restructurings:			
Real estate mortgage	**$ 100,363**	$ 1,464,416	$ 163,751
Production and intermediate term	**-**	437,089	21,715
Mission-related investments	**1,635,542**	3,459,762	-
Total	**$ 1,735,905**	$ 5,361,267	$ 185,466

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

Information on TDR loans by portfolio *segment* that were restructured during 2016 and 2015 follow. There were no restructures in 2017. 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, 2016:	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
Troubled debt restructurings:		
Mission-related investments	**$ 3,515,235**	**$ 3,481,303**
Total	**$ 3,515,235**	**$ 3,481,303**

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

No TDRs were charged off in 2017, 2016 and 2015. A payment default is a payment that becomes 30 days past due after restructuring the loan. There were no TDR loans during the year that subsequently defaulted as of December 31, 2017, 2016 and 2015.

Note 5: Loans and ALL (continued)

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 and Intermediate Term	Agri-business	Communi-cation	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Mission-Related Investments	Total
Balance at December 31, 2016	$ 1,645,914	$ 4,111,717	$ 367,991	$ 42,319	$ 70,108	$ -	$ 8,203	$ 786	$ 5,513	$ 6,252,551
Charge-offs	-	(947,331)	-	-	-	-	-	-	-	(947,331)
Recoveries	41,042	11,493	-	-	-	-	-	-	-	52,535
Provision for loan losses	190,097	2,248,253	(54,079)	4,772	(35,441)	-	886	2,076	(2,170)	2,354,394
Other	6,160	334,033	29,356	961	(2,173)	-	(1,324)	-	-	367,013
Balance at December 31, 2017	$ 1,883,213	$ 5,758,165	$ 343,268	$ 48,052	$ 32,494	$ -	$ 7,765	$ 2,862	$ 3,343	$ 8,079,162
Ending Balance:										
Individually evaluated for impairment	$ -	$ 2,243,200	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,243,200
Collectively evaluated for impairment	$ 1,883,213	$ 3,514,965	$ 343,268	$ 48,052	$ 32,494	$ -	$ 7,765	$ 2,862	$ 3,343	$ 5,835,962
Acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Recorded Investment in Loans Outstanding:										
Ending Balance at December 31, 2017	$ 1,012,782,526	$ 649,243,410	$ 105,219,238	$ 10,772,792	$ 4,975,385	$ -	$ 6,464,062	$ 523,880	$ 85,330,675	$ 1,875,311,968
Individually evaluated for impairment	$ 11,168,908	$ 12,524,028	$ -	$ -	$ -	$ -	$ 52,308	$ -	$ 1,635,542	$ 25,380,786
Collectively evaluated for impairment	$ 1,001,613,618	$ 636,719,382	$ 105,219,238	$ 10,772,792	$ 4,975,385	$ -	$ 6,411,754	$ 523,880	$ 83,695,133	$ 1,849,931,182
Acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

ALL:	Real Estate Mortgage	Production and Intermediate Term	Agri-business	Communi-cation	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Mission-Related Investments	Total
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
Charge-offs	(1)	-	-	-	-	-	(50)	-	-	(51)
Recoveries	170,368	865	-	-	-	-	34	-	-	171,267
Provision for loan losses	(9,228)	1,356,106	104,872	14,207	28,114	(4,361)	(15,209)	592	(8,909)	1,466,184
Adjustment due to merger	-	-	-	-	-	-	-	-	-	-
Other	(9,157)	(660,236)	(52,340)	(487)	12,219	-	1,995	-	-	(708,006)
Balance at December 31, 2016	$ 1,645,914	$ 4,111,717	$ 367,991	$ 42,319	$ 70,108	$ -	$ 8,203	$ 786	$ 5,513	$ 6,252,551
Ending Balance:										
Individually evaluated for impairment	$ -	$ 233,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 233,000
Collectively evaluated for impairment	$ 1,645,914	$ 3,878,717	$ 367,991	$ 42,319	$ 70,108	$ -	$ 8,203	$ 786	$ 5,513	$ 6,019,551
Acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Recorded Investment in Loans Outstanding:										
Ending Balance at December 31, 2016	$ 850,091,818	$ 560,970,683	$ 96,320,880	$ 12,120,908	$ 4,394,885	$ -	$ 5,620,047	$ 126,604	$ 98,737,019	$ 1,628,382,844
Individually evaluated for impairment	$ 9,166,380	$ 5,335,856	$ -	$ -	$ -	$ -	$ 194,119	$ -	$ 3,459,762	$ 18,156,117
Collectively evaluated for impairment	$ 840,925,438	$ 555,634,827	$ 96,320,880	$ 12,120,908	$ 4,394,885	$ -	$ 5,425,928	$ 126,604	$ 95,277,257	$ 1,610,226,727
Acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Note 5: Loans and ALL (continued)

ALL:	Real Estate Mortgage	Production and Intermediate Term	Agri-business	Communi-cation	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Mission-Related Investments	Total
Balance at										
December 31, 2014	$ 3,561,419	$ 120,634	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 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
Adjustment due to merger	-	-	-	-	-	-	-	-	-	-
Other	96,779	(534,462)	(128,128)	(759)	(3,746)	(10,722)	(4,329)	-	-	(585,367)
Balance at										
December 31, 2015	$ 1,493,936	$ 3,414,978	$ 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 at December 31, 2015	$ 693,659,870	$ 580,465,431	$ 94,569,911	$ 13,662,241	$ 4,644,598	$ 626,838	$ 10,115,545	$ 60,392	$ 136,179,753	$ 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	$ 683,925,503	$ 573,978,489	$ 94,569,911	$ 13,662,241	$ 4,644,598	$ 626,838	$ 10,064,081	$ 60,392	$ 132,357,794	$ 1,513,889,848
Acquired with deteriorated credit quality	$ -	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2

Note 6: Farm Credit Bank of Texas Capital Stock

The Association owned 10.4%, 10.2% and 10.1% of the outstanding stock of FCBT at December 31, 2017, 2016 and 2015, respectively. At those dates, FCBT's assets totaled $22.8 billion, $21.0 billion and $20.0 billion and members' equity totaled $1.7 billion, $1.6 billion and $1.6 billion, respectively. FCBT's earnings were $196.0 million, $192.4 million and $192.2 million in 2017, 2016 and 2015, respectively.

Note 7: Premises and Equipment

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

	2017	2016	2015
Land and improvements	**$ 5,347,291**	$ 5,347,291	$ 3,885,750
Building and improvements	**12,911,394**	12,713,424	5,854,253
Furniture and equipment	**1,143,679**	1,089,101	578,845
Computer equipment and software	**629,033**	632,388	521,990
Automobiles	**2,255,509**	2,045,785	1,552,240
Construction in progress	**682,382**	34,785	4,357,564
	22,969,288	21,862,774	16,750,642
Accumulated depreciation	**(3,524,232)**	(2,629,705)	(2,124,100)
Total	**$ 19,445,056**	$ 19,233,069	$ 14,626,542

Note 7: Premises and Equipment (continued)

The Association leases office space under a non-cancelable operating lease. Lease expense was $227,316, $227,316 and $227,316 in 2017, 2016 and 2015, respectively. Remaining minimum annual lease payments under these leases are $170,487 in 2018. During 2016, the Association purchased solar panels under a seven-year capital lease. The panels are included above in buildings and improvements at a cost of $495,993. Accumulated depreciation on the panels as of December 31, 2017 was $95,065.

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

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

	2017	2016	2015
Gain (loss) on sale, net	**$ 64,431**	$ -	$ -
Carrying value adjustments	**(178,500)**	(61,500)	(152,646)
Operating income (expense), net	**58,269**	58,113	(8,517)
Net gain (loss) on other property owned	**$ (55,800)**	$ (3,387)	$ (161,163)

Note 9: Other Assets and Other Liabilities

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

	2017	2016	2015
FCS captive insurance and other stock	**$ 913,341**	$ 891,653	$ 851,355
Prepaids	**181,753**	201,002	278,534
Other	**77,463**	63,717	34,941
Total	**$ 1,172,557**	$ 1,156,372	$ 1,164,830

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

	2017	2016	2015
Employee incentives payable	**$ 3,666,045**	$ 3,702,940	$ 4,690,956
FCS insurance premium payable	**1,800,887**	1,879,476	1,228,251
Allowance for unfunded commitments	**1,180,048**	1,547,061	1,215,266
Accrued annual leave	**615,743**	554,484	527,117
Capital lease payable	**371,309**	429,688	-
Other	**1,887,275**	732,102	576,377
Total	**$ 9,521,307**	$ 8,845,751	$ 8,237,967

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.

Note 10: Note Payable to FCBT (continued)

The balance outstanding on the Association's Direct Note from FCBT and the weighted average interest rate at December 31, 2017, 2016 and 2015, was $1,645,463,626 at 2.19%, $1,429,487,047 at 1.80% and $1,340,973,977 at 1.71%, respectively.

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, 2017, 2016 and 2015, the Association's Direct Note was within the specified limitations. The maximum amount the Association could borrow from FCBT as of December 31, 2017, was $1,849,063,464, 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, 2017, 2016 and 2015, 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 is 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 follows:

	2017	2016	2015
Class A stock	**7**	4,371	6,081
Class B stock	**815,672**	790,594	775,850
Participation certificates	**14,542**	15,150	15,876
Total	**830,221**	810,115	797,807

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.

In January 2017, the Association received clearance from FCA and the board approved the issuance of 20 million shares of a series of preferred stock, par value of $1.00 per share. The stock was issued March 24, 2017. The stock is designated as *Fixed-to-Floating Rate Perpetual Cumulative Preferred Stock, Series A* ("**Series A Preferred Stock**"). The Series A Preferred stock has a fixed rate dividend of 5% for ten years, payable semi-annually. After ten years, the dividend rate becomes a floating rate at 5.00% above 6-month LIBOR. On or after 5 years, the Association may, at its option, redeem all or part of the Series A Preferred Stock. The Series A Preferred Stock is non-voting, except: (*i*) to materially change the Association's Charter or Bylaws that would materially adversely affect the holder of Series A Preferred Stock and (*ii*) to create, issue or authorize any class of stock ranking senior to the Series A Preferred Stock as to dividends or liquidation. Dividends in the amount of $500,000 were paid during the year ended December 31, 2017 on the Series A Preferred Stock.

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 2017, 2016 and 2015, respectively:

	Patronage declared			Retirement/
Year ended	Cash	Allocated Surplus	Prior year patronage paid	Revolvement of Allocated Surplus
December 31, 2017	**$ 12,769,115**	**$ 2,810,618**	**$ 12,285,659**	**$ 5,688,135**
December 31, 2016	12,221,653	2,631,114	11,963,528	-
December 31, 2015	11,943,787	2,399,220	3,500,000	476

In addition to the amount shown as prior year patronage paid above 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.

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.

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for System banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an *Unallocated Retained Earnings* ("**URE**") and URE Equivalents ("**UREE**") Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2017:

Risk-adjusted:	Regulatory Minimums	Conservation Buffer*	Total	As of December 31, 2017
Common equity tier 1 ratio	4.50%	2.50%	7.00%	12.27%
Tier 1 capital ratio	6.00%	2.50%	8.50%	12.27%
Total capital ratio	8.00%	2.50%	10.50%	13.94%
Permanent capital ratio	7.00%	0.00%	7.00%	13.52%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	10.76%
UREE leverage ratio	1.50%	0.00%	1.50%	10.27%

*The 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three-year period ending on December 31, 2019. There is no phase-in of the leverage buffer.
**Must include the regulatory minimum requirement for the URE and UREE Leverage ratio

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

Note 11: Members' Equity (continued)

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- *Permanent capital ratio* ("**PCR**") is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary bonus payments to senior offices are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows as of December 31, 2017:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 92,946,477	$ 92,946,477
Paid-in capital	75,310,003	75,310,003
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,138,867	-
Allocated equities held ≥7 years	23,153,268	-
Nonqualified allocated equities not subject to retirement	37,780,318	37,780,318
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(29,103,960)	(11,029,638)
	204,224,973	195,007,160
Denominator:		
Total Assets	1,933,824,002	1,933,824,002
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(35,832,271)	(35,832,271)
	$ 1,897,991,731	$ 1,897,991,731

Note 11: Members' Equity (continued)

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 92,946,477	$ 92,946,477	$ 92,946,477	$ 92,946,477
Paid-in capital	75,310,003	75,310,003	75,310,003	75,310,003
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,138,867	4,138,867	4,138,867	4,138,867
Allocated equities held ≥7 years	23,153,268	23,153,268	23,153,268	23,153,268
Nonqualified allocated equities not subject to retirement	37,780,318	37,780,318	37,780,318	37,780,318
Other preferred stock subject to certain limitations	-	-	20,000,000	20,000,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	7,840,655	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(29,103,960)	(29,103,960)	(29,103,960)	(29,103,960)
	204,224,973	204,224,973	232,065,628	224,224,973
Denominator:				
Risk-adjusted assets excluding allowance	1,693,925,239	1,693,925,239	1,693,925,239	1,693,925,239
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(29,103,960)	(29,103,960)	(29,103,960)	(29,103,960)
Allowance for loan losses	-	-	-	(6,535,082)
	$ 1,664,821,279	$ 1,664,821,279	$ 1,664,821,279	$ 1,658,286,197

Prior to January 1, 2017, the core surplus ratio measured available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio was an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2016 and 2015 was 13.0 percent and 12.8 percent, respectively, which was in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measured available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio was an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2016 and 2015 was 13.0 percent and 12.8 percent, respectively, which was in compliance with the FCA's minimum ratio requirement of 7.0 percent. The Association's permanent capital ratios as of December 31, 2017, 2016 and 2015 were 13.5 percent, 13.2 percent and 13.1 percent, respectively, which was in compliance with the FCA's minimum ratio requirement of 7.0 percent.

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:

	2017	2016	2015
Federal tax at statutory rate	**$ 9,530,871**	$ 10,025,938	$ 10,499,910
Effect of nontaxable FLCA subsidiary	**(7,400,149)**	(7,132,798)	(8,509,010)
Patronage distributions deductible	**(2,278,583)**	(2,884,523)	(2,684,313)
Change valuation allowance	**(1,104,619)**	(8,617)	818,708
Change in tax rate	**1,252,480**	-	-
Other	**-**	-	(125,295)
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

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

	2017	2016	2015
Deferred Tax Assets			
Allowance for loan losses	**$ 1,322,732**	$ 1,780,592	$ 1,491,328
Postretirement benefits, other	**413,193**	841,997	841,997
Other	**142,795**	360,750	658,631
Gross deferred tax assets	**1,878,720**	2,983,339	2,991,956
Deferred tax asset valuation allowance	**(1,878,720)**	(2,983,339)	(2,991,956)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions about future taxable earnings. At December 31, 2017, 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.

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.

Notes to Consolidated Financial Statements

Note 13: Employee Benefit Plans

Employee Retirement Benefits. Employees of the association participate in either the DB plan or DC plan and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in Note 2, "*Summary of Significant Accounting Policies*." The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The association records current contributions to the DB plan as an expense in the current year.

The CEO and certain executive or highly-compensated employees in the association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (supplemental 401(k) plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

The association elected to participate in all benefits. Contributions of $6,000, $0 and $0 were made to this plan for the years ended December 31, 2017, 2016 and 2015, respectively There were no payments made from the supplemental 401(k) plan to active employees during 2017, 2016 and 2015.

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2017. DB Plan participants generally include employees hired prior to January 1, 1996. The Association recognized pension costs of $1,653,142, $1,963,860 and $836,341 in 2017, 2016 and 2015, respectively.

Note 13: Employee Benefit Plans (continued)

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c) If the association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the association's contributions, and the percentage of association contribution to total plan contributions for the years ended December 31, 2017, 2016 and 2015.

	2017	2016	2015
DB Plan assets to *projected benefit obligation*	**69.7%**	66.4%	66.8%
DB Plan assets to *accumulated benefit obligation*	**73.4%**	70.6%	72.5%
Association's contribution	**$ 1,653,142**	$ 1,963,860	$ 836,341
Percentage of Association's contribution to total contributions	**14.3%**	16.7%	7.8%

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 percent of eligible pay for the years ended December 31, 2017, 2016 and 2015, across various investment alternatives. The Association recognized pension costs for the DC Plan of $568,361, $523,525 and $437,802 in 2017, 2016 and 2015, respectively.

In the 401k, the Association matches 100 percent of employee contributions up to 3 percent of eligible earnings and 50 percent of the next 2 percent, up to a maximum employer contribution of 4 percent of eligible earnings. Association 401k costs are expensed as incurred. The Association's contributions to the 401k were $529,719, $508,012 and $446,500 in 2017, 2016 and 2015, 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).

	2017	2016	2015
OPRB accumulated obligation, beginning of year	**$ 6,583,002**	$ 6,210,385	$ 3,968,918
Additional liability acquired with merger	**-**	-	2,728,965
Service cost	**138,934**	141,864	170,528
Interest cost	**299,184**	288,357	301,031
Plan participants' contributions	**47,926**	30,215	14,767
Actuarial loss (gain)	**700,403**	107,472	(797,331)
Benefits paid	**(235,458)**	(195,291)	(176,493)
OPRB accumulated obligation, end of year	**7,533,991**	6,583,002	6,210,385
Plan assets at fair value, beginning of year	**-**	-	-
Company contributions	**187,532**	165,076	161,726
Plan participants' contributions	**47,926**	30,215	14,767
Benefits paid	**(235,458)**	(195,291)	(176,493)
Plan assets at fair value, end of year	**-**	-	-
Funded status of the plan	**$ (7,533,991)**	$ (6,583,002)	$ (6,210,385)

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

	2017	2016	2015
Net actuarial loss (gain)	**$ 1,082,293**	$ 381,890	$ 274,418
Prior service cost (credit)	**(44,402)**	(103,608)	(162,814)
Total	**$ 1,037,891**	$ 278,282	$ 111,604

Weighted-Average Assumptions Used to Determine OPRB Obligations:

	2017	2016	2015
Measurement date	**12/31/2017**	12/31/2016	12/31/2015
Discount rate	**4.00%**	4.60%	4.70%
Health care cost trend rate assumed for next year (pre-65) - medical	**7.70%**	6.75%	7.00%
Health care cost trend rate assumed for next year (post-65) - medical	**6.90%**	6.50%	6.50%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate (pre-/post-65)	**2026/2026**	2025/2024	2025/2025
Service cost	**$ 138,934**	$ 141,864	$ 170,528
Interest cost	**299,184**	288,357	301,031
Expected return on plan assets	**-**	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	**-**	-	-
Unrecognized prior service cost	**(59,206)**	(59,206)	(65,276)
Unrecognized net loss (gain)	**-**	-	85,927
Net postretirement benefit cost	**$ 378,912**	$ 371,015	$ 492,210
Accounting for settlements/curtailments/special termination benefits	**$ -**	$ -	$ -

Note 13: Employee Benefit Plans (continued)

OPRB (continued).

Weighted-Average Assumptions Used to Determine OPRB Obligations (continued):	2017	2016	2015
Net actuarial loss (gain)	**$ 700,403**	$ 107,472	$ (797,331)
Amortization of net actuarial loss (gain)	**59,206**	59,206	65,276
Amortization of transition liability (asset)	**-**	-	(85,927)
Other comprehensive (income) loss from OPRB obligation	**$ 759,609**	$ 166,678	$ (817,982)
Unrecognized net transition obligation (asset)	**$ -**	$ -	$ -
Unrecognized prior service cost	**(44,402)**	(59,206)	(59,206)
Unrecognized net loss (gain)	**42,722**	-	-
ACOII amounts expected to be amortized into expense	**$ (1,680)**	$ (59,206)	$ (59,206)

Weighted-Average Assumptions Used to Determine Benefit Cost:	2017	2016	2015
Measurement date	**12/31/2016**	12/31/2015	12/31/2014
Discount rate	**4.70%**	4.70%	4.55%
Health care cost trend rate assumed for next year (pre-65) - medical	**7.00%**	7.00%	7.25%
Health care cost trend rate assumed for next year (post-65) - medical	**6.50%**	6.50%	6.75%
Ultimate health care cost trend rate	**4.50%**	4.50%	5.00%
Year that the rate reaches the ultimate trend rate (pre-/post-65)	**2025**	2025/2023	2024/2024

Expected Benefit Payments (net of employee contributions):	
Fiscal 2018	**$ 222,137**
Fiscal 2019	**237,205**
Fiscal 2020	**277,200**
Fiscal 2021	**304,776**
Fiscal 2022	**342,370**
Fiscal 2023–2027	**1,897,800**
Expected Benefit Payments (net of employee contributions):	**$ 3,281,488**
Expected Contributions in 2018	**$ 222,137**

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.

	2017	2016	2015
Insider loans at December 31,	**$ 25,320,339**	$ 19,052,776	$ 27,757,882
Insider loans originated	**43,534,573**	39,002,664	27,238,609
Insider loan repayment received	**39,333,563**	43,751,380	24,368,127
Other changes in insider listing, net	**2,066,553**	(3,956,390)	21,583,704

In the opinion of management, none of the Insider loans outstanding at December 31, 2017, 2016 and 2015 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 $2,588,969, $2,722,085 and $1,760,112 in 2017, 2016 and 2015, respectively.

The Association received $10,484,568, $10,426,539 and $10,268,037 in patronage payments from FCBT in 2017, 2016 and 2015, respectively.

Note 15: Fair Value Measurements

Valuation Techniques and 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 from 2.1% to 41.6%, 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 they also require 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 and 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, 2017	**$110,960**	**$ -**	**$ -**	**$ 110,960**
December 31, 2016	$ 88,216	$ -	$ -	$ 88,216
December 31, 2014	$ 81,602	$ -	$ -	$ 81,602

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

December 31, 2017	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$2,938,000**	**$2,938,000**
Other property owned	**-**	**-**	**1,000,000**	**1,000,000**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 120,183	$ 120,183
Other property owned	-	-	1,384,355	1,384,355

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

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				
December 31, 2017	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Cash	**$ 33,668**	**$ 33,668**	**$ -**	**$ -**	**$ 33,668**
AMBS	**2,669,098**	**-**	**-**	**2,678,993**	**2,678,993**
Net loans	**1,842,232,493**	**-**	**-**	**1,789,581,465**	**1,789,581,465**
Note payable to FCBT	**1,645,463,626**	**-**	**-**	**1,598,584,761**	**1,598,584,761**
December 31, 2016					
Cash	$ 44,194	$ 44,194	$ -	$ -	$ 44,194
AMBS	3,810,694	-	-	3,841,610	3,841,610
Net loans	1,603,245,283	-	-	1,566,744,296	1,566,744,296
Note payable to FCBT	1,429,487,047	-	-	1,397,070,854	1,397,070,854
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

Note 16: Commitments and 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, 2017, $478,635,575 of commitments and $4,632,981 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.

Note 17: Quarterly Financial Information (Unaudited):

Quarterly results of operations follow (in thousands):

2017	First	Second	Third	Fourth	Total
Net interest income	**$ 9,553**	**$ 10,231**	**$ 11,295**	**$ 11,685**	**$ 42,764**
(Provision for) reversal of loan losses	**24**	**(54)**	**(77)**	**(2,247)**	**(2,354)**
Noninterest income (expense), net	**(3,932)**	**(3,828)**	**(1,680)**	**(3,739)**	**(13,179)**
Net income	**$ 5,645**	**$ 6,349**	**$ 9,538**	**$ 5,699**	**$ 27,231**

2016	First	Second	Third	Fourth	Total
Net interest income	$ 9,884	$ 10,165	$ 10,951	$ 10,649	$ 41,649
(Provision for) reversal of loan losses	(302)	(103)	(719)	(342)	(1,466)
Noninterest income (expense), net	(2,699)	(3,317)	(2,634)	(2,887)	(11,537)
Net income	$ 6,883	$ 6,745	$ 7,598	$ 7,420	$ 28,646

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

Note 18: Subsequent Events

Association management has evaluated subsequent events through March 14, 2018, which is the date the CFS were issued or available to be issued. All significant subsequent events identified have been disclosed in these CFS.

Disclosure Information and Index

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* ("**MDA**") 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 and Stephenville and the Muleshoe insurance office free of debt. The Association leases the office building in Lubbock.

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 MDA 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 and 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-mailing *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-mailing *jspruill@agtexas.com or iii*) 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, 2017, 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 AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MDA precedes the CFS in this Annual Report and is incorporated herein by reference.

DIRECTORS AND 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	1993	2020
Dennis Anthony	Chairman	VI	1993	2020
Ronald Luker	Vice Chairman	IV	1998	2019
Kinley Sorrels	Director	II	2006	2018
Kevin Buxkemper	Director	III	2006	2018
Savoy Bradley	Director	VIII	2016	2019
Bryan Reinart	Director	At-Large	2007	2019
Lance Gaillard	Director	VII	2014	2020
Ryan Smith	Director	At-Large	2015	2020
Darren Tye	Director	V	2017	2018
Danny Klinefelter	Director-Elected	-	2001	2019
Terry Sherrill	Director-Elected	-	2004	2019
Tony Crumpton	Director-Elected	-	2008	2020
Chuck Taylor	Director-Elected	-	2013	2019
Tim McDonald	Chief Executive Officer	-	1989	-
Scotty Elston	Chief Credit Officer	-	1983	-
Jerry Spruill	Chief Financial Officer	-	1992	-

Disclosure Information and Index

Directors and 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, 2017, is provided below for informational purposes.

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, Parmer County Hospital District and the Parmer County Soil and Water Conservation District.

Ronald Luker, board vice chair, serves on the Terry County Coop Gin board and the Plains Cotton Improvement Committee. He has recently retired after being engaged in farming cotton, peas, milo and peanuts in Terry county for 39 years. He currently is involved in the vineyard industry.

Savoy Bradley serves on the human resources committee. He has farmed in Dallam, Sherman and Hutchinson counties since 1987. In addition to farming corn, alfalfa and triticale, he also runs an Angus cattle operation.

Kevin Buxkemper serves on the 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 Texas Farm Bureau Natural Resources Committee, Lubbock County Farm Bureau board and Slaton Coop Gin board.

Tony Crumpton serves as the chair of the human resources 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.

Lance Gaillard serves on the audit committee. A lifelong farmer, he owns and leases land in Hutchinson, Moore 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.

Danny Klinefelter, Ph.D. serves on the human resources committee. For over 30 years, he served as a professor and continues as an extension economist at Texas A&M University, where he specializes in agricultural finance and management development. He currently serves as a board member for Rose Acre Farms and is an advisory board member for Black Gold Farms, Toms Farms, Granular and McNair Center for Entrepreneurship. 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 businesses, Klinefelter Farms, Inc. and Linco-Precision, Inc.

Directors and Senior Officers (continued).

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.

James Ray Schronk 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.

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.

Ryan Smith serves on the audit committee. He operates a diversified farming operation in Terry County, including a cow-calf operation, custom baling, cotton, peanuts, watermelon, alfalfa, milo, wheat and hay. He has farmed in Terry County for over 20 years. In addition, he partners with his father in a pump service company and owns a partial interest in Essentially Chic LLC. He serves on the Terry County Farm Bureau Board and the Terry County Livestock Association Board.

Kinley Sorrells serves on the human resources 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, Extension Planning Committee and Comanche County Water Corporation.

Chuck Taylor serves on the human resources committee. He is employed as Chief Financial Officer for Trinity Fellowship Church in Amarillo. 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.

Darren Tye serves on the human resources committee. He began farming in 1991 after graduating from Southwest Texas State University. He produces wheat, cotton, corn and grain sorghum, and operates a cow-calf operation in Swisher, Hale and Castro counties. He serves as director for Windstar Gins.

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 animal science 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.

Scotty Elston serves as chief credit officer of the Association. He began his Farm Credit career with the Farm Credit Bank of Texas in 1983, 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 2000. 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 24 years of service in the System, with 22 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 as chair of government relations and 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.

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. Alan retired during 2017.

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 $1,000, director-elected directors at a rate of $1,350 and remaining stockholder-elected directors at a rate of $750. Mileage for attending official meetings during 2017 was paid at the IRS-approved rate. They 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 2017, 2016 and 2015 was $444,647, $512,497 and $421,433, respectively, which includes reimbursements for travel, subsistence and other related expenses paid to directors and on their behalf of $102,147, $143,747 and $97,633 in 2017, 2016 and 2015, respectively. Additional detail on director compensation follows:

Director	Days in Board and Committee Meetings	Days in Other Official Activities	Total Compensation in 2017
Dennis Anthony	13	18	33,700
Ronald Luker	17	8	26,500
Savoy Bradley	16	-	20,200
Kevin Buxkemper	15	-	19,500
Tony Crumpton	14	4	28,800
Lance Gaillard	16	4	23,000
Danny Klinefelter	13	14	35,100
Darren Tye	12	-	15,900
Bryan Reinart	12	-	17,400
James Ray Schronk	16	5	23,700
Terry Sherrill	14	2	27,400
Ryan Smith	17	5	24,400
Kinley Sorrels	18	-	21,600
Chuck Taylor	13	-	25,300
			$ 342,500

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

Director	Audit	Human Resources	2017 Total
Terry Sherrill	$ 2,800	$ -	$ 2,800
Kevin Buxkemper	3,500	-	3,500
Danny Klinefelter	1,400	1,400	2,800
Lance Gaillard	3,500	-	3,500
Ryan Smith	2,800	-	2,800
James Ray Schronk	1,400	-	1,400
Tony Crumpton	-	2,100	2,100
Kinley Sorrells	-	2,100	2,100
Chuck Taylor	-	1,400	1,400
Savoy Bradley	-	2,100	2,100
Darren Tye	-	1,400	1,400
Bryan Reinart	-	2,100	2,100
	$ 15,400	$ 12,600	$ 28,000

SENIOR OFFICER COMPENSATION

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

Compensation Discussion and 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 2017 incentive plans incorporated profitability, minimum capital compliance with the Association's General Financing Agreement, declaration of patronage to stockholders 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, net earnings and achievement of marketing goals. 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 2018 incentive plan is goal-based with components addressing asset quality, earnings, growth and guaranties.

Employees who use their personal vehicle for business purposes were reimbursed during 2017 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.

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

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during 2017 to any senior officer or to any other officer included in the aggregate is available and will be disclosed to Association shareholders upon request.

Employee(s)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/ Perquisite (e)	Other (f)	Total
Tim McDonald, CEO	2017	$ 346,738	$ 97,619	$ 433,877	$ 23,899	$ -	$ 902,133
Tim McDonald, CEO	2016	335,013	120,500	330,223	17,648	-	803,384
Tim McDonald, CEO	2015	325,013	16,250	61,595	26,990	151,088	580,936
Aggregate number of senior officers and highly compensated employees (a)							
6	2017	$1,230,624	$ 391,450	$1,588,496	$ 155,596	$ -	$3,366,166
5	2016	1,146,355	482,492	692,125	86,722	-	2,407,694
5	2015	919,734	555,452	604,374	108,250	-	2,187,810

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO. COO, who retired in 2017, is included.

(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 2017 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 2017
Tim McDonald, CEO	FCBT Pension Plan	29.58	$ 1,877,463	$ -
Aggregate number of senior officers and highly compensated employees (a)				
3	FCBT Pension Plan	35.10	$ 7,786,511	$ 124,575

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 (a) 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 2017, 2016 and 2015.

TRANSACTIONS WITH DIRECTORS AND 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' AND 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 to PwC for professional services rendered during 2017 were $112,497 for annual audit services.

CONSOLIDATED FINANCIAL STATEMENTS

The CFS, PwC's *Independent Auditor's Report* thereon dated March 14, 2018, 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.

Disclosure Information and Index

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

The mission of AgTexas' *Young, Beginning and Small Farmer and Rancher* ("**YBS**") program 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 2017 results are within 1% of the goal established for the Association. The 2017 goals and year-end results are as follows:

	2017	
Category	Goal	Results
Percent of Number of New Loans to Young Producers	17%	19%
Percent of Number of New Loans to Beginning Producers	33%	34%
Percent of Number of New Loans to Small Producers	47%	46%
Outstanding Volume to Young Producers (in thousands)	$162,600	$213,019
Outstanding Volume to Beginning Producers (in thousands)	345,000	378,100
Outstanding Volume to Small Producers (in thousands)	325,000	338,051

Total new loan commitments to Young, Beginning and Small producers totaled $448,897,000 for 2017, which is 150% of the 2017 goal. (Each individual YBS loan is reported in each category for which it meets the criteria.)

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 Association territory is as follows:

		Association	
	USDA Ag Census	2017 Loans	% of Market Segment
Young Farmers	5.9%	895	19%
Beginning Farmers	8.7%	1,644	34%
Small Farmers	25.7%	2,217	46%

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

Credit and Services to YBS (continued).

The board also establishes qualitative goals for the Association employees to ensure 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 underserved 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.

RESULTS OF 3-YEAR MERGER STUDY

As a condition of the merger of AgTexas Farm Credit Services and Great Plains ACA, the FCA required the Association to have an independent study performed at the 18-month interval and a final study at the end of three years to determine the achievement of the proposed benefits from the merger. The proposed significant benefits of the merger were:

- Diversification (industry group, commodity, customer type and earnings stream)
- Reduction in the exposure to adverse weather conditions
- Reduction in loan concentrations
- Improved capital position, larger capital base and increased hold limits
- Economies of scale and other cost savings, including capital expenditure cost savings
- Improved strategic position
- Strengthened mission capability
- Enhanced customer service
- Management succession and human resource attraction
- Marketplace impact (i.e., the Association's presence and acceptance)
- Success in meeting the credit and service needs of eligible borrowers (i.e., product delivery systems and services), including the Association's success in meeting the credit and service needs of young, beginning and small farmers, ranchers and producers or harvesters of aquatic products

The Association contracted the Certified Public Accountants and Business Consultant firm Alexander/Van Loon/Sloan/Levens/Favre, PLLC to perform the final study. In addition to utilizing the Association financial statistics, the firm surveyed the stockholders and employees to determine their perspectives on the success of the merger and management operational successes and challenges, including technology integration and conversion, along with the board of director integration, all related with the merger.

The independent consultant firm reviews and analysis indicate that the merger has benefitted both the territories and shareholders of AgTexas Farm Credit Services and Great Plains, ACA, as proposed in the merger and the aforementioned areas.

AGTEXAS 2017 BOARD OF DIRECTORS

Over 100 years ago, Farm Credit was established as a network of financing cooperatives designed to meet the critical need for reliable agricultural credit. Back then, credit from commercial banks was scarce when it came to agriculture.

Throughout our history, stockholder representation on the board of directors has been the embodiment of the member-owned, member-driven, cooperative way of doing business. In addition to the 10 stockholder-elected directors who represent the members across our 43-county territory, AgTexas has four outside directors who bring their own special expertise to our board.

We are grateful to these 14 faces of AgTexas for their insight, their dedication and their guidance.

#AGTEXASFACES

Stockholder Directors

Dennis Anthony
Chair, Friona

Ronald Luker
Vice Chair, Brownfield

Savoy Bradley
Stratford

Kevin Buxkemper
Lubbock

Lance Gaillard
Morse

Bryan Reinart
Dimmitt

James Ray Shronk
Hillsboro

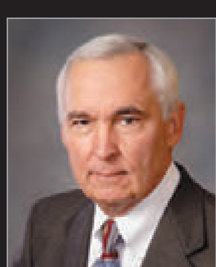
Ryan Smith
Meadow

Kinley Sorrells
Comanche

Darren Tye
Kress

Board-Appointed Directors

Tony Crumpton
Lubbock



Danny Klinefelter
College Station

Terry Sherrill
Gruver

Chuck Taylor
Amarillo

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