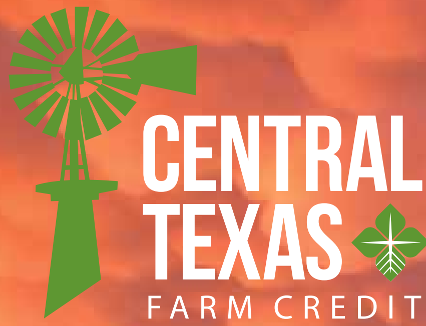

2016 ANNUAL REPORT

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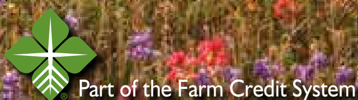

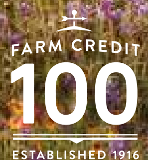

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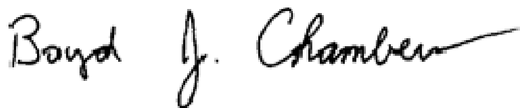
REPORT OF MANAGEMENT

The consolidated financial statements of Central Texas Farm Credit, ACA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

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 consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

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

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



Boyd J. Chambers, Chief Executive Officer and President

March 15, 2017

Robby A. Halfmann, Chairman, Board of Directors

March 15, 2017

Keith Prater, Controller

March 15, 2017

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Central Texas Farm Credit, ACA. In 2016, nine committee meetings were held. The committee oversees the scope of Central Texas Farm Credit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Central Texas Farm Credit, ACA's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2016.

Management is responsible for Central Texas Farm Credit, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. PwC is responsible for performing an independent audit of Central Texas Farm Credit, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed Central Texas Farm Credit, ACA's audited consolidated financial statements for the year ended December 31, 2016 (audited consolidated financial statements) with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PwC's and Central Texas Farm Credit, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Central Texas Farm Credit, ACA. The committee also reviewed the nonaudit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Central Texas Farm Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2016.

Audit Committee Members

Burl D. Lowery, Chairman
Robby A. Halfmann, Vice Chairman
Kenneth D. Harvick
Mike Finlay
Philip W. Hinds
Steven Lehrmann

March 15, 2017

CENTRAL TEXAS FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2016	2015	2014	2013	2012
Balance Sheet Data					
Assets					
Cash	**$ 1,387**	$ 920	$ 982	$ 534	$ 1,611
Loans	**489,350**	478,376	423,927	403,912	386,053
Less: allowance for loan losses	**1,067**	964	573	656	1,748
Net loans	**488,283**	477,412	423,354	403,256	384,305
Investment in and receivable from the Farm Credit Bank of Texas	**7,810**	6,875	6,464	6,029	6,047
Other property owned, net	**-**	129	129	652	523
Other assets	**8,304**	6,145	4,688	4,250	4,266
Total assets	**$ 505,784**	$ 491,481	$ 435,617	$ 414,721	$ 396,752
Liabilities					
Obligations with maturities of one year or less	**$ 9,955**	$ 9,993	$ 9,324	$ 7,859	$ 7,537
Obligations with maturities greater than one year	**391,993**	380,738	329,315	314,550	302,199
Total liabilities	**401,948**	390,731	338,639	322,409	309,736
Members' Equity					
Capital stock and participation certificates	**2,284**	2,232	2,149	2,152	2,120
Unallocated retained earnings	**101,741**	98,716	95,251	90,102	85,182
Accumulated other comprehensive (loss) income	**(189)**	(198)	(422)	58	(286)
Total members' equity	**103,836**	100,750	96,978	92,312	87,016
Total liabilities and members' equity	**$ 505,784**	$ 491,481	$ 435,617	$ 414,721	$ 396,752
Statement of Income Data					
Net interest income	**$ 14,232**	$ 13,585	$ 12,957	$ 12,393	$ 12,131
(Provision for loan losses) or loan loss reversal	**(1,185)**	(461)	104	21	(863)
Income from the Farm Credit Bank of Texas	**1,775**	1,619	1,540	1,440	1,426
Other noninterest income	**274**	86	989	237	827
Noninterest expense	**(6,070)**	(5,764)	(5,242)	(4,371)	(3,961)
Net income	**$ 9,026**	$ 9,065	$ 10,348	$ 9,720	$ 9,560
Key Financial Ratios for the Year					
Return on average assets	**1.8%**	2.0%	2.4%	2.4%	2.4%
Return on average members' equity	**8.6%**	8.9%	10.6%	10.4%	11.0%
Net interest income as a percentage of average earning assets	**2.9%**	3.1%	3.1%	3.2%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.2%**	0.0%	0.0%	0.3%	0.0%

CENTRAL TEXAS FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2016	2015	2014	2013	2012
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**20.5%**	20.5%	22.3%	22.3%	21.9%
Debt as a percentage of members' equity	**387.1%**	387.8%	349.2%	349.3%	356.0%
Allowance for loan losses as a percentage of loans	**0.2%**	0.2%	0.1%	0.2%	0.5%
Permanent capital ratio	**18.9%**	19.7%	21.3%	20.8%	20.5%
Core surplus ratio	**18.4%**	19.2%	20.8%	20.3%	19.9%
Total surplus ratio	**18.4%**	19.2%	20.8%	20.3%	19.9%
Net Income Distribution					
Cash dividends paid	**$ 5,600**	$ 5,200	$ 4,800	$ 4,600	$ 4,500

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 Central Texas Farm Credit, ACA, including its wholly-owned subsidiaries, Central Texas, PCA and Central Texas Land Bank, FLCA (Association) for the years ended December 31, 2016, 2015 and 2014, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying consolidated financial statements were prepared 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 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.

Significant Events:

2016

In December 2016, the Association received a direct loan patronage of $1,592,290 from the Farm Credit Bank of Texas (Bank), representing 41 basis points on the average daily balance of the Association's direct loan with the Bank. During 2016, the Association also received $128,071 in patronage payments from the Bank, based on the Association's stock investment in the Bank. In addition, the Association received a capital markets patronage of $54,450 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2016, a patronage refund of $5,600,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2015, and the amount was based on the Association's 2015 operating results.

In September 2016, the Association completed construction of a new headquarters building located in the city of Early, which is included in premises and equipment on the consolidated balance sheet.

2015

In December 2015, the Association received a direct loan patronage of $1,448,584 from the Bank, representing 42 basis points on the average daily balance of the Association's direct loan with the Bank. During 2015, the Association received $112,767 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $57,591 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2015, a patronage refund of $5,199,987 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2014, and the amount was based on the Association's 2014 operating results.

2014

In December 2014, the Association received a direct loan patronage of $1,382,295 from the Bank representing 43 basis points on the average daily balance of the Association's direct loan with the Bank. In addition, the Association received $52,750 in patronage payments from the Bank representing 75 basis points on the average daily balance of Association loan volume in the Bank's participation pool program. The Association also received $104,954 in patronage payments throughout the course of the year based on the Association's stock investment in the Bank.

Effective October 15, 2014, Michael Antle resigned from his position as controller of Central Texas Farm Credit, ACA. Controller duties were handled by existing Association staff until Keith Prater was hired as the new controller on January 20, 2015.

The chairman of the board and audit committee, Jerry Don Klose, did not run for re-election in April 2014 because he reached the mandatory retirement age of 70. Mr. Klose officially stepped down after the May 2014 board meeting once the election results were known, and his seat had been filled by Steven Lehrmann. At the June 2014 meeting, the board elected Robby A. Halfmann to serve as the board chairman, Kenneth D. Harvick to serve as vice chairman and Burl D. Lowery to serve as the audit committee chairman.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The Association's chartered territory loan volume experienced positive growth of $12,341,024, $30,061,065 and $16,699,742 during 2016, 2015 and 2014, respectively. Loan volume in the outlying Texas counties experienced positive growth of $821,594 and $12,853,378 in 2016 and 2015, respectively, in comparison to a decline of $548,999 in 2014. The out-of-state portion of the Association's portfolio shrank in 2016, decreasing by $2,188,062.

The composition of the Association's loan portfolio, including principal less funds held of $489,350,168, $478,375,612 and $423,926,621 as of December 31, 2016, 2015 and 2014, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

Territory Conditions

For the second consecutive year, the Association's territory experienced above average rainfall. According to a USDA report, all of the Association's territory was out of any dry or drought category, along with 67% of the state near the end of 2016. Many area lakes remain full or near capacity. Pastures have held up well through the year bolstered by timely rainfalls.

Commodity markets were mixed for the year. Cotton farmers, overall, fared well in 2016 with decent prices and good yields. Wheat prices were below historical averages as global wheat production exploded. Prices were so low that farmers sowed the fewest acres of winter wheat in more than a century. Cattle markets stayed volatile throughout the year and appear determined to remain that way for the foreseeable future. Cattle prices did rebound toward the end of the year but were still below 2015. Decent rainfall kept feed costs down and helped ranchers weather a very unpredictable market.

Management realizes the impact the current commodity environment could potentially have on borrowers. We feel our portfolio is managed very well as most operating loans are reviewed at least annually and in some cases more often. While we saw some deterioration in our cattle and wheat portfolios, we were in a good position to work with borrowers who were experiencing financial stress.

Problem Loans:

2016

During the third quarter of 2016, a nonaccrual loan in the amount of $198,666 was foreclosed on. The property was sold during the quarter and the Association was paid in full.

During the third quarter of 2016, three production and intermediate term loans to a borrower were downgraded to Substandard Non-Accrual and a subsequent charge-off of $1,029,171 was recognized.

After the sale of acquired property in 2013, a balance of $129,075 was held in acquired property to represent funds still owed to the Association. During the third quarter of 2016 that amount was charged off as the collection of those funds was no longer expected.

2015

During the first quarter of 2015, a nonaccrual loan in the amount of $85,486 was foreclosed on, and the collateral was then acquired by the Association. The property was sold during the second quarter of 2015 and a gain of $4,109 was recognized.

2014

During the first quarter of 2014, a recovery of $8,210 was made on a loan that had been charged off in 2009.

During the second quarter of 2014, a participation loan formally restructured in 2009, and previously reported as a TDR, was paid in full.

During the third quarter of 2014, a recovery of $25,052 was made on an operating loan that was charged off in 2013.

In 2010, the Association, through a purchased participation as a part of a lending group, acquired a small percentage ownership interest in an ethanol plant. In August 2014, the Association sold its equity interest in the ethanol plant. The total sales price of the Association's equity interest was $1,400,400 and resulted in a gain on sale of $877,350.

Purchase and Sales of Loans:

During 2016, 2015 and 2014, the Association was participating in loans with other lenders. As of December 31, 2016, 2015 and 2014, these participations totaled $91,561,731, $91,785,020 and $75,676,272, or 18.7 percent, 19.2 percent and 17.9 percent of loans, respectively. The Association has never purchased any participation interest in any loans from any entities outside of the Texas Farm Credit District. The Association has also sold participations of $16,833,035, $17,629,688 and $14,730,692 as of December 31, 2016, 2015 and 2014, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net.

The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2016		2015		2014	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 2,736,218**	**100.0%**	$ 523,110	80.2%	$ 184,904	58.9%
90 days past due and still accruing interest						
Other property owned, net	**-**	**0.0%**	129,075	19.8%	129,075	41.1%
Total	**$ 2,736,218**	**100.0%**	$ 652,185	100.0%	$ 313,979	100.0%

At December 31, 2016, 2015 and 2014, loans that were considered impaired were $2,736,219, $523,110 and $184,904, representing 0.6 percent, 0.1 percent and 0.04 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association is not affected to any material extent by any seasonal characteristics. This is due in part to the fact that true production loans comprise a small part of the Association's total loan portfolio and in part to the diversification in the portfolio, both in geographic distribution and in sources of repayment. In addition, the Association is not dependent upon any single customer or single commodity or industry because of loan size or commodity concentration, due to lack of very large loans in the portfolio and the diversity present in the loan portfolio. No loans in the portfolio have any inherent special features that would have a material impact on the expected collectability of said loans.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of, or for the year ended, December 31:

	2016	2015	2014
Allowance for loan losses	**$ 1,067,401**	$ 964,227	$ 572,782
Allowance for loan losses to total loans	**0.2%**	0.2%	0.1%
Allowance for loan losses to nonaccrual loans	**39.0%**	184.3%	309.8%
Allowance for loan losses to impaired loans	**39.0%**	184.3%	309.8%
Net charge-offs to average loans	**0.2%**	0.0%	0.0%

The allowance for loan losses is evaluated quarterly and maintained based upon individual analysis of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $1,067,401, $964,227 and $572,782 at December 31, 2016, 2015 and 2014, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Management continues to evaluate and refine its risk weighting methodology for determining the levels of allowance for loan losses needed.

Results of Operations:

The Association's net income for the year ended December 31, 2016, was $9,025,432 as compared to $9,064,666 for the year ended December 31, 2015, reflecting a decrease of $39,234, or 0.4 percent. The Association's net income for the year ended December 31, 2014, was $10,348,415. Net income decreased $1,283,749, or 12.4 percent, in 2015 versus 2014.

Net interest income for 2016, 2015 and 2014 was $14,232,012, $13,585,496 and $12,957,499, respectively, reflecting increases of $646,516, or 4.8 percent, for 2016 versus 2015 and $627,997, or 4.8 percent, for 2015 versus 2014. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2016		2015		2014	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 484,575,204**	**$ 21,630,196**	$ 439,736,330	$ 19,739,621	$ 411,749,755	$ 18,634,118
Interest-bearing liabilities	**388,406,874**	**7,398,184**	345,308,641	6,154,125	321,682,091	5,676,619
Impact of capital	**$ 96,168,330**		$ 94,427,689		$ 90,067,664	
Net interest income		**$ 14,232,012**		$ 13,585,496		$ 12,957,499

	2016 Average Yield	2015 Average Yield	2014 Average Yield
Yield on loans	**4.46%**	4.49%	4.53%
Cost of interest-bearing liabilities	**1.90%**	1.78%	1.76%
Interest rate spread	**2.56%**	2.71%	2.77%

	2016 vs. 2015			2015 vs. 2014		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 2,012,818**	**$ (122,243)**	**$ 1,890,575**	$ 1,266,560	$ (161,057)	$ 1,105,503
Interest expense	**768,097**	**475,962**	**1,244,059**	416,938	60,568	477,506
Net interest income	**$ 1,244,721**	**$ (598,205)**	**$ 646,516**	$ 849,622	$ (221,625)	$ 627,997

Interest income for 2016 increased by $1,890,575, or 9.6 percent, compared to 2015, primarily due to an increase in average loan volume slightly offset by a decrease in interest rates. Interest expense for 2016 increased by $1,244,059, or 20.2 percent, compared to 2015 due to an increase in interest-bearing liabilities and an increase in cost of debt. The interest rate spread decreased by 15 basis points to 2.56 percent in 2016 from 2.71 percent in 2015, primarily because of spread compression related to competition. The interest rate spread decreased by 6 basis points to 2.71 percent in 2015 from 2.77 percent in 2014, primarily because of spread compression related to competition.

Noninterest income for 2016 increased by $344,471, or 20.2 percent, compared to 2015, due primarily to an increase in patronage income and a gain on sale of premises and equipment. Noninterest income for 2015 decreased by $824,644, or 32.6 percent, compared to 2014, due primarily to a decrease in gain on sale of other property owned of $872,623.

Provisions for loan losses increased by $724,020, or 157.1% percent, compared to 2015, due primarily to a loan being charged off in full in 2016.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. In 2016, operating expenses increased by $306,201 or 5.3 percent. The increase in operating expenses included an increase in occupancy and equipment expense of $85,874, an increase in loss on other property owned of $129,075, and an increase of $204,243 in premiums to the Insurance Fund.

For the year ended December 31, 2016, the Association's return on average assets was 1.8 percent, as compared to 2.0 percent and 2.4 percent for the years ended December 31, 2015 and 2014, respectively. For the year ended December 31, 2016, the Association's return on average members' equity was 8.6 percent, as compared to 8.9 percent and 10.6 percent for the years ended December 31, 2015 and 2014, respectively.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank may have an effect on the operations of the Association.

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $391,352,088, $380,156,061 and $328,825,631 as of December 31, 2016, 2015 and 2014, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.9 percent, 1.9 percent and 1.7 percent at December 31, 2016, 2015 and 2014, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2015, is due to an increase in funding needs as evidenced by the increase in total assets from 2015 to 2016. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $96,732,935, $97,173,813 and $94,382,781 at December 31, 2016, 2015 and 2014, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2016, was $492,897,292 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2018, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2017. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources:

The Association's capital position remains strong, with total members' equity of $103,835,624, $100,749,857 and $96,978,092 at December 31, 2016, 2015 and 2014, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2016, 2015 and 2014 was 18.9 percent, 19.7 percent and 21.3 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is 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, 2015 and 2014 was 18.4 percent, 19.2 percent and 20.8 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2016, 2015 and 2014 was 18.4 percent, 19.2 percent and 20.8 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

Significant Recent Accounting Pronouncements:

In June 2016, the Financial Accounting Standards Board (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 February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

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

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. The Association adopted this guidance in the fourth quarter of 2016 and management made its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

Regulatory Matters:

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

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

The final rule is effective on January 1, 2017. Based on preliminary calculations, the Association expects to be in compliance with the regulatory minimum capital ratios under the final rule.

In 2016, 2015 and 2014, the Association paid patronage distributions of $5,600,000, $5,199,987 and $4,800,000, respectively. In December 2016, the board of directors approved a $6,000,000 patronage distribution to be paid in March 2017. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank 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 the Bank. As disclosed in Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 100 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

Report of Independent Auditors

To the Board of Directors of Central Texas Farm Credit, ACA:

We have audited the accompanying consolidated financial statements of Central Texas Farm Credit, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2016, 2015 and 2014, 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 Central Texas Farm Credit, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 15, 2017

PricewaterhouseCoopers LLP, 300 West 6th Street, Suite 1800, Austin, Texas 78701
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CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	December 31,		
	2016	2015	2014
Assets			
Cash	**$ 1,387,052**	$ 919,895	$ 981,544
Loans	**489,350,168**	478,375,612	423,926,621
Less: allowance for loan losses	**1,067,401**	964,227	572,782
Net loans	**488,282,767**	477,411,385	423,353,839
Accrued interest receivable	**4,524,649**	4,037,448	3,543,382
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**7,755,675**	6,817,385	6,411,675
Other	**54,449**	57,591	52,750
Other property owned, net	**-**	129,075	129,075
Premises and equipment	**3,585,408**	1,917,375	935,682
Other assets	**193,918**	190,643	209,207
Total assets	**$ 505,783,918**	$ 491,480,797	$ 435,617,154
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 391,352,088**	$ 380,156,061	$ 328,825,631
Accrued interest payable	**641,184**	581,682	488,969
Drafts outstanding	**551,735**	900,264	838,910
Dividends payable	**6,000,000**	5,600,000	5,200,000
Other liabilities	**3,403,287**	3,492,933	3,285,552
Total liabilities	**401,948,294**	390,730,940	338,639,062
Members' Equity			
Capital stock and participation certificates	**2,283,345**	2,232,325	2,149,055
Unallocated retained earnings	**101,740,850**	98,715,418	95,250,739
Accumulated other comprehensive loss	**(188,571)**	(197,886)	(421,702)
Total members' equity	**103,835,624**	100,749,857	96,978,092
Total liabilities and members' equity	**$ 505,783,918**	$ 491,480,797	$ 435,617,154

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2016	2015	2014
Interest Income			
Loans	**$ 21,630,196**	$ 19,739,621	$ 18,634,118
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**7,398,184**	6,154,125	5,676,619
Net interest income	**14,232,012**	13,585,496	12,957,499
Provision for Loan Losses (Loan Loss Reversal)	**1,185,013**	460,993	(104,100)
Net interest income after provision for losses (loan loss reversal)	**13,046,999**	13,124,503	13,061,599
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**1,774,811**	1,618,942	1,539,999
Loan fees	**155,408**	52,306	82,181
Financially related services income	**6,973**	7,479	8,005
Gain on other property owned, net	**-**	4,109	876,732
Gain on sale of premises and equipment, net	**95,668**	-	-
Other noninterest income	**15,928**	21,481	22,044
Total noninterest income	**2,048,788**	1,704,317	2,528,961
Noninterest Expenses			
Salaries and employee benefits	**3,237,434**	3,530,720	3,285,356
Directors' expense	**132,270**	148,499	94,675
Purchased services	**246,831**	266,630	275,369
Travel	**199,947**	183,530	163,910
Occupancy and equipment	**348,495**	262,621	200,230
Communications	**107,967**	125,103	110,984
Advertising	**296,317**	248,126	244,749
Public and member relations	**254,543**	199,223	167,423
Supervisory and exam expense	**186,164**	150,059	147,355
Insurance Fund premiums	**655,856**	451,613	390,255
Loss on other property owned, net	**129,075**	-	-
Other noninterest expense	**275,456**	198,030	161,839
Total noninterest expenses	**6,070,355**	5,764,154	5,242,145
NET INCOME	**9,025,432**	9,064,666	10,348,415
Other comprehensive income (loss):			
Change in postretirement benefit plans	**9,315**	223,816	(479,148)
COMPREHENSIVE INCOME	**$ 9,034,747**	$ 9,288,482	$ 9,869,267

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2013	$ 2,152,100	$ 90,102,324	$ 57,446	$ 92,311,870
Comprehensive income	-	10,348,415	(479,148)	9,869,267
Capital stock/participation certificates issued	289,925	-	-	289,925
Capital stock/participation certificates and allocated retained earnings retired	(292,970)	-	-	(292,970)
Patronage dividends:				
Cash	-	(5,200,000)	-	(5,200,000)
Balance at December 31, 2014	2,149,055	95,250,739	(421,702)	96,978,092
Comprehensive income	-	9,064,666	223,816	9,288,482
Capital stock/participation certificates issued	349,595	-	-	349,595
Capital stock/participation certificates and allocated retained earnings retired	(266,325)	-	-	(266,325)
Patronage dividends:				
Cash	-	(5,599,987)	-	(5,599,987)
Balance at December 31, 2015	2,232,325	98,715,418	(197,886)	100,749,857
Comprehensive income	-	9,025,432	9,315	9,034,747
Capital stock/participation certificates issued	342,350	-	-	342,350
Capital stock/participation certificates and allocated retained earnings retired	(291,330)	-	-	(291,330)
Patronage dividends:				
Cash	-	(6,000,000)	-	(6,000,000)
Balance at December 31, 2016	**$ 2,283,345**	**$ 101,740,850**	**$ (188,571)**	**$ 103,835,624**

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

CENTRAL TEXAS FARM CREDIT, ACA

STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	**$ 9,025,432**	$ 9,064,666	$ 10,348,415
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	**1,185,013**	460,993	(104,100)
Loss (gain) on sale of other property owned, net	**129,075**	(4,109)	(877,350)
Depreciation, amortization and accretion	**251,238**	148,182	129,867
(Gain) loss on sale of premises and equipment, net	**(95,668)**	-	577
Increase in accrued interest receivable	**(487,201)**	(494,066)	(136,727)
Decrease (increase) in other receivables from the Farm Credit Bank of Texas	**3,142**	(4,841)	(52,750)
(Increase) decrease in other assets	**(3,275)**	18,564	(42,986)
Increase in accrued interest payable	**59,502**	92,713	11,160
(Decrease) increase in other liabilities	**(132,999)**	361,649	622,755
Net cash provided by operating activities	**9,934,259**	9,643,751	9,898,861
Cash flows from investing activities:			
Increase in loans, net	**(12,079,193)**	(54,534,477)	(20,014,768)
Cash recoveries of loans previously charged off	**-**	-	33,262
Proceeds from purchase of investment in the Farm Credit Bank of Texas	**(938,290)**	(405,710)	(382,590)
Purchases of premises and equipment	**(1,906,682)**	(1,131,028)	(389,241)
Proceeds from sales of premises and equipment	**158,546**	1,153	-
Proceeds from sales of other property owned	**-**	89,595	1,400,400
Net cash used in investing activities	**(14,765,619)**	(55,980,467)	(19,352,937)

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

CENTRAL TEXAS FARM CREDIT, ACA

STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2016	2015	2014
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**11,196,027**	51,330,430	14,753,770
(Decrease) increase in drafts outstanding	**(348,530)**	61,354	(49,086)
Issuance of capital stock and participation certificates	**342,350**	349,595	289,925
Retirement of capital stock and participation certificates	**(291,330)**	(266,325)	(292,970)
Patronage distributions paid	**(5,600,000)**	(5,199,987)	(4,800,000)
Net cash provided by financing activities	**5,298,517**	46,275,067	9,901,639
Net increase (decrease) in cash	**467,157**	(61,649)	447,563
Cash at the beginning of the year	**919,895**	981,544	533,981
Cash at the end of the year	**$ 1,387,052**	$ 919,895	$ 981,544
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**$ -**	$ 85,486	$ -
Loans charged off	**1,029,171**	-	-
Patronage distributions declared	**6,000,000**	5,599,987	5,200,000
Transfer of allowance for loan losses into reserve for unfunded commitments	**(52,668)**	(69,548)	(12,278)
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 7,338,682**	$ 6,061,412	$ 5,665,459

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

CENTRAL TEXAS FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Central Texas Farm Credit, ACA, including its wholly-owned subsidiaries, Central Texas, PCA and Central Texas, FLCA (collectively called "the Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers-stockholders for qualified agricultural purposes in the counties of Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irions, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling and Tom Green in the state of Texas.

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

   The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2016, the District consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

   The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit 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 (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which 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 Farm Credit Act as 2.0 percent 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 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

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

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

   The Association also serves as an intermediary in offering credit life insurance.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. Upon request, stockholders of the Association will be provided with the Farm Credit Bank of Texas and District Associations' Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the district. In addition, the district's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

The lending and financial services offered by the Bank are described in Note 1, "Organization and Operations," of the District's annual report to stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Central Texas, PCA and Central Texas, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements: In June 2016, the Financial Accounting Standards Board (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 February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

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

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. The Association adopted this guidance in the fourth quarter of 2016 and management made its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

B. Cash: Cash, as included in the consolidated statements of cash flows, represents cash on hand and on deposit at local banks.

C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and net deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. 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 shall remain 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. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

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.

The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined system 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 as to the anticipated economic loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends and weather-related influences. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

D. Capital Stock Investment in the Bank: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an Association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the consolidated statements of comprehensive income.

F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

G. 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. 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 sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.

H. Employee Benefit Plans: Employees of the Association participate in either the District defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

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. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2016, made on their behalf into various investment alternatives. The Association recognized pension costs for the DC plan of $107,549, $111,489 and $94,833 for the years ended December 31, 2016, 2015 and 2014 respectively.

The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. For the DB plan, the Association recognized pension costs of $245,826, $437,870 and $506,701 for the years ended December 31, 2016, 2015 and 2014, respectively.
脈The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100
The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $107,067, $116,611 and $105,638 for the years ended December 31, 2016, 2015 and 2014, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

I. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. 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 income taxes 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 institution 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 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

J. Patronage Refunds From the Bank: The Association records patronage refunds from the Bank on an accrual basis.

K. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the

marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) 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; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. 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.

The fair value disclosures are presented in Note 13, "Fair Value Measurements."

L. 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.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2016		2015		2014	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 339,804,096**	**69.4%**	$ 331,347,509	69.3%	$ 303,024,892	71.5%
Production and intermediate term	**64,552,843**	**13.2%**	55,905,333	11.7%	49,091,029	11.6%
Agribusiness:						
Processing and marketing	**44,048,379**	**9.0%**	46,294,150	9.7%	31,643,304	7.5%
Farm-related business	**11,086,417**	**2.3%**	13,159,218	2.7%	12,311,306	2.9%
Loans to cooperatives	**3,155,415**	**0.6%**	769,374	0.2%	-	0.0%
Communication	**13,257,859**	**2.7%**	12,649,114	2.6%	10,050,458	2.4%
Energy	**12,502,093**	**2.6%**	15,072,698	3.1%	14,545,081	3.4%
Rural residential real estate	**943,066**	**0.2%**	1,881,798	0.4%	1,799,245	0.4%
Water and waste water	**-**	**0.0%**	1,296,418	0.3%	1,461,306	0.3%
Total	**$ 489,350,168**	**100.0%**	$ 478,375,612	100.0%	$ 423,926,621	100.0%

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 45,845,358	$ -	$ -	$ -	$ 45,845,358	$ -
Communication	13,257,859	-	-	-	13,257,859	-
Energy	12,502,093	-	-	-	12,502,093	-
Real estate mortgage	10,488,909	14,829,740	-	-	10,488,909	14,829,740
Production and intermediate term	9,467,512	2,003,295	-	-	9,467,512	2,003,295
Total	$ 91,561,731	$ 16,833,035	$ -	$ -	$ 91,561,731	$ 16,833,035

Geographic Distribution:

County	**2016**	2015	2014
Comanche	**10.1%**	10.4%	10.0%
Brown	**9.5%**	8.8%	9.5%
Coleman	**7.0%**	7.0%	6.8%
Runnels	**5.3%**	5.7%	5.8%
Tom Green	**4.7%**	4.0%	4.5%
Jones	**4.5%**	4.6%	4.5%
Mcculloch	**4.5%**	4.3%	4.1%
Callahan	**3.8%**	3.8%	3.8%
Concho	**3.4%**	3.2%	4.1%
Mills	**3.2%**	3.4%	3.6%
San Saba	**3.0%**	2.9%	3.0%
Haskell	**2.1%**	2.1%	2.5%
Coke	**2.0%**	2.2%	1.2%
Knox	**1.5%**	1.4%	1.7%
Menard	**1.2%**	0.6%	0.8%
Baylor	**0.7%**	0.9%	0.9%
Reagan	**0.5%**	0.6%	0.6%
Stonewall	**0.4%**	0.4%	0.5%
Irion	**0.2%**	0.2%	0.3%
Other Counties	**15.3%**	15.6%	14.5%
Other States	**17.1%**	17.9%	17.3%
Totals	**100.0%**	100.0%	100.0%

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

	2016		2015		2014	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Cattle and calves	**$ 153,609,087**	**31.4%**	$ 147,289,459	30.8%	$ 129,129,581	30.6%
General livestock and fowl	**101,441,570**	**20.7%**	95,124,164	19.9%	76,911,975	18.1%
Hunting and recreation	**43,737,692**	**8.9%**	44,588,103	9.3%	45,006,928	10.6%
Cotton	**35,498,611**	**7.4%**	30,767,065	6.5%	30,283,619	7.1%
Field crops	**35,992,219**	**7.4%**	28,401,948	5.9%	20,265,912	4.8%
Wheat	**17,484,129**	**3.6%**	19,266,686	4.0%	17,239,341	4.1%
Timber	**7,926,486**	**1.6%**	9,710,560	2.0%	9,433,714	2.2%
Fruit, nuts and vegetables	**7,043,856**	**1.4%**	5,651,284	1.2%	9,029,916	2.1%
Sheep and goats	**5,556,877**	**1.1%**	5,659,683	1.2%	7,066,055	1.7%
Feed products and milling	**3,560,312**	**0.7%**	4,242,217	0.9%	4,871,837	1.1%
Sorghum, corn and other grains	**3,649,364**	**0.7%**	3,745,055	0.8%	4,082,370	1.0%
Rural home loans	**2,346,246**	**0.5%**	2,047,042	0.4%	1,799,245	0.4%
Other	**71,503,719**	**14.6%**	81,882,346	17.1%	68,806,128	16.2%
Total	**$ 489,350,168**	**100.0%**	$ 478,375,612	100.0%	$ 423,926,621	100.0%

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 and livestock, as well as receivables. Long-term real estate loans are secured by the 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 the loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will 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 defaults (typically four months past due), subject to certain conditions. At December 31, 2016 and 2015, loans totaling $9,775,721 and $10,276,351, respectively, were guaranteed by these commitments. There were no loans guaranteed by these commitments as of December 31, 2014. Fees paid for these guarantees totaled $59,405 and $12,804 in 2016 and 2015, respectively, and are included in "other noninterest expense." No fees were paid in 2014.

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

	December 31, 2016	December 31, 2015	December 31, 2014
Nonaccrual loans:			
Real estate mortgage	**$ 1,389,744**	$ 523,110	$ 169,714
Production and intermediate term	**1,346,475**	-	15,190
Total nonaccrual loans	**2,736,219**	523,110	184,904
Total nonperforming loans	**2,736,219**	523,110	184,904
Other property owned	**-**	129,075	129,075
Total nonperforming assets	**$ 2,736,219**	$ 652,185	$ 313,979

One credit quality indicator utilized by the Bank and the Association is the Farm Credit Administration's Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2016	2015	2014
Real estate mortgage			
Acceptable	**98.3** %	99.1 %	98.8 %
OAEM	**1.2**	0.8	1.1
Substandard/doubtful	**0.5**	0.1	0.1
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**91.3**	98.8	98.7
OAEM	**5.5**	1.2	1.3
Substandard/doubtful	**3.2**	-	0.0
	100.0	100.0	100.0
Agribusiness			
Acceptable	**100.0**	97.1	100.0
OAEM	**-**	2.9	-
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	**78.8**	100.0	100.0
OAEM	**21.2**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	**100.0**	96.7	100.0
OAEM	**-**	3.3	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Water and waste water			
Acceptable	**-**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	-	100.0	100.0
Total Loans			
Acceptable	**97.1**	98.9	98.9
OAEM	**2.1**	1.0	1.0
Substandard/doubtful	**0.8**	0.1	0.1
	100.0 %	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of December 31, 2016, 2015 and 2014:

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	**$ 2,913,223**	**$ 728,329**	**$ 3,641,552**	**$ 339,737,848**	**$ 343,379,400**	**$ -**
Production and intermediate term	**303,987**	**1,346,475**	**1,650,462**	**63,733,303**	**65,383,765**	**-**
Processing and marketing	**-**	**-**	**-**	**44,135,294**	**44,135,294**	**-**
Communication	**-**	**-**	**-**	**13,263,801**	**13,263,801**	**-**
Energy	**-**	**-**	**-**	**12,520,147**	**12,520,147**	**-**
Farm-related business	**-**	**-**	**-**	**11,091,179**	**11,091,179**	**-**
Loans to cooperatives	**-**	**-**	**-**	**3,156,013**	**3,156,013**	**-**
Rural residential real estate	**-**	**-**	**-**	**945,218**	**945,218**	**-**
Total	**$ 3,217,210**	**$ 2,074,804**	**$ 5,292,014**	**$ 488,582,803**	**$ 493,874,817**	**$ -**

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	$ 1,756,554	$ 270,519	$ 2,027,073	$ 332,636,778	$ 334,663,851	$ -
Production and intermediate term	33,539	-	33,539	56,451,131	56,484,670	-
Processing and marketing	-	-	-	46,384,762	46,384,762	-
Energy	-	-	-	15,087,088	15,087,088	-
Farm-related business	-	-	-	13,164,739	13,164,739	-
Communication	-	-	-	12,656,856	12,656,856	-
Rural residential real estate	-	-	-	1,904,786	1,904,786	-
Water and waste water	-	-	-	1,296,597	1,296,597	-
Loans to cooperatives	-	-	-	769,711	769,711	-
Total	$ 1,790,093	$ 270,519	$ 2,060,612	$ 480,352,448	$ 482,413,060	$ -

December 31, 2014:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 537,477	$ 119,156	$ 656,633	$ 305,449,313	$ 306,105,946	$ -
Production and intermediate term	-	-	-	49,461,627	49,461,627	-
Processing and marketing	-	-	-	31,686,842	31,686,842	-
Energy	-	-	-	14,560,030	14,560,030	-
Farm-related business	-	-	-	12,317,985	12,317,985	-
Communication	-	-	-	10,063,276	10,063,276	-
Rural residential real estate	-	-	-	1,812,853	1,812,853	-
Water and waste water	-	-	-	1,461,444	1,461,444	-
Loans to cooperatives	-	-	-	-	-	-
Total	$ 537,477	$ 119,156	$ 656,633	$ 426,813,370	$ 427,470,003	$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of December 31, 2016, the Association had no troubled debt restructured loans. In restructuring where principal is forgiven, the amount of forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for troubled debt restructuring includes extension of the term. Other types of modifications include accrued interest reductions, interest rate decreases and delayed payments, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

	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	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,389,744	$ 1,389,744	$ -	$ 918,996	$ 23,228
Production and intermediate term	1,346,475	1,346,475	-	447,247	59,070
Total	$ 2,736,219	$ 2,736,219	$ -	$ 1,366,243	$ 82,298
Total impaired loans:					
Real estate mortgage	$ 1,389,744	$ 1,389,744	$ -	$ 918,996	$ 23,228
Production and intermediate term	1,346,475	1,346,475	-	447,247	59,070
Total	$ 2,736,219	$ 2,736,219	$ -	$ 1,366,243	$ 82,298

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

	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	$ -	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 523,110	$ 523,143	$ -	$ 236,623	$ 5,216
Total	$ 523,110	$ 523,143	$ -	$ 236,623	$ 5,216
Total impaired loans:					
Real estate mortgage	$ 523,110	$ 523,143	$ -	$ 236,623	$ 5,216
Total	$ 523,110	$ 523,143	$ -	$ 236,623	$ 5,216

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

	Recorded Investment at 12/31/2014	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	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 169,714	$ 169,714	$ -	$ 93,922	$ 4,348
Production and intermediate term	15,190	15,190	-	19,746	646
Total	$ 184,904	$ 184,904	$ -	$ 113,668	$ 4,994
Total impaired loans:					
Real estate mortgage	$ 169,714	$ 169,714	$ -	$ 93,922	$ 4,348
Production and intermediate term	15,190	15,190	-	19,746	646
Total	$ 184,904	$ 184,904	$ -	$ 113,668	$ 4,994

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2016, 2015 and 2014.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2016	2015	2014
Interest income which would have been recognized under the original terms	**$ 123,455**	$ 143,462	$ 93,248
Less: interest income recognized	**(10,996)**	(30,975)	(3,000)
Foregone interest income	**$ 112,459**	$ 112,487	$ 90,248

A summary of the changes in the allowance for credit losses and the ending balance of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2015	$ 215,062	$ 218,497	$ 252,003	$ 104,613	$ 161,844	$ 10,607	$ 1,601	$ 964,227
Charge-offs	-	(1,029,171)	-	-	-	-	-	(1,029,171)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(19,216)	1,182,223	13,186	7,631	18,660	(17,255)	(216)	1,185,013
Transfers	940	-	-	-	-	-	(940)	-
Other	816	(34,379)	(19,136)	(2,167)	(4,376)	6,648	(74)	(52,668)
Balance at December 31, 2016	$ 197,602	$ 337,170	$ 246,053	$ 110,077	$ 176,128	$ -	$ 371	$ 1,067,401
Ending Balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance: collectively evaluated for impairment	$ 197,602	$ 337,170	$ 246,053	$ 110,077	$ 176,128	$ -	$ 371	$ 1,067,401
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2016	$ 343,379,400	$ 65,383,765	$ 58,382,486	$ 13,263,801	$12,520,147	$ -	$ 945,218	$ 493,874,817
Ending balance for loans individually evaluated for impairment	$ 1,389,744	$ 1,346,475	$ -	$ -	$ -	$ -	$ -	$ 2,736,219
Ending balance for loans collectively evaluated for impairment	$ 341,989,656	$ 64,037,290	$ 58,382,486	$ 13,263,801	$12,520,147	$ -	$ 945,218	$ 491,138,598

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2014	$ 197,179	$ 220,963	$ 96,213	$ 21,612	$ 33,922	$ 1,575	$ 1,318	$ 572,782
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	16,214	1,321	201,226	90,772	136,315	14,862	283	460,993
Other	1,669	(3,787)	(45,436)	(7,771)	(8,393)	(5,830)	-	(69,548)
Balance at December 31, 2015	$ 215,062	$ 218,497	$ 252,003	$ 104,613	$ 161,844	$ 10,607	$ 1,601	$ 964,227
Ending Balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance: collectively evaluated for impairment	$ 215,062	$ 218,497	$ 252,003	$ 104,613	$ 161,844	$ 10,607	$ 1,601	$ 964,227
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2015	$ 334,663,851	$ 56,484,670	$ 60,319,212	$ 12,656,856	$15,087,088	$1,296,597	$ 1,904,786	$ 482,413,060
Ending balance for loans individually evaluated for impairment	$ 523,110	$ -	$ -	$ -	$ -	$ -	$ -	$ 523,110
Ending balance for loans collectively evaluated for impairment	$ 334,140,741	$ 56,484,670	$ 60,319,212	$ 12,656,856	$15,087,088	$1,296,597	$ 1,904,786	$ 481,889,950

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2013	$ 222,030	$ 199,044	$ 62,622	$ 19,080	$ 150,940	$ 771	$ 1,411	$ 655,898
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	8,210	25,052	-	-	-	-	-	33,262
Provision for loan losses	(33,263)	13,040	34,097	1,956	(120,772)	974	(132)	(104,100)
Other	202	(16,173)	(506)	576	3,754	(170)	39	(12,278)
Balance at December 31, 2014	$ 197,179	$ 220,963	$ 96,213	$ 21,612	$ 33,922	$ 1,575	$ 1,318	$ 572,782
Ending Balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance: collectively evaluated for impairment	$ 197,179	$ 220,963	$ 96,213	$ 21,612	$ 33,922	$ 1,575	$ 1,318	$ 572,782
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2014	$ 306,105,946	$ 49,461,627	$ 44,004,827	$ 10,063,276	$14,560,030	$1,461,444	$ 1,812,853	$ 427,470,003
Ending balance for loans individually evaluated for impairment	$ 169,714	$ 15,190	$ -	$ -	$ -	$ -	$ -	$ 184,904
Ending balance for loans collectively evaluated for impairment	$ 305,936,232	$ 49,446,437	$ 44,004,827	$ 10,063,276	$14,560,030	$1,461,444	$ 1,812,853	$ 427,285,099

NOTE 4 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS:

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities, not fair value, in the accompanying balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owns 2.7% of the issued stock of the Bank as of December 31, 2016. As of that date, the Bank's assets totaled $21.0 billion and members' equity totaled $1.622 billion. The Bank's earnings were $192.4 million during 2016.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2016	2015	2014
Land and improvements	**$ 401,775**	$ 427,318	$ 379,884
Building and improvements	**3,354,363**	1,114,739	894,688
Furniture and equipment	**470,678**	285,511	250,754
Computer equipment and software	**121,803**	117,532	109,524
Automobiles	**273,296**	242,812	233,916
Construction in progress	**-**	757,208	-
	4,621,915	2,945,120	1,868,766
Accumulated depreciation	**(1,036,507)**	(1,027,745)	(933,084)
Total	**$ 3,585,408**	$ 1,917,375	$ 935,682

The Association leases office space in Baird and Comanche, Texas. Lease expense was $25,836, $23,546 and $21,690 for 2016, 2015 and 2014, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2017	$ 23,196
2018	23,196
2019	23,196
2020	23,196
2021	23,196
Thereafter	46,392
Total	$ 162,372

NOTE 6 — OTHER PROPERTY OWNED, NET:

(Loss) gain on other property owned, net, consists of the following for the years ended December 31:

	2016	2015	2014
(Loss) gain on sale, net	**$ (129,075)**	$ 4,109	$ 877,350
Operating expense, net	**-**	-	(618)
Net (loss) gain on other property owned	**$ (129,075)**	$ 4,109	$ 876,732

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2016	2015	2014
Accounts receivable	**$ 192,350**	$ 184,034	$ 199,910
Other assets	**1,568**	273	373
Prepaid expenses	**-**	6,336	8,924
Total	**$ 193,918**	$ 190,643	$ 209,207

Other liabilities comprised the following at December 31:

	2016	2015	2014
Postretirement benefits liability	**$ 1,979,933**	$ 1,884,215	$ 1,974,965
FCS insurance premium payable	**615,398**	414,691	357,726
Accounts payable	**396,017**	843,736	638,500
Allowance on unfunded loans	**212,739**	160,071	90,523
Accrued annual leave	**199,200**	190,220	223,838
Total	**$ 3,403,287**	$ 3,492,933	$ 3,285,552

NOTE 8 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2018, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2016, 2015 and 2014, was $391,352,088 at 1.9 percent, $380,156,061 at 1.9 percent and $328,825,631 at 1.7 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2016, 2015 and 2014, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2016, was $492,897,292, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2016, 2015 and 2014, the Association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY:

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

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

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of $1,000 per loan. 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 percent of the loan amount.

Each owner of Class A 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 A to Class C stock. Class C 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 C shares is made solely at the discretion of the Association's board of directors. At December 31, 2016, 2015 and 2014, the Association had no Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized 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 the Bank would be distributed to the Association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. In 2016, 2015 and 2014, the Association declared annual patronage distributions of $6,000,000, $5,600,000 and $5,200,000, respectively.

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2016, the Association is not prohibited from retiring stock or distributing earnings. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2016, were 18.9 percent, 18.4 percent and 18.4 percent, respectively.

The Association's capital adequacy plan meets all of the Bank's and FCA's regulations. The Association does not have protected stock. All of the Association's stock is at-risk and is retired upon repayment of the loan, subject to the approval of the board of directors. The Association does not share any Bank equities and has not had any capital calls from the Bank. The above items have been considered in the Association's business plan. The Association does not have any intra-District loss sharing agreements.

An 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.

At December 31, the Association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of $5 per share:

	2016	2015	2014
Class A stock	**452,454**	442,058	425,412
Participation certificates	**4,215**	4,407	4,399
Total	**456,669**	446,465	429,811

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes as follows:

December 31, 2016	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (188,571)**	**$ -**	**$ (188,571)**

December 31, 2015	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (197,886)	$ -	$ (197,886)

December 31, 2014	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 57,446	$ -	$ 57,446

The Association's accumulated other comprehensive income relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive (loss) income and the location on the consolidated income statements for the year ended December 31:

	2016	2015	2014
Accumulated other comprehensive (loss) income at January 1	**$ (197,886)**	$ (421,702)	$ 57,446
Actuarial gains (losses)	**19,287**	205,350	(460,179)
Amortization of prior service credits included in salaries and employee benefits	**(17,983)**	(18,037)	(18,969)
Amortization of actuarial loss included in salaries and employee benefits	**8,011**	36,503	-
Other comprehensive income (loss), net of tax	**9,315**	223,816	(479,148)
Accumulated other comprehensive loss at December 31	**$ (188,571)**	$ (197,886)	$ (421,702)

NOTE 10 — INCOME TAXES:

There was no provision for income taxes for the years ended December 31, 2016, 2015 or 2014.

The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2016	2015	2014
Federal tax at statutory rate	**$ 3,158,901**	$ 3,172,635	$ 3,621,945
Effect of nontaxable FLCA subsidiary	**(3,099,117)**	(2,764,936)	(3,285,994)
Patronage distributions	**(118,596)**	(409,058)	(441,651)
Change in valuation allowance	**58,812**	1,359	130,193
Other	**-**	-	(24,493)
Provision for income taxes	**$ -**	$ -	$ -

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	2016	2015	2014
Deferred Tax Assets			
Allowance for loan losses	**$ 159,710**	$ 100,898	$ 99,538
Loss carryforwards	**1,018,404**	1,018,404	1,018,404
Gross deferred tax assets	**1,178,114**	1,119,302	1,117,942
Deferred tax asset valuation allowance	**(1,178,114)**	(1,119,302)	(1,117,942)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The Association recorded valuation allowances of $1,178,114, $1,119,302 and $1,117,942 during 2016, 2015 and 2014, respectively. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage programs, which reduces taxable earnings. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The Association adopted FASB guidance on accounting for uncertainty in income taxes (originally effective January 1, 2007) when the Association became an ACA in 2006. Upon adoption, the Association did not need to recognize a tax liability for any uncertain tax positions and at December 31, 2016, 2015 and 2014, the Association did not recognize a tax liability for any uncertain tax position.

The Association's net operating loss carryforward at December 31, 2016, approximates $2,900,000 and may be carried forward approximately 20 years.

NOTE 11 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section I of 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

There were no payments made from the supplemental 401(k) Plan to active employees during 2016 or 2015. A contribution of $190 was made to the Supplemental 401(k) Plan in 2014

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, 2016.

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, 2016, 2015 and 2014:

	2016	2015	2014
Funded status of plan	**66.4** %	66.8 %	67.5 %
Association's contribution	**$ 245,826**	$ 437,870	$ 506,701
Percentage of association's contribution to total contributions	**2.1** %	4.1 %	4.1 %

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 70.6 percent, 72.5 percent and 74.5 percent at December 31, 2016, 2015 and 2014, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

The following table reflects the benefit obligation, cost and actuarial assumptions for the Association's other postretirement benefits:

Disclosure Information Related to Retirement Benefits	2016	2015	2014
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 1,883,305**	$ 1,974,965	$ 1,431,017
Service cost	**53,793**	60,070	44,349
Interest cost	**87,778**	89,009	73,691
Plan participants' contributions	**11,059**	20,110	19,978
Actuarial (gain) loss	**(19,287)**	(205,350)	460,179
Benefits paid	**(36,683)**	(55,499)	(54,249)
Accumulated postretirement benefit obligation, end of year	**$ 1,979,965**	$ 1,883,305	$ 1,974,965
Change in Plan Assets			
Employer contributions	**$ 25,624**	$ 35,389	$ 34,271
Plan participants' contributions	**11,059**	20,110	19,978
Benefits paid	**(36,683)**	(55,499)	(54,249)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (1,979,965)**	$ (1,883,305)	$ (1,974,965)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (1,979,965)**	$ (1,883,305)	$ (1,974,965)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	**$ 220,055**	$ 247,353	$ 489,206
Prior service credit	**(31,484)**	(49,467)	(67,504)
Total	**$ 188,571**	$ 197,886	$ 421,702
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2016**	12/31/2015	12/31/2014
Discount rate	**4.60%**	4.70%	4.55%
Health care cost trend rate assumed for next year (pre-/post-65) - medical/Rx	**6.75%/6.50%**	7.00%/6.50%	7.25%/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)	**2025/2024**	2025	2024

Total Cost	**2016**	2015	2014
Service cost	**$ 53,793**	$ 60,070	$ 44,349
Interest cost	**87,778**	89,009	73,691
Amortization of:			
Unrecognized prior service credit	**(17,983)**	(18,037)	(18,969)
Unrecognized net loss	**8,011**	36,503	-
Net postretirement benefit cost	**$ 131,599**	$ 167,545	$ 99,071
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial (gain) loss	**$ (19,287)**	$ (205,350)	$ 460,179
Amortization of net actuarial gain	**(8,011)**	(36,503)	-
Amortization of prior service credit	**17,983**	18,037	18,969
Total recognized in other comprehensive income	**$ (9,315)**	$ (223,816)	$ 479,148
AOCI Amounts Expected to be Amortized Into Expense in 2017			
Unrecognized net transition obligation (asset)	**$ -**		
Unrecognized prior service credit	**(17,983)**		
Unrecognized net loss	**3,208**		
Total	**$ (24,090)**		
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2015**	12/31/2014	12/31/2013
Discount rate	**4.70%**	4.55%	5.20%
Health care cost trend rate assumed for next year (pre-/post-65) - medical/Rx	**7.00%/6.5%**	7.25%/6.75%	7.50%/6.50%
Ultimate health care cost trend rate	**4.50%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate (pre-/post-65)	**2025/2023**	2024	2024

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2017	**$ 37,135**
Fiscal 2018	**50,444**
Fiscal 2019	**66,086**
Fiscal 2020	**84,813**
Fiscal 2021	**106,490**
Fiscal 2022–2026	**540,509**
Expected Contributions	
Fiscal 2017	**$ 37,135**

NOTE 12 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained 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.

Total loans to such persons for the Association amounted to $6,455,296, $6,684,547 and $4,022,769 at December 31, 2016, 2015 and 2014, respectively. During 2016, $2,286,941 of new loans were made, and repayments totaled $1,701,339. The remaining change in the related party balance from December 31, 2015, to December 31, 2016, related to loans that were no longer considered to be loans to related parties or to loans to individuals who were considered related parties as of December 31, 2016. In the opinion of management, no such loans outstanding at December 31, 2016, 2015 and 2014 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $246,831, $266,630 and $275,369 in 2016, 2015 and 2014, respectively.

The Association received patronage payments from the Bank totaling $1,774,811, $1,618,942 and $1,539,999 during 2016, 2015 and 2014, respectively.

NOTE 13 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

There were no assets or liabilities measured at fair value on a nonrecurring bases at December 31, 2016, 2015 and 2014. Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2015 and 2014 for each of the fair value hierarchy values are summarized below:

December 31, 2015	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Gains (Losses)
Assets:					
Loans	$ -	$ -	$ -	$ -	$ -
Other property owned	-	-	129,075	129,075	-

December 31, 2014	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Gains (Losses)
Assets:					
Loans	$ -	$ -	$ -	$ -	$ -
Other property owned	-	-	129,075	129,075	-

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the balance sheet for each of the fair value hierarchy values are summarized as follows:

	December 31, 2016 Fair Value Measurement Using				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 1,387,052**	**$ 1,387,052**	**$ -**	**$ -**	**$ 1,387,052**
Net loans	**488,282,767**	**-**	**-**	**487,619,202**	**487,619,202**
Total Assets	**$ 489,669,819**	**$ 1,387,052**	**$ -**	**$ 487,619,202**	**$ 489,006,254**
Liabilities:					
Note payable to the Farm Credit Bank of Texas	**$ 391,352,088**	**$ -**	**$ -**	**$ 388,749,609**	**$ 388,749,609**
Total Liabilities	**$ 391,352,088**	**$ -**	**$ -**	**$ 388,749,609**	**$ 388,749,609**

	December 31, 2015 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 919,895	$ 919,895	$ -	$ -	$ 919,895
Net loans	477,411,385	-	-	478,623,850	478,623,850
Total Assets	$478,331,280	$ 919,895	$ -	$478,623,850	$479,543,745
Liabilities:					
Note payable to the Farm Credit Bank of Texas	$380,156,061	$ -	$ -	$378,420,876	$378,420,876
Total Liabilities	$380,156,061	$ -	$ -	$378,420,876	$378,420,876

	December 31, 2014 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 981,544	$ 981,544	$ -	$ -	$ 981,544
Net loans	423,353,839	-	-	426,637,788	426,637,788
Total Assets	$424,335,383	$ 981,544	$ -	$426,637,788	$427,619,332
Liabilities:					
Note payable to the Farm Credit Bank of Texas	$328,825,631	$ -	$ -	$328,302,383	$328,302,383
Total Liabilities	$328,825,631	$ -	$ -	$328,302,383	$328,302,383

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Note payable to bank	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the Association for assets and liabilities:

Loans

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Note Payable to the Farm Credit Bank of Texas

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the Association's and Bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

NOTE 14 — 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 financial statements. 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, 2016, $89,798,550 of commitments and $1,059,815 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 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 15 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	2016				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 3,562**	**$ 3,525**	**$ 3,550**	**$ 3,595**	**$ 14,232**
(Provision for) reversal of loan losses	**40**	**(88)**	**(1,000)**	**(137)**	**(1,185)**
Noninterest income (expense), net	**(1,292)**	**(1,025)**	**(1,246)**	**(459)**	**(4,022)**
Net income	**$ 2,310**	**$ 2,412**	**$ 1,304**	**$ 2,999**	**$ 9,025**

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,285	$ 3,310	$ 3,450	$ 3,540	$ 13,585
(Provision for) reversal of loan losses	83	(38)	(43)	(463)	(461)
Noninterest income (expense), net	(1,095)	(1,023)	(807)	(1,134)	(4,059)
Net income	$ 2,273	$ 2,249	$ 2,600	$ 1,943	$ 9,065

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,193	$ 3,239	$ 3,232	$ 3,293	$ 12,957
(Provision for) reversal of loan losses	16	40	29	19	104
Noninterest income (expense), net	(883)	(838)	89	(1,081)	(2,713)
Net income	$ 2,326	$ 2,441	$ 3,350	$ 2,231	$ 10,348

NOTE 16 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 15, 2017, which is the date the financial statements were issued or available to be issued.

There are no subsequent events requiring disclosure as of March 15, 2017.

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 is incorporated herein by reference from Note 1 to the consolidated financial statements, “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 and 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,” included in this annual report.

DESCRIPTION OF PROPERTY

The Central Texas Farm Credit, ACA (Association) serves its 19-county territory through its main administrative and lending office at 1026 Early Blvd, Early, Texas. Additionally, there are seven branch lending offices located throughout the territory. The Association owns the office buildings in Brady, Early, Coleman, Haskell, San Angelo and San Saba, Texas. The Association leases the office buildings in Baird and Comanche, Texas.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, “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 Note 8, “Note Payable to the Bank,” Note 11, “Employee Benefit Plans” and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 14 to the consolidated financial statements, “Summary of Significant Accounting Policies” and “Commitments and Contingencies,” respectively, 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 (Bank), as discussed in Note 1 to the consolidated financial statements, “Organization and Operations,” included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders’ investment in the Association.

The annual and quarterly stockholder reports of the Farm Credit Bank of Texas (Bank) and of the Texas Farm Credit District (District) are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the Bank and District annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Central Texas Farm Credit, ACA P.O. Box 3200, Early, Texas 76803 or calling (325) 643-5563. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Keith.Prater@farmcreditbank.com. The Association's annual stockholder report is available on its website at www.centraltexasfarmcredit.com 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2016, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

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

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The Association's member-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Robby A. Halfmann	Chairman	2008	2017
Kenneth D. Harvick	Vice Chairman	2012	2019
Mike Finlay	Director	2008	2018
Philip W. Hinds	Director	2009	2018
Burl D. Lowery	Director-Elected Director	2013	2018
Steven Lehrmann	Director	2014	2017
Boyd J. Chambers	Chief Executive Officer	2006	-
Travis B. McKinney	Chief Credit Officer	2000	-
Zach May	Chief Operating Officer	2008	-
Jim Ed Field	Director - Credit Analysis	2013	-
Keith Prater	Controller	2015	-
Frankie Gregg	Operations Manager I	1993	-

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Robby A. Halfmann - age 36 - Mr. Halfmann is a farmer and rancher in Runnels, Coleman and Concho counties. His principal business is managing his stocker cattle and cow-calf operation and farming small grains. He is also an order buyer for Frey Cattle Company and serves as foreman for that company. In addition, he owns one half of S&H Land and Livestock LLC, whose primary business is managing a stocker cattle operation and farming small grains. Mr. Halfmann is chairman of the Association's board and currently serves on the audit, compensation and executive committees. He is also the Association's representative on the District Bank's stockholder advisory and nominating committees. Mr. Halfmann was first appointed to the board in 2008 and is currently serving a three-year term expiring in 2017.

Kenneth D. Harvick - age 65 - Mr. Harvick is a rancher in Comanche county. His principal business is managing his cow-calf operation. He was the former president of Gore's Inc. in Comanche, Texas, which is a dairy, beef cattle and feed business that operated in Texas and New Mexico. Mr. Harvick is the vice chairman of the Association's board and serves on the audit and compensation committees. He was first elected to the board in 2012 and is currently serving a three-year term which expires in 2019.

Mike Finlay - age 68 - Mr. Finlay is a farmer and rancher in McCulloch and Coleman counties. His principal business consists of farming cotton, wheat, grain sorghum and hay crops and managing his cattle and sheep operation. He is the president of the Fife Cemetery Association and he is also a member of the McCulloch County Conservation Board. Mr. Finlay currently serves on the Association's audit and compensation committees. He was first elected to the board in 2008 and is currently serving a three-year term which expires in 2018.

Philip W. Hinds - age 59 - Mr. Hinds is a stock farmer in Coleman County. His principal business is that of owner/operator of The Bargain House, a furniture business in Coleman, TX. He has been a member of the Coleman County Farm Bureau and the Coleman County Rodeo Association. Mr. Hinds serves on the Association's audit and compensation committees. Mr. Hinds was first appointed to the board in 2009 and is currently serving a three-year term which expires in 2018.

Burl D. Lowery - age 66 - Mr. Lowery, a Certified Public Accountant, owns and operates Burl D. Lowery CPA, an accounting practice in Brownwood, Texas. His primary business is managing the accounting practice. In addition, he has a small cow-calf and hay operation in Comanche County. He is a member of the American Institute of Certified Public Accountants and the Texas Society of Certified Public Accountants. Mr. Lowery was first appointed by the Board in January 2013 to serve as the "Outside Director." He is also the designated "financial expert" as defined in and required by FCA regulation. He currently serves as the chairman of the audit committee and also serves on the compensation committee. Mr. Lowery is currently serving a three-year term which expires in 2018.

Steven Lehrmann - age 62 - Mr. Lehrmann is a farmer and rancher in Haskell and Stonewall counties. His primary business is farming wheat, cotton, and sesame crops, and managing a cow-calf operation. He is also the co-owner and operating manager of K & L Spraying, LLC, which is an insect and weed control crop spraying business. He is currently the chairman of the Haskell County Appraisal Review board. Mr. Lehrmann currently serves on the audit and compensation committees. He was first elected to the board in 2014 and is currently serving a three-year term which expires in 2017.

Boyd J. Chambers - age 56 - Mr. Chambers has served as the chief executive officer of the Association since 2011, and that is his principal occupation. He previously served as the Association's executive vice president and chief credit officer. Prior to joining the Association in 2006, Mr. Chambers served as vice president of lending with Southwest Texas, ACA. He has been employed in the Farm Credit System since 1987. Mr. Chambers also operates a small part-time farm in Coleman County.

Travis B. McKinney - age 40 - Mr. McKinney has served as the chief credit officer of the Association since 2013, and that is his principal occupation. He previously served as senior vice president of lending and branch president of the Early branch office. He has been employed in the Farm Credit System since 2000.

Zach May - age 38 - Mr. May has served as the chief operating officer of the Association since 2011, and that is his principal occupation. He previously served as the Association's operations manager. Prior to joining the Association in 2009, he was a senior credit analyst at Capital Farm Credit and a commissioned examiner with the Farm Credit Administration. He has been employed in the Farm Credit System since 2008.

Jim Ed Field - age 40 - Mr. Field has served as the director of credit analysis for the Association since 2015, and that is his principal occupation. He previously served as the manager of credit analysis. Prior to joining the Association in 2013, Mr. Field was an investment manager with MetLife Agricultural Investments and a credit office president with First Ag Credit. He began working in the Farm Credit System in 2000.

Keith Prater - age 42 - Mr. Prater has served as the controller of the Association since 2015, and that is his principal occupation. Before joining the Association, Mr. Prater was the controller for a pecan shelling operation. He has been employed in the Farm Credit System since 2015. Mr. Prater also has a small part-time cow-calf operation.

Frankie Gregg - age 66 - Mrs. Gregg served as the operations manager of the Association since 2003, and that was her principal occupation. She retired in July 2016 after 23 years with the Association.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of $800 per month. The Chairman and the Director-elected Director received an honorarium of $1,000 per month. All directors were also compensated at the rate of $400 per day for in-person unscheduled meetings and training sessions, $150 for each committee meeting held on the same day as a Board meeting (excluding audit committee meetings), and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2016 was paid at the IRS approved rate of 53.5 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

	Number of Days Served Associated With		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2016**
Robby A. Halfmann	11	7	$ 16,600
Kenneth D. Harvick	11	6	14,150
Mike Finlay	11	8	14,250
Philip W. Hinds	10	5	13,800
Burl D. Lowery	12	5	14,100
Steven Lehrmann	12	6	13,700
			$ 86,600

The aggregate compensation paid to directors in 2016, 2015 and 2014 was $86,600, $88,750 and $70,950, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2016:

Director	Compensation
Robby A. Halfmann	$ 800
Kenneth D. Harvick	800
Mike Finlay	800
Philip W. Hinds	800
Burl D. Lowery	800
Steven Lehrmann	800
	$ 4,800

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $45,670, $53,412 and $29,825 in 2016, 2015 and 2014, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

All employee salaries are administered in accordance with the Salary Administration Program which is approved annually by the compensation committee (comprised of the entire board of directors). All decisions regarding the CEO's salary are made by the compensation committee, and all salary decisions for employees other than the CEO are determined by the CEO with input from employee supervisors. The aggregate amount of annual employee salary increases is proposed by the CEO and approved by the compensation committee at the December meeting.

All employee bonuses are determined using the calculation methodology outlined in the Annual Bonus Plan which is approved annually by the board of directors. The plan has three performance components (Association, branch and individual) which are weighted according to employee position groups. Each employee has a target bonus payout which is a percentage of their base salary. The target payouts vary according to the employee's level of responsibility. The compensation committee approves the CEO's bonus and the aggregate bonus payout for all other employees at the January compensation committee meeting immediately following the end of the plan year. Bonuses are generally paid in the first payroll period following the January compensation committee meeting. The compensation committee is not bound by the results of the bonus calculation. Final bonus payments are at the sole discretion of the committee. The Association does not defer any compensation.

Chief Executive Officer (CEO) Compensation Policy

The CEO's total compensation for the last three years is detailed in the table below. This amount represents the change in actuarial value of the CEO's defined benefit pension plan. Changes in this value are based on additional years of service, compensation increases or decreases, plan amendments, and increases or decreases in value due to interest.

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and the top five highest paid officers of the Association during 2016, 2015 and 2014. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual or number in group (a)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/ Perquisite (e)	Other (f)	Total
Boyd J. Chambers							
CEO	**2016**	**$ 230,009**	**$ 35,685**	**$ 302,546**	**$ 15,456**	**$ -**	**$ 583,696**
	2015	225,008	80,844	309,522	18,224	1,250	634,848
	2014	220,008	66,000	388,022	14,785	25,385	714,200
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)							
5	**2016**	**$ 630,210**	**$ 119,826**	**$ 298,717**	**$ 79,703**	**$ 500**	**$ 1,128,956**
5	2015	623,368	209,615	102,912	84,810	3,005	1,023,710
5	2014	588,144	154,935	950,295	61,703	46,632	1,801,709

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary, including retention plan compensation for certain senior officers.
(c) Bonuses in the indicated year paid within the first 60 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 include payouts for accrued annual leave and service awards when applicable.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO and other highly compensated officers for the year ended December 31, 2016:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2016
Boyd J. Chambers CEO	Farm Credit Bank of Texas Pension Plan	27	$ 1,734,490	$ -
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable) (2)	Farm Credit Bank of Texas Pension Plan	36	$ 2,675,725	$ -

Pension Benefits Table Narrative Disclosure

The CEO and two highly compensated officers of the Association 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 and 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 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent 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 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Other Compensation and Benefit Disclosures

Employees who drive company-owned vehicles have personal miles reported to the IRS as fringe benefits that are considered additional taxable income to the employee. Employees who use their personal automobiles for Association business purposes were reimbursed during 2016 at the IRS-approved rate of 54 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation, other than company automobiles, exceeding $5,000 in 2016, 2015 or 2014.

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.

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 Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No directors or senior officers of the Association have had any involvement in any events or legal proceedings as required to be disclosed per FCA Regulation 620.5(k) during the past five years.

RELATIONSHIP WITH INDEPENDENT AUDITOR

No change in auditors has taken place since the last annual report to stockholders and no disagreements with the auditor have occurred that the Association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure. The total fees for professional services rendered by PricewaterhouseCoopers LLP for the Association during 2016 were $46,500. There were no other non-audit services provided by PricewaterhouseCoopers LLP.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association has business relationships with Central Texas Holdings LLC and FCBT Biostar B LLC which are limited liability companies, formed for the purpose of acquiring and managing unusual and complex collateral (acquired property).

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 15, 2017, and the report of management in this annual report to stockholders, 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.

CODE OF ETHICS

The Association and its directors, officers and employees have committed to conduct business in accordance with the highest ethical standards as set forth in the Association's Standards of Conduct Policy relating to ethical conduct, conflicts of interest, and compliance with the law.

This Code of Ethics applies to the board chairman, board members, officers and all other Association employees. The Association is responsible for the preparation and distribution of its financial statements and related disclosures and for providing relevant information that is true, accurate and complete to the Federal Farm Credit Banks Funding Corporation for use in preparing the Farm Credit System financial statements and related disclosures.

The Association expects all of its directors, officers, and other employees to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities, to comply with all applicable laws, rules and regulations, to deter wrongdoing and abide by its Standards of Conduct Policy and other policies and procedures approved by the board of directors and employed by the Association that governs their conduct. This Code of Ethics is intended to supplement the Association's Standards of Conduct Policy.

Each director, officer and employee agrees to:

- Engage in and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.

- Avoid conflicts of interest and disclose to the Association's Standards of Conduct Official any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest, or gives the appearance of a conflict of interest.

- Take all reasonable measures to protect the confidentiality of nonpublic information about the Association and its customers obtained or created in connection with its activities and to prevent the unauthorized disclosure of this information unless required by applicable law or regulation or legal or regulatory process.

- Produce full, fair, accurate, timely and understandable disclosure in Association financial statements and related financial reports or communications as well as Association reports and documents filed with, or submitted to, the Funding Corporation and the Farm Credit Administration.

- Comply with applicable governmental laws, rules and regulations, as well as the rules and regulations of self-regulatory agreements to which the Association is a party.

- Promptly report any possible violation of this Code of Ethics to the Association's Standards of Conduct Official.

Directors, officers and employees are prohibited from directly or indirectly taking any action to fraudulently influence, coerce, manipulate or mislead the Association's independent public accountant, other director, officer or employee for the purpose of rendering the financial statements of the Association misleading or for any other purpose that is in violation of standards of conduct.

Directors, officers and employees understand that they will be held accountable for adherence to the Code of Ethics. Failure to observe the terms of this Code of Ethics may result in disciplinary action, up to and including termination of employment or removal from the board of directors. Violations of the Code of Ethics may also constitute violations of law and may result in civil and criminal penalties.

Any questions regarding the best course of action in a particular situation should be promptly addressed to the Association's Standards of Conduct Official. Any individual reporting any possible violation of this Code of Ethics may remain anonymous when reporting a possible violation of this Code of Ethics.

The Association has retained a qualified, independent third-party individual to serve as the Association's Standard of Conduct Official who shall be the primary contact for reporting of alleged violations of this Code of Ethics or Association Standards of Conduct.

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

MISSION STATEMENT

The mission of the Central Texas Farm Credit, ACA is to make a concerted and cooperative effort to finance young, beginning, or small farmers, ranchers and producers or harvesters of aquatic products through a program designed to meet the needs of such applicants to the fullest extent of their creditworthiness.

DEFINITIONS

1. Young Borrower: A farmer, rancher or producer or harvester of aquatic products is one who is age 35 or younger as of the loan transaction date.

2. Beginning Borrower: A farmer, rancher or producer or harvester of aquatic products who has 10 years or less farming, ranching or aquatic experience as of the loan transaction date.

3. Small Borrower: A farmer, rancher or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

STRATEGY

To accomplish this mission, the Association will provide:

1. Utilization of the flexibilities of existing loan programs to the advantage of these applicants.

   Loan approvals will fully utilize all flexibilities in length of term, repayment schedules, amortization requirements, initial deferments, schedule of advances and other such loan approval conditions consistent with existing lending standards and policies.

   Loan servicing remedies such as re-amortizations, deferments, extensions, renewals and other techniques will be available to program borrowers to the fullest extent possible within policies. In addition, we have developed specialized lending standards for young farmers.

   A separate set of underwriting standards for young farmers were adopted in 2014 which are customized to enable and encourage young farmers to begin, grow and/or remain in agricultural production.

2. A commitment of staff resources and expertise to effectively make and service loans and provide credit-related services to this group of farmers, ranchers, and producers or harvesters of aquatic products.

   The Association's CEO will have primary responsibility for a) developing expertise in meeting the special financing and related service needs of program applicants; b) implementing the Association program, and; c) developing and submitting reports on the program.

3. A commitment of financial resources and a risk management philosophy to ensure the objective of this policy is met.

   The Association Board of Directors will monitor this program to assure itself that adequate financial and human resources and an appropriate risk management philosophy exist on a continuing basis to meet program objectives without compromising the ability of the Association to serve non-program farmers, ranchers and producers of aquatic products. The Board will monitor this program through reports on the program's progress to the Board by the CEO at least quarterly.

4. The offering of guidance and financial assistance to this specialized group of farmers and the groups that support them.

   The Association will provide instruction and guidance to young, beginning and small farmers, ranchers and producers in areas such as record keeping, financial analysis and management, leasing, capital investment decision-making, marketing strategies and other such management areas. In addition, our financial support will be given to extension service and young farmer groups to sponsor seminars, field days and special events.

5. The Association will also expand the criteria used to determine a full-time farmer to include those part-time young, beginning and small farmers and ranchers who demonstrate intent to progress toward farming and/or ranching as their primary business and vocation. Such demonstration of intent shall be documented in the loan file and will include, but is not limited to, the following criteria:

   a. The degree of day-to-day involvement the borrower must have in the agricultural production operation, through either labor or management, or both, to evidence a clear commitment to agricultural production.

   b. The intent of the borrower to actively engage in agricultural production, as evidenced by his or her education, training, experience, business plan or some other means.

   c. A level or projected level of gross agricultural income or production that evidences a clear commitment to agricultural production.

   d. The terms and structure of the loan, as well as planned use of loan proceeds, evidence a commitment to be truly engaged in agricultural production.

The Association has in place internal controls and an annual YBS review to ensure that its YBS policies and program are implemented for the benefit of all YBS farmers and ranchers, thus ensuring them the opportunity to begin, grow, or remain in agricultural production.

TARGETS

Based on USDA's 2012 Census of Agriculture, the makeup of Young, Small and Beginning Farmers in our territory is as follows:

	Total	With Debt
Young	1,041	374
Beginning	3,971	1,233
Small	13,018	4,103

As of the end of 2016, the number of YBS loans in the Association's portfolio was as follows:

Young Farmers:

There were 468 loans to this group of borrowers. This equates to 19% percent of the total portfolio and 45 percent of the total number of Young Farmers in our territory cited in the 2012 census.

Beginning Farmers:

There were 1,118 loans to this group of borrowers. This equates to 45 percent of the total portfolio and 28 percent of the total number of Beginning Farmers in our territory cited in the 2012 census.

Small Farmers:

There were 1,936 loans to this group of borrowers. This equates to 77 percent of the total portfolio and 47 percent of the number of Small Farmers with debt in our territory cited in the 2012 census.

The Association will continue all efforts to target those remaining YBS farmers and ranchers in our territory through the use of outreach programs, including but not limited to, advertising, participating in educational programs, working with extension agents, and participating in agricultural field days, livestock shows and agricultural seminars, etc. In addition, Association loan officers and senior management will offer credit counseling and work with other financial institutions to the extent possible to ensure the credit needs of these borrowers are met.

GOALS

The Association's goal for 2016 was to have at least 60 percent of all new loans go to borrowers who meet one or more of the YBS criteria. This goal was met as of December 31, 2016. The goal in the 2017-2019 Strategic Business plan will again be that 60% of all new loans should be to borrowers who meet one or more of the YBS criteria.

REPORTING

The Association shall incorporate the goals of its YBS Program into the Strategic Business Plan, shall report the performance results to the board of directors at least quarterly and to the District Bank annually, and shall include in its Annual Report a description of its YBS Program and a status report on each component thereof. In addition, the Association shall continue to post its Annual Report, with the YBS Program information, on its website.