2017 ANNUAL REPORT

DECEMBER 31, 2017

Part of the Farm Credit System

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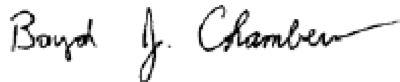
REPORT OF MANAGEMENT

The consolidated financial statements of Central Texas Farm Credit, ACA (the Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. 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 (PwC), independent accountants, who also conduct a review of internal controls to the extent necessary to comply with auditing standards solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The 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

March 14, 2018

Robby A. Halfmann, Chairman, Board of Directors

March 14, 2018

Keith Prater, Chief Financial Officer

March 14, 2018

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Central Texas Farm Credit, ACA. In 2017, 11 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 2017.

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, 2017 (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, 2017.

Audit Committee Members

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

March 14, 2018

CENTRAL TEXAS FARM CREDIT, ACA

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

	2017	2016	2015	2014	2013
Balance Sheet Data					
Assets					
Cash	**$ 10**	$ 1,387	$ 920	$ 982	$ 534
Loans	**496,045**	489,350	478,376	423,927	403,912
Less: allowance for loan losses	**1,289**	1,067	964	573	656
Net loans	**494,756**	488,283	477,412	423,354	403,256
Investment in and receivable from the Farm Credit Bank of Texas	**9,023**	7,810	6,875	6,464	6,029
Other property owned, net	**-**	-	129	129	652
Other assets	**8,870**	8,304	6,145	4,688	4,250
Total assets	**$ 512,659**	$ 505,784	$ 491,481	$ 435,617	$ 414,721
Liabilities					
Obligations with maturities of one year or less	**$ 10,374**	$ 9,955	$ 9,993	$ 9,324	$ 7,859
Obligations with maturities greater than one year	**395,021**	391,993	380,738	329,315	314,550
Total liabilities	**405,395**	401,948	390,731	338,639	322,409
Members' Equity					
Capital stock and participation certificates	**2,306**	2,284	2,232	2,149	2,152
Unallocated retained earnings	**105,345**	101,741	98,716	95,251	90,102
Accumulated other comprehensive (loss) income	**(387)**	(189)	(198)	(422)	58
Total members' equity	**107,264**	103,836	100,750	96,978	92,312
Total liabilities and member's equity	**$ 512,659**	$ 505,784	$ 491,481	$ 435,617	$ 414,721
Statement of Income Data					
Net interest income	**$ 14,691**	$ 14,232	$ 13,585	$ 12,957	$ 12,393
(Provision for loan losses) or loan loss reversal	**(241)**	(1,185)	(461)	104	21
Income from the Farm Credit Bank of Texas	**1,748**	1,775	1,619	1,540	1,440
Other noninterest income	**166**	274	86	989	237
Noninterest expense	**(6,451)**	(6,070)	(5,764)	(5,242)	(4,371)
Net income	**$ 9,913**	$ 9,026	$ 9,065	$ 10,348	$ 9,720
Key Financial Ratios for the Year					
Return on average assets	**2.0%**	1.8%	2.0%	2.4%	2.4%
Return on average members' equity	**9.4%**	8.6%	8.9%	10.6%	10.4%
Net interest income as a percentage of average earning assets	**3.0%**	2.9%	3.1%	3.1%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.2%	0.0%	0.0%	0.3%

CENTRAL TEXAS FARM CREDIT, ACA

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

	2017	2016	2015	2014	2013
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	**20.9%**	20.5%	20.5%	22.3%	22.3%
Debt as a percentage of members' equity	**377.9%**	387.1%	387.8%	349.2%	349.3%
Allowance for loan losses as a percentage of loans	**0.3%**	0.2%	0.2%	0.1%	0.2%
Common equity tier 1 ratio	**19.1%**	n/a	n/a	n/a	n/a
Tier 1 capital ratio	**19.1%**	n/a	n/a	n/a	n/a
Total capital ratio	**19.4%**	n/a	n/a	n/a	n/a
Permanent capital ratio	**19.2%**	18.9%	19.7%	21.3%	20.8%
Tier 1 leverage ratio	**20.4%**	n/a	n/a	n/a	n/a
UREE leverage ratio	**21.5%**	n/a	n/a	n/a	n/a
Core surplus ratio	**n/a**	18.4%	19.2%	20.8%	20.3%
Total surplus ratio	**n/a**	18.4%	19.2%	20.8%	20.3%
Net Income Distribution					
Cash dividends paid	**$ 6,000**	$ 5,600	$ 5,200	$ 4,800	$ 4,600

*Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers at December 31, 2017. For more information on the changes to regulatory capital ratios, see the Capital Resources section on page 11.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Unaudited)

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, 2017, 2016 and 2015, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying 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:

2017

In December 2017, the Association received a direct loan patronage of $1,531,794 from the Farm Credit Bank of Texas (Bank), representing 39 basis points on the average daily balance of the Association's direct loan with the Bank. During 2017, the Association received $166,872 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 $49,651 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2017, a patronage refund of $6,000,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2016, and the amount was based on the Association's 2016 operating results.

2016

In December 2016, the Association received a direct loan patronage of $1,592,290 from the 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.

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 composition of the Association's loan portfolio, including principal less funds held of $496,045,375, $489,350,168 and $478,375,612 as of December 31, 2017, 2016 and 2015, 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:

Rainfall received in 2017 was mixed across the Association's territory. Areas in the eastern portion of the territory experienced above average rainfall while the western and northern portions received below average annual rainfall. Dry weather conditions had started to set in across the whole Association territory by the end of 2017. According to a December USDA report, 61% of the state had slipped into an abnormally dry or moderate drought condition including several counties in the Association's territory. Rainfall was sporadic and pastures in many areas began to dry while grazing conditions deteriorated requiring an increase in supplemental feeding.

Commodity markets were mixed for the year. Cattle markets continued to be volatile, although not extreme. By year-end, markets had found some stability and were pushing higher thanks to continued demand and strengthening exports. The December 2017 USDA "Cattle on Feed" report indicated cattle and calves totaled 2.66 million head in Texas feedlots with capacities exceeding 1,000 head per feedlot, an increase of 9% from the prior year. Cotton producers, overall, fared well in 2017 with average prices and good yields, in most cases. Wheat prices continued to be depressed in 2017 and yields were below average in our territory. According to the October 2017 USDA "Milk Production" report, Texas milk production totaled almost 3 billion pounds, a 4% decrease compared to the second quarter of 2017. However, milk production increased by 11% over the prior year with an additional 32,000 head.

Management recognizes the impact that the current commodity environment could potentially have on borrowers. We feel our portfolio is managed very well as operating loans are reviewed at least annually, and in some cases, more often. We have continued to see a slight deterioration in the loan portfolio due to current commodity prices but the Association is still in a good position to work with borrowers who are experiencing financial difficulty.

The local economies in our chartered territory continue to be relatively strong, and real estate prices are stable, to slightly increasing. In addition, the oil industry has experienced an increase in prices which has helped support the local economies.

Problem Loans

2017

During the second quarter of 2017, the Association recorded a charge-off in the amount of $52,508.

2016

During the third quarter of 2016, a non-accrual 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.

Purchase and Sales of Loans:

During 2017, 2016 and 2015, the Association was participating in loans with other lenders. As of December 31, 2017, 2016 and 2015, these participations totaled $87,779,558, $91,561,731 and $91,785,020, or 17.7 percent, 18.7 percent and 19.2 percent of loans, respectively. The Association has never purchased any participations interest in any loans from entities outside of the Texas Farm Credit District. The Association also had a sold participation portfolio of $15,368,788, $16,833,035 and $17,629,688 as of December 31, 2017, 2016 and 2015, 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:

	2017		2016		2015	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 4,294,741**	**100.0%**	$ 2,736,218	100.0%	$ 523,110	80.2%
Other property owned, net	**-**	**0.0%**	-	0.0%	129,075	19.8%
Total	**$ 4,294,741**	**100.0%**	$ 2,736,218	100.0%	$ 652,185	100.0%

At December 31, 2017, 2016 and 2015, loans that were considered impaired were $4,294,741, $2,736,218 and $523,110, representing 0.9 percent, 0.6 percent and 0.1 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:

	2017	2016	2015
Allowance for loan losses	**$ 1,288,981**	$ 1,067,401	$ 964,227
Allowance for loan losses to total loans	**0.3%**	0.2%	0.2%
Allowance for loan losses to nonaccrual loans	**30.0%**	39.0%	184.3%
Allowance for loan losses to impaired loans	**30.0%**	39.0%	184.3%
Net charge-offs to average loans	**0.0%**	0.2%	0.0%

The allowance for loan losses is evaluated quarterly and maintained based upon 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 $1,288,981, $1,067,401 and $964,227 at December 31, 2017, 2016 and 2015, 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, 2017, was $9,903,931 as compared to $9,025,432 for the year ended December 31, 2016, reflecting an increase of $878,499, or 9.7 percent. The Association's net income for the year ended December 31, 2015 was $9,064,666. Net income decreased $39,234, or 0.4 percent, in 2016 versus 2015.

Net interest income for 2017, 2016 and 2015 was $14,690,963, $14,232,012 and $13,585,496, respectively, reflecting increases of $458,951, or 3.2 percent, for 2017 versus 2016 and $646,516, or 4.8 percent, for 2016 versus 2015. 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:

	2017		2016		2015	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 490,511,843**	**$ 23,229,605**	$ 484,575,204	$ 21,630,196	$ 439,736,330	$ 19,739,621
Interest-bearing liabilities	**392,877,986**	**8,538,642**	388,406,874	7,398,184	345,308,641	6,154,125
Impact of capital	**$ 97,633,857**		$ 96,168,330		$ 94,427,689	
Net interest income		**$ 14,690,963**		$ 14,232,012		$ 13,585,496

	2017 Average Yield	2016 Average Yield	2015 Average Yield
Yield on loans	**4.74%**	4.46%	4.49%
Cost of interest-bearing liabilities	**2.17%**	1.90%	1.78%
Interest rate spread	**2.57%**	2.56%	2.71%

	2017 vs. 2016			2016 vs. 2015		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 264,994**	**$ 1,334,415**	**$ 1,599,409**	$ 2,012,818	$ (122,243)	$ 1,890,575
Interest expense	**85,166**	**1,055,292**	**1,140,458**	768,097	475,962	1,244,059
Net interest income	**$ 179,828**	**$ 279,123**	**$ 458,951**	$ 1,244,721	$ (598,205)	$ 646,516

Interest income for 2017 increased by $1,599,409, or 7.4 percent, compared to 2016, primarily due to growth in earning assets and increased interest rates. Interest expense for 2017 increased by $1,140,458, or 15.4 percent, compared to 2016 due to increased borrowing due to growth in the loan portfolio and increased interest rates. The interest rate spread increased in 2017 from 2.56 percent in 2016 to 2.57 in 2017. 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.

Net interest income as a percentage of average earning assets was 3.00 percent at December 2017, compared to 2.91 percent for the same period last year. The lower margin in 2016 was primarily due to the reversal of interest income related to a large nonaccrual. In addition, our average spread on loan assets was higher in 2017 than in 2016.

Noninterest income for 2017 decreased by $138,875, or 6.8 percent, compared to 2016, due primarily to slightly lower patronage and higher deferred loan fees. 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.

Provisions for loan for 2017 losses decreased by $944,394, or 79.7 percent, compared to 2016, due primarily to a large charge off that had occurred 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 2017, operating expenses increased by $385,971 or 6.4 percent. The increase in operating expenses includes an increase in occupancy and equipment expense of $85,521 and an increase in public and member relations of $123,516 and also includes the change in salaries and benefits due in part to hiring activity.

For the year ended December 31, 2017, the Association's return on average assets was 2.0 percent, as compared to 1.8 percent and 2.0 percent for the years ended December 31, 2016 and 2015, respectively. For the year ended December 31, 2017, the Association's return on average members' equity was 9.4 percent, as compared to 8.6 percent and 8.9 percent for the years ended December 31, 2016 and 2015, 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 $394,242,092, $391,352,088 and $380,156,061 as of December 31, 2017, 2016 and 2015, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.3 percent, 1.9 percent and 1.9 percent at December 31, 2017, 2016 and 2015, 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, 2016, is due to loan growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $100,188,827, $96,732,935 and $97,173,813 at December 31, 2017, 2016 and 2015, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2017, was $498,555,537 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 2018. 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 $107,263,500, $103,835,624 and $100,749,857 at December 31, 2017, 2016 and 2015, respectively.

New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. 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, 2017, 2016 and 2015 was 19.16 percent, 18.9 percent and 19.7 percent, respectively. Under the new regulations, the Association is required to maintain a minimum common equity tier 1 (CET1), tier 1 capital, and total capital ratios of 4.5 percent, 6.0 percent, and 8.0 percent, along with a capital conservation buffer of 2.5 percent applicable to each ratio, respectively. The 2.5 percent capital conservation buffer will be phased in over a three year period ending on December 31, 2019. The Association's common equity tier 1 ratio was 19.12 percent, tier 1 capital ratio was 19.12 percent, and total capital ratio was 19.38 percent at December 31, 2017. Under the new regulations, the Association is required to maintain a minimum tier 1 leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum unallocated retained earnings equivalents (UREE) leverage ratio of 1.5 percent. The Association's tier 1 leverage ratio was 20.41 and UREE leverage ratio was 21.5 at December 31, 2017. The CET1 capital ratio is an indicator of the institution's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods, and paid-in capital. The tier 1 capital ratio is a measure of the institution's quality of capital and financial strength. The total capital ratio is supplementary to the tier 1 capital ratio, the components of which include qualifying CCEs subject to certain holding periods, third-party capital subject to certain holding periods and limitations, and allowance and reserve for credit losses subject to certain limitations. The tier 1 leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be unallocated retained earnings (URE) and URE equivalents. This is the UREE leverage ratio.

Prior to January 1, 2017, the core surplus ratio measured available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio 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 and 2015 was 18.4 percent and 19.2 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 and 2015 was 18.4 percent and 19.2 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

Significant Recent Accounting Pronouncements:

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

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

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in

the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to 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 evaluating the impact of adoption on its financial condition and results of operations.

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

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

In May 2014, 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 determined the effect was not material to its financial condition or results of operations and will not change its current recognition practices.

Regulatory Matters:

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

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

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

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

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

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

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

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

In 2017, 2016 and 2015, the Association paid patronage distributions of $6,000,000, $5,600,000 and $5,199,987, respectively. In December 2017, the board of directors approved a $6,300,000 patronage distribution to be paid in March 2018. 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.

Other:

New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Acts of 2017 (TCJA) were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent. The bank is exempt from federal and certain other income taxes as provided by the Farm Credit Act; however, the change in the federal corporate tax rate will have a financial statement impact for year-end 2017 for district associations that will require the revaluation of any deferred taxes (assets or liabilities), which will result in either a tax expense or tax benefit to the income statement. While the full impact of the TCJA is difficult to predict and may not be fully known for several years, changes that could affect the associations’ business and customers include, but are not limited to, modifications to deductions surrounding interest expense and equipment purchases, tax incentives related to renewable energy initiatives, deductions impacting agricultural producers who sell their products to cooperatives and the overall changes in the competitive environment impacting financial institutions.

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, 2017, December 31, 2016 and December 31, 2015, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Texas Farm Credit, ACA and their subsidiaries as of December 31, 2017, December 31, 2016 and December 31, 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 14, 2018

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

CONSOLIDATED BALANCE SHEET

	December 31,		
	2017	2016	2015
Assets			
Cash	**$ 9,872**	$ 1,387,052	$ 919,895
Loans	**496,045,375**	489,350,168	478,375,612
Less: allowance for loan losses	**1,288,981**	1,067,401	964,227
Net loans	**494,756,394**	488,282,767	477,411,385
Accrued interest receivable	**4,896,672**	4,524,649	4,037,448
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**7,846,940**	7,755,675	6,817,385
Other	**1,175,607**	54,449	57,591
Other property owned, net	**-**	-	129,075
Premises and equipment	**3,747,632**	3,585,408	1,917,375
Other assets	**225,878**	193,918	190,643
Total assets	**$ 512,658,995**	$ 505,783,918	$ 491,480,797
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 394,242,092**	$ 391,352,088	$ 380,156,061
Accrued interest payable	**779,048**	641,184	581,682
Drafts outstanding	**6,343**	551,735	900,264
Dividends payable	**6,300,000**	6,000,000	5,600,000
Other liabilities	**4,068,012**	3,403,287	3,492,933
Total liabilities	**405,395,495**	401,948,294	390,730,940
Members' Equity			
Capital stock and participation certificates	**2,305,685**	2,283,345	2,232,325
Unallocated retained earnings	**105,344,781**	101,740,850	98,715,418
Accumulated other comprehensive income (loss)	**(386,966)**	(188,571)	(197,886)
Total members' equity	**107,263,500**	103,835,624	100,749,857
Total liabilities and members' equity	**$ 512,658,995**	**$ 505,783,918**	**$ 491,480,797**

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,		
	2017	2016	2015
Interest Income			
Loans	**$ 23,229,605**	$ 21,630,196	$ 19,739,621
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**8,538,642**	7,398,184	6,154,125
Net interest income	**14,690,963**	14,232,012	13,585,496
Provision for Loan Losses	**240,619**	1,185,013	460,993
Net interest income after provision for losses	**14,450,344**	13,046,999	13,124,503
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**1,748,317**	1,774,811	1,618,942
Loan fees	**134,179**	155,408	52,306
Financially related services income	**6,013**	6,973	7,479
Gain on other property owned, net	**-**	-	4,109
Gain on sale of premises and equipment, net	**-**	95,668	-
Other noninterest income	**21,404**	15,928	21,481
Total noninterest income	**1,909,913**	2,048,788	1,704,317
Noninterest Expenses			
Salaries and employee benefits	**3,692,724**	3,237,434	3,530,720
Directors' expense	**142,065**	132,270	148,499
Purchased services	**315,771**	246,831	266,630
Travel	**231,648**	199,947	183,530
Occupancy and equipment	**434,016**	348,495	262,621
Communications	**119,998**	107,967	125,103
Advertising	**134,237**	296,317	248,126
Public and member relations	**378,059**	254,543	199,223
Supervisory and exam expense	**204,198**	186,164	150,059
Insurance Fund premiums	**588,436**	655,856	451,613
Other noninterest expense	**210,717**	275,456	198,030
Gain on sale of premises and equipment, net	**4,457**	-	-
Loss on other property owned, net	**-**	129,075	-
Total noninterest expenses	**6,456,326**	**6,070,355**	**5,764,154**
NET INCOME	**9,903,931**	9,025,432	9,064,666
Other comprehensive income:			
Change in postretirement benefit plans	**(198,395)**	9,315	223,816
COMPREHENSIVE INCOME	**$ 9,705,536**	$ 9,034,747	$ 9,288,482

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
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
Comprehensive income	-	9,903,931	(198,395)	9,705,536
Capital stock/participation certificates issued	347,275	-	-	347,275
Capital stock/participation certificates and allocated retained earnings retired	(324,935)	-	-	(324,935)
Dividends declared	-	(6,300,000)	-	(6,300,000)
Balance at December 31, 2017	**$ 2,305,685**	**$ 105,344,781**	**$ (386,966)**	**$ 107,263,500**

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,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	**$ 9,903,931**	$ 9,025,432	$ 9,064,666
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	**240,619**	1,185,013	460,993
Loss (gain) on sale of other property owned, net	**-**	129,075	(4,109)
Depreciation, amortization and accretion	**344,327**	251,238	148,182
Loss (gain) on sale of premises and equipment, net	**4,457**	(95,668)	-
Increase in accrued interest receivable	**(372,023)**	(487,201)	(494,066)
(Increase) decrease in other receivables from the Farm Credit Bank of	**(1,121,158)**	3,142	(4,841)
(Increase) decrease in other assets	**(31,960)**	(3,275)	18,564
Increase in accrued interest payable	**137,864**	59,502	92,713
Increase (decrease) in other liabilities	**499,800**	(132,999)	361,649
Net cash provided by operating activities	**9,605,857**	9,934,259	9,643,751
Cash flows from investing activities:			
Increase in loans, net	**(6,863,018)**	**(12,079,193)**	**(54,534,477)**
Proceeds from purchase of investment in the Farm Credit Bank of Texas	**(91,265)**	(938,290)	(405,710)
Purchases of premises and equipment	**(396,076)**	(1,906,682)	(1,131,028)
Proceeds from sales of premises and equipment	**370**	158,546	1,153
Proceeds from sales of other property owned	**-**	-	89,595
Net cash used in investing activities	**(7,349,989)**	(14,765,619)	(55,980,467)

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,		
	2017	2016	2015
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**2,890,004**	11,196,027	51,330,430
(Decrease) increase in drafts outstanding	**(545,392)**	(348,530)	61,354
Issuance of capital stock and participation certificates	**347,275**	342,350	349,595
Retirement of capital stock and participation certificates	**(324,935)**	(291,330)	(266,325)
Patronage distributions paid	**(6,000,000)**	(5,600,000)	(5,199,987)
Net cash (used in) provided by financing activities	**(3,633,048)**	5,298,517	46,275,067
Net (decrease) increase in cash	**(1,377,180)**	467,157	(61,649)
Cash at the beginning of the year	**1,387,052**	919,895	981,544
Cash at the end of the year	**$ 9,872**	$ 1,387,052	$ 919,895
Supplemental schedule of noncash investing and			
Loans transferred to other property owned	**-**	-	85,486
Loans charged off	**52,509**	1,029,171	-
Dividends declared	**6,300,000**	6,000,000	5,599,987
Transfer of allowance for loan losses into reserve for unfunded commitments	**(33,470)**	(52,668)	(69,548)
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 8,676,506**	$ 7,338,682	$ 6,061,412

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, 2017, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (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, 2017, 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 1A, "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 March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition but could change the classification of certain items in the results of operations.

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

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

B. Cash: Cash, as included in the statement 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 Farm Credit Bank of Texas: 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 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, 2017, made on their behalf into various investment alternatives. The Association recognized pension costs for the DC plan of $134,737, $107,549 and $111,489 for the years ended December 31, 2017, 2016 and 2015 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 $351,453, $245,826 and $437,870 for the years ended December 31, 2017, 2016 and 2015, respectively.

   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 $125,027, $107,067 and $116,611 for the years ended December 31, 2017, 2016 and 2015, 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 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 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 the future taxable earnings, included 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.

M. New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Act of 2017 (TCJA) were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 to 21 percent. FLCA subsidiaries are exempt from federal and state income tax; however, the change in the federal corporate tax rate will have a financial statement impact for year-end 2017 on ACA and PCA subsidiaries that will require the revaluation of any deferred taxes (assets or liabilities) in the year of enactment (2017). This will result in either a tax expense or tax benefit to the income statement.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	**2017** Amount	**2017** %	2016 Amount	2016 %	2015 Amount	2015 %
Real estate mortgage	**$ 346,406,190**	**69.8%**	$ 339,804,096	69.4%	$ 331,347,509	69.3%
Production and intermediate term	**67,896,084**	**13.7%**	64,552,843	13.2%	55,905,333	11.7%
Agribusiness:						
Processing and marketing	**41,149,234**	**8.3%**	44,048,379	9.0%	46,294,150	9.7%
Farm-related business	**13,902,709**	**2.8%**	11,086,417	2.3%	13,159,218	2.7%
Loans to cooperatives	**3,346,691**	**0.7%**	3,155,415	0.6%	769,374	0.2%
Energy	**11,426,977**	**2.3%**	12,502,093	2.6%	15,072,698	3.1%
Communication	**10,566,486**	**2.1%**	13,257,859	2.7%	12,649,114	2.6%
Rural residential real estate	**1,313,107**	**0.3%**	943,066	0.2%	1,881,798	0.4%
Water and waste water	**37,897**	**0.0%**	-	0.0%	1,296,418	0.3%
Total	**$ 496,045,375**	**100.0%**	$ 489,350,168	100.0%	$ 478,375,612	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, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 44,952,149	$ -	$ -	-	$ 44,952,149	$ -
Energy	11,426,977	-	-	-	11,426,977	-
Production and intermediate term	10,863,201	2,317,495	-	-	10,863,201	2,317,495
Communication	10,566,486	-	-	-	10,566,486	-
Real estate mortgage	9,970,744	13,051,293	-	-	9,970,744	13,051,293
Total	$ 87,779,557	$ 15,368,788	$ -	$ -	$ 87,779,557	$ 15,368,788

Geographic Distribution:

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.

County	**2017**	2016	2015
Comanche	**10.3%**	10.1%	10.4%
Brown	**9.4%**	9.5%	8.8%
Coleman	**7.1%**	7.0%	7.0%
Runnels	**5.5%**	5.3%	5.7%
Tom Green	**4.8%**	4.7%	4.0%
Jones	**4.5%**	4.5%	4.6%
McCulloch	**4.2%**	4.5%	4.3%
Callahan	**3.6%**	3.8%	3.8%
San Saba	**3.3%**	3.0%	2.9%
Concho	**3.2%**	3.4%	3.2%
Mills	**2.6%**	3.2%	3.4%
Knox	**2.5%**	1.5%	1.4%
Deaf Smith	**2.3%**	0.0%	0.0%
Haskell	**2.0%**	2.1%	2.1%
Coke	**2.0%**	2.0%	2.2%
Taylor	**1.2%**	0.0%	0.0%
Erath	**1.1%**	0.0%	0.0%
Eastland	**1.1%**	0.0%	0.0%
Menard	**1.1%**	1.2%	0.6%
Anderson	**1.0%**	0.0%	0.0%
Dickens	**0.7%**	0.0%	0.0%
Schleicher	**0.7%**	0.0%	0.0%
Hamilton	**0.7%**	0.0%	0.0%
Baylor	**0.6%**	0.7%	0.9%
Palo Pinto	**0.6%**	0.0%	0.0%
Potter	**0.6%**	0.0%	0.0%
Bexar	**0.6%**	0.0%	0.0%
Reagan	**0.4%**	0.5%	0.6%
Nolan	**0.4%**	0.0%	0.0%
Hemphill	**0.4%**	0.0%	0.0%
Harris	**0.4%**	0.0%	0.0%
Mclennan	**0.3%**	0.0%	0.0%
Camp	**0.3%**	0.0%	0.0%
Travis	**0.2%**	0.0%	0.0%
Dallas	**0.2%**	0.0%	0.0%
Other Counties	**4.0%**	15.9%	16.2%
Other States	**16.0%**	17.1%	17.9%
Totals	**100.0%**	**100.0%**	**100.0%**

Operation/Commodity	2017 Amount	2017 %	2016 Amount	2016 %	2015 Amount	2015 %
Cattle and calves	**$ 168,634,837**	**34.0%**	$ 153,609,087	**31.4%**	$ 147,289,459	30.8%
General livestock and fowl	**103,396,753**	**20.8%**	101,441,570	**20.7%**	95,124,164	19.9%
Hunting and recreation	**39,391,316**	**7.9%**	43,737,692	**8.9%**	44,588,103	9.3%
Cotton	**36,429,651**	**7.3%**	35,498,611	**7.4%**	30,767,065	6.4%
Field Crops	**25,775,849**	**5.2%**	35,992,219	**7.4%**	28,401,948	5.9%
Wheat	**15,464,134**	**3.1%**	17,484,129	**3.6%**	19,266,686	4.0%
Timber	**11,359,895**	**2.3%**	7,926,486	**1.6%**	9,710,560	2.0%
Feed products and milling	**5,928,376**	**1.2%**	3,560,312	**0.7%**	4,242,217	0.9%
Sheep and goats	**4,756,188**	**1.0%**	5,556,877	**1.1%**	5,659,683	1.2%
Fruits, nuts, and vegetables	**3,355,089**	**0.7%**	7,043,856	**1.4%**	5,651,284	1.2%
Sorghum, corn, and other grains	**3,055,861**	**0.6%**	3,649,364	**0.7%**	3,745,055	0.8%
Rural home loans	**699,510**	**0.1%**	2,346,246	**0.5%**	2,047,042	0.4%
Other	**77,797,916**	**15.7%**	71,503,719	**14.6%**	81,882,346	17.1%
Total	**$ 496,045,375**	**100.0%**	$ 489,350,168	100.0%	$ 478,375,612	99.9%

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, 2017, 2016 and 2015, loans totaling $9,282,429, $9,775,721 and $10,276,351, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $55,930, $59,405 and $12,804 in 2017, 2016 and 2015, respectively, and are included in "other noninterest expense."

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

	December 31, 2017	December 31, 2016	December 31, 2015
Nonaccrual loans:			
Real estate mortgage	**$ 2,306,340**	$ 1,389,744	$ 523,110
Production and intermediate term	**1,988,401**	1,346,475	-
Total nonaccrual loans	**4,294,741**	2,736,219	523,110
Total nonperforming loans	**4,294,741**	2,736,219	523,110
Other property owned	**-**	-	129,075
Total nonperforming assets	**$ 4,294,741**	$ 2,736,219	$ 652,185

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:

	2017		2016		2015	
Real estate mortgage						
Acceptable	**98.0**	%	98.3	%	99.1	%
OAEM	**0.7**		1.2		0.8	
Substandard/doubtful	**1.3**		0.5		0.1	
	100.0		100.0		100.0	
Production and intermediate term						
Acceptable	**87.0**		91.3		98.8	
OAEM	**8.6**		5.5		1.2	
Substandard/doubtful	**4.4**		3.2		-	
	100.0		100.0		100.0	
Agribusiness						
Acceptable	**95.1**		100.0		97.1	
OAEM	**4.9**		-		2.9	
Substandard/doubtful	**-**		-		-	
	100.0		100.0		100.0	
Energy						
Acceptable	**78.0**		78.8		100.0	
OAEM	**9.0**		21.2		-	
Substandard/doubtful	**13.0**		-		-	
	100.0		100.0		100.0	
Communication						
Acceptable	**100.0**		100.0		100.0	
OAEM	**-**		-		-	
Substandard/doubtful	**-**		-		-	
	100.0		100.0		100.0	
Rural residential real estate						
Acceptable	**100.0**		100.0		96.7	
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	**95.7**		97.1		98.9	
OAEM	**2.5**		2.1		1.0	
Substandard/doubtful	**1.8**		0.8		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, 2017, 2016 and 2015:

December 31, 2017:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 1,010,918**	**$ 857,450**	**$ 1,868,368**	**$ 348,456,355**	**$ 350,324,723**	**$ -**
Production and intermediate term	**848,986**	**-**	**848,986**	**67,869,247**	**68,718,233**	**-**
Processing and marketing	**-**	**-**	**-**	**41,205,238**	**41,205,238**	**-**
Farm-related business	**-**	**-**	**-**	**13,955,998**	**13,955,998**	**-**
Energy	**-**	**-**	**-**	**11,442,153**	**11,442,153**	**-**
Communication	**-**	**-**	**-**	**10,590,656**	**10,590,656**	**-**
Loans to cooperatives	**-**	**-**	**-**	**3,347,965**	**3,347,965**	**-**
Rural residential real estate	**-**	**-**	**-**	**1,317,656**	**1,317,656**	**-**
Water and waste water	**-**	**-**	**-**	**39,425**	**39,425**	**-**
Total	**$ 1,859,904**	**$ 857,450**	**$ 2,717,354**	**$ 498,224,693**	**$ 500,942,047**	**$ -**

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	$ -

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, 2017, 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 the 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 12/31/2017	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,306,340	$ 2,358,956	$ -	$ 1,816,907	$ 330
Production and intermediate term	1,988,401	3,018,275	-	2,223,136	621
Total	$ 4,294,741	$ 5,377,231	$ -	$ 4,040,043	$ 951
Total impaired loans:					
Real estate mortgage	$ 2,306,340	$ 2,358,956	$ -	$ 1,816,907	$ 330
Production and intermediate term	1,988,401	3,018,275	-	2,223,136	621
Total	$ 4,294,741	$ 5,377,231	$ -	$ 4,040,043	$ 951

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

	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.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2017, 2016 and 2015.

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

	2017	2016	2015
Interest income which would have been recognized under the original terms	**$ 365,063**	$ 123,455	$ 143,462
Less: interest income recognized	**(85,266)**	(10,996)	(30,975)
Foregone interest income	**$ 279,797**	$ 112,459	$ 112,487

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, 2016	$ 197,602	$ 337,170	$ 246,053	$ 110,077	$ 176,128	$ -	$ 371	$ 1,067,401
Charge-offs	(52,509)	-	-	-	-	-	-	(52,509)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	107,143	55,080	(4,300)	(68,068)	149,670	9	1,085	240,619
Other	38	22,719	15,161	9,597	(13,505)	-	(540)	33,470
Balance at December 31, 2017	$ 252,274	$ 414,969	$ 256,914	$ 51,606	$ 312,293	$ 9	$ 916	$ 1,288,981
Ending Balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance: collectively evaluated for impairment	$ 252,274	$ 414,969	$ 256,910	$ 51,606	$ 312,293	$ 9	$ 918	$ 1,288,980
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2017	$ 350,324,723	$ 68,718,233	$ 58,509,201	$ 10,590,656	$ 11,442,153	$ 39,425	$ 1,317,656	$ 500,942,047
Ending balance for loans individually evaluated for impairment	$ 2,306,340	$ 1,988,401	$ -	$ -	$ -	$ -	$ -	$ 4,294,741
Ending balance for loans collectively evaluated for impairment	$ 348,018,383	$ 66,729,832	$ 58,509,201	$ 10,590,656	$ 11,442,153	$ 39,425	$ 1,317,656	$ 496,647,306

	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
Adjustment due to merger	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

NOTE 4 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas (Bank) 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 Bank is not practicable because the stock is not traded. The Association owns 2.6% of the issued stock of the Bank as of December 31, 2017. As of that date, the Bank's assets totaled $22.84 billion and members' equity totaled $1.67 billion. The Bank's earnings were $196 million during 2017.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2017	2016	2015
Land and improvements	**$ 423,107**	$ 401,775	$ 427,318
Building and improvements	**3,566,314**	3,354,363	1,114,739
Furniture and equipment	**474,067**	470,678	285,511
Computer equipment and software	**110,890**	121,803	117,532
Automobiles	**323,654**	273,296	242,812
Construction in progress	**-**	-	757,208
	4,898,032	4,621,915	2,945,120
Accumulated depreciation	**(1,150,400)**	(1,036,507)	(1,027,745)
Total	**$ 3,747,632**	$ 3,585,408	$ 1,917,375

In previous years the Association has leased office space in Baird and Comanche, Texas. However, during 2017 the office located in Baird, Texas was closed and the Association purchased a new office space in Comanche, Texas. In 2018 and moving forward, the only lease commitment for the Association is for a storage unit in Coleman, Texas. Lease expense was $17,522, $25,836 and $21,690 for 2017, 2016 and 2015, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2018	$ 288
2019	288
2020	288
2021	288
2022	288
Thereafter	288
Total	$ 1,728

NOTE 6 — OTHER PROPERTY OWNED, NET:

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

	2017	**2016**	2015
Gain (loss) on sale, net	**$ -**	**$ (129,075)**	$ 4,109
Net gain (loss) on other property owned	**$ -**	**$ (129,075)**	$ 4,109

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2017	2016	2015
Accounts Receivable	**$ 222,034**	$ 192,350	$ 184,034
Prepaid expenses	**-**	-	6,336
Other assets	**3,844**	1,568	273
Total	**$ 225,878**	$ 193,918	$ 190,643

Other liabilities comprised the following at December 31:

	2017	2016	2015
Postretirement benefits liability	**$ 2,274,210**	$ 1,979,933	$ 1,884,215
Accounts payable	**866,192**	396,017	843,736
FCS insurance premium payable	**548,536**	615,398	414,691
Accrued annual leave	**199,805**	199,200	190,220
Allowance on unfunded loans	**179,269**	212,739	160,071
Total	**$ 4,068,012**	$ 3,403,287	$ 3,492,933

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, 2017, 2016 and 2015, was $394,242,092 at 2.3 percent, $391,352,088 at 1.9 percent and $380,156,061 at 1.9 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, 2017, 2016 and 2015, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2017, was $498,555,537, 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, and reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2017, 2016 and 2015, 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 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 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, 2017, 2016 and 2015, 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 obligation in excess of the amounts realized on the sale of liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligation to external parties and to the Bank would be distributed to the Association's stock holders.

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 2017, 2016 and 2015, the Association declared annual patronage distributions of $6,300,000, $6,000,000, and $5,600,000, respectively.

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. As of December 31, 2017, the Association is not prohibited from retiring stock or distributing earnings.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2017:

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer***	**Total**	**As of December 31, 2017**
Common equity tier 1 ratio	4.50%	2.50%	7.00%	19.12%
Tier 1 capital ratio	6.00%	2.50%	8.50%	19.12%
Total capital ratio	8.00%	2.50%	10.50%	19.38%
Permanent capital ratio	7.00%	0.00%	7.00%	19.16%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	20.41%
UREE leverage ratio	1.50%	0.00%	1.50%	21.50%

*the 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019. There is no phase-in of the leverage buffer.

**Must include the regulatory minimum requirement for the URE and UREE Leverage ratio

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

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

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**108,236,057**	**108,236,057**	**108,236,057**	**108,236,057**
Paid-in capital	**-**	**-**	**-**	**-**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,302,209**	**2,302,209**	**2,302,209**	**2,302,209**
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥7 years				
Allocated equities:				
Allocated equities held <5 years	`			
Allocated equities held ≥5 years but < 7 years				
Allocated equities held ≥7	**-**	**-**	**-**	**-**
Nonqualified allocated equities not subject to retirement	**-**	**-**	**-**	**-**
Non-cumulative perpetual preferred stock		**-**	**-**	**-**
Other preferred stock subject to certain limitations			**-**	**-**
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations*			**1,414,277**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(7,756,689)**	**(7,756,689)**	**(7,756,689)**	**(7,756,689)**
Other regulatory required deductions	**-**	**-**	**-**	**-**
	102,781,577	102,781,577	104,195,854	102,781,577
Denominator:				
Risk-adjusted assets excluding allowance	**545,402,827**	**545,402,827**	**545,402,827**	**545,402,827**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(7,756,689)**	**(7,756,689)**	**(7,756,689)**	**(7,756,689)**
Allowance for loan losses				**(1,197,041)**
	537,646,138	537,646,138	537,646,138	536,449,097

*Capped at 1.25% of risk-adjusted assets

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

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**108,236,057**	**108,236,057**
Paid-in capital	**-**	**-**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**2,302,209**	-
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥5 years but < 7 years		
Allocated equities held ≥7	**-**	**-**
Nonqualified allocated equities not subject to retirement	**-**	**-**
Non-cumulative perpetual preferred stock	**-**	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(7,756,689)**	**-**
Other regulatory required deductions	**-**	**-**
	102,781,577	**108,236,057**
Denominator:		
Total Assets	**514,409,011**	**514,409,011**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(10,933,168)**	**(10,933,168)**
	503,475,843	503,475,843

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

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:

	2017	2016	2015
Class A stock	**456,957**	452,454	442,058
Participation certificates	**4,180**	4,215	4,407
Total	**461,137**	456,669	446,465

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

Accumulated Other Comprehensive Loss			
December 31, 2017	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (386,966)**	**$ -**	$ (386,966)

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)

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

	2017	2016	2015
Accumulated other comprehensive income (loss) at January 1	**$ (188,571)**	$ (197,886)	$ (421,702)
Actuarial (losses) gains	**(183,612)**	19,287	205,350
Amortization of prior service (credit) included in salaries and employee benefits	**(17,991)**	(17,983)	(18,037)
Amortization of actuarial loss included in salaries and employee benefits	**3,208**	8,011	36,503
Other comprehensive (loss) income, net of tax	**(198,395)**	9,315	223,816
Accumulated other comprehensive loss at December 31	**$ (386,966)**	$ (188,571)	$ (197,886)

NOTE 10 — INCOME TAXES:

There was no provision for income taxes for the years ended December 31, 2017, 2016, or 2015.

The provision for (benefit from) 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:

	2017	2016	2015
Federal tax at statutory rate	**$ 3,466,386**	$ 3,158,901	$ 3,172,635
Effect of nontaxable FLCA subsidiary	**(3,030,223)**	(3,099,117)	(2,764,936)
Patronage distributions	**(459,889)**	(118,596)	(409,058)
Change in valuation allowance	**(457,010)**	58,812	1,359
Rate change in deferred tax asset	**480,736**	-	-
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

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

	2017	2016	2015
Deferred Tax Assets			
Allowance for loan losses	**$ 110,062**	$ 159,710	$ 100,898
Loss carryforwards	**611,042**	1,018,404	1,018,404
Gross deferred tax assets	**721,104**	1,178,114	1,119,302
Deferred tax asset valuation allowance	**(721,104)**	(1,178,114)	(1,119,302)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The Association recorded valuation allowances of $721,104, $1,178,114 and $1,119,302 during 2017, 2016 and 2015, 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. Under adoption, the Association did not need to recognize a tax liability for any uncertain tax positions and at December 31, 2017, 2016, and 2015, the Association did not recognize a tax liability for any uncertain tax position.

The Association's net operating loss carryforward at December 31, 2017, approximates $2,900,000 and may be carried forward 20 years.

The enactment of federal tax legislation in late December 2017, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). The provision for income taxes in 2017 was mainly due to a decrease in deferred tax assets with a corresponding valuation allowance resulting from the enactment of federal tax legislation in late December 2017.

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 2017, 2016 and 2015.

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

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

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

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

	2017	2016	2015
Funded status of plan	**69.7** %	66.4 %	66.8 %
Association's contribution	**$ 351,453**	$ 245,826	$ 437,870
Percentage of association's contribution to total contributions	**3.0** %	2.1 %	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 73.4 percent, 70.6 percent and 72.5 percent at December 31, 2017, 2016 and 2015, 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.

In October 2014, the Society of Actuaries issued revised mortality tables (RP 2014) and a mortality improvement scale (MP 2014) for use by actuaries, insurance companies, governments, benefit plan sponsors and others setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000). The adoption of these new tables resulted in an increase of $225,204 to our retiree welfare plan's projected benefit obligation.

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2017	2016	2015
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 1,979,965**	$ 1,883,305	$ 1,974,965
Service cost	**51,563**	53,793	60,070
Interest cost	**90,485**	87,778	89,009
Plan participants' contributions	**16,459**	11,059	20,110
Actuarial loss (gain)	**183,612**	(19,287)	(205,350)
Benefits paid	**(47,874)**	(36,683)	(55,499)
Accumulated postretirement benefit obligation, end of year	**$ 2,274,210**	$ 1,979,965	$ 1,883,305
Change in Plan Assets			
Employer Contributions	**$ 31,415**	$ 25,624	$ 35,389
Plan participants' contributions	**16,459**	11,059	20,110
Benefits paid	**(47,874)**	(36,683)	(55,499)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (2,274,210)**	$ (1,979,965)	$ (1,883,305)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (2,274,210)**	$ (1,979,965)	$ (1,883,305)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	**$ 400,459**	$ 220,055	$ 247,353
Prior service credit	**(13,493)**	(31,484)	(49,467)
Total	**$ 386,966**	$ 188,571	$ 197,886
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2017**	12/31/2016	12/31/2015
Discount rate	**4.00%**	4.60%	4.70%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.70%/6.90%**	6.75%/6.50%	7.00%/6.50%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2026/2026**	2025/2024	2025

Total Cost	2017	2016	2015
Service cost	**$ 51,563**	$ 53,793	$ 60,070
Interest cost	**90,485**	87,778	89,009
Amortization of:			
Unrecognized prior service cost	**(17,987)**	(17,983)	(18,037)
Unrecognized net loss	**3,208**	8,011	36,503
Net postretirement benefit cost	**$ 127,269**	$ 131,599	$ 167,545
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 183,612**	$ (19,287)	$ (205,350)
Amortization of net actuarial loss	**(3,208)**	(8,011)	(36,503)
Amortization of prior service credit	**17,987**	17,983	18,037
Total recognized in other comprehensive income	**$ 198,391**	$ (9,315)	$ (223,816)
AOCI Amounts Expected to be Amortized Into Expense in 2018			
Unrecognized prior service credit	**(13,493)**		
Unrecognized net loss	**25,822**		
Total	**$ 12,329**		
Weighted-Average Assumptions Used to Determine Benefit Cost			
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	**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	**2025/2024**	2025	2024

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2018	**$ 43,800**
Fiscal 2019	**59,284**
Fiscal 2020	**78,438**
Fiscal 2021	**100,975**
Fiscal 2022	**120,711**
Fiscal 2023–2027	**526,228**
Expected Contributions	
Fiscal 2018	**$ 43,800**

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 $6,601,790, $6,455,296, and $6,684,547 at December 31, 2017, 2016 and 2015, respectively. During 2017, $2,823,940 of new loans were made, and repayments totaled $2,401,391. In the opinion of management, no such loans outstanding at December 31, 2017, 2016 and 2015 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 $315,771, $246,831, and $266,630 in 2017, 2016 and 2015, respectively.

The Association received patronage payments from the Bank totaling $1,748,317, $1,774,811 and $1,618,942 during 2017, 2016 and 2015, 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 and liabilities measured at fair value on a recurring basis at December 31, 2017, 2016 and 2015. Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2017 for each of the fair value hierarchy values are summarized below:

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

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ -	$ -
Other property owned	-	-	129,075	129,075

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
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, 2017				
	Fair Value Measurement Using				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 9,872**	**$ 9,872**	**$ -**	**$ -**	**$ 9,872**
Net loans	**494,756,394**	**-**	**-**	**487,274,811**	**487,274,811**
Total Assets	**$ 494,766,266**	**$ 9,872**	**$ -**	**$ 487,274,811**	**$ 487,284,683**
Liabilities:					
Note payable to the Farm Credit Bank of Texas	**$ 394,242,092**	**$ -**	**$ -**	**$ 388,807,386**	**$ 388,807,386**
Total Liabilities	**$ 394,242,092**	**$ -**	**$ -**	**$ 388,807,386**	**$ 388,807,386**

	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

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
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

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 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, 2017, $86,954,921 of commitments and $1,054,417 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:

	2017				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 3,621**	**$ 3,690**	**$ 3,656**	**$ 3,724**	**$ 14,691**
(Provision for) reversal of loan losses	**(158)**	**2**	**(33)**	**(52)**	**(241)**
Noninterest income (expense), net	**(1,246)**	**(1,205)**	**(1,112)**	**(983)**	**(4,546)**
Net income	**$ 2,217**	**$ 2,487**	**$ 2,511**	**$ 2,689**	**$ 9,904**

	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

NOTE 16 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 14, 2018, which is the date the financial statements were issued or available to be issued. There are no subsequent events requiring disclosure as of March 14, 2018.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference from 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, Comanche, Haskell, San Angelo, and San Saba, Texas. The Association leases a storage unit located in Coleman, 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 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, 2017, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report 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	2020
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	2020
Boyd J. Chambers	Chief Executive Officer	2006	-
Travis B. McKinney	Chief Credit Officer	2000	-
Zach May	Chief Operating Officer	2009	-
Keith Prater*	Controller	2015	-
Jim Ed Field**	Director – Credit Analysis	2013	-

*Promoted to Chief Financial Officer on January 1, 2018
**Promoted to SVP – Lending and Credit on January 1, 2018

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

Robby A. Halfmann - age 37 - Mr. Halfmann is a farmer and rancher in Runnels, Coleman and Concho counties. His principal business is managing his stocker cattle and cow-calf operations and farming small grains. He is also a co-owner of Frey Cattle Company, a cattle order buying operation, and serves as foreman and an order buyer for that company. In addition, he is a co-owner 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 serving a three-year term expiring in 2020.

Kenneth D. Harvick - age 66 - Mr. Harvick is a farmer and a rancher in Comanche County. His principal business is managing his cow-calf operation, operating a small feedlot, and buying and selling real estate. Mr. Harvick conducts most of his farming and ranching business under the name Chatto Creek Ranch. He is 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 audt, compensation and executive committees. He was first elected to the board in 2012 and is serving a three-year term that expires in 2019.

Mike Finlay - age 69 – 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. Mr. Finlay conducts most of his farming and ranching business under the name Finlay Farms. He is the president of the Fife Cemetery Association, and he is also a member of the McCulloch County Conservation Board. Mr. Finlay serves on the Association's audit and compensation committees. He was first elected to the board in 2008 and is serving a three-year term that expires in 2018.

Philip W. Hinds - age 60 - Mr. Hinds is a stock farmer in Coleman County. His principal business is that of owner/operator of The Bargain House Furniture, a furniture business in Coleman, Texas. 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 that expires in 2018.

Burl D. Lowery - age 67 - 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 serves as the chairman of the audit committee and also serves on the compensation committee. Mr. Lowery is serving a three-year term that expires in 2018.

Steven Lehrmann - age 63 - 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 serves on the audit and compensation committees. He was first elected to the board in 2014 and is serving a three-year term which expires in 2020.

Boyd J. Chambers - age 57 - 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 41 - 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 39 - 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.

Keith Prater - age 43 - 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. He was promoted to Chief Financial Officer on January 1, 2018.

Jim Ed Field - age 41 - 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 for the Association. 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. Mr. Field was promoted to SVP – Lending and Credit on January 1, 2018.

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 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 2017 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 2017**
Robby A. Halfmann	11	13	$ 18,200
Kenneth D. Harvick	10	8	13,550
Mike Finlay	11	9	13,950
Philip W. Hinds	12	8	13,600
Burl D. Lowery	12	8	16,400
Steven Lehrmann	12	10	16,100
			$ 91,800

The aggregate compensation paid to directors in 2017, 2016 and 2015 was $91,800, $86,600 and $88,750, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2017:

Director	Compensation
Robby A. Halfmann	$ 550
Kenneth D. Harvick	550
Mike Finlay	550
Philip W. Hinds	550
Burl D. Lowery	550
Steven Lehrmann	550
	$ 3,250

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $47,643, $45,670 and $53,412 in 2017, 2016 and 2015, 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 all senior officers of the Association during 2017, 2016 and 2015. 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	2017	**$ 235,009**	**$ 79,667**	**$ 330,970**	**$ 18,221**	**$ -**	**$ 663,866**
	2016	230,009	35,685	302,546	15,456	-	583,695
	2015	225,009	80,844	309,522	18,224	1,250	634,848
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)							
5	**2017**	**$ 589,989**	**$ 179,894**	**$ 294,914**	**$ 90,186**	**$ 23,800**	**$ 1,178,783**
5	2016	630,210	119,826	298,717	79,703	500	1,128,956
5	2015	623,368	209,616	102,912	84,810	3,005	1,023,710

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary, including retention plan compensation for certain senior officers.
(c) Bonuses paid within the first 30 days of the subsequent calendar year.
(d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.
(e) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance.
(f) Amounts in the "Other" column include payouts for accrued annual leave and service awards when applicable.

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

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2017:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2017
Boyd J. Chambers	Farm Credit Bank of Texas Pension Plan	28	$ 2,065,460	$ -

Name	Plan Name	Average Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2017
Aggregate Number of Senior Officers (& other highly compensated employees) (2)	Farm Credit Bank of Texas Pension Plan	34	$ 2,928,393	$ 42,246

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 assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2017 at the IRS-approved rate of 53.5 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2017, 2016 and 2015.

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 disclosure. The total fees for professional services rendered by PricewaterhouseCoopers LLP for the Association during 2017 were $55,489. There were no other non-audit services provided by PricewaterhouseCoopers LLP.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association has business relationships with Central Texas Holding 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 14, 2018, 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 endering 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 Central Texas Farm Credit 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 the 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-amortization, deferments, extensions, renewals, and other techniques will be available to program borrowers to the fullest extent possible within policies.

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 of 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 famers and the groups that support them.

   The Association will provide instruction and guidance to young, beginning, and small famers, 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 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 the Fourth Quarter, 2017, the number of YBS loans in the Association's portfolio is as follows:

Young Farmers:

There were 477 loans to this group of borrowers. This equates to 19% percent of the total portfolio and 46 percent of the total number of Young Farmers in our territory cited in the 2012 census.

Beginning Farmers:

There were 1,152 loans to this group of borrowers. This equates to 45 percent of the total portfolio and 29 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, participations 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 2017 was to have at least 60 percent of all new loans go to borrowers who meet one of more of the YBS criteria. This goal was met as of December 31, 2017. The goal in the 2018-2020 Strategic Business Plan will again be that 60 percent of all new loans should be to borrowers who meet one or more of the YBS criteria.

REPORTING

The Association will incorporate the goals of its YBS Program into its Strategic Business Plan, shall report the performance results to the board of directors at least quarterly and to the District Bank annually, and 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.