Together we're better.

2016 Annual Report

CAPITAL FARM CREDIT

PROUD MEMBER OF THE FARM CREDIT SYSTEM

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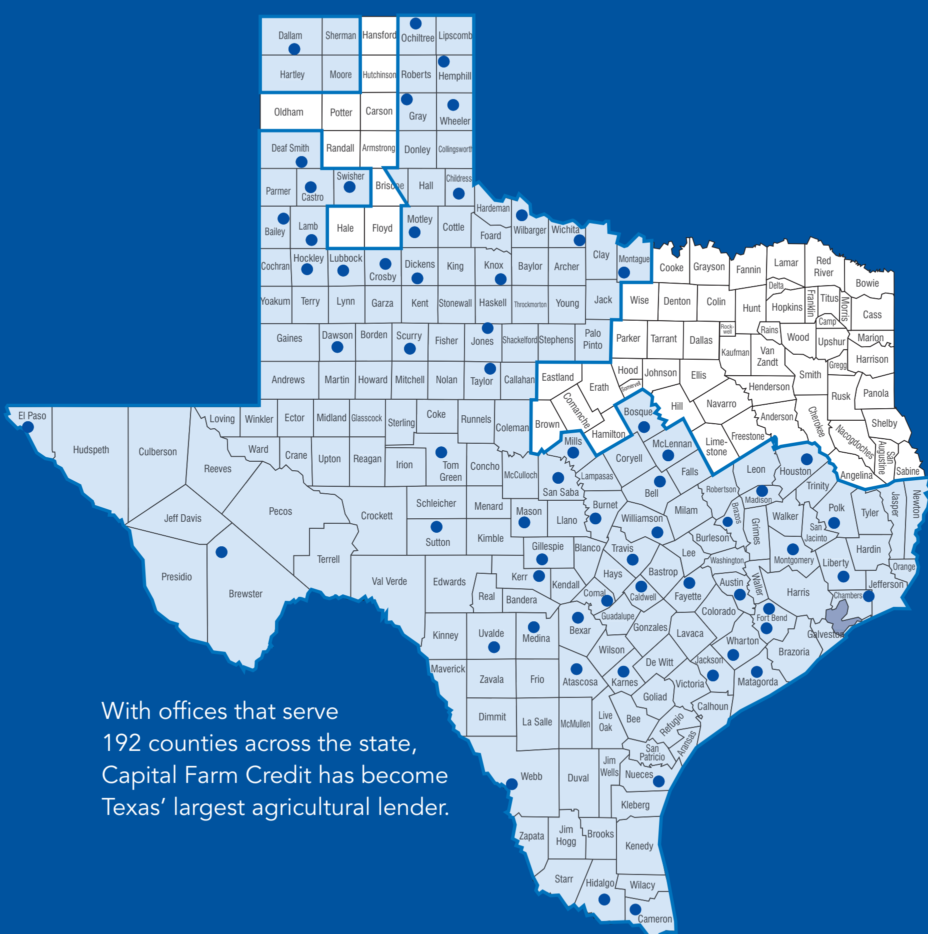

With offices that serve 192 counties across the state, Capital Farm Credit has become Texas' largest agricultural lender.

Together we're better.

Capital Farm Credit helps rural communities and agriculture grow and thrive. Because we are a cooperative, our customers are our owners, and their goals are our goals.

It's a partnership that really pays.

CAPITAL FARM CREDIT
PROUD MEMBER OF THE FARM CREDIT SYSTEM

Our mission is to provide reliable credit and financial services that enable our members to achieve success in agriculture and rural communities.

Our vision is to be the best provider of agricultural credit. We will accomplish this with the best people, service, financial performance and patronage dividend program.

Our core values of **commitment, trust, value** and **family** are daily reminders of why we provide exceptional service and value to our members, to agriculture and to rural communities.

Capital Farm Credit — Where History Is Worth Repeating

IN JULY 1916, farmers and ranchers gained a new partner in the Farm Credit System, a nationwide network of customer-owned cooperatives with a mission to provide reliable, consistent credit for agriculture.

The following spring the farmers of Crosby, Texas, came together to form their own lending cooperative, which soon wrote the first Farm Credit loan in Southeast Texas and just the second in the state. Over the generations, that small co-op advanced alongside agriculture and grew into Texas' largest Farm Credit lender. Today Capital Farm Credit has local branches across 192 counties, offering a full array of products and services for the rural marketplace.

We're proud that in Farm Credit's centennial year, our cooperative achieved record financial results while maintaining strong credit quality.

Loan Volume and Earnings Grow

Capital Farm Credit earned a record $151.1 million in net income in 2016, an 8.5 percent increase over the prior year.

Agriculture needs steady access to credit regardless of variable conditions, such as the low commodity prices or inopportune rainfall that posed challenges for many Texas farmers and ranchers in 2016. As a result of our cooperative's strong diversification, capital position and credit quality, we stood ready to meet that need.

Outstanding loan volume increased 6.8 percent to a record $6.9 billion, contributing to record net interest income despite continuing low interest rates. Growth was visible across our portfolio, including loans for real estate, agricultural production and farm-related businesses.

Partnership That Really Pays

The better Capital Farm Credit does financially, the more tangible the benefits for the customers who choose us as their financial partner. Our members own the cooperative and share in the earnings through our patronage dividend program, effectively lowering their borrowing cost.

In March 2016 we returned $56.7 million of our 2015 earnings to our members in cash, and in November distributed another $36.8 million that had been allocated to borrowers in 2010.

Based on our strong financial results, our board of directors recently declared patronage of $135.0 million on our 2016 earnings. We will distribute the first $57.2 million in cash this spring, and will invest the remainder back in the cooperative to provide stability until it is eligible for distribution in the future.

Cause for Celebration

It was a pleasure to observe Farm Credit's centennial with the customers who are at the root of our success. At member-appreciation events across our territory, our employees celebrated with borrowers ranging from young, beginning and small ag producers to established farming and ranching families who have been members since we got our start.

We also participated in a national celebration in Washington, D.C., where Farm Credit was commended in a presidential statement, U.S. House and Senate commemorative resolutions, and a House special session. Back at home, the Texas House of Representatives commemorated the centennial in a proclamation in July.

The nationwide Farm Credit System marked the milestone by recognizing 100 visionaries who are changing rural communities and agriculture for the better. Two of our outstanding members were named Farm Credit 100 Fresh Perspectives honorees.

One way Capital Farm Credit celebrated our history was by investing in the future of rural communities and agriculture. Through our 100 Scholarships in 100 Days

program, we awarded $1,000 college scholarships to students selected by each branch office. We also sponsored youth programs, expanded educational outreach for agricultural producers, and supported programs for military veterans in agriculture.

Proud of Our Past, Prepared for the Future

Just as we have provided dependable credit for generations, we are making improvements to meet our members' needs well into the future.

We pride ourselves on providing superior service and being a resource for our customers and communities. In 2016 we unveiled a new website with many user-friendly features, expanded our crop insurance staff and territory, and made some changes to use our lending staff's specialized knowledge to the fullest advantage. We also adopted new technology to enhance speed, service and security.

By combining our strong financial foundation with innovation, we will remain a reliable partner for rural communities and agriculture for many more generations to come. ★

FARM CREDIT 100 ESTABLISHED 1916

Centennial Celebrations in 2016

Two Capital Farm Credit members were among the 100 visionaries nationwide who were saluted by Farm Credit 100 Fresh Perspectives. Steve Verett, left, executive vice president of Plains Cotton Growers Inc. in Lubbock, was a Rural Policy Influence honoree. Josh Eilers, right, an Army Ranger veteran and the owner of Ranger Cattle in Austin, was both a Beginning Farmer or Rancher Achievement honoree and a Top 10 honoree.

Capital Farm Credit celebrated the centennial in Washington, D.C., with the institutions from our Farm Credit district, left, and across the nation. While there, we went to Capitol Hill on our members' behalf to discuss Farm Credit's lasting value for rural communities and agriculture.

In recognition of Farm Credit's 100 years, we awarded $1,000 scholarships to 100 students chosen by our branches. We also presented another $35,500 through our other scholarship programs. Pictured from left to right are Abilene High School agricultural science teacher Kay Richards; Ali Gutierrez and her daughter Tilden, a scholarship recipient; and Jason Gibson, vice president of lending at our Abilene credit office.

The year's member appreciation events were a way to bring the nationwide celebration home to our members, such as this dinner near Houston in July. We also preserved our association's history for future generations by archiving photos, documents and other artifacts across our territory.

Local, state and national officials commended Farm Credit for its century of service. In College Station in August, rancher and Texas Rep. Kyle Kacal, left, read a Texas House proclamation and presented a flag that flew over the Texas Capitol on the centennial to Capital Farm Credit CEO Ben Novosad.

LETTER FROM THE CEO

Dear Stockholder:

In agriculture, the one thing that stays consistent from season to season is the need for dependable credit. That's why Farm Credit started 100 years ago.

It's years like 2016 — when low commodity prices and high input costs hindered progress and profits for many ag producers — that customer-owned lending cooperatives are most essential.

At Capital Farm Credit, we put our lending and commodity expertise to work for borrowers when we structure loans, helping them be successful so they can have the same staying power that we've enjoyed. We offer flexible underwriting to help young, beginning and small ag producers get more established. Most importantly, we have the diversification and financial capacity to weather some adversity in the agricultural economy and remain strong for our members.

Our commitment to our members has led to significant loan growth for many years running. We ended 2016 with record loan volume and earnings.

Borrowers share in the cooperative's earnings through our patronage dividend program. We will distribute $57.2 million of our 2016 earnings in cash this spring, and have set aside another $77.8 million in our members' names until it is eligible for disbursement.

New regulations that went into effect at the start of 2017 impact how much capital we may return to members. We have made adjustments to our patronage program in order to comply, and believe our patronage program will remain one of the very best in the nationwide Farm Credit System.

As you read in the preceding pages, in 2016 we celebrated our history while working toward a strong future. We made operational changes to streamline the loan process, expanded our Agri-Insurance service and enhanced our technology. We once again strengthened our team with additional employees. We also broadened how we engage with our members through social media, a new website, educational outreach and community involvement. Recently, we were recognized for our support of programs for youths and ag producers when we received the 2017 Partnership Award from the Texas A&M AgriLife Extension Service.

Looking ahead, we have more enhancements planned that will improve efficiency and customer service. We also will help to share the story of Texas agriculture in "The Legacy of Ranching," which will be on exhibit through early 2018 at the George Bush Presidential Library and Museum in College Station.

It has been our mission and our pleasure to help rural communities and agriculture grow and thrive. Together, we will be successful for another 100 years.

Ben R. Novosad

Ben R. Novosad
Chief Executive Officer

REPORT OF MANAGEMENT

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

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

The Audit Committee of the board of directors has oversight responsibility for the association's systems of internal controls and financial reporting. The Audit Committee consults regularly with management, internal auditors and internal credit reviewers and meets periodically with the independent auditors to review the scope and results of their work. The independent auditors, internal auditors and internal credit reviewers have direct access to the Audit Committee.

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

Ben R. Novosad

Ben R. Novosad, Chief Executive Officer
March 14, 2017

Phillip Munden

Phillip Munden, Chairman, Board of Directors
March 14, 2017

Don VandeVanter

Don VandeVanter, Chief Financial Officer
March 14, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The association's principal executives and principal financial officers are responsible for establishing and maintaining adequate internal control over financial reporting for the association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process (1) designed by, or under the supervision of the association's principal executives and principal financial officers, or persons performing similar functions (2) effected by its board of directors, management and other personnel and (3) monitored for adherence to by the board's Audit Committee through the association's internal audit staff and internal credit reviewers to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the association and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the association's assets that could have a material effect on its consolidated financial statements.

The association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the association concluded that as of December 31, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the association determined that there were no material weaknesses in internal control over financial reporting as of December 31, 2016. A review of the assessment performed was reported to the association's audit committee.

Ben R. Novosad

Ben R. Novosad, Chief Executive Officer
March 14, 2017

Don VandeVanter

Don VandeVanter, Chief Financial Officer
March 14, 2017

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of six directors of Capital Farm Credit, ACA (the association). In 2016, the committee met five times and conducted business by conference call on two occasions. The committee oversees the scope of the association's internal audit program, internal credit review program, the independence of the outside auditors, the adequacy of the association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from all audit activities. The committee's responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the association's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2016.

Management is responsible for the association'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 the association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

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

The committee discussed with PwC its independence from Capital Farm Credit, ACA. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the outside auditor's independence. The committee has discussed with management and PwC other matters and received 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 the association's Annual Report to Stockholders for the year ended December 31, 2016.

Kenton Kimball

Kenton Kimball, Chairman

Additional Members: Richard Counts
Terry McAlister
Carl Sample
R.H. "Steve" Stevens
Joe David Yates

March 14, 2017

FARM CREDIT ADMINISTRATION REQUIRED DISCLOSURES TO SHAREHOLDERS

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference to 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 or interest rates to borrowers, patronage or dividends, and acquisitions or dispositions of material assets, if any, required to be disclosed in this section are incorporated herein by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

Capital Farm Credit, ACA (the association) serves its 192-county territory through its main administrative office at 3000 Briarcrest Drive, Suite 601, Bryan, Texas, and through its accounting/administration, agri-insurance, loan processing/review, special assets and marketing/operations offices, which are located in Bryan, Lubbock, Hondo, Round Rock and Devine, Texas. Additionally, there are 65 lending offices located throughout the territory. The association owns the office buildings in Alpine, Bellville, Bowie, Canadian, Childress, Clifton, Crosbyton, Dalhart, Dayton, Dimmitt, Edna, El Campo, Goldthwaite, Hereford, Jourdanton, Kenedy, Kerrville, La Grange, Lamesa, Levelland, Littlefield, Lockhart, Lubbock, Madisonville, Mason, Matador, Muleshoe, Munday, Pampa, Perryton, Rosenberg, San Angelo, San Saba, Snyder, Sonora, Spur, Stamford, Taylor, Temple, Tulia, Uvalde, Vernon, Waco, Wheeler and Wichita Falls, free of debt. The association leases office buildings in Abilene, Austin, Bay City, Bryan, Burnet, Conroe, Crockett, Devine, Edinburg, El Paso, Fredericksburg, Georgetown, Harlingen, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Round Rock and San Antonio, Texas.

During 2014, the association sold the Brady, Bryan and Gatesville credit offices. Effective March 2014, the association entered into a new lease agreement for the Hondo agri-insurance business. In addition, during October 2014, the Laredo and Burnet offices relocated to new leased space, and the association closed the Devine credit office, consolidating its operations with other offices within the association's territory.

During 2015, the association sold the Devine credit office. Effective March 2015, the association entered into a new lease agreement for the Devine special assets administrative office, which was previously located in the same building as the Devine credit office.

During 2016, the association added additional leased space to the Bryan corporate office. In addition, during May 2016, the El Paso credit office relocated to new leased space.

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 association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference to Note 10 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 9 to the consolidated financial statements, "Note Payable to the Bank," Note 12, "Employee Benefit Plans" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The Farm Credit System (System), is a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress. The description of contingent liabilities and intra-System financial assistance rights and obligations required to be disclosed in this section is incorporated herein by reference to Notes 2 and 15 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 Farm Credit Bank of Texas (Bank) and the Texas Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the Bank and District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's 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 Capital Farm Credit, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *isela.morales@capitalfarmcredit.com*. The association's annual stockholder report is available on its website at *www.capitalfarmcredit.com* 75 days after the year end. Copies of the association's annual stockholder report can also be requested 90 days after the year end.

CAPITAL FARM CREDIT, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2016	2015	2014	2013	2012
Balance Sheet Data					
Assets					
Loans	**$ 6,927,965**	$ 6,483,896	$ 5,886,775	$ 5,380,398	$ 5,168,260
Less: Allowance for losses	**(30,287)**	(23,328)	(15,773)	(19,526)	(31,817)
Net Loans	**6,897,678**	6,460,568	5,871,002	5,360,872	5,136,443
Investment -- held-to-maturity	**6,670**	8,098	11,474	14,864	17,175
Investment in and receivable from the Bank:	**127,298**	114,730	102,671	99,416	97,235
Other property owned, net	**2,634**	1,109	3,841	5,437	22,900
Other assets	**101,884**	92,355	96,739	70,422	61,726
Total assets	**$ 7,136,164**	$ 6,676,860	$ 6,085,727	$ 5,551,011	$ 5,335,479
Liabilities					
Obligations with maturities of one year or less	**$ 129,800**	$ 126,868	$ 135,084	$ 125,120	$ 101,949
Obligations with maturities greater than one year	**5,882,830**	5,483,613	4,930,411	4,473,295	4,321,685
Total liabilities	**6,012,630**	5,610,481	5,065,495	4,598,415	4,423,634
Members' Equity					
Capital stock and participation certificates	**25,049**	24,419	23,417	22,651	22,145
Non-qualified allocated retained earnings	**528,533**	487,489	446,477	376,634	322,883
Unallocated retained earnings	**571,198**	555,052	553,366	551,319	568,362
Accumulated other comprehensive income (loss)	**(1,246)**	(581)	(3,028)	1,992	(1,545)
Total members' equity	**1,123,534**	1,066,379	1,020,232	952,596	911,845
Total liabilities and members' equity	**$ 7,136,164**	$ 6,676,860	$ 6,085,727	$ 5,551,011	$ 5,335,479
	Year Ended December 31,				
Statement of Income Data					
Net interest income	**$ 215,137**	$ 202,715	$ 186,754	$ 179,585	$ 169,256
(Provision for) reversal of loan losses	**(7,361)**	(3,465)	3,019	3,305	2,647
Income from the Bank	**27,392**	23,765	21,960	21,124	19,870
Other noninterest income	**9,259**	8,478	11,226	9,715	8,923
Noninterest expense	**(93,273)**	(92,180)	(78,867)	(68,988)	(60,958)
(Provision for) benefit from income taxes	**(8)**	(11)	(9)	102	(72)
Net income	**$ 151,146**	$ 139,302	$ 144,083	$ 144,843	$ 139,666
Key Financial Ratios for the Year					
Return on average assets	**2.2%**	2.2%	2.5%	2.7%	2.7%
Return on average members' equity	**13.1%**	13.5%	14.9%	15.7%	16.0%
Net interest margin as a percentage of average earning assets	**3.2%**	3.3%	3.3%	3.4%	3.4%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	-0.1%	0.0%	0.2%	0.1%

CAPITAL FARM CREDIT, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**15.7%**	16.0%	16.8%	17.2%	17.1%
Debt as a percentage of members' equity	**535.2%**	526.1%	496.5%	482.7%	485.1%
Allowance for loan losses as a percentage of loans	**0.4%**	0.4%	0.3%	0.4%	0.6%
Permanent capital ratio	**14.6%**	14.8%	16.3%	16.4%	16.0%
Core surplus ratio	**14.4%**	14.5%	16.0%	15.9%	14.4%
Total surplus ratio	**14.4%**	14.5%	16.0%	16.0%	15.6%
Net Income Distribution/Allocation					
Cash patronage paid	**$ 56,746**	$ 71,980	$ 65,477	$ 42,133	$ 38,400
Cash retirement of nonqualified written notice of allocation	**36,783**	39,867	-	42,663	55,000
Nonqualified notices of allocation	**77,830**	80,885	70,070	78,875	96,201

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (ALL DOLLAR AMOUNTS IN THOUSANDS)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA, including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively referred to as the association) for the years ended December 31, 2016, 2015 and 2014, and should be read in conjunction with the accompanying consolidated financial statements.

Forward-Looking Information:

This annual report 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 the association's control. The association is impacted by factors that would impact any agricultural real estate lender. 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.

Commodity Review and Outlook:

Capital Farm Credit's territory covers most of Texas except for the northeast quadrant and seven counties in the Panhandle. The acreage within the association's territory includes a broad spectrum of agriculture commodities, land types, production seasons and farming and ranching practices. This variety allows the association to have a loan portfolio composed of a wide range of commodities with different influences, risks, opportunities and customers. While most of the production and farm revenue is generated by farmers and ranchers who are engaged in managing full-time operations, there are also many part-time farming and ranching operations. Part-time operators have revenue from nonagricultural sources, and many of these operators invest heavily in their agriculture operations with their time and money, and as a result, further diversify the association's credit risks across the portfolio.

The following is a review and outlook of some of the key commodities served by the association and a summary of industries and economic factors that impact our part-time producers. The percentages shown were determined based on the outstanding loan volume tied to the specific type of operation or commodity as of December 31, 2016.

<u>Livestock (52.8 percent of the loan portfolio)</u> –After a couple of years of rebuilding cow herds that were liquidated during the years of drought conditions, cattle producers are currently experiencing times wherein the beef supply exceeds consumer demand. While lower feed prices and plentiful grazing reduced operating expenses for cattle producers in 2016, larger than anticipated inventories and production have outpaced demand for beef, both on the hoof and at the meat counter. An abundance of poultry and pork in the protein market is adding to the supply/demand problem beef producers are facing. These conditions resulted in cattle producers along the chain receiving lower prices in 2016 than were received in 2014 or 2015. Stocker and feeder operations were stressed as some producers bought light weight calves in late 2015 or early 2016 and marketed in 2016 after prices dropped. Also, cow/calf operators experienced lower receipts for the calves produced. Continued stress in the cattle industry is anticipated throughout 2017, but some opportunities exist for stocker and feeder operations to have positive margins as their inputs (calves) are replaced with lower initial costs.

The livestock portfolio also contains broiler operations financed for local growers that contract feed for large scale integrators plus financing for poultry integrators. As with other livestock producers, feed is a major expense and feed prices were lower in 2016. This allowed integrators to keep costs manageable, but excess inventories impacted poultry prices. The outlook for 2017 includes reduced placements for broiler operations but increased egg production.

Crops (20.4 percent of the loan portfolio) –Corn, wheat, cotton and grain sorghum are the largest cash crops with rice restricted to the association's upper Gulf Coast area. Overall the farming economy suffered in 2016. In general, moisture was plentiful in most areas, but in many areas rain came at the wrong time; either at planting or harvesting time and the unfortunate timing meant the 2016 crop was lacking in quantity and/or yield. Areas in Texas that were able to grow and harvest a crop with higher than average yields were limited. Abundant crops across the rest of the US exceeded market demand, keeping prices for corn, soybeans, wheat and other grains at unprofitable levels. Cotton prices in 2016 were better than in years past, but some areas could not take advantage of improved pricing because rains came during harvest, which resulted in an inferior product for both lint and seed. Current crop commodity prices, which are not sufficient to cover the fixed and variable costs of farming, are expected to continue during 2017. The economic stress in farming has caused many farmers to consider alternatives that may include altering practices and lifestyles, arranging longer term financing or exiting farming. The current equilibrium of supply and demand suggests difficult economic times for many farming operations in 2017 and possibly beyond.

Hunting and recreation (7.9 percent of the loan portfolio) – Land owners across the association's territory have developed profitable business models for large- and small-scale hunting and recreational operations. These models may include various types of lease arrangements and may also include a variety of services (e.g. cabins, meals, guides, etc.) with the leases. Demand from people wanting to own high quality hunting and recreational tracts continued to increase in 2016 although there appeared to be some weakening in demand for the very large acreage units. Texas' general economic outlook in 2017 suggests continued economic expansion, with some positive factors appearing in oil and gas prices in the fourth quarter. Continued economic expansion with strengthening in the oil and gas industry is likely to result in improving demand for hunting and recreational properties, especially the large-scale operations.

Dairy (2.9 percent of the loan portfolio) – The dairy industry also had adversity in 2016 due to over supply that caused operations to struggle to remain profitable. For 2017, milk production is forecast higher than in 2016, as the cow inventory is expected to expand slightly and growth in milk per cow during the first half of the year is forecast higher. United States Department of Agriculture (USDA) has estimated that 2016 milk production reached a record 212.4 billion pounds, up 600 million pounds from earlier forecast and 3.8 billion pounds higher than 2015's record output. Dairy producers, aided by lower feed prices, projections for increased exports and the potential for increased domestic demand, are expected to have profitable margins in 2017.

Timber (2.8 percent of the loan portfolio) –The industry experienced mixed market influences in 2016. The expiration of the U.S.-Canada Soft-wood Lumber Agreement in late 2015 resulted in more Canadian softwood entering the U.S. market. However, U.S. log and lumber exports increased dramatically in 2016. Pulp wood markets were stable throughout most of 2016. While the U.S. economy continues improving and housing starts surged to a nine-year high in October, saw log markets in Texas, on average, trended slightly downward. Reporters noted that mills in Texas remained full most of the time. Continued demand from an expanding housing industry should keep prices at or near current levels.

Other (13.2 percent of the loan portfolio) – The outlook for 2017 is neutral to bullish for the general economy. The general economic factors, especially those around the Houston, San Antonio and Austin metro areas, have a significant influence on loan demand and the repayment capacity of many of our part-time farmers and ranchers. The Texas economy continues to be stable. While housing sales and construction have been active in most of the state, there is sluggishness in the Houston area as recessionary traits linger from the depressed oil and gas industry. Employment across the state continues to improve, but exports and manufacturing have been less positive. Overall, the Texas economy is expected to be a positive factor into 2017.

Depressed energy markets lingered into 2016 but showed signs of improvement in the fourth quarter. While rig activity remains low, prices of crude have trended slightly up and have not had the types of price drops seen in 2015 and early 2016. The oil and gas industry is not expected to show marked improvement in 2017, but stabilization in both prices, employment and rig activity are expected.

In summary, the outlook is general economic factors will remain stable or moderately stronger in 2017. Market conditions for livestock producers should be stable but remain unfavorable and grain and cotton farmers will be severely challenged in 2017 as inventories remain at record high levels. Part-time producers that do not exclusively depend on revenue from their agricultural enterprise for repayment should continue to be financially stable. The adverse conditions in the oil industry and farming operations will negatively impact demand for some rural real estate but overall strength in the Texas economy should keep real estate sales activity strong for all sizes of tracts except for the larger ones. Loan demand for home construction and purchases should strengthen as long as the general economy continues to improve.

Significant Events:

Patronage Refunds by Association

The board of directors approved a $135,000 patronage distribution for 2016. $57,170 of this distribution will be paid in cash in April 2017. $77,830 will be distributed in the form of nonqualified allocated equity, which means the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association's capital position and determine if some cash retirements of these equities can be made. In 2015, the board of directors approved a $137,631 patronage distribution for 2015, with cash patronage payable of $56,746 and $80,885 in nonqualified allocations. In March 2016 the association finalized the computation of these distributions which resulted in a reduction nonqualified allocations of $3 resulting in an actual allocation of $80,882. In 2014, the board of directors approved a $142,065 patronage distribution for 2014, with cash patronage payable of $71,995 and $70,070 in nonqualified allocations. In March 2015 the association finalized the computation of these distributions which resulted in a reduction in cash patronage payable of $15 for an actual cash distribution of $71,980. In addition, nonqualified allocations were also adjusted by a reduction of $6 resulting in an actual allocation of $70,064.

In September 2016 the board of directors approved a resolution to retire $36,783 in nonqualified allocated equities which were paid to the recipients in November 2016. The retirement was a distribution of 50.0 percent of the earnings allocated in 2010. In November 2015 the association evaluated its capital position and retired $39,867 in nonqualified allocated equities. These equities represented all of the allocated equity issued during 2009. During 2014, the FCA issued proposed rules to modify the regulatory capital requirements which would require allocated retained earnings to be held for a minimum of 10 years to be eligible for the highest form of capital. Therefore, the board of directors decided not to retire any allocated equities in 2014 because of the proposed regulation.

Patronage Refund Received from Farm Credit Bank of Texas

In 2016, the association received income in the form of a direct loan patronage of $23,472 from the Farm Credit Bank of Texas (Bank), representing 0.41 percent of the average daily balance of the association's direct loan with the Bank for 2016. During 2016, the association also received $2,008 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 $1,912 from the Bank in 2016, representing 0.75 percent on the year's average daily balance for loan participations sold to the Bank.

Point of Purchase Equipment Financing

The association participates in a limited liability partnership with other Farm Credit associations to participate in a point of purchase equipment financing program under the name of AgDirect LLP. The AgDirect program operates through independent equipment dealers to originate and refinance agricultural equipment loans. The association's investment in AgDirect was $7,648, $6,266 and $4,703 at December 31, 2016, 2015 and 2014, respectively. Income from this program was $702, $166 and $0 for the years ended December 31, 2016, 2015 and 2014, respectively and is included in other income in the accompanying Consolidated Statement of Comprehensive Income.

Business Acquisition

Effective February 28, 2014, the association entered into an agreement to purchase certain tangible and intangible assets of a sole proprietorship crop insurance business servicing the Winter Garden, Coastal Plains and Brazos Valley areas. The association will utilize the acquisition to enhance the related services the association offers to its members. This asset is included in other assets in the accompanying Consolidated Balance Sheets.

Relationships with Unincorporated Business Entities

The association and the Bank made investments in a limited partnership, the Advantage Capital Ag Partners L.P., that will provide junior capital to rural and agriculture businesses in the United States. This partnership is a Rural Business Investment Company (RBIC), and the investment by the association and the Bank is entered into following Mission-Related Investment authorities granted in the Farm Credit Act. The association's investment in RBIC was $6,775, $3,776 and $610 at December 31, 2016, 2015 and 2014, respectively. This investment is included in "other assets" on the balance sheet.

Loan Portfolio:

The association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The association's loan volume consists primarily of long-term real estate mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed and index-based interest rates. For all loan products, the association is able to lock an interest rate spread for the pricing term of the loan. When the pricing term expires on a loan, the association is subject to a new cost of funds from the Bank. However, the association is then also able to establish a new interest spread on the loan to the customer. Pricing terms range from one month on index-based products, and from 90 days to 30 years on fixed rate products. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and five- to 20-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.

At December 31, 2016, the association's loan volume was $6,927,965, an increase of $444,069 or 6.8 percent from December 31, 2015. At December 2015, loan volume was $6,483,896, which was 10.1 percent higher than the December 31, 2014 loan volume of $5,886,775. Volume increased in 2016 for most loan types, with the most significant growth in the real estate mortgage loans of $330,192, production loans of $42,229, and farm-related business loans of $38,169. The credit quality of the association's portfolio has declined slightly, however it continues to remain strong. Loans classified as acceptable were 95.3 percent of the total portfolio at December 31, 2016, in comparison to 96.6 percent of the total portfolio at December 31, 2015, and 96.6 percent at December 31, 2014. Overall, there has been no significant change in the geographical distribution of the portfolio or the types of loans that comprise the portfolio. The composition of the association's loan portfolio is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Credit Losses."

At December 31, 2016, 2015 and 2014, the association held 5, 5 and 5 transactions respectively, which are reported as loans on the consolidated balance sheet totaling $6,397, $6,528 and $6,657 with remaining commitments of $44, $44 and $44 extended under the Rural America Bond Program approved by the Farm Credit Administration (FCA). The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

Purchase and Sales of Loans:

The association has obtained loan guarantees from the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Bank in the form of standby commitments to purchase qualifying loans. At December 31, 2016, 2015 and 2014, loans totaling $35,437, $36,966 and $28,132, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $165, $165 and $146 in 2016, 2015 and 2014, respectively, and are reflected in "other noninterest expense" in the consolidated statement of income.

The association buys and sells loan participations with other lenders in order to diversify its loan portfolio from a commodity and geographical standpoint. As of December 31, 2016, 2015 and 2014, purchased participations totaled $851,317, $765,788 and $617,203 or 12.3 percent, 11.8 percent and 10.5 percent of total loans, respectively. Included in these amounts are participations purchased from entities other than the Bank and its related associations (collectively referred to as the "District") of $323,770, $229,223 and $186,314, or 4.7 percent, 3.5 percent and 3.2 percent of total loans, respectively. The association also sold loan participations of $921,856, $540,391 and $515,911 in 2016, 2015 and 2014, respectively.

Investments:

During 2010, the association exchanged loans totaling $27,975 for Farmer Mac guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long Term Standby Commitments to Purchase (LTSCP) Agreement with Farmer Mac. These loans were sold to Farmer Mac and then repurchased in the form of a guaranteed AMBS investment. The primary objective in pursuing the AMBS conversion alternative is to reduce the association's credit exposure to Farmer Mac by putting the association in a position to benefit from the United States Treasury line of credit (under Section 8.13 of the Farm Credit Act), which is only available for the payment of Farmer Mac's guarantee obligations on securities, not for its obligations under the LTSCP program. No gain or loss was recognized in the financial statements as a result of the exchange transaction. These AMBS are included in the association's consolidated balance sheet as held-to-maturity investments at an amortized cost balance of $6,670, $8,098 and $11,474 at December 31, 2016, 2015 and 2014, respectively. The association continues to service the loans included in those transactions.

Risk Exposure:

High-risk assets include nonaccrual loans, loans which are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table reflects the association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2016			2015			2014		
		Amount	**%**		Amount	%		Amount	%
Loans:									
Nonaccrual loans	**$**	**88,740**	**84.2%**	$	59,966	79.4%	$	76,065	80.9%
90 days past due and still accruing interest		**3,677**	**3.5%**		933	1.2%		385	0.4%
Formally restructured loans		**10,283**	**9.8%**		13,522	17.9%		13,783	14.6%
Other property owned, net		**2,634**	**2.5%**		1,109	1.5%		3,841	4.1%
Total	**$**	**105,334**	**100.0%**	$	75,530	100.0%	$	94,074	100.0%

At December 31, 2016, 2015 and 2014, loans that were considered impaired were $102,700, $74,421 and $90,233, representing 1.5 percent, 1.1 percent and 1.5 percent of loan volume, respectively. Nonaccrual loans increased $28,774 during 2016. This increase was recognized primarily in the production and real estate mortgage sectors. This increase was a result of operating losses experienced by producers, driven primarily by declines in commodity prices. The increase in nonaccrual loans for the real estate mortgage sector was largely due to rules of attribution. When production loans are transferred to nonaccrual, any related loans due from the same customers without independent sources of repayment are also required to be transferred to nonaccrual. Formally restructured loans decreased $3,239 during 2016. This decrease can be attributed to loan repayments. The association saw a $2,744 increase in loans that were 90 days past due and still accruing interest during 2016. This increase was recognized in the production and intermediate term loans and the real estate mortgage loans. In addition, the association saw an increase in its other property owned from $1,109 at December 31, 2015, to $2,634 at December 31, 2016.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity.

Except for the relationship between installment due date and seasonal cash-flow capacities of certain borrowers, the association is not affected by any seasonal characteristics.

Allowance for Credit Losses:

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

		2016		2015		2014
Allowance for credit losses - beginning of year	**$**	**23,328**	$	15,773	$	19,526
Provision (reversal) for loan losses		**7,361**		3,465		(3,019)
Transfer to reserve for unfunded commitments		**(987)**		-		-
Loans charged off		**(857)**		(893)		(1,204)
Recoveries		**1,442**		4,983		470
Allowance for credit losses - end of year	**$**	**30,287**	$	23,328	$	15,773

Comparative allowance coverage, as a percentage of key loan categories, follows:

Allowance for loan losses	**$**	**31,274**	$	23,328	$	15,773
Reserve for unfunded commitments		**(987)**		-		-
Allowance for Credit Losses	**$**	**30,287**	$	23,328	$	15,773
Allowance for credit losses to total loans		**0.4%**		0.4%		0.3%
Allowance for credit losses to nonaccrual loans		**34.1%**		38.9%		20.7%
Allowance for credit losses to impaired loans		**29.5%**		31.3%		17.5%
Net charge-offs (recoveries) to average loans		**0.0%**		-0.1%		0.0%

The year-end allowance for credit losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy, as well as the association's loan portfolio composition, credit administration and prior loan loss experience. The association calculates its allowance in two parts, specific allowances and a general allowance. The association evaluates all loans classified as impaired for a specific allowance. This specific allowance is generally based upon the value of the collateral securing the loan relative to the loan amount outstanding. Allowance for credit losses of $3,241, $2,224 and $1,601 were specifically related to impaired loans totaling $102,700, $74,421 and $90,233 at December 31, 2016, 2015 and 2014, respectively. These specific allowances represent 3.2 percent, 3.0 percent and 1.8 percent of the impaired loans at December 31, 2016, 2015 and 2014, respectively. The association experienced loan charge-offs of $857, $893 and $1,204 in 2016, 2015 and 2014, respectively, representing 1.2 percent, 1.0 percent and 1.6 percent of the previous year-end balance of impaired loans. Loan charge-offs continued to decline in 2016 from previous years as the association's credit quality remained strong. In addition the association recovered loans previously charged off in the amounts of $1,442, $4,983 and $470 in 2016, 2015 and 2014, respectively.

The association also provides line of credit financing to customers to cover short-term and variable needs. As a result, the association has unfunded commitments for which a separate reserve is maintained. This reserve is reported as a liability on the association's consolidated balance sheet. The combined amounts of the allowance for loan losses and the reserve for unfunded commitments are referred as the "allowance for credit losses."

The association monitors its general allowance to recognize the trend in the quality of the portfolio. The association uses industry-based loan pools to calculate its general allowance on the loans that are not analyzed specifically. Risk factors are applied to the loan volume in each industry pool based upon current economic conditions and the credit quality of the loans in that pool. As loan volume continues to increase and credit quality has declined marginally, the association increased the general allowance. Total allowances on loans not considered impaired were $27,046, $21,104 and $14,172 at December 31, 2016, 2015 and 2014, respectively. The allowance for credit losses at December 31, 2016, is considered adequate by management to recognize any inherent losses in the loan portfolio.

Results of Operations:

The association's net income for the year ended December 31, 2016, was $151,146 as compared to $139,302 for the year ended December 31, 2015, reflecting an increase of $11,844 or 8.5 percent. The association's net income for the year ended December 31, 2014, was $144,083. Net income decreased $4,781, or 3.4 percent, in 2015 versus 2014.

Net interest income for 2016, 2015 and 2014 was $215,137, $202,715 and $186,754, respectively. This reflects increases of $12,422, or 6.1 percent, for 2016 versus 2015 and $15,961, or 8.5 percent, for 2015 versus 2014. Net interest income is the principal source of earnings for the association and is impacted by loan volume, yields on loans and cost of debt. Over the last three years, the association has benefited from higher loan volumes, higher levels of capital and low funding costs. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2016		2015		2014	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Accrual loans and investments	**$ 6,660,251**	**$ 331,278**	$ 6,041,523	$ 301,444	$ 5,518,645	$ 274,579
Interest-bearing liabilities	**5,725,666**	**116,141**	5,146,080	98,729	4,674,652	87,825
Impact of capital	**$ 934,585**		$ 895,443		$ 843,993	
Net interest income		**$ 215,137**		$ 202,715		$ 186,754

	2016	2015	2014
	Average Yield	Average Yield	Average Yield
Yield on loans and investments	**4.97%**	4.99%	4.98%
Cost of interest-bearing liabilities	**2.03%**	1.92%	1.88%
Net interest spread	**2.94%**	3.07%	3.10%

	2016 vs. 2015			2015 vs. 2014		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income	**$ 30,871**	**$ (1,037)**	**$ 29,834**	$ 26,016	$ 850	$ 26,866
Interest expense	**$ 11,119**	**$ 6,293**	**17,412**	$ 8,857	$ 2,048	10,905
Net interest income	**$ 19,752**	**$ (7,330)**	**$ 12,422**	$ 17,159	$ (1,198)	$ 15,961

While most of the improvement in net interest income for the last three years is due to the increase in loan volume, the association has also benefited from higher levels of capital. This reduced the amount of debt borrowed in relation to loan volume.

Noninterest income for 2016 increased by $4,806, or 15.1 percent, compared to 2015, due primarily to an increase in patronage refund received from the Bank as the Bank paid a 41-basis-point cash patronage on the association's average direct note borrowings. In addition, financially related services income increased $544 as a result of an increase in the agri-insurance income generated.

A provision for loan loss expense of $7,361 was recognized for 2016, as compared to provision for loan loss expense of $3,465 and reversal of $3,019 in 2015 and 2014, respectively. Most of the provision expense was a result of the increase in loan volume and the slight decline in credit quality.

Noninterest expenses increased by $1,491 for 2016, or 1.6 percent, compared to 2015. Farm Credit System Insurance Corporation (FCSIC) fund premiums increased $2,865 as a result of higher average loan volume and higher premium rates. This increase was offset by a decrease of $657 in purchased services as the association experienced lower legal expenses in the current year versus those incurred in prior years. All other noninterest expenses decreased $717 in 2016.

For the year ended December 31, 2016, the association's return on average assets was 2.2 percent, as compared to 2.2 percent and 2.5 percent for the years ended December 31, 2015 and 2014, respectively. For the year ended December 31, 2016, the association's return on average members' equity was 13.1 percent, as compared to 13.5 percent and 14.9 percent for the years ended December 31, 2015 and 2014, respectively.

Because the association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank could have a similar 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 $5,872,624, $5,474,595 and $4,922,588 as of December 31, 2016, 2015 and 2014, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.03 percent, 1.92 percent and 1.88 percent at December 31, 2016, 2015 and 2014, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the Bank and is governed by a financing agreement. This increase in note payable to the Bank for 2016 is the result of the increase in the association's loan portfolio. The association's average loan portfolio funded by the association's equity was $934,585, $895,443 and $843,993 for the years 2016, 2015 and 2014, respectively. The maximum amount the association may borrow from the Bank as of December 31, 2016, was $6,817,472 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general, the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans. The 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. Effective January 1, 2017, the Bank and association executed an amendment to the general financing agreement which will limit the maximum amount the association may borrow to $7,280,000. This amount will be adjusted annually beginning September 30, 2017 as business needs warrant. This amendment was in response to the new capital regulations that went into effect in 2017, which requires the bank to capitalize unfunded commitments.

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

The association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and member 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 $1,123,534, $1,066,379 and $1,020,232 at December 31, 2016, 2015 and 2014, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for credit loss accounts. The association's permanent capital ratio at December 31, 2016, 2015 and 2014 was 14.6 percent, 14.8 percent and 16.3 percent, respectively.

The core surplus ratio measures available core surplus relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The association's core surplus ratio at December 31, 2016, 2015 and 2014 was 14.4 percent, 14.5 percent and 16.0 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent.

The total surplus ratio measures available surplus relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect stockholders' investment in the association. The association's total surplus ratio at December 31, 2016, 2015 and 2014 was 14.4 percent, 14.5 percent and 16.0 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

The association has been able to maintain solid levels of capital and strong capital ratios, while declaring patronage refunds in cash to its stockholders in the amounts of $57,170, $56,746 and $71,995 in 2016, 2015 and 2014, respectively. The board of directors also issued $77,830, $80,885 and $70,070 in nonqualified written notices of allocation in 2016, 2015 and 2014, respectively. In addition, the association retired $36,783 and $39,867 of previously allocated nonqualified written notices of allocation in November 2016 and November 2015, respectively. The association decided to not retire any previously allocated nonqualified written notices of allocation in 2014 because of proposed FCA regulations. See Note 10 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

The association utilizes income pools to determine and allocate the patronage refunds for its customers. Each patronage-eligible customer's loan(s) are allocated to a respective pool based upon common characteristics to service and account for such loans. For 2016, 2015 and 2014, the association utilized a participations purchased pool, a participations sold pool and a general loan pool. The participations purchased pool includes all patronage-eligible loans that are purchased from other farm credit entities. The sold loan pool includes any portion of a loan that the association originates, but sells to another entity. The nonaccrual pool includes any loan that is classified nonaccrual at the end of the year. The general pool includes all other patronage eligible loans not included in the other pools. Net income is calculated for each pool by including all of the net interest income from the loans in the pool and a reasonable allocation of association expenses for each pool. The allocation of expenses is based upon the costs to service and account for the loans in the pool. Net income for each pool is determined by subtracting the allocation of expenses from the net interest income of the loans in the pool. Any net income from the pool is eligible for distribution only to the customers with loans in that pool. If a pool does not generate net income, there are no earnings available for distribution to those customers with loans in that pool.

Significant Recent Accounting Pronouncements:

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

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

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

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

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 the association's contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

Regulatory Matters:

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

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

The final rule was effective January 1, 2017. Based on preliminary calculations, the association will be in compliance with the regulatory minimum capital ratios under the final rule.

The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1, and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. It also adds a tier 1 leverage ratio, which requires at least 1.5 percent of risk-adjusted assets to be capitalized with unallocated retained earnings. In addition, the final rule established a capital conservation buffer and a leverage buffer that will need to be maintained in order to make any capital distributions, such as patronage refunds.

The effects of the final rule have been evaluated by the Association. In general, the capital requirements will cause the Association to hold greater levels of capital relative to its assets for longer periods of time. Primarily, the association will not be able to revolve allocated equities at the same frequency as in previous years due to the limitations of the new regulations of a revolvement cycle greater than 7 years for allocated equities to qualify as Tier 1 capital.

Relationship With the Bank:

The association's statutory obligation to borrow only from the Bank is discussed in Note 9 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access additional capital from 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 this Management's Discussion and Analysis and in Note 9 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 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the association can utilize. Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank passed through to the associations.

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	ELECTED/ EMPLOYED	TERM EXPIRES
Phillip Munden	Chairman & Stockholder-Elected Director	2013	2017
John Malazzo	Vice Chairman & Stockholder-Elected Director	2015	2019
Paul Aelvoet	Stockholder-Elected Director	2014	2018
Larry Boleman	Stockholder-Elected Director	2016	2020
Richard Counts*	Director-Elected Director	2013	2017
Dale Crenwelge	Stockholder-Elected Director	2013	2017
Kelly Gaskins	Stockholder-Elected Director	2014	2018
Dan Henard, Jr.	Stockholder-Elected Director	2016	2020
Dale Hoelscher	Stockholder-Elected Director	2015	2019
Kenton B. Kimball	Stockholder-Elected Director	2015	2019
Terry McAlister	Stockholder-Elected Director	2014	2018
Lance D. Morris	Stockholder-Elected Director	2015	2019
Gary L. Palousek	Stockholder-Elected Director	2015	2019
Danny Parker	Stockholder-Elected Director	2013	2017
Ronnie Riddle	Stockholder-Elected Director	2016	2020
Carl Sample	Stockholder-Elected Director	2016	2020
Roy Allan Schmidt	Stockholder-Elected Director	2013	2017
Lloyd Shoppa*	Director-Elected Director	2015	2019
R.H. "Steve" Stevens*	Director-Elected Director	2013	2017
James L. Wedel	Stockholder-Elected Director	2013	2017
Lowell Woodward	Stockholder-Elected Director	2014	2018
Joe David Yates	Stockholder-Elected Director	2014	2018
Ben R. Novosad	Chief Executive Officer	1976	----
Don VandeVanter	Senior Vice President, CFO	1999	----
Kenny S. Brown	Senior Vice President, Policy & Compliance	2000	----
Mark L. Hiler	Senior Vice President, COO	1980	----
Patricia A. Gonzales	Senior Vice President, Accounting & Administration	1999	----
Roy A. West	Senior Vice President, Credit	1998	----
Mark Loveland	Senior Vice President, Credit	1997	----
Jay Stewart	Senior Vice President, Chief Lending Officer	2001	----
Jeff Norte	Chief Credit Officer	2010	----
Stacy Bradley	Senior Vice President, General Counsel	1995	----
Scott Taylor	Managing Director, Agribusiness	2009	----

*Director-Elected Director: a director-appointed director who is not a stockholder, director, officer, employee or agent of a Farm Credit System institution (other than as an outside director of the association or its subsidiaries).

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

Phillip Munden is a full-time rancher and farmer, and owns 4M Cattle Company, a small farm and ranch construction business in Bosque County, Texas, near Walnut Springs. Mr. Munden is the board chairman of the Bosque Soil and Water Conservation District.

John Malazzo raises cotton, corn and replacement heifers and has a feeder calf operation in Brazos, Burleson and Milam counties. Mr. Malazzo resides in Caldwell, Texas, and serves on the Texas A&M College of Agricultural Development Council. Mr. Malazzo also serves on the board of Producers Co-op of Bryan, Texas, which provides agricultural goods and services to farmers and ranchers.

Paul Aelvoet is a self-employed farmer/rancher in Medina County, Texas, and resides in Hondo, Texas. He is managing partner of Aelvoet Partners, a farming and ranching operation. Mr. Aelvoet serves as director for the Hill Country District Livestock Show Association.

Larry Boleman serves as the Associate Vice Chancellor – Agriculture for Texas A&M AgriLife and resides in College Station, Texas. Mr. Boleman is the sole owner of Boleman Cattle Company, a cow/calf operation, where he raises commercial grade beef cattle for show cattle and regular market channels.

Richard Counts is a retired certified public accountant and consultant. Mr. Counts resides in Colorado County, Texas, where he has a 50 percent ownership in "Living Designs," a company that sells flowers and plants.

Dale Crenwelge resides in Comfort, Texas, and his principal occupation is ranching and real estate investment. Mr. Crenwelge's other business interests include serving as president or general partner of Grobe-Lich Properties LTD, Grobe-Lich Properties LLC, DKBC LLC, Pine Ridge Developers, Oak Creek/Mopac Self Storage, Crenwelge LLC, The Reserve at Falling Water LTD, Pantego American U Store LTD, 210 Blanco Ranch LTD, 210 Blanco Ranch LLC, DeSoto Preferred Storage LTD, LaSoto Business Park LP, Austin Mini Storage, Vega Altamesa SS LP, D and D Terrel County Ranch Partner, and Dancing Hill, LLC. Mr. Crenwelge serves on the board of Hill Country Memorial Hospital and Centurions of Kendall County.

Kelly Gaskins resides in Knott, Texas, and is a self-employed owner of farming and pipeline construction businesses which operate under the names of Buzzard Roost Dirt Works, Kelly Gaskins Farms and KG Farm Service, Gaskins 2-G Corporation, Hoptoad Enterprises, Circle TK Land and Cattle and Lucky G Corportion. Mr. Gaskins is president of the board for the Knot Co-op Gin, a ginning and supply sales company.

Dan Henard, Jr. farms and ranches in Collingsworth County, Texas, and Harmon County, Oklahoma. Mr. Henard raises cotton, peanuts, wheat and hay as well as livestock and resides near Wellington, Texas, where he is a member of the Mesquite Ground Water Conservation District (GWCD) Board and the Salt Fork Soil and Water Conservation District Board. Mr. Henard is partner in Henard Farms, and also operates as Dan Henard, Jr., a farming and ranching operation.

Dale Hoelscher farms and ranches in Bell, Falls, Robertson and Milam counties, and resides in Bell County, Texas. He primarily grows corn, cotton and wheat and also has a cow/calf operation. Mr. Hoelscher's business positions include Hoelscher Brothers Farm and R & D Hoelscher Farm LLC, a farming and ranching operation. Mr. Hoelscher serves on the board of Producers Co-op in Bryan, Texas, which provides feed, chemical supplies and fuel to farmers and ranchers in the area.

Kenton B. Kimball farms and ranches in Stratford, Texas. Mr. Kimball is the president of Kimball Cattle Company, a farming and cattle operation. Mr. Kimball serves on the board of Stratford Education Foundation.

Terry McAlister resides in Electra, Texas, and farms and ranches in Wichita and Wilbarger counties. Mr. McAlister is president and CEO of McAlister Properties Inc. and has ownership in McAlister Farm and McAlister Properties, farming and ranching operations. He serves as a board member of North Texas Boll Weevil Eradication and North Texas Rehabilitation Center Auction Committee.

Lance D. Morris farms cotton and milo in Crosby, Dickens and Floyd counties and resides in Crosbyton, Texas. He is a partner of Morris Brothers and president of Morris Family Company both of which are farming and ranching operations. He also owns Morris Farms. Mr. Morris is on the board of directors of the Associated Cotton Growers and White River Municipal Water District. He has an appointed position to the Crosby County Appraisal Review Board.

Gary L. Palousek is a self-employed farmer raising cotton, milo and corn in Willacy County, Texas, and operates his business under the name of Gary Palousek and/or Las Dos Palmas Farms. Mr. Palousek resides and maintains an office in Raymondville, Texas. He is director and secretary of the Willacy County Drainage District No. 2 and is committeeman of Willacy County Farm Service Agency.

Danny Parker is engaged in row crop farming and a cow/calf operation in Uvalde and Zavala counties and conducts his business as Danny Parker Farms. Mr. Parker resides in Uvalde County, Texas, and serves as chairman of the board of directors of the Gulf Compress in Corpus Christi, Texas, a cotton compress and warehouse business. Mr. Parker is also a member of the Uvalde County Fair Association and a member of the steer and heifer show committees.

Ronnie Riddle is owner and operator of a farming and ranching operation, Riddle Farms, located near Hamlin, Texas. He resides in Abilene, Texas, and farms in Fisher, Stonewall, Jones and Haskell counties. Mr. Riddle is a board member of the Texas Trail Council Boy Scouts of America.

Carl Sample resides in Smiley, Texas, and is a contract poultry grower and also has a cow/calf operation in Gonzales County, Texas.

Roy Allan Schmidt resides in Burton, Texas, and has a cow/calf operation in Menard and Washington counties. Mr. Schmidt owns and operates La Bahia Antiques LLC, a cattle and farming operation and Schmidt Construction LLC, a construction operation. He represents Washington County on the board of the local Farm Service Agency.

Lloyd Shoppa is a businessman residing in Wharton and Colleyville, Texas. Mr. Shoppa is chairman of Shoppa's Farm Supply Inc. and Shoppa's Material Handling Inc. These companies sell farm equipment, parts and service as well as forklift sales, parts and service.

R.H. "Steve" Stevens is a certified public accountant with Stevens & Mathews LLP in Houston, Texas. Mr. Stevens resides in Houston, Texas and is a member of the board of partners for ANCO Insurance in Bryan, Texas, member of the Investment Committee of the American Quarter Horse Association and member of the Finance Committee. He has previously served as chairman of the Houston Livestock Show & Rodeo and president of the American Quarter Horse Association. Mr. Stevens also has a cattle/horse operation in Burleson County.

James L. Wedel is a farmer in Bailey and Parmer counties, growing organic corn, cotton, wheat, peanuts, soybeans and forage sorghum. He resides in Lubbock and currently serves on the board of the Corn Producers Association of Texas, Plains Cotton Growers and Texas Corn Producers. Mr. Wedel serves on the committee for Wedel Family Investments, and is an appointed director of the NRCS State Technical, Organic Trade Association Farmers, Texas Department of Ag-Organic Industry and the Llano Estacado Regional Water Planning Group. He is president of the Texas Organic Cotton Marketing Cooperative, Double W Farms Inc. and Paradise Plantation Inc. Mr. Wedel performs business as James Wedel Farms and Paradise Plantation, Inc., both of which are family farming partnerships.

Lowell Woodward ranches in Pecos, Crockett, Brewster and Upton counties and resides in Pecos, Texas. Mr. Woodward raises sheep, goats, cattle and horses, and has a hunting operation. He is a director of the Texas Sheep and Goat Raisers Association and owns Woodward Inc., an apartment complex. He also conducts business as Woodward Monuton Ranch.

Joe David Yates resides in Mason, Texas, and ranches in Texas and New Mexico. Mr. Yates sells ranch real estate in Texas, New Mexico and Oklahoma. He is part owner of Bay City Feeds, a feed operation in Bay City, Texas, is the vice president/secretary of Stewart Ranch with operations in Texas and New Mexico, and is also board member of the Texas Quarter Horse Association. Mr. Yates owns Joe David Yates, Inc.

Ben R. Novosad is president and chief executive officer of the association. Mr. Novosad began his career with the Federal Land Bank Association of Bryan in 1976, and in 1986 was named president and chief executive officer. As a 1975 graduate of Texas A&M University, Mr. Novosad received his B.S. in agricultural economics. He currently serves on the Farm Credit System's President's Advisory Committee and the Farm Credit System's Risk Management Committee. He also serves on the Texas Agricultural Lifetime Leadership Program (TALL) Advisory Board of Directors. In 2004, Mr. Novosad was inducted into the Tyrus R. Timm Honor Registry of Former Students of Agricultural Economics at Texas A&M University.

Don VandeVanter serves as senior vice president and chief financial officer for the association. He is responsible for the financial administration and capital management of the association. Mr. VandeVanter, a certified public accountant, has worked for the association since 1999 and in Farm Credit since 1987. He is a 1984 graduate of the University of Texas with a degree in accounting. Prior to his time with Farm Credit, he worked in public accounting.

Kenny S. Brown is senior vice president of policy and compliance, and has been with Capital Farm Credit since October 2000 when he was hired to coordinate the association's internal credit review. In his current position since 2006, Mr. Brown is responsible for ensuring the association takes steps to operate under safe and sound policies and in compliance with applicable laws and regulations. Mr. Brown has more than 22 years of experience in the Farm Credit System following his graduation from Louisiana State University in 1986.

Mark L. Hiler serves as the association's senior vice president and chief operating officer, and was employed in 1980 with the Federal Land Bank Association of Uvalde. He served as chief executive officer of that association prior to its merger with Southwest Federal Land Bank Association in 1995. He served Southwest as president/chief operating officer until its merger with Capital Farm Credit in 2006. Mr. Hiler holds a B.B.A. in finance and M.S. in agriculture from Texas A&M University.

Patricia A. Gonzales serves as the association's senior vice president, accounting and administration. She is responsible for managing the association's accounting and human resources. She is a certified public accountant and was employed as chief financial officer in May 1999 for Southwest Texas ACA until its merger with Capital Farm Credit in 2006. She was previously employed as vice president/controller of the Farm Credit Bank of Texas for 12 years. Prior to her time with Farm Credit, she worked in public accounting.

Roy A. West was employed as chief credit officer in April 1998 and currently serves as the association's senior vice president, credit. He was previously employed as director of credit of the Farm Credit Bank of Texas and vice president of the Capital of Texas Federal Land Bank Association.

Mark Loveland serves the association as senior vice president, credit. Prior to his employment with the association, he was chief credit officer of First Ag Credit, FCS. He has also held several positions with the Farm Credit Bank of Texas including director of credit operations, engineer/appraiser, mineral representative and loan officer. He has over 32 years of service with the Farm Credit System.

Jay Stewart serves the association as senior vice president, chief lending officer. Mr. Stewart has 22 years of Farm Credit experience, including 14 years with Capital Farm Credit as branch manager, regional president, and has served in his current role since 2010. He also served six years with the Farm Credit Administration as a commissioned examiner. He received his B.S. and M.Agr. in agricultural economics from Texas A&M University.

Jeff Norte serves the association as chief credit officer. Mr. Norte has been with the association since September 2010. Prior to joining the association, he served in various credit and risk positions, including overseeing credit for CoBank's corporate and international portfolio, as well as several years as a regulator in Kansas City with the FDIC. He is a veteran of the military serving with the U.S. Army. Mr. Norte is a certified public accountant and received his M.B.A from Concordia University Texas.

Scott Taylor joined Capital Farm Credit in mid-2009 as managing director of agribusiness/capital markets/correspondent lending. His prior employment history was with several Texas-based banks with a focus on agriculture, energy and general commercial/corporate lending. He spent approximately 20 years with a major global agribusiness bank in Dallas and Chicago, including managing project finance, and was a senior relationship manager in agribusiness and production ag lending.

Stacy Bradley serves as the association's senior vice president and general counsel. Ms. Bradley is responsible for managing the association's legal department. She has 22 years of service in the Farm Credit System and is a licensed attorney. She has a B.S. in agricultural economics from Texas Tech University and a J.D. from Texas Tech School of Law.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

During 2016 directors were compensated for their service to the association in the form of an honorarium of $1,250 per month, $500 for each board meeting attended, $600 per meeting for Audit Committee meetings, $500 per meeting for committee meetings attended other than Audit Committee, $500 per meeting, per day for all other meetings, $200 per meeting for conference calls and $200 for travel days when required. Committee chairmen received an additional $200 per meeting for committee meetings. The board chairman and vice chairman were compensated $800 per meeting for each board meeting attended, and directors were also reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2016 was paid at the IRS approved rate of 54 cents per mile for the year. A copy of the travel policy is available to stockholders of the association upon request.

	Number of Days Served		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2016**
Paul Aelvoet	11	7	$ 22,000
Larry Boleman	11	9	23,400
Richard Counts	10	7	22,700
Dale Crenwelge	10	6	21,400
Kelly Gaskins	10	6	21,800
Dan Henard, Jr.	11	6	23,100
Dale Hoelscher	11	11	24,400
Kenton B. Kimball	11	14	28,700
John Malazzo	11	21	31,900
Terry McAlister	10	14	25,800
Lance D. Morris	11	12	27,500
Phillip Munden	11	29	37,100
Gary L. Palousek	11	11	26,200
Danny Parker	11	16	29,400
Ronnie Riddle	11	10	25,900
Carl Sample	11	22	29,900
Roy Allan Schmidt	9	9	23,300
Lloyd Shoppa	6	12	24,400
R.H. "Steve" Stevens	8	5	20,300
James L. Wedel	9	10	24,800
Lowell Woodward	11	11	26,000
Joe David Yates	9	11	24,100
			$ 564,100

During 2016 there were seven board meetings with four consisting of a two-day meeting and three consisting of a one-day meeting (directors reflecting 11 or more days in board meeting attendance attended all board meetings held in 2016).

The aggregate compensation paid to directors in 2016, 2015 and 2014 was $564,100, $569,400 and $547,300, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee				
Director	**Audit**	**Compensation**	**Governance**	**Other***	**Total**
Paul Aelvoet	$ -	$ -	$ 2,000	$ 1,500	$ 3,500
Larry Boleman	-	-	2,900	2,000	4,900
Richard Counts	2,200	-	-	1,500	3,700
Dale Crenwelge	-	-	1,500	1,500	3,000
Kelly Gaskins	-	2,700	-	500	3,200
Dan Henard, Jr.	-	-	-	3,000	3,000
Dale Hoelscher	-	2,700	-	3,000	5,700
Kenton B. Kimball	4,400	-	-	4,000	8,400
John Malazzo	1,400	1,000	3,100	4,500	10,000
Terry McAlister	3,400	-	-	4,000	7,400
Lance D. Morris	-	3,700	-	3,500	7,200
Phillip Munden	2,800	1,200	2,000	7,000	13,000
Gary L. Palousek	-	2,700	-	3,000	5,700
Danny Parker	1,800	200	1,500	4,000	7,500
Ronnie Riddle	-	-	2,500	2,500	5,000
Carl Sample	3,400	-	-	8,000	11,400
Roy Allan Schmidt	-	-	2,500	2,000	4,500
Lloyd Shoppa	-	2,700	-	3,500	6,200
R.H. "Steve" Stevens	2,800	-	-	-	2,800
James L. Wedel	-	2,200	-	3,000	5,200
Lowell Woodward	-	2,700	-	3,000	5,700
Joe David Yates	3,400	-	-	2,500	5,900
	$ 25,600	$ 21,800	$ 18,000	$ 67,500	$ 132,900

*Other includes the following meetings that were held: credit, audit and compensation training, director development, national director conference, Texas Farm Credit Council, Farm Credit Council and FCBT stockholder, Review, Audit and Appraisal Workgroup (RAAW) conference, compliance and audit conference.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $279,109, $373,293 and $254,429 in 2016, 2015 and 2014, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

A critical factor to the association's success is its ability to attract, develop and retain staff that are knowledgeable and efficient in their ability to support the association in the execution of its strategic objectives and delivery of association results that maximize the value received by its membership. The association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the association's financial and operational objectives, all for the ultimate benefit of its membership. The association's board of directors, based on recommendations of its Compensation Committee, establishes the salary and approves the incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for evaluation and establishment of salary and incentive plans used by the association.

Chief Executive Officer (CEO) Compensation Table and Policy

CEO Compensation

Name of Individual	Year	Salary (a)	Long Term Incentives (b)	Current Year Incentives (c)	Other (d)	Total *	Change in Pension Value (e)
Ben R. Novosad,	2016	$ 773,426	$ 277,493	$ 325,052	$ 29,056	$ 1,405,027	$ 27,805
CEO	2015	750,899	231,750	218,934	28,424	1,230,007	(245,647)
	2014	695,277	185,650	259,335	24,504	1,164,766	689,877

(a) Gross salary
(b) Cash payout of long term incentives
(c) Cash payout of annual incentives
(d) Includes contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance
(e) 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.

(Refer to Note 12 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.)

*The table above does not include the estimated LTI incentive accruals of $543,133. For details regarding these accruals see disclosure more fully discussed within the Long Term Incentives section of this discussion and analysis.

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, 2016:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2016
Ben R. Novosad	Farm Credit Bank of Texas Pension Plan	41.93	$ 3,039,653	$ -

The "Present Value of Accumulated Benefits" will be actuarially determined based on the association's CEO participation in the defined benefit pension plan.

The CEO and five other senior 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 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 times (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 statement reporting purposes with 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.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to all senior officers, excluding the CEO, of the association during 2016, 2015 and 2014. Amounts reflected in the table are presented in the year the compensation was paid.

Name of Group	Year	Salary (a)	Long Term Incentives (b)	Current Year Incentives (c)	Deferred Compensation (d)	Other (e)	Total *	Change in Pension Value (f)
Aggregate No. of Senior Officers in Year Excluding CEO								
10	2016	$ 2,506,034	$ 704,577	$ 873,995	$ -	$ 272,907	$ 4,357,513	$ 1,585,700
11	2015	$ 2,753,507	$ 851,590	$ 734,581	$ 350,000	$ 265,289	$ 4,954,967	$ 252,366
10	2014	$ 2,387,204	$ 611,499	$ 745,034	$ 300,000	$ 162,634	$ 4,206,371	$ 2,610,841

(a) Gross salary
(b) Cash payout of long term incentives
(c) Cash payout of annual incentives
(d) Nonqualified deferred compensation earnings for one of the senior officers
(e) Includes contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance
(f) 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.

(Refer to Note 12 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.)

*The table above does not include the estimated LTI incentive accruals of $2,430,805. For details regarding these accruals see disclosure more fully discussed within the Long Term Incentives section of this discussion and analysis.

Pension Benefits Table

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

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2016
Aggregate No. of Senior Officers in Year Excluding CEO				
5	Farm Credit Bank of Texas Pension Plan	161.33	$ 11,881,543	$ ---

The "Present Value of Accumulated Benefits" will be actuarially determined based on the association's senior officers' participation in the defined benefit pension plan.

Five of the ten senior 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 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 times (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 statement reporting purposes with 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.

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 other officer included in the aggregate are available and will be disclosed to shareholders of the association upon request.

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

Additional Nonqualified Supplemental 401(k) Plan:

During 2011, the association outlined plans for succession for key members of senior management that are reaching retirement eligibility. In conjunction with this plan, the association evaluated the benefits lost due to limitations under the Internal Revenue Code as it relates to the association's existing pension plan for one of its key members of senior management. As a result, the association entered into an agreement with one of its executive management team members that called for discretionary contributions on the key officer's behalf into the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan ("the Plan"). The association had evaluated the need to provide for succession for this key position and to restore a portion of benefits lost, and as a result had developed a plan covering the four-year period ending December 31, 2015. The association funded this plan over a four-year period using a four-year vesting schedule. At December 31, 2015, the association had completed the funding of this supplemental compensation program. Therefore, there was no remaining obligation to the association. Expenses of the plan relating to this agreement for 2016, 2015 and 2014 were $0, $350,000 and $300,000 respectively. Funding of these amounts occurred in January following the year of expense.

Incentive Plan for Officers and Employees:

The association utilizes two incentive plans: the annual (short-term) incentive plan (STI) based on individual and association performance, which drives behavior that supports annual association goals, and the Long Term Incentive plan (LTI), which was developed to reward key employees for achievement of the association's long-term goals and objectives. Both plans utilize parameters for measuring achievement at either threshold, target or superior performance levels. The LTI evaluates performance annually and is earned over a rolling three-year performance period.

Annual (Short-Term) Incentive Plan (STI)

The STI plan is a balanced scorecard plan that rewards employees for achieving desired business goal objectives for the year. The STI is an annual plan that is administered by the board.

At the beginning of each plan year, the board reviews and approves STI plan performance objectives for the association and the award matrix by which all incentives under the STI shall be calculated. Each STI plan participant is assigned an incentive award target calculated as a percentage of base pay which may be awarded if the association and participant achieve target performance goals. Failure to meet minimum thresholds for individual goals will result in no incentive, while achievement at superior levels for individual goals will result in the maximum incentive opportunity available at that salary grade for that goal. Potential individual award percentages vary based upon an employee's job grade level and are higher for those persons serving to direct performance of the association which includes its senior lending staff and senior officers. Award payments vary depending upon the extent to which the association goals are achieved.

For calendar year 2016, the board approved the following goal performance measures, weightings and performance goals:

Performance Measures	Weight	Performance Goals Target	2016 Actual Performance	Performance Achievement
Acceptable credit quality as percentage of total loans	10%	94.00%	95.33%	between target and superior
Net charge-offs as percentage of average loans plus other property owned	15%	0.15%	-0.01%	superior
Nonearning assets as percentage of loans plus other property owned	15%	0.75%	1.32%	under threshold
Return on equity results compared to System peer group	40%	>70.00% of System peers	100.00%	superior
Growth in average accrual loan volume serviced compared to overchartered peer group	20%	>105.00% of overchartered assocation peer group	394.92%	superior
Total	100%			

As part of this plan the association has also established parameters for goal performance which define threshold and superior levels of incentive opportunities when more or less than the targeted goals are achieved. If less than the threshold level of performance is achieved for a particular performance measure, no incentives will be awarded for that performance measure. Financial results for 2016 resulted in the association's achievement of goal performance which overall achieves superior goals in three of the five measures. As a result, the board approved and the association accrued an estimated payment of $10,911,629 in STI incentives. As specified by the plan, these incentives are to be paid by March 15, 2017.

<u>Long Term Incentive Plan (LTI)</u>

The purpose of the association's LTI is to offer a financial rewards package to key employees based on the long-term performance of the association. The board is the administrator of the LTI. The board has retained the authority to review and approve plan participants, the incentives prior to payment, and the LTI metrics and goals as presented by the CEO and members of management. Any additions or deletions to the participant list must be submitted for board approval prior to the beginning of a performance period (the consecutive 36-month period beginning January 1 and ending December 31). Each participant is assigned an incentive award goal, calculated as a percentage of base salary at the beginning of the performance period at threshold, target and superior performance levels.

At the beginning of each calendar year, the board approves the LTI plan objectives for the association and the award formula or matrix by which all awards under this plan are based. Since its inception in 2011, the LTI plan established goals and metrics which management and the board felt were long term in nature and fostered the long-term health and viability of the association and its stockholders. These goals included loan volume growth, operating efficiency and capital distributions to the association's stockholders. The association's vision is to be the partner of choice for lending and related services in rural America through outstanding people, performance and member value. The board believes the goals established for the LTI support this vision.

For the LTI performance period 2016-2018, the board approved the following goal performance measures, weightings and performance goals, which are consistent with goals established for the LTI plan performance periods of 2015-2017 and 2014-2016.

Performance Measures	Performance Goals Target	Weight
Capital distributions as a percentage of average loan volume	1.0%	33.3%
Three-year average growth rate for period end of accrual loans	5.0%	33.3%
Ranking among Farm Credit System's peer group of annual operating expenses as % of net interest income plus other income	70th percentile of peer group	33.4%

The actual/projected results for LTI performance and the estimated incentives based upon the performance for each of the three performance periods are as follows:

Plan Period	Performance Level Capital Distribution	Growth	Efficiency	CEO LTI	Senior Officer LTI	Other Executives LTI
2014-2016	superior	superior	between threshold and target	$ 276,153	$ 836,571	$ 406,934
2015-2017 projected	superior	superior	target	171,362	486,080	264,336
2016-2018 projected	superior	between target and superior	superior	95,618	258,135	178,749

Other

Employees who use their personal automobile for business purposes were reimbursed during 2016 at the IRS-approved rate of 54 cents per mile.

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

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

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1, 2017, or at any time during the year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITORS

No change in auditors has taken place since the last annual report to stockholders and no disagreements with auditors has occurred that the association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure.

Fees for professional services rendered for the association during 2016 by PricewaterhouseCoopers are as follows:

Service Category	Fees
Annual audit services	$ 123,850
Other non-audit services	39,888
Total	$ 163,738

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers dated March 14, 2017, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

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

pwc

Report of Independent Auditors

To the Board of Directors of Capital Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Capital Farm Credit, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2016, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Farm Credit, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 14, 2017

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31,		
	2016	**2015**	**2014**
ASSETS			
Cash	**$ 19**	$ 52	$ 37
Loans	**6,927,965**	6,483,896	5,886,775
Less: Allowance for losses	**(30,287)**	(23,328)	(15,773)
Net Loans	**6,897,678**	6,460,568	5,871,002
Accrued interest receivable - loans	**58,506**	52,669	46,502
Accrued interest receivable - investments	**89**	92	215
Investment -- held-to-maturity	**6,670**	8,098	11,474
Investment in and receivable from the Bank:			
Capital stock	**113,809**	102,014	92,734
Receivable	**13,489**	12,716	9,937
Investments in other Farm Credit Institutions	**7,801**	6,414	4,798
Other property owned, net	**2,634**	1,109	3,841
Premises and equipment, net	**16,662**	16,603	17,344
Other assets	**18,807**	16,525	27,843
Total assets	**$ 7,136,164**	$ 6,676,860	$ 6,085,727
LIABILITIES			
Note payable to the Bank	**$ 5,872,624**	$ 5,474,595	$ 4,922,588
Advanced conditional payments	**4,192**	6,214	5,763
Accrued interest payable	**10,206**	9,018	7,823
Drafts outstanding	**4,138**	4,397	2,955
Patronage distributions payable	**57,174**	56,746	72,004
Unfunded post retirement medical obligation	**22,938**	21,870	23,451
Reserve for unfunded commitments	**987**	-	-
Other liabilities	**40,371**	37,641	30,911
Total liabilities	**6,012,630**	5,610,481	5,065,495
MEMBERS' EQUITY			
Capital stock and participation certificates	**25,049**	24,419	23,417
Non-qualified allocated retained earnings	**528,533**	487,489	446,477
Unallocated retained earnings	**571,198**	555,052	553,366
Accumulated other comprehensive loss	**(1,246)**	(581)	(3,028)
Total members' equity	**1,123,534**	1,066,379	1,020,232
Total liabilities and members' equity	**$ 7,136,164**	$ 6,676,860	$ 6,085,727

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Year Ended December 31,		
	2016	**2015**	**2014**
Interest Income			
Loans	**$ 330,902**	$ 300,876	$ 273,865
Investments	**376**	568	714
Total interest income	**331,278**	301,444	274,579
Interest Expense			
Note Payable to the Bank	**116,136**	98,727	87,823
Advance conditional payments	**5**	2	2
Total interest expense	**116,141**	98,729	87,825
Net interest income	**215,137**	202,715	186,754
Provision for Loan Losses			
Provision for loan losses (reversal)	**7,361**	3,465	(3,019)
Net interest income after provision for losses	**207,776**	199,250	189,773
Noninterest Income			
Patronage income from the Bank	**27,392**	23,765	21,960
Loan fees	**3,929**	3,604	2,502
Financially related services income	**2,905**	2,361	2,101
Gain on sale of premises and equipment, net	**228**	382	904
Other noninterest income	**2,197**	1,733	1,058
Total noninterest income	**36,651**	31,845	28,525
Noninterest Expense			
Salaries and employee benefits	**58,517**	58,390	49,932
Insurance Fund premium	**9,161**	6,296	5,279
Occupancy and equipment	**4,179**	4,236	3,820
Advertising	**4,061**	3,926	3,495
Travel	**3,286**	2,869	2,777
Purchased services	**2,911**	3,568	2,961
Public and member relations	**2,736**	2,848	2,515
Supervisory and exam expense	**1,565**	1,301	1,255
Training	**1,195**	1,477	1,297
Communications	**1,154**	1,202	1,184
Director's expense	**843**	943	802
Loss (Gain) on other property owned, net	**38**	(398)	(4,661)
Other noninterest expenses	**3,627**	5,124	3,550
Total noninterest expenses	**93,273**	91,782	74,206
Income before income tax	**151,154**	139,313	144,092
Provision for income tax	**8**	11	9
Net income	**$ 151,146**	$ 139,302	$ 144,083
Other comprehensive gain (loss):			
Change in postretirement benefit plans	**(665)**	2,447	(5,020)
Income tax expense related items of other comprehensive income	-	-	-
Other comprehensive gain (loss), net of tax	**(665)**	2,447	(5,020)
COMPREHENSIVE INCOME	**$ 150,481**	$ 141,749	$ 139,063

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)

	Capital Stock/ Participation Certificates	Retained Earnings Non qualified Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2013	$ 22,651	$ 376,634	$ 551,319	$ 1,992	$ 952,596
Comprehensive income:					
Net income	-	-	144,083	-	144,083
Other comprehensive loss	-	-	-	(5,020)	(5,020)
Capital stock/participation certificates issued	3,653	-	-	-	3,653
Capital stock/participation certificates/ allocated equities retired	(2,887)	-	-	-	(2,887)
Patronage distributions declared:					
Cash	-	-	(71,995)	-	(71,995)
Other adjustments	-	(227)	29	-	(198)
Nonqualified allocations	-	70,070	(70,070)	-	-
Balance at December 31, 2014	23,417	446,477	553,366	(3,028)	1,020,232
Net income	-	-	139,302	-	139,302
Other comprehensive gain	-	-	-	2,447	2,447
Capital stock/participation certificates issued	4,068	-	-	-	4,068
Capital stock/participation certificates/ allocated equities retired	(3,066)	(39,867)	-	-	(42,933)
Patronage distributions declared:					
Cash	-	-	(56,746)	-	(56,746)
Other adjustments	-	(6)	15	-	9
Nonqualified allocations	-	80,885	(80,885)	-	-
Balance at December 31, 2015	24,419	487,489	555,052	(581)	1,066,379
Net income	-	-	151,146	-	151,146
Other comprehensive loss	-	-	-	(665)	(665)
Capital stock/participation certificates issued	3,945	-	-	-	3,945
Capital stock/participation certificates/ retired	(3,315)	(36,783)	-	-	(40,098)
Patronage distributions declared:					
Cash		-	(57,170)	-	(57,170)
Other adjustments		(3)	-	-	(3)
Nonqualifed allocations		77,830	(77,830)	-	-
Balance at December 31, 2016	**$ 25,049**	**$ 528,533**	**$ 571,198**	**$ (1,246)**	**$ 1,123,534**

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	**$ 151,146**	$ 139,302	$ 144,083
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses (reversal)	**6,374**	3,465	(3,019)
Transfer to reserve for unfunded commitments	**987**	-	-
Loss (gain) on other property owned, net	**38**	(398)	(4,661)
Depreciation and amortization	**3,177**	3,061	2,391
Loss (gain) on sale of premises and equipment, net	**228**	382	(908)
Increase in accrued interest receivable	**(5,834)**	(6,044)	(2,471)
Decrease (increase) in other assets	**184**	11,999	(18,641)
Increase (decrease) in accrued interest payable	**1,188**	1,195	738
Increase in other liabilities	**3,133**	7,595	2,120
Net cash provided by operating activities	**$ 160,621**	$ 160,557	$ 119,632
Cash flows from investing activities:			
Increase in loans, net	**$ (446,577)**	$ (598,036)	$ (508,968)
Cash recoveries of loans previously charged off	**1,442**	4,983	470
Purchases of investment in AgDirect, LLP	**(1,387)**	(1,615)	(1,577)
Investment in RBIC	**(3,239)**	(3,460)	(610)
Purchase of investment in the Bank	**(11,795)**	(9,280)	(4,834)
Decrease in investments held to maturity	**1,428**	3,376	3,390
Purchases of premises and equipment	**(4,814)**	(6,024)	(8,546)
Proceeds from sales of premises and equipment	**496**	2,692	4,338
Proceeds from sales of other property owned	**943**	3,758	7,953
Net cash used in investing activities	**$ (463,503)**	$ (603,606)	$ (508,384)

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from financing activities:			
Net increase in note payable to the Bank	**$ 398,029**	$ 552,007	$ 456,378
Increase (decrease) in drafts outstanding	**(259)**	1,442	(2,602)
Increase (decrease) in advance conditional payments	**(2,022)**	451	(1,092)
Issuance of capital stock and participation certificates	**3,945**	4,068	3,653
Retirement of capital stock, participation certificates and allocated equities	**(40,098)**	(42,924)	(3,085)
Patronage distributions paid	**(56,746)**	(71,980)	(65,477)
Net cash provided by financing activities	**$ 302,849**	$ 443,064	$ 387,775
Net increase (decrease) in cash	**(33)**	15	(977)
Cash at the beginning of the year	**52**	37	1,014
Cash at the end of the year	**$ 19**	$ 52	$ 37
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned upon loan foreclosure	**$ 2,522**	$ 933	$ 2,303
Financed sales of other property owned	**144**	390	583
Net loans charged off	**857**	893	1,204
Patronage distributions declared	**57,170**	56,746	71,995
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 114,953**	$ 97,534	$ 87,087
Income taxes	**-**	-	-

The accompanying notes are an integral part of these consolidated financial statement

CAPITAL FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Capital Farm Credit, ACA, including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively called the association), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas.

   The association is a lending institution of the Farm Credit System (System), 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, 2016, the System was composed of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

   The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2016, the District consisted of the Bank, one FLCA and 13 ACA parent companies (including Capital Farm Credit, ACA), 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 the 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 associations, 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 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 and multi-peril crop 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 association's Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition and results of operations of the Bank and the District.

In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Recently Issued or Adopted Accounting Pronouncements:

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

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

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

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

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 the association's contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on the Association's financial condition or its results of operations.

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

C. Investments: The association's investments include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) for which the association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

   Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The association does not hold investments for trading purposes.

   The association holds additional investments in accordance with mission-related investment and other investment programs approved by the FCA. These programs allow the association to make investments that further the System's mission to serve rural America. Mission-related investments for which the association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

D. Loans and Allowance for Credit 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 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. In 2016, 2015 and 2014 the association capitalized $8,451, $8,510 and $7,734 in origination fees, and $7,668, $6,151 and $5,596 in origination costs, primarily salaries and benefits related to the origination of loans, respectively. The net adjustment to earnings from loans for 2016, 2015 and 2014 was a decrease of $72 and an increase of $1,728 and $1,828 respectively.

   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 credit 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 credit losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for credit losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The year-end allowance for credit losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy specifically, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. The association calculates its allowance in two parts, specific allowances and general allowance. The association evaluates all loans classified as impaired for a specific allowance. Generally, for loans individually evaluated the allowance for credit losses represents the difference between the loan balance 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 credit losses is determined using factors related to its risk rating, and its commodity type.

The association also provides line of credit financing to customers to cover short-term and variable needs. As a result, the association has unfunded commitments for which a separate reserve is maintained. This reserve is reported as a liability on the association's consolidated balance sheet. The combined amounts of the allowance for loan losses and the reserve for unfunded commitments are referred as the "allowance for credit losses."

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

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

F. 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 credit 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.

G. 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 each asset. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

H. 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 which was 0.30 percent at December 31, 2016.

I. 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. Also, the association sponsors a nonqualified defined contribution 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. 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 $4,637, $4,365 and $3,777 for the years ended December 31, 2016, 2015 and 2014, respectively.

   Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2016, made on their behalf into various investment alternatives. The association recognized pension costs for the DC plan of $1,903, $1,641 and $1,461 for the years ended December 31, 2016, 2015 and 2014, 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 $1,674, $1,520 and $1,429 for the years ended December 31, 2016, 2015 and 2014, respectively.

   In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plan discussed above, the association also participates in a defined contribution nonqualified supplemental 401(k) plan. The purpose of the plan is (a) to provide eligible employees (those with compensation in excess of $100 in the immediately preceding tax year) of the association who participate in the 401(k) plan with benefits in excess of the limitations on benefits imposed, (b) to allow a means for those employees to make pre-tax deferrals of additional amounts payable to them to a future payment date and (c) to allow a means for participating employers to provide discretionary deferred income to those employees. During 2010, the agreement covering the supplemental plan for the CEO was revised in order to fix the total obligation of the association under the plan and as of December 31, 2014, all of the obligation for this agreement had been fully funded. During 2011, the association established a new supplemental plan for another member of its senior management team, as a retention tool utilized in succession planning. At December 31, 2015, the association had completed the funding of this supplemental compensation program. Therefore, there is no remaining obligation to the association.

   The total expenses of the nonqualified plan included in the association's employee benefit costs were $52, $401 and $317 for the years ended December 31, 2016, 2015 and 2014, respectively. The associated liabilities are included in the association's consolidated balance sheets in other liabilities.

   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. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

J. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or qualified allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been provided by the association on patronage stock distributions from the Bank prior to January 1, 1993, the adoption date of FASB guidance on "Accounting for Income Taxes." Management's intent is (1) to permanently invest these and other undistributed earnings in the Bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to association borrowers through qualified patronage allocations.

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

K. Patronage Refunds From the Farm Credit Bank of Texas: The association records patronage refunds from the Bank on an accrual basis.

L. 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 the association's 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 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. The association does not have any assets that fall within this level.

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, and 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 disclosed in Note 14, "Fair Value Measurements."

M. 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 a third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — INVESTMENTS:

Investments Held-to-Maturity

The association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 6,670	$ 62	$ -	$ 6,732	4.98%	$ 3.40

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 8,098	$ 43	$ -	$ 8,141	4.93%	$ 2.82

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 11,474	$ 115	$ -	$ 11,589	4.99%	$ 3.11

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The association continues to service the loans included in the transaction.

NOTE 4 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans as of December 31 follows:

	2016		2015		2014	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Production agriculture:						
Real estate mortgage	**$ 5,226,806**	**75.5%**	$ 4,896,614	75.5%	$ 4,574,868	77.7%
Production intermediate term	**869,290**	**12.6%**	827,061	12.8%	710,391	12.1%
Farm-related business	**581,179**	**8.4%**	543,010	8.4%	402,344	6.8%
Rural residential real estate	**106,909**	**1.5%**	101,711	1.6%	92,477	1.6%
Energy	**71,192**	**1.0%**	46,489	0.7%	50,183	0.9%
Communication	**56,944**	**0.8%**	53,063	0.8%	41,766	0.7%
Mission-related investments	**7,779**	**0.1%**	8,127	0.1%	8,410	0.1%
Lease receivables	**5,969**	**0.1%**	6,028	0.1%	3,763	0.1%
Water and waste disposal	**1,897**	**0.0%**	1,793	0.0%	2,573	0.0%
Total	**$ 6,927,965**	**100.0%**	$ 6,483,896	100.0%	$ 5,886,775	100.0%

At December 31, 2016, the association held five transactions, which are reported as loans on the consolidated balance sheet totaling $6,397 and with $44 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing qualified loans in rural areas.

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 103,000	$ 408,113	$ 9,015	$ -	$ 112,015	$ 408,113
Production and intermediate term	187,100	448,553	-	-	187,100	448,553
Farm-related business	407,307	65,190	2,496	-	409,803	65,190
Communication	56,944	-	-	-	56,944	-
Energy	71,192	-	-	-	71,192	-
Mission-related investments	2,206	-	4,191	-	6,397	-
Lease receivables	5,969	-	-	-	5,969	-
Water and waste disposal	1,897	-	-	-	1,897	-
Total	$ 835,615	$ 921,856	$ 15,702	$ -	$ 851,317	$ 921,856

Loan Volume by Office:

Offices	**2016**	2015	2014
Agribusiness	**14.7%**	15.6%	13.3%
Bryan	**3.8%**	3.7%	3.7%
Kerrville	**3.4%**	4.0%	4.1%
Muleshoe	**3.3%**	2.8%	2.8%
San Antonio	**3.1%**	3.2%	3.4%
Conroe	**2.8%**	2.9%	2.9%
Austin	**2.6%**	2.5%	2.9%
Lubbock	**2.6%**	1.4%	1.2%
Fredericksburg	**2.6%**	2.7%	2.3%
Hondo	**2.5%**	2.9%	3.1%
La Grange	**2.5%**	2.4%	2.5%
Mason	**2.4%**	2.8%	3.2%
Uvalde	**2.4%**	2.3%	2.6%
Edna	**2.3%**	2.3%	2.5%
Dalhart	**2.3%**	2.2%	2.2%
Robstown	**2.0%**	2.0%	2.0%
Bellville	**2.0%**	2.1%	2.3%
Dayton	**1.9%**	2.2%	2.7%
Burnet	**1.8%**	1.8%	1.9%
Temple	**1.8%**	1.9%	1.7%
Jourdanton	**1.7%**	1.6%	1.7%
El Campo	**1.7%**	1.9%	1.9%
Kenedy	**1.7%**	1.9%	1.9%
Waco	**1.6%**	1.5%	1.6%
Hereford	**1.6%**	1.1%	1.1%
San Angelo	**1.5%**	1.6%	1.6%
San Saba	**1.5%**	1.5%	1.1%
Wichita Falls	**1.5%**	1.5%	1.7%
Stamford	**1.5%**	1.5%	1.3%
New Braunfels	**1.4%**	1.4%	1.3%
Katy	**1.4%**	1.3%	1.1%
Laredo	**1.4%**	1.3%	1.5%
Edinburg	**1.4%**	1.6%	1.8%
Rosenberg	**1.3%**	1.2%	1.2%
Madisonville	**1.3%**	1.5%	1.5%
Lockhart	**1.3%**	1.3%	1.4%
Munday	**1.3%**	1.4%	1.4%
Bowie	**1.1%**	1.0%	1.1%
Taylor	**1.0%**	0.9%	0.9%
Bay City	**0.9%**	0.7%	0.7%
Abilene	**0.9%**	0.8%	0.7%
Spur	**0.8%**	0.7%	0.7%
Lamesa	**0.8%**	0.9%	0.9%
El Paso	**0.8%**	0.7%	0.6%
Pampa	**0.6%**	0.5%	0.5%
Crockett	**0.6%**	0.6%	0.7%
Snyder	**0.6%**	0.7%	0.5%
Alpine	**0.6%**	0.6%	0.7%
Vernon	**0.5%**	0.5%	0.5%
All Other Offices	**2.9%**	2.6%	3.1%
Totals	**100.0%**	100.0%	100.0%

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

	2016		2015		2014	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 3,652,986**	**52.8%**	$ 3,472,665	53.5%	$ 3,184,660	54.1%
Crops	**1,412,705**	**20.4%**	1,286,152	19.8%	1,192,725	20.3%
Hunting	**546,055**	**7.9%**	484,539	7.5%	465,283	7.9%
Dairy	**202,865**	**2.9%**	174,067	2.7%	139,612	2.4%
Timber	**193,950**	**2.8%**	196,178	3.0%	194,131	3.3%
Utilities	**139,391**	**2.0%**	108,859	1.7%	100,611	1.7%
Rural home loans	**134,606**	**1.9%**	127,911	2.0%	115,887	1.9%
Poultry	**82,656**	**1.2%**	78,495	1.2%	49,373	0.8%
Industrial/organic chemical	**15,660**	**0.2%**	16,304	0.3%	16,446	0.3%
Other	**547,091**	**7.9%**	538,726	8.3%	428,047	7.3%
Total	**$ 6,927,965**	**100.0%**	$ 6,483,896	100.0%	$ 5,886,775	100.0%

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

To mitigate the risk of loan losses, the association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2016, 2015 and 2014, loans totaling $35,437, $36,966 and $28,132, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $165, $165 and $146 in 2016, 2015 and 2014, respectively, and are reflected in "other noninterest expense" in the consolidated statements of comprehensive income.

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

	December 31, 2016	December 31, 2015	December 31, 2014
Nonaccrual loans:			
Real estate mortgage	**$ 53,841**	$ 47,790	$ 65,336
Production and intermediate-term	**30,762**	10,947	6,212
Farm-related business	**3,471**	1,011	4,301
Residential real estate	**574**	202	184
Lease receivable	**92**	16	32
Total nonaccrual loans	**$ 88,740**	$ 59,966	$ 76,065
Accruing restructured loans:			
Real estate mortgage	**$ 7,715**	$ 4,642	$ 4,960
Production and intermediate-term	**381**	6,542	6,533
Residential real estate	**-**	155	80
Mission related invesments	**2,229**	2,282	2,334
Total accruing restructured loans	**$ 10,325**	$ 13,621	$ 13,907
Accruing loans 90 days or more past due:			
Real estate mortgage	**$ 2,313**	$ 387	$ 234
Production and intermediate-term	**1,538**	583	-
Farm-related business	**-**	-	1
Residential real estate	**-**	-	157
Total accruing loans 90 days or more past due	**$ 3,851**	$ 970	$ 392
Total nonperforming loans	**$ 102,916**	$ 74,557	$ 90,364
Other property owned, net	**2,634**	1,109	3,841
Total nonperforming assets	**$ 105,550**	$ 75,666	$ 94,205

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

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

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

	2016	2015	2014
Real estate mortgage			
Acceptable	**96.5%**	97.1%	96.8%
OAEM	**2.0%**	1.4%	1.3%
Substandard/doubtful	**1.5%**	1.5%	1.9%
	100.0%	100.0%	100.0%
Production and intermediate-term			
Acceptable	**88.2%**	93.6%	95.2%
OAEM	**5.1%**	2.9%	2.2%
Substandard/doubtful	**6.7%**	3.5%	2.6%
	100.0%	100.0%	100.0%
Farm-related business			
Acceptable	**95.5%**	95.2%	94.9%
OAEM	**0.8%**	3.1%	4.0%
Substandard/doubtful	**3.7%**	1.7%	1.1%
	100.0%	100.0%	100.0%
Rural residential real estate			
Acceptable	**98.6%**	98.3%	98.2%
OAEM	**0.7%**	0.8%	0.8%
Substandard/doubtful	**0.7%**	0.9%	1.0%
	100.0%	100.0%	100.0%
Communication			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0%	100.0%	100.0%
Energy			
Acceptable	**82.3%**	100.0%	100.0%
OAEM	**17.7%**	-	-
Substandard/doubtful	-	-	-
	100.0%	100.0%	100.0%
Mission-related investments			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0%	100.0%	100.0%
Lease receivables			
Acceptable	**98.5%**	99.7%	93.3%
OAEM	-	-	5.7%
Substandard/doubtful	**1.5%**	0.3%	1.0%
	100.0%	100.0%	100.0%
Water and waste disposal			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0%	100.0%	100.0%
Total loans			
Acceptable	**95.3%**	96.6%	96.6%
OAEM	**2.4%**	1.7%	1.6%
Substandard/doubtful	**2.3%**	1.7%	1.8%
	100.0%	100.0%	100.0%

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

December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	$ 25,344	$ 19,308	$ 44,652	$ 5,226,017	$ 5,270,669	$ 2,313
Production and intermediate term	24,253	7,399	31,652	849,769	881,421	1,538
Farm-related business	5,045	-	5,045	577,966	583,011	-
Rural residential real estate	602	211	813	106,461	107,274	-
Communication	-	-	-	56,979	56,979	-
Energy	-	-	-	71,333	71,333	-
Mission-related investments	-	-	-	7,840	7,840	-
Lease receivables	-	-	-	6,046	6,046	-
Water and waste disposal	-	-	-	1,898	1,898	-
Total	$ 55,244	$ 26,918	$ 82,162	$ 6,904,309	$ 6,986,471	$ 3,851

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	Loans >90 Days and Accruing
Real estate mortgage	$ 25,994	$ 16,904	$ 42,898	$ 4,893,797	$ 4,936,695	$ 387
Production and intermediate term	14,549	6,349	20,898	816,438	837,336	583
Farm-related business	6,633	-	6,633	538,129	544,762	-
Rural residential real estate	214	-	214	101,820	102,034	-
Communication	-	-	-	53,104	53,104	-
Energy	-	-	-	46,543	46,543	-
Mission-related investments	-	-	-	8,189	8,189	-
Lease receivables	-	-	-	6,108	6,108	-
Water and waste disposal	-	-	-	1,794	1,794	-
Total	$ 47,390	$ 23,253	$ 70,643	$ 6,465,922	$ 6,536,565	$ 970

December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	$ 26,694	$ 36,353	$ 63,047	$ 4,548,213	$ 4,611,260	$ 234
Production and intermediate term	9,344	1,778	11,122	707,566	718,688	-
Farm-related business	8,775	2,030	10,805	392,822	403,627	1
Rural residential real estate	870	166	1,036	91,738	92,774	157
Communication	-	-	-	41,810	41,810	-
Energy	-	-	-	50,223	50,223	-
Mission-related investments	-	-	-	8,473	8,473	-
Lease receivables	-	-	-	3,849	3,849	-
Water and waste disposal	-	-	-	2,573	2,573	-
Total	$ 45,683	$ 40,327	$ 86,010	$ 5,847,267	$ 5,933,277	$ 392

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

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

As of December 31, 2016 total troubled debt restructured loans was $11,731, including $1,406 classified as nonaccrual and $10,325 classified as accrual, with specific allowance for credit losses of $245. As of December 31, 2016, 2015 and 2014, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $44, $153 and $50, respectively.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation that occurred during the year ended December 31, 2016, 2015 and 2014:

2016	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Production and intermediate term	$ 9	$ 8
Total	$ 9	$ 8

2015	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Real estate mortgage	$ 71	$ 70
Production and intermediate term	1,000	565
Rural residential real estate	160	159
Total	$ 1,231	$ 794

2014	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Real estate mortgage	$ 472	$ 471
Production and intermediate term	4,682	4,113
Rural residential real estate	94	91
Total	$ 5,248	$ 4,675

Balance of pre-TDR designation represents quarter-end loans just prior to restructuring and post-TDR represents the quarter-end loans immediately following the restructuring.

In 2016 there was one troubled debt restructuring that occurred within the previous 12 months which had a payment default during the period.

The most common form of concession granted for troubled debt restructuring is an extension of term. Other types of modifications include principal or 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:

	Loan Balance at 12/31/2016	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 2,833	$ 2,836	$ 207	$ 4,329	$ -
Production and intermediate term	12,030	12,563	2,580	12,838	99
Farm-related business	2,868	2,868	368	609	-
Mission-related investments	2,206	2,206	86	2,224	138
Total	$ 19,937	$ 20,473	$ 3,241	$ 20,000	$ 237
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 60,887	$ 63,680	$ -	$ 59,934	$ 3,366
Production and intermediate term	20,608	23,053	-	16,357	493
Farm-related business	603	14,904	-	839	18
Rural residential real estate	574	682	-	452	14
Lease receivables	91	91	-	23	4
Total	$ 82,763	$ 102,410	$ -	$ 77,605	$ 3,895
Total impaired loans:					
Real estate mortgage	$ 63,720	$ 66,516	$ 207	$ 64,263	$ 3,366
Production and intermediate term	32,638	35,616	2,580	29,195	592
Farm-related business	3,471	17,772	368	1,448	18
Rural residential real estate	574	682	-	452	14
Mission-related investments	2,206	2,206	86	2,224	138
Lease receivables	91	91	-	23	4
Total	$ 102,700	$ 122,883	$ 3,241	$ 97,605	$ 4,132

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

	Loan Balance at 12/31/2015	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 1,425	$ 1,456	$ 259	$ 1,217	$ 7
Production and intermediate term	5,649	5,650	1,881	3,785	71
Farm-related business	-	-	-	251	-
Rural residential real estate	-	-	-	3	-
Mission-related investments	2,258	2,258	84	2,276	141
Total	$ 9,332	$ 9,364	$ 2,224	$ 7,532	$ 219
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 51,375	$ 54,863	$ -	$ 64,688	$ 784
Production and intermediate term	12,330	15,228	-	12,568	963
Farm-related business	1,011	20,083	-	2,460	14
Rural residential real estate	357	499	-	324	9
Mission-related investments	-	-	-	36	-
Lease receivables	16	16	-	23	-
Total	$ 65,089	$ 90,689	$ -	$ 80,099	$ 1,770
Total impaired loans:					
Real estate mortgage	$ 52,800	$ 56,319	$ 259	$ 65,905	$ 791
Production and intermediate term	17,979	20,878	1,881	16,353	1,034
Farm-related business	1,011	20,083	-	2,711	14
Rural residential real estate	357	499	-	327	9
Mission-related investments	2,258	2,258	84	2,312	141
Lease receivables	16	16	-	23	-
Total	$ 74,421	$ 100,053	$ 2,224	$ 87,631	$ 1,989

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

	Loan Balance at 12/31/2014	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 986	$ 1,292	$ 18	$ 6,963	$ -
Production and intermediate term	3,743	3,946	1,378	6,143	39
Farm-related business	983	1,488	123	1,608	-
Rural residential real estate	10	61	1	11	-
Mission-related investments	2,310	2,310	81	2,320	144
Total	$ 8,032	$ 9,097	$ 1,601	$ 17,045	$ 183
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 69,522	$ 75,812	$ -	$ 49,777	$ 1,697
Production and intermediate term	8,921	12,667	-	6,416	398
Farm-related business	3,319	22,609	-	3,360	2
Rural residential real estate	407	499	-	312	20
Lease receivables	32	32	-	39	-
Total	$ 82,201	$ 111,619	$ -	$ 59,904	$ 2,117
Total impaired loans:					
Real estate mortgage	$ 70,508	$ 77,104	$ 18	$ 56,740	$ 1,697
Production and intermediate term	12,664	16,613	1,378	12,559	437
Farm-related business	4,302	24,097	123	4,968	2
Rural residential real estate	417	560	1	323	20
Mission-related investments	2,310	2,310	81	2,320	144
Lease receivables	32	32	-	39	-
Total	$ 90,233	$ 120,716	$ 1,601	$ 76,949	$ 2,300

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

The association has remaining commitments to lend additional funds to 18, five and 12 borrowers whose loans were classified as impaired at December 31, 2016, 2015 and 2014, respectively. These commitments totaled $1,456, $638 and $357 at December 31, 2016, 2015 and 2014, respectively.

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

	2016	2015	2014
Total interest income which would have been recognized under the orignal terms	6,964	6,105	6,549
Less: interest income recognized	4,132	1,989	2,300
Interest income not recognized	2,832	4,116	4,249

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

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy	Mission-Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2015	$ 10,168	$ 10,465	$ 2,023	$ 174	$ 141	$ 247	$ 89	$ 21	$ 23,328
Charge-offs	(50)	(807)	-	-	-	-	-	-	(857)
Recoveries	699	168	212	14	349	-	-	-	1,442
Provision for credit losses	(2,598)	6,806	2,844	(53)	(306)	670	(1)	(1)	7,361
Transfer to reserve on unfunded commitments	(25)	(792)	(125)	-	(1)	(44)	-	-	(987)
Balance at December 31, 2016	$ 8,194	$ 15,840	$ 4,954	$ 135	$ 183	$ 873	$ 88	$ 20	$ 30,287
Allowance for credit losses: individually evaluated for impairment	$ 207	$ 2,580	$ 368	$ -	$ -	$ -	$ 86	$ -	$ 3,241
Allowance for credit losses: collectively evaluated for impairment	$ 7,987	$ 13,260	$ 4,586	$ 135	$ 183	$ 873	$ 2	$ 20	$ 27,046
Loans, including accrued interest:									
Ending Balance at December 31, 2016	$ 5,257,669	$ 894,421	$ 583,011	$ 107,274	$ 56,979	$ 73,231	$ 7,840	$ 6,046	$ 6,986,471
Ending balance for loans individually evaluated for impairment	$ 63,720	$ 32,638	$ 3,471	$ 574	$ -	$ -	$ 2,206	$ 91	$ 102,700
Ending balance for loans collectively evaluated for impairment	$ 5,193,949	$ 861,783	$ 579,540	$ 106,700	$ 56,979	$ 73,231	$ 5,634	$ 5,955	$ 6,883,771

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy	Mission-Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2014	$ 7,072	$ 6,662	$ 1,511	$ 112	$ 133	$ 178	$ 82	$ 23	$ 15,773
Charge-offs	(509)	(378)	-	(6)	-	-	-	-	(893)
Recoveries	3,676	224	858	189	36	-	-	-	4,983
Provision for credit losses	(71)	3,957	(346)	(121)	(28)	69	7	(2)	3,465
Balance at December 31, 2015	$ 10,168	$ 10,465	$ 2,023	$ 174	$ 141	$ 247	$ 89	$ 21	$ 23,328
Allowance for credit losses: individually evaluated for impairment	$ 259	$ 1,881	$ -	$ -	$ -	$ -	$ 84	$ -	$ 2,224
Allowance for credit losses: collectively evaluated for impairment	$ 9,909	$ 8,584	$ 2,023	$ 174	$ 141	$ 247	$ 5	$ 21	$ 21,104
Loans, including accrued interest:									
Ending Balance at December 31, 2015	$ 4,936,696	$ 837,335	$ 544,762	$ 102,035	$ 53,104	$ 48,336	$ 8,189	$ 6,108	$ 6,536,565
Ending balance for loans individually evaluated for impairment	$ 52,800	$ 17,979	$ 1,011	$ 357	$ -	$ -	$ 2,258	$ 16	$ 74,421
Ending balance for loans collectively evaluated for impairment	$ 4,883,896	$ 819,356	$ 543,751	$ 101,678	$ 53,104	$ 48,336	$ 5,931	$ 6,092	$ 6,462,144

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy	Mission-Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2013	$ 9,284	$ 4,968	$ 4,326	$ 211	$ 104	$ 502	$ 105	$ 26	$ 19,526
Charge-offs	(137)	(745)	(248)	(74)	-	-	-	-	(1,204)
Recoveries	85	162	223	-	-	-	-	-	470
Provision for credit losses	(2,160)	2,277	(2,790)	(25)	29	(324)	(23)	(3)	(3,019)
Balance at December 31, 2014	$ 7,072	$ 6,662	$ 1,511	$ 112	$ 133	$ 178	$ 82	$ 23	$ 15,773
Allowance for credit losses: individually evaluated for impairment	$ 18	$ 1,378	$ 123	$ 1	$ -	$ -	$ 81	$ -	$ 1,601
Allowance for credit losses: collectively evaluated for impairment	$ 7,054	$ 5,284	$ 1,388	$ 111	$ 133	$ 178	$ 1	$ 23	$ 14,172
Loans, including accrued interest:									
Ending Balance at December 31, 2014	$ 4,611,260	$ 718,688	$ 403,627	$ 92,774	$ 41,810	$ 52,796	$ 8,473	$ 3,849	$ 5,933,277
Ending balance for loans individually evaluated for impairment	$ 70,508	$ 12,664	$ 4,302	$ 417	$ -	$ -	$ 2,310	$ 32	$ 90,233
Ending balance for loans collectively evaluated for impairment	$ 4,540,752	$ 706,024	$ 399,325	$ 92,357	$ 41,810	$ 52,796	$ 6,163	$ 3,817	$ 5,843,044

NOTE 5 – INVESTMENT IN THE FARM CREDIT BANK OF TEXAS:

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities, not fair value, in the accompanying balance sheet. Estimating the fair value of the association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The association owns 40.07 percent of the issued stock of the Bank as of December 31, 2016. As of that date, the Bank's assets totaled $21,222,398 and members' equity totaled $1,622,252. The Bank's earnings were $192,406 during 2016.

NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2016	2015	2014
Land and Improvements	**$ 3,310**	$ 3,311	$ 3,504
Building and improvements	**14,428**	13,688	13,659
Furniture and equipment	**3,112**	3,451	3,578
Computer equipment and software	**6,896**	6,372	4,973
Automobiles	**6,913**	4,826	3,789
Construction in progess	**20**	202	161
	34,679	31,850	29,664
Accumulated depreciation	**(18,017)**	(15,247)	(12,320)
Total	**$ 16,662**	$ 16,603	$ 17,344

The association leases office space in Abilene, Austin, Bay City, Bryan, Burnet, Conroe, Crockett, Devine, Edinburg, El Paso, Fredericksburg, Georgetown, Harlingen, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Round Rock and San Antonio, Texas. Lease expense was $1,796, $1,728 and $1,554 for 2016, 2015 and 2014, respectively. Minimum annual lease payments for the next five years are as follows:

2017	$ 1,251
2018	627
2019	369
2020	136
2021	-
Thereafter	-
Total	$ 2,383

NOTE 7 – OTHER PROPERTY OWNED, NET:

Net gain on other property owned consisted of the following for the years ended December 31:

	2016	2015	2014
Gain on sale of other property owned	**$ 2**	$ 715	$ 4,871
Direct write-down of other property owned to fair value	**-**	(64)	(57)
Holding costs of other property owned	**(40)**	(253)	(153)
Net (loss) gain on other property owned	**$ (38)**	$ 398	$ 4,661

The association's other property owned (OPO) at December 31, 2016, includes nine properties totaling 1,283 acres. All these properties have been individually appraised and the carrying amounts are not in excess of appraised values at December 31, 2016.

NOTE 8 – OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2016	2015	2014
Prepaid captive insurance premium	$ **2,178**	$ 2,099	$ 1,846
Nonqualified deferred compensation trust	**5,834**	5,496	5,097
Deposit	**-**	-	15,530
RBIC investment	**6,775**	3,776	610
Acquisition intangibles	**3,343**	3,732	4,143
Other assets	**677**	1,422	617
Total assets	$ **18,807**	$ 16,525	$ 27,843

Other liabilities comprised the following at December 31:

	2016	2015	2014
Accounts payable	$ **18,007**	$ 18,082	$ 14,648
Annual leave payable	**2,703**	2,543	2,436
FCS insurance payable	**9,161**	6,296	5,279
Nonqualified deferred compensation payable	**5,834**	5,496	5,097
Other liabilities	**4,666**	5,224	3,451
Total liabilities	$ **40,371**	$ 37,641	$ 30,911

NOTE 9 — 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 association anticipates that the direct loan will be renewed prior to its expiration.

The total amount and the weighted average interest rate of the association's direct loan from the Bank at December 31, 2016, 2015 and 2014, were $5,872,624 at 2.03 percent, $5,474,595 at 1.92 percent and $4,922,588 at 1.88 percent, respectively.

Under the Act, the association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2016, 2015 and 2014, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the Bank as of December 31, 2016, was $6,817,472 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans. Effective January 1, 2017, the Bank and association executed an amendment to the general financing agreement which will limit the maximum amount the association may borrow to $7,280,000. This amount will be adjusted annually beginning September 30, 2017 as business needs warrant. This amendment was in response to the new FCA capital regulations that went into effect in 2017, which requires the Bank to capitalize unfunded commitments.

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 maintaining records, reporting financial information and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2016, 2015 and 2014, the association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 10 — MEMBERS' EQUITY:

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

If needed to meet regulatory capital adequacy requirements, the board of directors of the association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

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

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class B and participation certificates to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of capital stock and participation certificates is made solely at the discretion of the association's board of directors. At December 31, 2016, 2015 and 2014, the association had $1, $1 and $1, respectively, of Class A stock.

All borrower stock and allocated equities are at-risk. Net losses recorded by the association shall first be applied against unallocated retained earnings. To the extent such losses exceed unallocated retained earnings, such losses would be applied in accordance with association bylaws and be borne first on a pro rata basis by holders of all allocated equities and then on a pro rata basis by all holders of Class A stock, Class B capital stock and participation certificates. In the event of liquidation or dissolution of the association, any assets of the association remaining after payment or retirement of all liabilities shall first be distributed to the holders of stock and participation certificates pro rata in proportion to the number of shares or units of stock or participation certificates then outstanding until an amount equal to the aggregate par value or unit value of all shares of such stock and participation certificates issued and outstanding has been distributed to such holders; second, to the holders of qualified allocated earnings on the basis of the oldest allocations first, until an amount equal to the balance outstanding in this account has been distributed to the holders; third, to the holders of nonqualified allocated earnings on a pro rata basis until an amount equal to the total of all notices outstanding has been distributed to the holders; and fourth, any remaining assets of the association shall be distributed to the members, in proportion to which the aggregate patronage of each such member bears to the total patronage of all such parties insofar as practicable, unless provided by law.

Patronage distributions may be paid 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. The following patronage distributions were declared and paid in 2016, 2015 and 2014, respectively:

		Cash Patronage	
Date Declared	**Nonqualified Allocated Retained Earnings Issued**	**Amount**	**Date Paid (Payable)**
December 2016	**$ 77,830**	**$ 57,170**	**April 2017**
December 2015	$ 80,885	$ 56,746	March 2016
December 2014	$ 70,067	$ 71,980	March 2015

The association may create and maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis pursuant to its bylaws. Allocated surplus may be evidenced by either "qualified written notices of allocation" or "nonqualified written notices of allocation," or both.

All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the board, in order of issuance by years as funds are available. Currently, the association has no qualified allocated equity outstanding.

All allocations in the form of nonqualified notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired at the discretion of the board. The association currently has the following series of nonqualified allocated retained earnings outstanding:

Declaration for year	Nonqualified Allocated Retained Earnings
Prior to 2010	$ 1
2010	36,785
2011	88,207
2012	96,113
2013	78,649
2014	70,067
2015	80,881
2016	77,830
Total	**$ 528,533**

In September 2016, the board of directors approved a resolution to retire $36,783 in nonqualified allocated equities which were paid to stockholders in November 2016. The equities retired represented 50 percent of the earnings allocated in 2010.

In September 2015, the board of directors approved a resolution to retire $39,867 in nonqualified allocated equities which were paid to the stockholders in November 2015. The equities retired represented all 2009 nonqualified notices of allocation.

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The final rule became effective January 1, 2017. The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1, and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. It also adds a tier 1 leverage ratio, which requires at least 1.5 percent of risk-adjusted assets to be capitalized with unallocated retained earnings. In addition, the final rule established a capital conservation buffer and a leverage buffer that will need to be maintained in order to make any capital distributions, such as patronage refunds. The effects of the final rule have been evaluated by the Association. In general, the capital requirements will cause the Association to hold greater levels of capital relative to its assets for longer periods of time. The Association was in full compliance with the new capital ratio requirements when the new rule became effective.

The FCA's capital adequacy regulations in effect during 2016 and previous years require the association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements could have initiated certain mandatory and possible other discretionary actions by the FCA that, if undertaken, could have affected the association's financial statements. The association was prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless the prescribed capital standards were met. As of December 31, 2016, the association was not prohibited from retiring stock or distributing earnings. The association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2016, were 14.6 percent, 14.4 percent and 14.4 percent, respectively.

The association has a capital plan in place with the objective of managing capital at a level that supports the growth of the association's lending activities. The association's plan is to continue to generate earnings to meet plan objectives, retire stock on paid loans in an orderly manner and to pay patronage refunds to its stockholders as capital allows.

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

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

	2016	2015	2014
Class A stock	**113**	113	113
Class B stock	**4,749,476**	4,641,057	4,458,595
Participation certificates	**260,261**	242,734	224,725
Total	**5,009,850**	4,883,904	4,683,433

An additional component of equity is other comprehensive gain (loss), which is reported net of taxes as follows:

	2016	2015	2014
Accumulated other comprehensive income (loss) at January 1	**$ (581)**	$ (3,028)	$ 1,992
Amortization of prior service credit (costs) included in salary and employee benefits	**554**	931	1,305
Amortization of actuarial loss included in salaraies and employee benefits	**(1,800)**	(1,512)	(4,333)
Income tax expense related to items of other comprehensive income	**-**	-	-
Other comprehensive income (loss), net of tax	**(665)**	2,447	(5,020)
Accumulated other comprehensive loss at December 31	**$ (1,246)**	$ (581)	$ (3,028)

NOTE 11 — INCOME TAXES:

The provision for (benefit from) income taxes follows for the years ended December 31:

	2016	2015	2014
Current federal tax	**$ 8**	$ 11	$ 9
Deferred federal tax	**-**	-	-
Provision for income taxes	**$ 8**	$ 11	$ 9

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:

	2016	2015	2014
Federal tax at statutory rate	**$ 51,392**	$ 47,366	$ 48,991
Federal income tax attributable to:			
Income not subject to federal tax	**(49,048)**	(45,383)	(46,877)
Nondeductible provision for loan losses	**1,959**	1,304	967
Patronage distributions	**(4,426)**	(3,262)	(2,865)
Recoveries (charge-offs) on loans	**(143)**	5	(188)
Other	**274**	(19)	(19)
Provision for income taxes	**$ 8**	$ 11	$ 9

Deferred tax assets in accordance with FASB guidance, "Accounting for Income Taxes," result from the following at December 31:

	2016	2015	2014
Allowance for losses on loans	**$ 5,754**	$ 3,795	$ 2,486
Net operating loss carryfoward	**7,377**	7,377	7,377
Deferred tax assets	**13,131**	11,172	9,863
Valuation allowance	**(13,131)**	(11,172)	(9,863)
Net deferred tax asset	**$ -**	$ -	$ -

The calculation of tax assets involves various management estimates and assumptions as to the future taxable earnings, including the following at December 31, 2016. Nonpatronage income is expected to be less than 5 percent of total taxable income (before patronage), and all patronage income is expected to be disbursed over time. The expected future tax rates are based upon enacted tax laws.

The association recorded valuation allowances of $13,131, $11,172 and $9,863 in 2016, 2015 and 2014, respectively. The association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

The association adopted FASB guidance on accounting for uncertainty in income taxes on January 1, 2007. Upon adoption, the association did not need to recognize a tax liability for any uncertain tax positions and at December 31, 2016, 2015 and 2014, the association did not recognize a tax liability for any uncertain tax position.

NOTE 12 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the association participate in either the defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the association sponsors a nonqualified defined contribution 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 year paid.

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

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

The association elected to participate in the Supplemental 401(k) Plan and provided for elective deferrals and discretionary contributions to be made through the plan. The total expenses of the nonqualified plan included in the association's employee benefit costs were $52, $401 and $317 for the years ended December 31, 2016, 2015 and 2014, respectively.

Supplemental 401 (k) Plan

Plan Name	Farm Credit Benefits Alliance Nonqualifed Supplemental 401 (k) Plan
Present value of accumulated benefits	**$5,834**
Contributions made during the year	**$402**
Distributions made during the year	**--**
Funded obligations	**$5,834**
Off-balance sheet amounts including benefits earned but not vested	**None**

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is the 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 the percentage approved by the plan sponsor. The plan sponsor is the board of directors 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 obligations exceeded the net assets of the DB plan as of December 31, 2016.

The following table includes additional information regarding the funded status of the plan, the association's contributions, and the percentage of association contribution to total plan contributions for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
Funded status of plan	**66.4%**	66.8%	67.5%
Association's contribution	**$ 4,637**	$ 4,365	$ 3,777
Percentage of association's contribution to total contributions	**39.3%**	41.0%	30.9%

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

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.

Other Postretirement Benefits: In addition to pension benefits, the association provides certain health care benefits to qualifying retired employees (other postretirement benefits) for those employees hired on or before December 31, 2003. These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in the liability section of the association's consolidated balance sheet. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums. 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 in 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 $2,711 to the association's 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:

	2016	2015	2014
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 21,870**	$ 23,451	$ 18,030
Service cost	**395**	617	372
Interest cost	**1,012**	1,056	922
Plan participants' contributions	**173**	159	131
Actuarial (Gain) loss	**288**	(2,559)	4,696
Benefits paid	**(800)**	(854)	(700)
Accumulated postretirement benefit obligation, end of year	**$ 22,938**	$ 21,870	$ 23,451
Change in Plan Assets			
Association contributions	**$ 627**	$ 695	$ 569
Plan participants' contributions	**173**	159	131
Benefits paid	**(800)**	(854)	(700)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Amounts Recognized in Consolidated Balance Sheet			
Current liabilities	**$ (724)**	$ (735)	$ (697)
Noncurrent liabilities	**(22,214)**	(21,135)	(22,754)
Total	**$ (22,938)**	$ (21,870)	$ (23,451)
Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)			
Net actuarial (gain) loss	**$ 1,800**	$ 1,512	$ 4,333
Prior service credit	**(554)**	(931)	(1,305)
Total	**$ 1,246**	$ 581	$ 3,028
Measurement date	**12/31/2016**	12/31/2015	12/31/2014
Discount rate	**4.60%**	4.70%	4.55%
Health care cost trend rate assumed for next year (pre-/post-65) - medical/Rx	**6.75%/6.50%**	7.00%/6.50%	7.25%/6.75%
Ultimate health care cost trend rate	**4.50%**	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	**2025/2024**	2025	2024

Disclosure Information Related to Retirement Benefits	**2016**	2015	2014
Components of Net Postretirement Benefit Cost			
Service Cost	**$ 395**	$ 617	$ 372
Interest cost	**1,012**	1,056	922
Amortization of:			
Unrecognized prior service credit	**(330)**	(374)	(324)
Unrecognized net loss	**-**	-	-
Actuarial (Gain) loss	**-**	262	-
Net postretirement benefit cost	**$ 1,077**	$ 1,561	$ 970
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial (gain) loss	**$ 288**	$ (2,559)	$ 4,696
Prior service cost	**377**	374	324
Net actuarial (gain) loss	**-**	(262)	-
Total recognized in other comprehensive income	**$ 665**	$ (2,447)	$ 5,020
AOCI Amounts Expected to be Amortized into Expense			
Unrecognized prior service cost	**$ (330)**	$ (374)	$ (374)
Unrecognized net loss		-	263
Total	**$ (330)**	$ (374)	$ (111)
Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost			
Measurement date	12/31/2015	12/31/2014	12/31/2013
Discount rate	4.70%	4.55%	5.20%
Health care cost trend rate assumed for next year (pre-/post-65) - medical/Rx	7.00%/6.50%	7.25%/6.75%	7.50%/6.50%
Ultimate health care cost trend rate	4.50%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2025	2024	2024

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2017	**$ 724**
Fiscal 2018	**834**
Fiscal 2019	**941**
Fiscal 2020	**994**
Fiscal 2021	**1,078**
Fiscal 2022 to 2026	**5,903**
Expected Contributions	
Fiscal 2017	**$ 724**

NOTE 13 — 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 $22,599, $21,976 and $21,455 at December 31, 2016, 2015 and 2014, respectively. During 2016, $18,651 of new loans were made and repayments totaled $17,905. In the opinion of management, no such loans outstanding at December 31, 2016, 2015 and 2014 involved more than a normal risk of collection.

Expenses billed by the Bank included in purchased services include professional services purchased from the Bank in addition to legal, appraisal, intercompany and clerical fees. The Bank charges the individual associations directly for services provided based on each association's proportionate usage. Other purchased services are those purchased from third parties as reflected in the chart below:

	2016	2015	2014
Other Purchased Services	**$ 1,943**	$ 2,212	$ 2,058
Purchased Bank Services	**968**	1,356	903
Total	**$ 2,911**	$ 3,568	$ 2,961

The association received patronage income from the Bank totaling $27,392, $23,765 and $21,960 during 2016, 2015 and 2014, respectively.

NOTE 14 — 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.

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used by the association for assets and liabilities:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Mission-related and other investments held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

With regard to impaired loans and OPO, 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 OPO and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Assets held in nonqualified benefits trusts related to deferred compensation and supplemental retirement plans are classified as Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net asset values that are quoted in the marketplace. These assets are measured at fair value on a recurring basis and are summarized below:

	Total Fair Value December 31, 2016	Total Fair Value December 31, 2015	Total Fair Value December 31, 2014
Beginning Balance	**$ 5,496**	$ 5,097	$ 4,402
Transfers In	**402**	351	217
Other Market Changes	**(64)**	48	478
Assets held in non-qualified benefits trusts	**$ 5,834**	$ 5,496	$ 5,097

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. 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.

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

	December 31, 2016				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 19**	**$ 19**	**$ -**	**$ -**	**$ 19**
Mission-related and other investments held-to-maturity	**6,670**	**-**	**-**	**6,732**	**6,732**
Nonqualified deferred compensation trust	**5,834**	**5,834**	**-**	**-**	**5,834**
Other property owned	**2,634**	**-**	**-**	**2,634**	**2,634**
Impaired loans	**19,937**			**16,696**	**16,696**
Net loans	**6,877,741**	**-**	**-**	**$ 6,838,552**	**6,838,552**
Total Assets	**$ 6,912,835**	**$ 5,853**	**$ -**	**$ 6,864,614**	**$ 6,870,467**
Liabilities:					
Note payable to the Bank	**$ 5,872,624**	**$ -**	**-**	**$ 5,839,162**	**$ 5,839,162**
Total Liabilities	**$ 5,872,624**	**$ -**	**$ -**	**$ 5,839,162**	**$ 5,839,162**

	December 31, 2015				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 52	$ 52	$ -	$ -	$ 52
Mission-related and other investments held-to-maturity	8,098	-	-	8,141	8,141
Nonqualified deferred compensation trust	5,496	5,496	-	-	5,496
Other property owned	1,158	-	-	1,109	1,109
Impaired loans	9,332			7,108	7,108
Net loans	6,451,236	-	-	$ 6,441,920	6,441,920
Total Assets	$ 6,475,372	$ 5,548	$ -	$ 6,458,278	$ 6,463,826
Liabilities:					
Note payable to the Bank	$ 5,474,595	$ -	-	$ 5,466,690	$ 5,466,690
Total Liabilities	$ 5,474,595	$ -	$ -	$ 5,466,690	$ 5,466,690

	December 31, 2014				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 37	$ 37	$ -	$ -	$ 37
Mission-related and other investments held-to-maturity	11,474	-	-	11,589	11,589
Nonqualified deferred compensation trust	5,097	5,097	-	-	5,097
Other property owned	3,949	-	-	3,841	3,841
Impaired loans	8,032			6,431	6,431
Net loans	5,862,970	-	-	$ 5,870,398	5,870,398
Total Assets	$ 5,891,559	$ 5,134	$ -	$ 5,892,259	$ 5,897,393
Liabilities:					
Note payable to the Bank	$ 4,922,588	$ -	-	$ 4,928,825	$ 4,928,825
Total Liabilities	$ 4,922,588	$ -	$ -	$ 4,928,825	$ 4,928,825

A description of the methods and assumptions used to estimate the fair value of each class of the association's financial instruments for which it is practicable to estimate that value follows:

A. Cash:

For cash, the carrying amount is a reasonable estimate of fair value. The fair value of term federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

B. Investment Securities:

Includes available-for-sale investments for liquidity, mission-related and other purposes, as well as held-to-maturity investments.

C. Loans:

Fair value is estimated by discounting the expected future cash flows using the association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the association's loans would seek in an actual sale, which could be less.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

D. Assets Held in Nonqualified Benefits Trusts: These assets relate to deferred compensation and supplemental retirement plans. The fair value of these assets is based on quoted net asset values in the market place.

E. Other Property Owned: These assets are generally classified as Level 3 and evaluated for impairment. It is not practicable to provide specific information on inputs as each collateral property is unique. The association utilizes appraisals to value these loans and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

F. Note Payable to the Bank:

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

NOTE 15 — 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 by the borrower. At December 31, 2016, $946,927 of commitments and $11,714 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 equal the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the association. At December 31, 2016, there were no standby letters of credit included in other liabilities. Outstanding standby letters of credit have expiration dates ranging from February 26, 2015, to November 8, 2020. The maximum potential amount of future payments the association is required to make under the guarantees is $11,714.

During 2011, the association outlined plans for succession for key members of senior management that are reaching retirement eligibility. In conjunction with this plan, the association evaluated the benefits lost due to limitations under the Internal Revenue Code as it relates to the association's existing pension plan for one of its key members of senior management. As a result, the association has entered into an agreement with one of its senior management team members that calls for discretionary contributions on the key officer's behalf into the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan ("the Plan"). The association has evaluated the need to provide for succession for this key position and to restore a portion of benefits lost, and as a result has developed a plan covering the four years ending December 31, 2015. The association is funding this plan over a four-year period using a four-year vesting schedule. The funding of this plan occurs annually. At December 31, 2015, the total potential remaining obligation to the association is $0. Expenses of the plan relating to this agreement for 2016, 2015 and 2014 were $0, $350 and $300, respectively. At December 31, 2015, the association had completed the funding of this supplemental compensation program. Therefore, there was no remaining obligation to the association.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 are as follows:

	2016				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 52,359**	**$ 54,740**	**$ 53,129**	**$ 54,909**	**$ 215,137**
(Provision for) reversal of loan losses	**(4,180)**	**$ (109)**	**$ (3,368)**	**$ 296**	**(7,361)**
Noninterest expense, net	**(14,615)**	**$ (13,947)**	**$ (15,190)**	**$ (12,878)**	**(56,630)**
Net income	**$ 33,564**	**$ 40,684**	**$ 34,571**	**$ 42,327**	**$ 151,146**

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 48,915	$ 49,140	$ 50,505	$ 54,155	$ 202,715
(Provision for) reversal of loan losses	$ (1,736)	$ (2,064)	$ (1,468)	$ 1,803	(3,465)
Noninterest expense, net	$ (15,276)	$ (15,390)	$ (14,207)	$ (15,075)	(59,948)
Net income	$ 31,903	$ 31,686	$ 34,830	$ 40,883	$ 139,302

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 45,791	$ 46,469	$ 46,886	$ 47,608	$ 186,754
(Provision for) reversal of loan losses	$ 575	$ 3,783	$ 544	$ (1,883)	3,019
Noninterest expense, net	$ (12,685)	$ (10,149)	$ (7,008)	$ (15,848)	(45,690)
Net income	$ 33,681	$ 40,103	$ 40,422	$ 29,877	$ 144,083

NOTE 17 – SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 14, 2017, which is the date the financial statements were issued or available to be issued. The association is not aware of any subsequent events that would materially impact the financial statements as presented.

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

The association has a policy to make a concerted effort to finance young, beginning or small farmers and ranchers, and producers or harvesters of aquatic products (YBS program). For purposes of the association's YBS program, young producers are defined as those age 35 or younger. Beginning producers are defined as producers with 10 years or less of experience at farming, ranching or producing or harvesting aquatic products. A small producer is defined as one who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products. Using statistics obtained from a United States Department of Agriculture census and information from the association's loan accounting records as of June 30, 2016, the following table compares the percentage of YBS farmers in the association's territory (based on USDA data) with the percentage of YBS customers in the association's loan portfolio. While the measurement (farmers) used in the USDA census information is not directly comparable to the measurement (customers) used by the association, the statistics presented herein serve as a quantitative measurement of the association's success in attracting and making loans to young, beginning and/or small farmers that live or have operations in the association's territory.

In the following table, 4.0 percent of the farmers in the association's territory are "Young" farmers while 17.8 percent of our customers that live or operate in the association's territory meet the "Young" criterion. The same explanation applies to the Beginning and Small categories.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMERS IN TERRITORY	ASSOCIATION CUSTOMERS
Young	4.0%	17.8%
Beginning	20.8%	66.9%
Small	95.5%	87.5%

At December 31, 2016, the association had the following number of loans and volume outstanding in its YBS Program (loans may fit in one, two or all three categories):

YOUNG		BEGINNING		SMALL	
Number of Loans	Volume	Number of Loans	Volume	Number of Loans	Volume
4,479	$826,492	15,497	$3,730,149	20,516	$4,112,353

The association maintains a policy that directs management to implement a program that strives to fully utilize its resources to: (A) attract and retain YBS customers, (B) implement lending programs and/or services that meet the needs of YBS customers and (C) develop quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory. Management has implemented programs to address each component by:

Attracting and retaining YBS customers – The employees of Capital Farm Credit are involved in working with youth livestock programs that have historically produced individuals who become farmers and ranchers in the future. Hundreds of hours are spent annually serving in various capacities that promote livestock shows and sales for youth across the state and Capital Farm Credit spends thousands of dollars sponsoring and contributing to these programs. These programs are spread across the state and include county, regional and statewide shows and involve both 4-H and FFA programs.

In addition, CFC sponsors and supports programs and organizations around the state that are targeted at young, beginning or small farmers or ranchers, some in cooperation with various county and statewide organizations but also with the Texas A&M AgriLife Extension Service. Programs such as the "Next Generation Program" and others have been successful in helping to educate and provide knowledge and other resources to thousands of individuals who are taking steps to initiate or increase their involvement in agriculture or increase the size and productivity of their existing operations. The Association is concerned about the next generation of agriculture and utilizes its programs and personnel to help develop those who will be producing food and fiber after the current generation of farmers and ranchers retire.

The involvement and support of these programs also helps YBS farmers/ranchers become aware of Capital Farm Credit and understand how its loan programs and services can be of value to them as they improve or expand their current operations but also aids them in improving or expanding their operation regardless of whether they do business with Capital Farm Credit.

Implementing lending programs and/or services that meet the needs of YBS customers – The association implemented a policy that permits the association to provide constructive credit to serve any financing need of YBS customers that are taking demonstrated steps to become more fully engaged as a full-time farmer or rancher. Also, the association has adopted underwriting standards that contain flexible criteria that permit the credit needs of customers to be met when the customer falls short of meeting an established standard but has one or more compensating strengths to offset the area of weakness. These flexible criteria, while still requiring reasonable and prudent underwriting standards, allow customers who engage in agriculture operations less than full-time to have the capital resources they need to begin or grow their operations. In addition, the association cooperates with government agencies to structure loans with third party guarantees when the applicant does not have sufficient equity or proven repayment sources to qualify for credit by themselves. These cooperative efforts allow YBS customers to begin an agriculture operation, maintain their operation through stressful periods or make expansions in herd size, facilities or acreage.

Developing quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory – In each year's business plan, the board establishes YBS goals and develops quantitative standards to measure the level of success in achieving the established goals. The business plan also defines how and when the standards will be measured and assigns responsibility to an officer for monitoring, tracking and reporting the standards. The progress in achieving the goals is reported to the board of directors each quarter. Through this process, the board is able to evaluate if the programs implemented by management are successful in achieving the goals in the business plan and are successful in achieving compliance with the board's policy direction to serve the needs of YBS customers.