ALABAMA AG CREDIT
LAND & FARM LENDERS

2017 annual report

8.5 million

AMOUNT OF PATRONAGE BEING PAID OUT TO OUR BORROWER-STOCKHOLDERS BASED ON OUR 2017 FINANCIAL GOALS THAT WERE ACHIEVED

ALABAMA AG CREDIT'S NET INCOME FOR 2017

16,841,

PERCENT CREDIT QUALITY

99.03%

KEEPING YOUR $ SAFE

$477M

Loan volume for our top commodity in 2017 - **TIMBER**. Did you know more timber is being grown than is being harvested in Alabama?

$115M

Loan volume for the third-highest commodity in 2017 - **POULTRY**.

Did you know that the longest recorded flight of a chicken is 13 seconds?

OF YEARS THE DIRECTORS ON OUR BOARD HAVE BEEN FARMING

194

$118M

Loan volume for our second-highest commodity in 2017 - **CATTLE**. Did you know that cows are herbivores, so they only have teeth on the bottom?

55%

OF OUR BORROWERS ARE BEGINNING FARMERS WITH AN OPERATION **<10 YEARS OLD**

19,333

Number of farms in the 40 counties that we serve. Did you know that on average one farmer produces enough food to feed 155 people?

101

Number of years Farm Credit has served rural communities

939

2,243,325

Number of people living in the counties that we serve

33,485

Square miles that our territory covers through the lower 40 counties in Alabama

387

RURAL HOME MORTGAGES

$955,831K

TOTAL LOANS AT THE END OF 2017. THIS WAS A GROWTH OVER LAST YEAR'S TOTAL LOAN VOLUME BY $46,600,000.

9.9

Percentage return on shareholders' equity

70

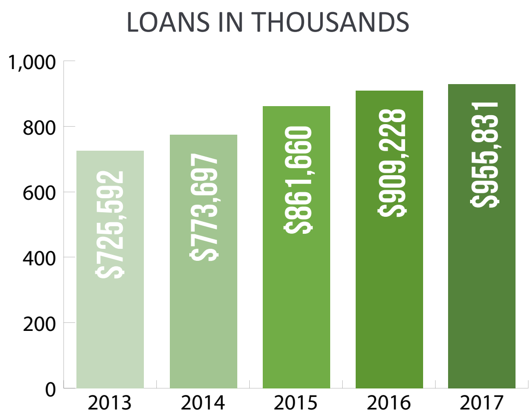
# of AAC Team Members

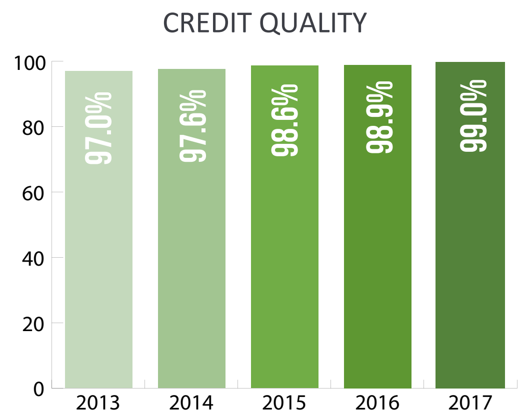
$228K

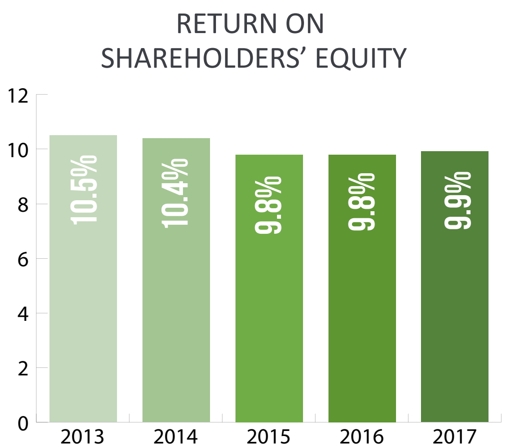
AMOUNT OF DONATIONS AND SPONSORSHIPS GIVEN TO SUPPORT AGRICULTURE & RURAL COMMUNITIES

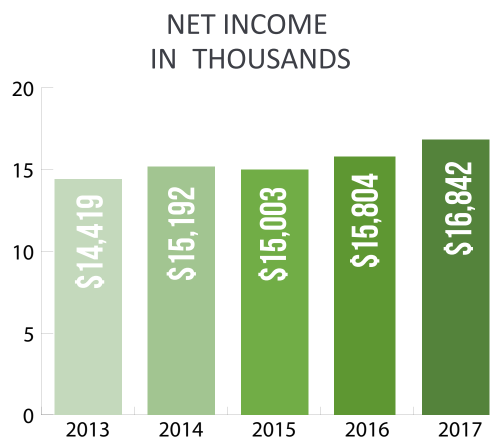
contents

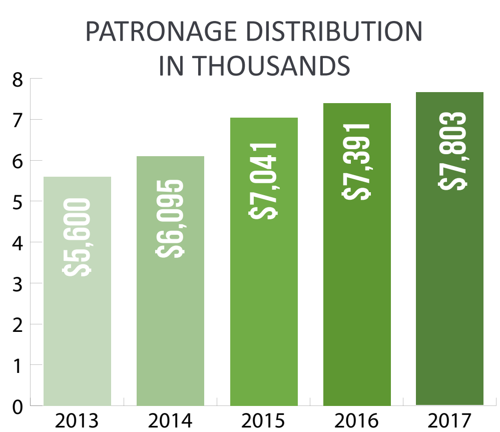
financial data

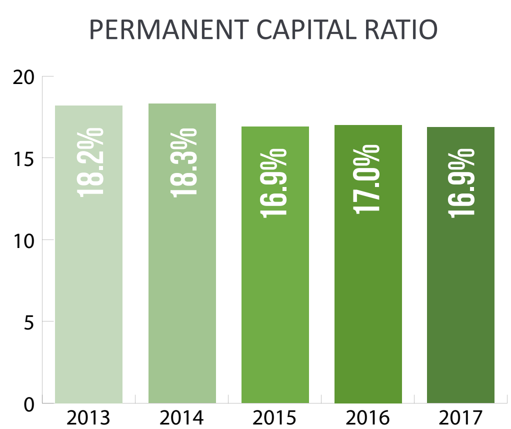













James L. Bassett


Douglas Thiessen

a message from our leadership

We are pleased to present our 2017 Annual Report. The strong results reflected in this report are due to the efforts of so many people, including borrowers, board members, employees and other friends of Alabama Ag Credit. And, we thank each one for contributing to our success.

Most importantly, our 2017 financial results demonstrate our commitment to cooperative principles as we share the benefits of this success with you, our borrower-stockholders. Over half of our 2017 earnings, or $8.5 million, is being returned as a cash patronage distribution to you.

This patronage program has become a valuable resource for all of you, but for some it serves a critical role. Our general economy continues to do well but the agricultural economy continues to struggle. Several years of low commodity prices and high input costs have challenged the ability of agricultural producers to generate profits and have stressed balance sheets. And looking forward, the United States Department of Agriculture is projecting that net farm income will decline again in 2018 to its lowest level since 2006.

It is, however, conditions like this that really highlight the strengths of Alabama Ag Credit. Our patronage program puts cash back in the hands of producers where it can benefit our borrower-stockholders and their families and be circulated in their local communities. As we talk with elected officials, we are advocates for a strong farm bill that supports agriculture. We use our resources to reach young and beginning farmers. We support our local communities, schools and charities. We support youth programs such as 4-H and FFA. And so much more. Good times and bad, we have a great focus on what we can control and work to positively influence what we can't.

We thank everyone who plays a role in our success and encourage all of you to tell your friends and family about the benefits of doing business with Alabama Ag Credit. We look forward to serving them and you for many years to come.

James L. Bassett
Chairman of the Board

Douglas Thiessen
President/Chief Executive Officer

REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Ag 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' (Bank) 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 overall responsibility for the Association's systems of internal control and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the audit committee.

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

Douglas Thiessen, President/Chief Executive Officer
March 14, 2018

James L. Bassett, Chairman, Board of Directors
March 14, 2018

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
March 14, 2018

J.K. Love, CPA, Chairman, Audit Committee
March 14, 2018

REPORT OF AUDIT COMMITTEE

The audit committee (Committee) is composed of the entire board of directors of Alabama Ag Credit, ACA (Association). In 2017, four committee meetings were held. The Committee oversees the scope of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the Association's website at *AlabamaAgCredit.com*. The Committee approved the appointment of PricewaterhouseCoopers LLP as independent auditors for 2017.

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. PricewaterhouseCoopers LLP 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 for issuing a report thereon. The Committee's responsibilities include monitoring and overseeing the processes.

In this context, the Committee reviewed and discussed the Association's audited consolidated financial statements for the year ended December 31, 2017 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The Committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PricewaterhouseCoopers LLP and the Association's internal auditors directly provide reports on significant matters to the Committee.

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

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the board of directors include the audited consolidated financial statements in the Association's Annual Report to Stockholders for the year ended December 31, 2017.

Audit Committee Members

J.K. Love, CPA, Chairman
James L. Bassett
Larry H. Gibson, Jr.
Timothy D. Tucker
John Carl Sanders
Mark D. Platt
David N. Hataway
Ray Petty

March 14, 2018

ALABAMA AG CREDIT, ACA

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

	2017	2016	2015	2014	2013
Balance Sheet Data					
Assets					
Cash	**$ 13**	$ 21	$ 11	$ 11	$ 12
Loans	**955,831**	909,228	861,660	773,697	725,592
Less: allowance for loan losses	**6,632**	6,031	5,381	4,719	3,542
Net loans	**949,199**	903,197	856,279	768,978	722,050
Investment in and receivable from the Bank	**16,875**	17,269	16,185	13,353	16,902
Other property owned, net	**41**	-	542	532	1,399
Other assets	**15,631**	15,255	13,982	12,220	9,659
Total assets	**$ 981,759**	$ 935,742	$ 886,999	$ 795,094	$ 750,022
Liabilities					
Obligations with maturities of one year or less	**$ 15,565**	$ 15,553	$ 14,918	$ 14,530	$ 15,499
Obligations with maturities greater than one year	**795,341**	757,575	717,602	634,150	595,798
Total liabilities	**810,906**	773,128	732,520	648,680	611,297
Members' Equity					
Capital stock and participation certificates	**4,005**	3,914	3,795	3,642	3,521
Unallocated retained earnings	**167,430**	159,081	151,072	143,465	135,313
Accumulated other comprehensive loss	**(582)**	(381)	(388)	(693)	(109)
Total members' equity	**170,853**	162,614	154,479	146,414	138,725
Total liabilities and members' equity	**$ 981,759**	$ 935,742	$ 886,999	$ 795,094	$ 750,022
Statement of Income Data					
Net interest income	**$ 27,000**	$ 25,406	$ 24,689	$ 23,546	$ 22,236
Provision for loan losses	**(692)**	(712)	(729)	(1,323)	(980)
Income from the Bank	**3,489**	3,322	3,216	2,883	2,879
Other noninterest income	**414**	588	237	1,212	514
Noninterest expense	**(13,370)**	(12,800)	(12,410)	(11,126)	(10,230)
Net income	**$ 16,841**	$ 15,804	$ 15,003	$ 15,192	$ 14,419
Key Financial Ratios for the Year					
Return on average assets	**1.8%**	1.8%	1.8%	2.0%	2.0%
Return on average members' equity	**9.9%**	9.8%	9.8%	10.4%	10.5%
Net interest income as a percentage of average earning assets	**2.9%**	2.9%	3.0%	3.2%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.3%

ALABAMA AG CREDIT, ACA

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

	2017	2016	2015	2014	2013
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	**17.4%**	17.4%	17.4%	18.4%	18.5%
Debt as a percentage of members' equity	**474.6%**	475.4%	474.2%	443.0%	440.7%
Allowance for loan losses as a percentage of loans	**0.7%**	0.7%	0.6%	0.6%	0.5%
Common equity tier 1 ratio	**16.8%**	n/a	n/a	n/a	n/a
Tier 1 capital ratio	**16.8%**	n/a	n/a	n/a	n/a
Total capital ratio	**17.5%**	n/a	n/a	n/a	n/a
Permanent capital ratio	**16.9%**	17.0%	16.9%	18.3%	18.2%
Tier 1 leverage ratio	**16.9%**	n/a	n/a	n/a	n/a
UREE leverage ratio	**18.0%**	n/a	n/a	n/a	n/a
Net Income Distribution					
Cash dividends paid	**$ 7,803**	$ 7,391	$ 7,041	$ 6,095	$ 5,600

* Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers at December 31, 2017.

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Alabama Ag Credit, ACA, including its wholly-owned subsidiaries, Alabama Ag Credit, PCA and Alabama Ag Credit, FLCA (collectively called the Association) for the years ended December 31, 2017, 2016 and 2015, and should be read in conjunction with the accompanying consolidated financial statements, which were prepared under the oversight of the Association's audit committee.

The Farm Credit Bank of Texas (Bank) and its related associations (including the Association) are collectively referred to as the Texas Farm Credit District (District). The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2017, the District consisted of the Bank, one Federal Land Credit Association (FLCA) and 13 Agricultural Credit Association (ACA) parent companies, which each have two wholly-owned subsidiaries, an FLCA and a Production Credit Association (PCA), operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Forward-Looking Information:

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

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

Significant Events

In March 2017, the Association paid a patronage of $7,802,525 in cash from 2016 earnings to the Association's stockholders and in December 2017 declared another patronage of $8,493,566 from 2017 earnings to be paid in March 2018. In December 2017 the Association received a direct loan patronage of $3,040,875 from the Bank, representing 39 basis points on the average daily balance of the Association's direct loan with the Bank. During 2017, the Association received $329,125 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also during 2017, the Association received a capital markets patronage of $118,654 from the Bank, representing 75 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

In March 2016, the Association paid a patronage of $7,391,314 in cash from 2015 earnings to the Association's stockholders and in December 2016 declared another patronage of $7,800,000 from 2016 earnings to be paid in March 2017. In December 2016 the Association received a direct loan patronage of $3,007,126 from the Bank, representing 41 basis points on the average daily balance of the Association's direct loan with the Bank. During 2016, the Association received $276,501 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also during 2016, the Association received a capital markets patronage of $38,837 from the Bank, representing 75 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

In March 2015, the Association paid a patronage of $7,041,447 in cash from 2014 earnings to the Association's stockholders and in December 2015 declared another patronage of $7,400,000 from 2015 earnings to be paid in March 2016. In December 2015, the Association received a direct loan patronage of $2,917,072 from the Bank, representing 42 basis points on the average daily balance of the Association's direct loan with the Bank. During 2015, the Association received $231,156 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also during 2015, the Association received a capital markets patronage of $67,608 from the Bank, representing 75 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

The Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio

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

The Association's loan portfolio is stated at recorded investment (principal less funds held) and consisted of 5,359 loans at December 31, 2017. Total loan volume as of December 31, 2017, 2016 and 2015 was $955,830,732, $909,228,070 and $861,660,052, respectively. The principal commodities comprising the Association's loan portfolio are timber, cattle, poultry and field crops. The composition of the Association's loan portfolio including borrower profile, geographic distribution, commodity concentrations and asset quality, is described more fully in detailed tables in Note 3 to the financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

Purchase and Sales of Loans

During 2017, 2016 and 2015, the Association was participating in loans with other lenders. As of December 31, 2017, 2016 and 2015, these participations totaled $64,828,695, $65,055,480 and $60,752,056, or 6.8 percent, 7.2 percent and 7.1 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the district of $653,309, $743,310 and $1,016,267, or 0.1 percent, 0.1 percent and 0.1 percent of loans, respectively. The Association has also sold participations of $26,436,706, $4,500,000 and $10,256,532 as of December 31, 2017, 2016 and 2015, respectively.

Risk Exposure

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

	2017		2016		2015	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 4,987,706**	**69.6%**	$ 7,572,261	96.1%	$ 8,685,474	90.1%
90 days past due and still accruing interest	**58,723**	**0.8%**	-	0.0%	-	0.0%
Formally restructured	**2,078,563**	**29.0%**	308,599	3.9%	417,777	4.3%
Other property owned, net	**41,200**	**0.6%**	-	0.0%	541,945	5.6%
Total	**$ 7,166,192**	**100.0%**	$ 7,880,860	100.0%	$ 9,645,196	100.0%

At December 31, 2017, 2016 and 2015, loans that were considered impaired were $7,124,992, $7,880,860 and $9,103,251, representing 0.7 percent, 0.9 percent and 1.1 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The number of nonaccrual loans decreased slightly from 2016 to 2017. As of December 31, 2016, 48 loans with an average balance of approximately $158,000 were classified as nonaccrual, with one large credit comprising 45 percent of the total. By contrast, as of December 31, 2017, 41 loans with an average balance of approximately $122,000 were classified as nonaccrual, with one large credit comprising 53 percent of the total.

Other property owned, net increased from zero properties owned as of December 31, 2016 to one property owned as of December 31, 2017.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural or rural real estate lender. To help mitigate and diversify credit risk, the Association has employed practices including obtaining credit guarantees and engaging in loan participations. The Association also has the option of securitizing loans if considered prudent to manage risk.

Allowance for Loan Losses

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

	2017	2016	2015
Allowance for loan losses	**$ 6,632,476**	$ 6,030,593	$ 5,381,077
Allowance for loan losses to total loans	**0.7%**	0.7%	0.6%
Allowance for loan losses to nonaccrual loans	**133.0%**	79.6%	62.0%
Allowance for loan losses to impaired loans	**93.1%**	76.5%	59.1%
Net charge-offs to average loans	**0.0%**	0.0%	0.0%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition (including commodity and geographic concentrations), credit administration and the portfolio’s prior loan loss experience. Management conducts quarterly studies of risk factors that could impact the allowance for loan losses, and additional allowances are recognized as considered necessary to reflect potential loss exposures. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $6,632,476, $6,030,593 and $5,381,077 at December 31, 2017, 2016 and 2015, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

Results of Operations

The Association’s net income for the year ended December 31, 2017, was $16,841,939 as compared to $15,804,404 for the year ended December 31, 2016, reflecting an increase of $1,037,535, or 6.6 percent. The Association’s net income for the year ended December 31, 2015 was $15,002,996. Net income increased $801,408, or 5.3 percent, in 2016 versus 2015.

Net interest income for 2017, 2016 and 2015 was $27,000,197, $25,405,877 and $24,689,285, respectively, reflecting increases of $1,594,320, or 6.3 percent, for 2017 versus 2016 and $716,592, or 2.9 percent, for 2016 versus 2015. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2017		2016		2015	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 933,037,008**	**$ 44,896,899**	$ 879,380,491	$ 40,610,273	$ 833,629,411	$ 38,234,045
Interest-bearing liabilities	**780,015,514**	**17,896,702**	733,576,023	15,204,396	694,726,568	13,544,760
Impact of capital	**$ 153,021,494**		$ 145,804,468		$ 138,902,843	
Net interest income		**$ 27,000,197**		$ 25,405,877		$ 24,689,285

	2017 Average Yield	2016 Average Yield	2015 Average Yield
Yield on loans	**4.81%**	4.62%	4.59%
Cost of interest-bearing liabilities	**2.29%**	2.07%	1.95%
Interest rate spread	**2.52%**	2.55%	2.64%
Impact of capital	**0.38%**	0.34%	0.32%
Net interest income/average earning assets	**2.90%**	2.89%	2.96%

	2017 vs. 2016			2016 vs. 2015		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 2,477,912**	**$ 1,808,714**	**$ 4,286,626**	$ 2,098,373	$ 277,855	$ 2,376,228
Interest expense	**962,505**	**1,729,801**	**2,692,306**	757,448	902,188	1,659,636
Net interest income	**$ 1,515,407**	**$ 78,913**	**$ 1,594,320**	$ 1,340,925	$ (624,333)	$ 716,592

Interest income increased by $4,286,626, or 10.6 percent, from 2016 to 2017 primarily due to an increase in average loan volume. While yields on loans increased, the Association realized lower interest rate spreads as a result of increased competition for high-quality loans in the marketplace. The Association recognized interest income of $383,938 from nonaccrual loans in 2017. Without the additional nonaccrual interest income, the yield on loans for 2017 would have been 4.77 percent, interest rate spread would have been 2.48 percent, and net interest income/average earning assets would have been 2.85 percent. Interest expense increased by $2,692,306, or 17.7 percent, from 2016 to 2017 due to an increase in the average balance in those interest-bearing liabilities and an increase in the cost of funds. Loan volume, and accordingly, the direct note to the Bank, increased during the reporting period as a result of increased and focused marketing efforts by the Association and retention of a highly experienced credit staff.

The Association follows authoritative accounting guidance that requires loan origination fees and costs to be capitalized and amortized over the life of the loans as an adjustment to yield. The resulting adjustment to loan yield for 2017, 2016 and 2015 was $6,735, $19,323 and $36,801, respectively.

Interest income increased by $2,376,228, or 6.2 percent, from 2015 to 2016 primarily due to an increase in average loan volume. While yields on loans were relatively stable, the Association realized lower interest rate spreads as a result of increased competition for high-quality loans in the marketplace. The Association recognized interest income of $134,870 from nonaccrual loans in 2016. Without the additional nonaccrual interest income, the yield on loans for 2016 would have been 4.60 percent, interest rate spread would have been 2.53 percent, and net interest income/average earning assets would have been 2.87 percent. Interest expense increased by $1,659,636, or 12.3 percent, from 2015 to 2016 due to an increase in the average balance in those interest-bearing liabilities and an increase in the cost of funds.

Noninterest income for 2017 decreased by $7,261, or 0.2 percent, compared to 2016, due primarily to a decrease in loan fees combined with a decrease in gains on the sale of other property owned, net. The decrease was offset by patronage from the Bank increasing as a result of net loan volume increasing causing the direct note to the Bank to increase as well.

Noninterest income for 2016 increased by $457,015, or 13.2 percent, compared to 2015, due primarily to net gains on sales of acquired properties in 2016 as compared to net losses in 2015 and one large prepayment penalty received in the third quarter of 2016.

Provisions for loan losses decreased by $20,075, or 2.8 percent, compared to 2016. This is a result of fewer impaired loans in 2017 as compared to 2016. Provisions for loan losses decreased by $17,429, or 2.4 percent, compared to 2015. This is a result of fewer impaired loans in 2016 as compared to 2015.

Operating expenses consist primarily of salaries and employee benefits, Insurance Fund premiums, occupancy and equipment and travel. Operating expenses increased by $569,599, or 4.5 percent, from 2016 to 2017. The increase was primarily due to a $255,544 increase in salaries and employee benefits and a $131,879 increase in purchased services. Salaries and employee benefits increased primarily as a result of a larger workforce in 2017 versus 2016, coupled with normal increases in compensation rates. For further detail on the Association's employee benefit plans, see Note 2, "Summary of Significant Accounting Policies" and Note 11, "Employee Benefit Plans," to the consolidated financial statements included in this annual report. Purchased services increased as a result of increased accounting costs.

Operating expenses increased by $389,628, or 3.1 percent, from 2015 to 2016. The increase was primarily due to a $305,318 increase in Insurance Fund premiums. The increase is the result of higher Insurance Fund premiums from 2015 to 2016, combined with a higher average direct note to the Bank. Insurance Fund premiums are calculated by applying the premium rate to the ADB of the Association's direct note to the Bank.

The Association's return on average assets (ROA) was 1.8 percent for the years ended December 31, 2017, 2016 and 2015. For the year ended December 31, 2017, the Association's return on average members' equity (ROE) was 9.9 percent, as compared to 9.8 percent for the years ended December 31, 2016 and 2015.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank would 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 $793,712,363, $756,229,685 and $716,390,864 as of December 31, 2017, 2016 and 2015, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.40 percent, 2.07 percent and 1.94 percent at December 31, 2017, 2016 and 2015, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2016, is due to increased funding needs generated by growth in the Association's loan portfolio. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $162,512,219, $153,306,943 and $145,388,802 at December 31, 2017, 2016 and 2015, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2017, was $961,157,787 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2018, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2018. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

Capital Resources

The Association’s capital position remains strong, with total members’ equity of $170,852,563, $162,614,408 and $154,479,048 at December 31, 2017, 2016 and 2015, respectively.

New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the Farm Credit Administration (FCA). The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association’s permanent capital ratio at December 31, 2017, 2016 and 2015 was 16.9 percent, 17.0 percent and 16.9 percent, respectively.

Under the new regulations, the Association is required to maintain a minimum common equity tier 1 (CET1), tier 1 capital, and total capital ratios of 4.5 percent, 6.0 percent, and 8.0 percent, along with a capital conservation buffer of 2.5 percent applicable to each ratio, respectively. The 2.5 percent capital conservation buffer will be phased in over a three year period ending on December 31, 2019. The Association’s common equity tier 1 ratio was 16.8 percent, tier 1 capital ratio was 16.8 percent, and total capital ratio was 17.5 percent at December 31, 2017. Under the new regulations, the Association is required to maintain a minimum tier 1 leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum UREE leverage ratio of 1.5 percent. The Association’s tier 1 leverage ratio was 16.9 and UREE leverage ratio was 18.0 at December 31, 2017. The CET1 capital ratio is an indicator of the institution’s highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods, and paid-in capital. The tier 1 capital ratio is a measure of the institution’s quality of capital and financial strength. The total capital ratio is supplementary to the tier 1 capital ratio, the components of which include qualifying CCEs subject to certain holding periods, third-party capital subject to certain holding periods and limitations, and allowance and reserve for credit losses subject to certain limitations. The tier 1 leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be unallocated retained earnings (URE) and URE equivalents. This is the UREE leverage ratio.

Prior to January 1, 2017, the core surplus ratio measured available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio was an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The total surplus ratio measured available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio was an indicator of the reserves existing to protect borrowers’ investments in the Association.

Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers at December 31, 2017. The following table reflects the Association’s capital ratios at December 31:

	2017	2016	2015	Regulatory Minimum
Common equity tier 1 ratio	**16.8%**	n/a	n/a	7.0%
Tier 1 capital ratio	**16.8%**	n/a	n/a	8.5%
Total capital ratio	**17.5%**	n/a	n/a	10.5%
Permanent capital ratio	**16.9%**	17.0%	16.9%	7.0%
Tier 1 leverage ratio	**16.9%**	n/a	n/a	5.0%
UREE leverage ratio	**18.0%**	n/a	n/a	1.5%

	2016	2015	2014	2013	2012	Regulatory Minimum
Total surplus ratio	16.6%	16.5%	17.9%	17.8%	17.4%	7.0%
Core surplus ratio	16.6%	16.5%	17.9%	17.8%	17.4%	3.5%

As of December 31, 2017, the Association is not prohibited from retiring stock or distributing earnings; furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year.

In 2017, 2016 and 2015, the Association paid patronage of $7,802,525, $7,391,314 and $7,041,447 respectively, from the previous year's earnings. In December 2017, the board of directors approved an $8,493,566 patronage distribution to be paid in March 2018. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Regulatory Matters:

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

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

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

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

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

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

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

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

Relationship With the Bank

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

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

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

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills District expenses to the associations, such as the FCSIC Insurance Fund premiums.

Tax Cuts and Jobs Act of 2017

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

Summary

Regardless of the state of the agricultural and general economies, your Association's board of directors and management are committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

pwc

Report of Independent Auditors

To the Board of Directors of Alabama Ag Credit, ACA

We have audited the accompanying consolidated financial statements of Alabama Ag Credit, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2017, December 31, 2016 and December 31, 2015, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 14, 2018

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ALABAMA AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31, 2017	2016	2015
Assets			
Cash	**$ 13,074**	$ 20,897	$ 11,448
Loans	**955,830,732**	909,228,070	861,660,052
Less: allowance for loan losses	**6,632,476**	6,030,593	5,381,077
Net loans	**949,198,256**	903,197,477	856,278,975
Accrued interest receivable	**8,514,757**	8,298,974	7,753,533
Investment in and receivable from the Bank			
Capital stock	**15,533,315**	14,615,755	13,754,660
Accrued patronage receivable	**116,993**	38,837	67,607
Other	**1,225,117**	2,613,939	2,362,849
Other property owned, net	**41,200**	-	541,945
Premises and equipment	**6,612,044**	6,505,290	5,812,914
Other assets	**504,317**	450,961	415,240
Total assets	**$ 981,759,073**	$ 935,742,130	$ 886,999,171
Liabilities			
Note payable to the Bank	**$ 793,712,363**	$ 756,229,685	$ 716,390,864
Accrued interest payable	**1,629,260**	1,344,893	1,211,550
Drafts outstanding	**153,633**	1,464,958	1,675,992
Patronage distributions payable	**8,494,220**	7,803,784	7,400,050
Other liabilities	**6,917,034**	6,284,402	5,841,667
Total liabilities	**810,906,510**	773,127,722	732,520,123
Members' Equity			
Capital stock and participation certificates	**4,004,710**	3,913,875	3,794,955
Unallocated retained earnings	**167,430,087**	159,081,109	151,071,753
Accumulated other comprehensive loss	**(582,234)**	(380,576)	(387,660)
Total members' equity	**170,852,563**	162,614,408	154,479,048
Total liabilities and members' equity	**$ 981,759,073**	$ 935,742,130	$ 886,999,171

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2017	2016	2015
Interest Income			
Loans	**$ 44,896,899**	$ 40,610,273	$ 38,234,045
Interest Expense			
Note payable to the Bank	**17,896,702**	15,204,396	13,544,760
Net interest income	**27,000,197**	25,405,877	24,689,285
Provision for Loan Losses			
Provision for Loan Losses	**691,787**	711,862	729,291
Net interest income after provision for losses	**26,308,410**	24,694,015	23,959,994
Noninterest Income			
Patronage income from the Bank	**3,488,654**	3,322,464	3,215,836
Loan fees	**174,037**	312,911	143,089
Gain (loss) on other property owned, net	**14,345**	83,492	(89,278)
Gain on sale of premises and equipment, net	**145,571**	120,841	112,920
Other noninterest income	**80,534**	70,694	70,820
Total noninterest income	**3,903,141**	3,910,402	3,453,387
Noninterest Expenses			
Salaries and employee benefits	**8,075,340**	7,819,796	7,792,621
Directors' expense	**298,190**	297,683	273,060
Purchased services	**553,515**	421,636	370,659
Travel	**719,788**	633,399	658,490
Occupancy and equipment	**832,635**	827,894	794,285
Communications	**334,736**	274,183	346,354
Advertising	**311,742**	301,651	292,409
Public and member relations	**490,098**	411,727	439,836
Supervisory and exam expense	**325,976**	299,512	240,719
Insurance Fund premiums	**1,202,223**	1,269,248	963,930
Other noninterest expense	**225,369**	243,284	238,022
Total noninterest expenses	**13,369,612**	12,800,013	12,410,385
NET INCOME	**16,841,939**	15,804,404	15,002,996
Other comprehensive (loss) income:			
Change in postretirement benefit plans	**(201,658)**	7,084	305,626
COMPREHENSIVE INCOME	**$ 16,640,281**	$ 15,811,488	$ 15,308,622

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2014	$ 3,642,100	$ 143,465,233	$ (693,286)	$ 146,414,047
Net income	-	15,002,996	-	15,002,996
Other comprehensive income	-	-	305,626	305,626
Capital stock/participation certificates issued	526,325	-	-	526,325
Capital stock/participation certificates retired	(373,470)	-	-	(373,470)
Patronage dividends:				
Cash	-	(7,400,000)	-	(7,400,000)
Change in patronage declared and paid	-	3,524	-	3,524
Balance at December 31, 2015	3,794,955	151,071,753	(387,660)	154,479,048
Net income	-	15,804,404	-	15,804,404
Other comprehensive income	-	-	7,084	7,084
Capital stock/participation certificates issued	539,345	-		539,345
Capital stock/participation certificates retired	(420,425)	-		(420,425)
Patronage dividends:				
Cash	-	(7,800,000)	-	(7,800,000)
Change in patronage declared and paid	-	4,952	-	4,952
Balance at December 31, 2016	3,913,875	159,081,109	(380,576)	162,614,408
Net income	-	16,841,939	-	16,841,939
Other comprehensive income	-	-	(201,658)	(201,658)
Capital stock/participation certificates issued	539,670	-	-	539,670
Capital stock/participation certificates retired	(448,835)	-	-	(448,835)
Patronage dividends:				
Cash	-	(8,493,566)	-	(8,493,566)
Change in patronage declared and paid	-	605	-	605
Balance at December 31, 2017	**$ 4,004,710**	**$ 167,430,087**	**$ (582,234)**	**$ 170,852,563**

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	**$ 16,841,939**	$ 15,804,404	$ 15,002,996
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**691,787**	711,862	729,291
Provision for acquired property	**-**	(100,600)	100,600
(Gain) loss on sale of other property owned, net	**(9,360)**	45,802	1,440
Depreciation and amortization	**504,272**	499,846	480,918
Gain on sale of premises and equipment, net	**(145,598)**	(120,841)	(112,920)
Increase in accrued interest receivable	**(215,783)**	(545,441)	(939,872)
Decrease (increase) in other receivables from the Bank	**1,310,666**	(222,320)	(1,253,921)
(Increase) decrease in other assets	**(53,356)**	(35,721)	38,331
Increase in accrued interest payable	**284,367**	133,343	184,466
Increase in other liabilities	**422,729**	419,331	790,429
Net cash provided by operating activities	**19,631,663**	16,589,665	15,021,758
Cash flows from investing activities:			
Increase in loans, net	**(47,189,691)**	(47,937,337)	(89,680,554)
Cash recoveries of loans previously charged off	**6,795**	21,738	435,858
Purchase of capital stock in the Bank	**(917,560)**	(861,095)	(1,577,285)
Purchases of premises and equipment	**(751,464)**	(1,340,618)	(1,387,679)
Proceeds from sales of premises and equipment	**292,771**	288,560	195,926
Proceeds from sales of other property owned	**460,000**	893,143	1,114,000
Net cash used in investing activities	**(48,099,149)**	(48,935,609)	(90,899,734)

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2017	2016	2015
Cash flows from financing activities:			
Net draws on note payable to the Bank	**37,482,678**	39,838,821	83,268,100
Decrease in drafts outstanding	**(1,311,325)**	(211,034)	(500,635)
Issuance of capital stock and participation certificates	**539,670**	539,345	526,325
Retirement of capital stock and participation certificates	**(448,835)**	(420,425)	(373,470)
Cash dividends paid	**(7,802,525)**	(7,391,314)	(7,041,447)
Net cash provided by financing activities	**28,459,663**	32,355,393	75,878,873
Net (decrease) increase in cash	**(7,823)**	9,449	897
Cash at the beginning of the year	**20,897**	11,448	10,551
Cash at the end of the year	**$ 13,074**	$ 20,897	$ 11,448
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**$ 491,840**	$ 296,400	$ 1,225,894
Loans charged off	**88,454**	53,596	455,053
Patronage distributions declared	**8,493,566**	7,800,000	7,400,000
Change in AOCI	**201,658**	(7,084)	(305,626)
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 17,830,135**	$ 15,376,163	$ 13,523,919

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

ALABAMA AG CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS

A. Organization: Alabama Ag Credit, ACA, including its wholly-owned subsidiaries, Alabama Ag Credit, PCA and Alabama Ag 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 the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2017, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations (including the Association) are collectively referred to as the Texas Farm Credit District (District). The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2017, the District consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the 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 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Act, 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 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 and term life insurance to borrowers.

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

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association determined the effect was not material to its financial condition or results of operations and will not change its current recognition practices.

B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.

C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and net deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

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

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

The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

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

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of these circumstances.

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

D. Capital Stock Investment in the Bank: The Association's investment in the Bank is in the form of Class A voting capital stock. 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 in the accompanying consolidated balance sheet.

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

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

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

G. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors. The Association had advance conditional payments of $16,963,199, $15,925,764 and $18,658,291 at December 31, 2017, 2016 and 2015, respectively, all of which was restricted and therefore was all netted against the related loan balances in the balance sheet.

H. Employee Benefit Plans: Employees of the Association participate in either the District defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors a non-qualified 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.

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 percent of eligible pay for the year ended December 31, 2017) made on their behalf into various investment alternatives. Association DC plan costs are expensed as incurred.

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.

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 percent of eligible earnings, and to match 50 percent of employee contributions for the next 2 percent of employee contributions, up to a maximum employer contribution of 4 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred.

In addition to the DB plan, the DC plan, and the Farm Credit Benefits Alliance 401(k) Plan, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan. Therefore, the associated liabilities are included in the Association's consolidated balance sheet 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. For further information on the Association's employee benefit plans, see Note 11, "Employee Benefit Plans."

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

New U.S. tax laws resulting from legislation commonly known as the Tax Cuts and Jobs Act of 2017 (TCJA) were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent. FLCA subsidiaries are exempt from federal and state income tax; however, the change in the federal corporate tax rate will have a financial statement impact for year-end 2017 on ACAs and PCA subsidiaries that will require the revaluation of any deferred taxes (assets or liabilities) in the year of enactment (2017). To the extent not offset by a corresponding change to the valuation allowance, this may result in either a tax expense or tax benefit to the income statement.

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

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

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

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

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

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

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

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans as of December 31 follows:

Loan Type	**2017** Amount	**2017** %	2016 Amount	2016 %	2015 Amount	2015 %
Real estate mortgage	**$ 797,514,109**	**83.4%**	$ 760,406,038	83.6%	$ 721,039,611	83.7%
Production and intermediate term	**97,061,367**	**10.2%**	89,146,757	9.8%	85,015,442	9.9%
Agribusiness:						
Loans to cooperatives	**2,373,350**	**0.2%**	2,616,428	0.3%	2,066,798	0.2%
Processing and marketing	**36,866,722**	**3.9%**	39,337,878	4.3%	32,790,793	3.8%
Farm-related business	**655,293**	**0.1%**	719,697	0.1%	3,471,484	0.4%
Communication	**2,893,234**	**0.3%**	2,835,155	0.3%	1,524,369	0.2%
Water and waste water	**-**	**0.0%**	-	0.0%	317,579	0.0%
Rural residential real estate	**18,466,657**	**1.9%**	14,166,117	1.6%	15,433,976	1.8%
Total	**$ 955,830,732**	**100.0%**	$ 909,228,070	100.0%	$ 861,660,052	100.0%

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,968,038	$ 25,246,526	$ -	$ -	$ 9,968,038	$ 25,246,526
Production and intermediate term	13,963,544	1,190,180	-	-	13,963,544	1,190,180
Agribusiness	38,003,879	-	-	-	38,003,879	-
Communication	2,893,234	-	-	-	2,893,234	-
Total	$ 64,828,695	$ 26,436,706	$ -	$ -	$ 64,828,695	$ 26,436,706

Geographic Distribution: Distribution is based on collateral location.

County	**2017**	2016	2015
Dallas	**4.7%**	5.0%	4.3%
Marengo	**4.4%**	3.5%	3.7%
Dale	**4.2%**	4.3%	3.7%
Baldwin	**3.8%**	3.8%	3.8%
Coffee	**3.7%**	3.9%	4.1%
Henry	**3.4%**	3.6%	3.3%
Montgomery	**3.4%**	3.4%	3.8%
Bullock	**3.3%**	3.8%	2.3%
Monroe	**3.3%**	3.1%	3.8%
Lowndes	**3.2%**	2.8%	3.1%
Macon	**3.1%**	2.8%	3.0%
Houston	**3.1%**	3.3%	3.5%
Mobile	**3.0%**	2.6%	2.7%
Pike	**2.7%**	2.7%	2.9%
Geneva	**2.5%**	2.5%	3.8%
Tuscaloosa	**2.5%**	2.4%	2.4%
Barbour	**2.5%**	2.7%	2.7%
Crenshaw	**2.4%**	3.1%	2.8%
Hale	**2.2%**	1.6%	1.3%
Lee	**2.2%**	1.9%	1.5%
Wilcox	**2.2%**	1.4%	1.3%
Autauga	**2.1%**	2.1%	2.2%
Elmore	**2.0%**	2.0%	1.8%
Greene	**1.9%**	2.0%	1.9%
Butler	**1.7%**	1.9%	1.9%
Perry	**1.6%**	1.4%	1.6%
Russell	**1.6%**	1.6%	1.6%
Washington	**1.5%**	1.5%	1.6%
Pickens	**1.3%**	1.3%	1.5%
Chilton	**1.3%**	1.3%	1.3%
Sumter	**1.3%**	1.3%	1.4%
Chambers	**1.3%**	1.4%	1.4%
Tallapoosa	**1.2%**	1.1%	0.9%
Covington	**1.1%**	1.5%	1.5%
Conecuh	**1.1%**	1.0%	1.1%
Escambia	**1.0%**	1.1%	1.6%
Other Counties	**3.6%**	3.8%	3.9%
Other States	**8.6%**	9.5%	9.0%
Totals	**100.0%**	**100.0%**	**100.0%**

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

	2017		2016		2015	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Timber	**477,391,947**	**50.0%**	458,848,814	50.5%	424,263,744	49.1%
Livestock, except dairy and poultry	**118,501,652**	**12.4%**	111,765,987	12.3%	109,347,074	12.7%
Poultry and eggs	**114,923,783**	**12.0%**	113,502,363	12.5%	96,528,758	11.2%
Field crops	**96,578,875**	**10.1%**	94,349,959	10.4%	100,857,845	11.7%
Rural home loans	**27,597,345**	**2.9%**	20,669,325	2.3%	18,238,724	2.1%
Animal specialties	**20,282,823**	**2.1%**	20,383,695	2.2%	16,900,809	2.0%
Food and kindred products	**20,144,138**	**2.1%**	20,036,326	2.2%	15,256,759	1.8%
Other	**80,410,169**	**8.4%**	69,671,601	7.6%	80,266,339	9.4%
Total	**$ 955,830,732**	**100.0%**	$ 909,228,070	100.0%	$ 861,660,052	100.0%

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

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

	December 31, 2017	December 31, 2016	December 31, 2015
Nonaccrual loans:			
Real estate mortgage	**$ 4,562,792**	$ 6,310,244	$ 7,554,697
Production and intermediate term	**336,638**	1,129,050	971,708
Agribusiness	**33,055**	42,043	51,909
Rural residential real estate	**55,221**	90,924	107,160
Total nonaccrual loans	**4,987,706**	7,572,261	8,685,474
Accruing restructured loans:			
Real estate mortgage	**1,659,037**	308,599	417,777
Production and intermediate term	**419,526**	-	-
Total accruing restructured loans	**2,078,563**	308,599	417,777
Accruing loans 90 days or more past due:			
Real estate mortgage	**58,723**	-	-
Total accruing loans 90 days or more past due	**58,723**	-	-
Total nonperforming loans	**7,124,992**	7,880,860	9,103,251
Other property owned	**41,200**	-	541,945
Total nonperforming assets	**$ 7,166,192**	$ 7,880,860	$ 9,645,196

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

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

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

	2017	2016	2015
Real estate mortgage			
Acceptable	**98.1** %	98.0 %	97.8 %
OAEM	**0.8**	0.9	0.8
Substandard/doubtful	**1.1**	1.1	1.4
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**97.8**	98.3	97.9
OAEM	**1.7**	0.3	0.1
Substandard/doubtful	**0.5**	1.4	2.0
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	**100.0**	100.0	100.0
OAEM	**0.0**	0.0	0.0
Substandard/doubtful	**0.0**	0.0	0.0
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**100.0**	100.0	100.0
OAEM	**0.0**	0.0	0.0
Substandard/doubtful	**0.0**	0.0	0.0
	100.0	100.0	100.0
Farm-related business			
Acceptable	**95.0**	94.2	98.5
OAEM	**0.0**	0.0	0.0
Substandard/doubtful	**5.0**	5.8	1.5
	100.0	100.0	100.0
Communication			
Acceptable	**100.0**	100.0	100.0
OAEM	**0.0**	0.0	0.0
Substandard/doubtful	**0.0**	0.0	0.0
	100.0	100.0	100.0
Water and waste water			
Acceptable	**0.0**	0.0	100.0
OAEM	**0.0**	0.0	0.0
Substandard/doubtful	**0.0**	0.0	0.0
	0.0	0.0	100.0
Rural residential real estate			
Acceptable	**99.5**	99.2	98.7
OAEM	**0.2**	0.2	0.2
Substandard/doubtful	**0.3**	0.6	1.1
	100.0	100.0	100.0
Total Loans			
Acceptable	**98.2**	98.1	97.9
OAEM	**0.8**	0.8	0.7
Substandard/doubtful	**1.0**	1.1	1.4
	100.0 %	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of December 31, 2017, 2016 and 2015:

December 31, 2017:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 4,842,756**	**$ 461,111**	**$ 5,303,867**	**$ 799,192,198**	**$ 804,496,065**	**$ 58,723**
Production and intermediate term	**171,709**	**180,533**	**352,242**	**98,098,961**	**98,451,203**	**-**
Loans to cooperatives	**-**	**-**	**-**	**2,382,368**	**2,382,368**	**-**
Processing and marketing	**-**	**-**	**-**	**36,935,022**	**36,935,022**	**-**
Farm-related business	**-**	**-**	**-**	**655,574**	**655,574**	**-**
Communication	**-**	**-**	**-**	**2,894,322**	**2,894,322**	**-**
Water and waste water	**-**	**-**	**-**	**-**	**-**	**-**
Rural residential real estate	**256,290**	**9,372**	**265,662**	**18,265,273**	**18,530,935**	**-**
Total	**$ 5,270,755**	**$ 651,016**	**$ 5,921,771**	**$ 958,423,718**	**$ 964,345,489**	**$ 58,723**

December 31, 2016:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 1,969,789	$ 899,739	$ 2,869,528	$ 764,432,096	$ 767,301,624	$ -
Production and intermediate term	261,212	53,414	314,626	90,111,594	90,426,220	-
Loans to cooperatives	-	-	-	2,626,595	2,626,595	-
Processing and marketing	-	-	-	39,400,602	39,400,602	-
Farm-related business	-	-	-	720,225	720,225	-
Communication	-	-	-	2,835,739	2,835,739	-
Water and waste water	-	-	-	-	-	-
Rural residential real estate	124,317	-	124,317	14,091,721	14,216,038	-
Total	$ 2,355,318	$ 953,153	$ 3,308,471	$ 914,218,572	$ 917,527,043	$ -

December 31, 2015:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 2,817,903	$ 1,136,139	$ 3,954,042	$ 723,623,429	$ 727,577,471	$ -
Production and intermediate term	80	15,110	15,190	86,050,145	86,065,335	-
Loans to cooperatives	-	-	-	2,074,843	2,074,843	-
Processing and marketing	-	-	-	32,880,353	32,880,353	-
Farm-related business	-	-	-	3,474,585	3,474,585	-
Communication	-	-	-	1,524,689	1,524,689	-
Water and waste water	-	-	-	317,670	317,670	-
Rural residential real estate	31,206	-	31,206	15,467,433	15,498,639	-
Total	$ 2,849,189	$ 1,151,249	$ 4,000,438	$ 865,413,147	$ 869,413,585	$ -

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 TDR 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. TDRs are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of December 31, 2017, the total recorded investment of TDR loans was $5,083,568, including $3,005,005 classified as nonaccrual and $2,078,563 classified as accrual, with specific allowance for loan losses of $602,422. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. There were no additional commitments to lend to borrowers whose loans have been modified in TDR at December 31, 2017, 2016 or 2015.

The following tables present additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the years ended December 31, 2017, 2016 and 2015. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

December 31, 2017:	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
Troubled debt restructurings:		
Real estate mortgage	**$ 1,403,553**	**$ 1,369,420**
Production and intermediate term	**411,640**	**418,602**
Total	**$ 1,815,193**	**$ 1,788,022**

December 31, 2016:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 294,900	$ 283,925
Total	$ 294,900	$ 283,925

December 31, 2015:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	$ 80,820	$ 78,870
Total	$ 80,820	$ 78,870

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

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

The following table presents information regarding loans that met the accounting criteria as a TDR and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	**Recorded Investment at December 31, 2017**	Recorded Investment at December 31, 2016	Recorded Investment at December 31, 2015
Real estate mortgage	**$ -**	$ 172,106	$ -

The following table provides information on outstanding loans restructured in TDRs at period end. These loans are included as impaired loans in the impaired loan table:y

	Loans Modified as TDRs		
	December 31, 2017	December 31, 2016	December 31, 2015
Troubled debt restructurings:			
Real estate mortgage	**$ 4,507,937**	$ 3,206,759	$ 3,466,147
Production and intermediate term	**575,631**	164,325	206,471
Total	**$ 5,083,568**	$ 3,371,084	$ 3,672,618

	TDRs on Nonaccrual Status		
	December 31, 2017	December 31, 2016	December 31, 2015
Troubled debt restructurings:			
Real estate mortgage	**$ 2,848,900**	$ 2,898,159	$ 3,048,370
Production and intermediate term	**156,105**	164,325	206,471
Total	**$ 3,005,005**	$ 3,062,484	$ 3,254,841

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2017	**Unpaid Principal Balance[a]**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	**$ 4,228,280**	**$ 4,235,041**	**$ 932,168**	**$ 4,019,772**	**$ 52,265**
Production and intermediate term	**178,402**	**178,402**	**88,417**	**202,110**	**818**
Farm-related business	**33,055**	**33,055**	**5,895**	**35,277**	**-**
Rural residential real estate	**-**	**-**	**-**	**15,074**	**-**
Total	**$ 4,439,737**	**$ 4,446,498**	**$ 1,026,480**	**$ 4,272,233**	**$ 53,083**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	**$ 2,052,272**	**$ 2,298,239**	**$ -**	**$ 2,259,487**	**$ 38,056**
Production and intermediate term	**577,762**	**588,204**	**-**	**245,288**	**9,361**
Farm-related business	**-**	**-**	**-**	**-**	**-**
Rural residential real estate	**55,221**	**55,221**	**-**	**57,075**	**-**
Total	**$ 2,685,255**	**$ 2,941,664**	**$ -**	**$ 2,561,850**	**$ 47,417**
Total impaired loans:					
Real estate mortgage	**$ 6,280,552**	**$ 6,533,280**	**$ 932,168**	**$ 6,279,259**	**$ 90,321**
Production and intermediate term	**756,164**	**766,606**	**88,417**	**447,398**	**10,179**
Farm-related business	**33,055**	**33,055**	**5,895**	**35,277**	**-**
Rural residential real estate	**55,221**	**55,221**	**-**	**72,149**	**-**
Total	**$ 7,124,992**	**$ 7,388,162**	**$ 1,026,480**	**$ 6,834,083**	**$ 100,500**

	Recorded Investment at 12/31/2016	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 1,275,084	$ 1,373,203	$ 304,665	$ 1,762,025	$ 10,516
Production and intermediate term	843,623	843,623	375,851	475,301	828
Farm-related business	42,043	42,043	9,451	44,076	-
Rural residential real estate	30,126	30,126	21,617	21,481	82
Total	$ 2,190,876	$ 2,288,995	$ 711,584	$ 2,302,883	$ 11,426
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 5,343,760	$ 5,602,032	$ -	$ 4,928,104	$ 20,047
Production and intermediate term	285,428	299,916	-	206,901	2,447
Farm-related business	-	-	-	-	-
Rural residential real estate	60,798	60,798	-	68,181	88
Total	$ 5,689,986	$ 5,962,746	$ -	$ 5,203,186	$ 22,582
Total impaired loans:					
Real estate mortgage	$ 6,618,844	$ 6,975,235	$ 304,665	$ 6,690,129	$ 30,563
Production and intermediate term	1,129,051	1,143,539	375,851	682,202	3,275
Farm-related business	42,043	42,043	9,451	44,076	-
Rural residential real estate	90,924	90,924	21,617	89,662	170
Total	$ 7,880,862	$ 8,251,741	$ 711,584	$ 7,506,069	$ 34,008

	Recorded Investment at 12/31/2015	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 4,250,354	$ 4,492,885	$ 534,147	$ 4,578,544	$ 5,220
Production and intermediate term	93,370	155,335	44,570	117,563	2,361
Farm-related business	51,909	51,909	19,317	22,851	160
Rural residential real estate	-	-	-	9,318	-
Total	$ 4,395,633	$ 4,700,129	$ 598,034	$ 4,728,276	$ 7,741
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,722,120	$ 3,858,437	$ -	$ 4,060,690	$ 47,305
Production and intermediate term	878,338	1,023,373	-	965,365	1,417
Farm-related business	-	-	-	-	-
Rural residential real estate	107,160	107,160	-	107,083	15
Total	$ 4,707,618	$ 4,988,970	$ -	$ 5,133,138	$ 48,737
Total impaired loans:					
Real estate mortgage	$ 7,972,474	$ 8,351,322	$ 534,147	$ 8,639,234	$ 52,525
Production and intermediate term	971,708	1,178,708	44,570	1,082,928	3,778
Farm-related business	51,909	51,909	19,317	22,851	160
Rural residential real estate	107,160	107,160	-	116,401	15
Total	$ 9,103,251	$ 9,689,099	$ 598,034	$ 9,861,414	$ 56,478

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

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

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

	2017	2016	2015
Interest income which would have been recognized under the original terms	**$ 455,833**	$ 568,538	$ 647,668
Less: interest income recognized	**(100,500)**	(34,008)	(56,478)
Foregone interest income	**$ 355,333**	$ 534,530	$ 591,190

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2016	$ 5,396,080	$ 520,729	$ 67,499	$ 3,514	$ -	$ 42,771	$ 6,030,593
Charge-offs	(74,047)	-	-	-	-	(14,407)	(88,454)
Recoveries	6,795	-	-	-	-	-	6,795
Provision for loan losses	951,237	(265,914)	5,917	(70)	-	617	691,787
Other	13,504	(6,275)	(15,239)	157	-	(392)	(8,245)
Balance at December 31, 2017	$ 6,293,569	$ 248,540	$ 58,177	$ 3,601	$ -	$ 28,589	$ 6,632,476
Ending Balance: individually evaluated for impairment	$ 1,173,755	$ 90,009	$ 5,895	$ -	$ -	$ -	$ 1,269,659
Ending Balance: collectively evaluated for impairment	$ 5,119,814	$ 158,531	$ 52,282	$ 3,601	$ -	$ 28,589	$ 5,362,817
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2017	$ 804,496,065	$ 98,451,203	$ 39,972,964	$ 2,894,322	$ -	$ 18,530,935	$ 964,345,489
Ending balance for loans individually evaluated for impairment	$ 8,777,797	$ 511,993	$ 33,055	$ -	$ -	$ 55,221	$ 9,378,066
Ending balance for loans collectively evaluated for impairment	$ 795,718,268	$ 97,939,210	$ 39,939,909	$ 2,894,322	$ -	$ 18,475,714	$ 954,967,423

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2015	$ 5,113,387	$ 183,005	$ 58,299	$ 1,230	$ 1,014	$ 24,142	$ 5,381,077
Charge-offs	(49,480)	(4,116)	-	-	-	-	(53,596)
Recoveries	21,304	434	-	-	-	-	21,738
Provision for loan losses	324,258	358,845	8,061	2,186	(1,014)	19,526	711,862
Other	(13,389)	(17,439)	1,139	98	-	(897)	(30,488)
Balance at December 31, 2016	$ 5,396,080	$ 520,729	$ 67,499	$ 3,514	$ -	$ 42,771	$ 6,030,593
Ending Balance: individually evaluated for impairment	$ 563,174	$ 375,851	$ 9,451	$ -	$ -	$ 21,617	$ 970,093
Ending Balance: collectively evaluated for impairment	$ 4,832,906	$ 144,878	$ 58,048	$ 3,514	$ -	$ 21,154	$ 5,060,500
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2016	$ 767,301,624	$ 90,426,220	$ 42,747,422	$ 2,835,739	$ -	$ 14,216,038	$ 917,527,043
Ending balance for loans individually evaluated for impairment	$ 8,878,531	$ 1,253,048	$ 42,043	$ -	$ -	$ 90,924	$ 10,264,546
Ending balance for loans collectively evaluated for impairment	$ 758,423,093	$ 89,173,172	$ 42,705,379	$ 2,835,739	$ -	$ 14,125,114	$ 907,262,497

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2014	$ 4,570,064	$ 70,062	$ 48,083	$ 971	$ 604	$ 29,327	$ 4,719,111
Charge-offs	(256,714)	(192,268)	-	-	-	(6,071)	(455,053)
Recoveries	435,858	-	-	-	-	-	435,858
Provision for loan losses	365,551	333,525	24,954	515	3,735	1,011	729,291
Other	(1,372)	(28,314)	(14,738)	(256)	(3,325)	(125)	(48,130)
Balance at December 31, 2015	$ 5,113,387	$ 183,005	$ 58,299	$ 1,230	$ 1,014	$ 24,142	$ 5,381,077
Ending Balance: individually evaluated for impairment	$ 799,254	$ 44,570	$ 19,317	$ -	$ -	$ 714	$ 863,855
Ending Balance: collectively evaluated for impairment	$ 4,314,133	$ 138,435	$ 38,982	$ 1,230	$ 1,014	$ 23,428	$ 4,517,222
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2015	$ 727,577,471	$ 86,065,335	$ 38,429,781	$ 1,524,689	$ 317,670	$ 15,498,639	$ 869,413,585
Ending balance for loans individually evaluated for impairment	$ 10,516,991	$ 1,681,435	$ 51,909	$ -	$ -	$ 173,797	$ 12,424,132
Ending balance for loans collectively evaluated for impairment	$ 717,060,480	$ 84,383,900	$ 38,377,872	$ 1,524,689	$ 317,670	$ 15,324,842	$ 856,989,453

NOTE 4 — INVESTMENT IN THE BANK

The investment in the Bank is a requirement of borrowing from the Bank and is carried at cost, not fair value, in the accompanying balance sheet. Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. The Association owns 5.2 percent of the issued stock of the Bank as of December 31, 2017. As of that date, the Bank's assets totaled $22.8 billion and members' equity totaled $1.7 billion. The Bank's earnings were $196.0 million during 2017.

NOTE 5 — PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2017	2016	2015
Land and improvements	**$ 1,500,108**	$ 1,500,108	$ 1,510,243
Building and improvements	**4,692,768**	4,589,939	3,738,608
Furniture and equipment	**450,923**	441,336	383,782
Computer equipment and software	**332,667**	419,175	501,497
Automobiles	**1,394,286**	1,234,409	1,033,196
Construction in progress	**-**	52,584	221,848
	8,370,752	8,237,551	7,389,174
Accumulated depreciation	**(1,758,708)**	(1,732,261)	(1,576,260)
Total	**$ 6,612,044**	$ 6,505,290	$ 5,812,914

The Association owns its office space in Montgomery (branch), Dothan, Enterprise, Opelika, Monroeville and Spanish Fort. The Association leases office space in Montgomery (administration), Demopolis, Selma and Tuscaloosa, all in Alabama. Lease expense was $228,726, $204,210 and $188,593 for 2017, 2016 and 2015, respectively. Minimum annual lease payments for the next five years are as follows:

		Operating
2018		223,324
2019		213,561
2020		189,505
2021		137,146
2022		-
Thereafter		-
	Total	**763,536**

NOTE 6 — OTHER PROPERTY OWNED, NET

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

	2017	2016	2015
Gain (loss) on sale, net	**$ 15,227**	$ (13,628)	$ 43,645
Operating income (expense), net	**(882)**	97,120	(132,923)
Net gain (loss) on other property owned	**$ 14,345**	$ 83,492	$ (89,278)

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES

Other assets comprised the following at December 31:

	2017	2016	2015
Captive insurance savings	**$ 422,204**	$ 390,387	$ 357,776
Other assets	**82,113**	60,574	57,464
Total	**$ 504,317**	$ 450,961	$ 415,240

Other liabilities comprised the following at December 31:

	2017	2016	2015
Accumulated postretirement benefit obligation	**$ 2,980,557**	$ 2,663,291	$ 2,556,261
Accrued incentive bonus and benefits	**1,644,307**	1,478,623	1,606,489
Other accrued expenses	**2,292,170**	2,142,488	1,678,917
Total	**$ 6,917,034**	$ 6,284,402	$ 5,841,667

NOTE 8 — NOTE PAYABLE TO THE BANK

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

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2017, 2016 and 2015, was $793,712,363 at 2.40 percent, $756,229,685 at 2.07 percent and $716,390,864 at 1.94 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2017, 2016 and 2015, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the bank as of December 31, 2017, was $961,157,787, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2017, 2016 and 2015, the Association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY

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

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

The Association's capital bylaws authorize the Association to issue Class A, C and P common stock and participation certificates. Each share of stock and unit of participation certificates has a par or face value of $5. All transfers, exchanges, conversions and retirements of stock and participation certificates are recorded at book value, not to exceed par.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock or participation certificates is equal to 2 percent of the aggregate of all of the borrower's loans, up to a maximum of $1,000. If needed to meet regulatory capital adequacy requirements, the maximum amount to which the board of directors may increase the stock requirement is 5 percent of the individual loan amounts.

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.

Each owner of Class A capital stock (for farm loans) is entitled to a single vote, while participation certificates (for rural home and farm-related business loans) provide no voting rights to their owners.

Within two years of repayment of a loan, the Association's capital bylaws require the conversion of any borrower's outstanding Class A capital stock to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Ownership of Class C stock does not entitle holders to any patronage distributions, but the stock does carry an equal right to any dividends on common stock declared by the board of directors. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2017, 2016 and 2015, the Association had no Class C capital stock.

Class P stock may be issued only for allocated surplus distributions, stock dividends, and patronage distributions to borrowers eligible to hold Class A stock. Class P 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. Ownership of Class P stock does not entitle holders to any patronage distributions, but the stock does carry an equal right to any dividends on common stock declared by the board of directors. Redemption of Class P shares is made solely at the discretion of the Association's board of directors. At December 31, 2017, 2016 and 2015, the Association had no Class P capital stock.

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

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following patronage distributions were declared and paid in 2017, 2016 and 2015, respectively:

Date Declared	Date Paid	Patronage
December 2017	**March 2018**	**$ 8,493,566**
December 2016	March 2017	7,802,525
December 2015	March 2016	7,391,314

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

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

Risk-adjusted:	Regulatory Minimums	Conservation Buffer*	Total	As of December 31, 2017
Common equity tier 1 ratio	4.50%	2.50%	7.00%	16.81%
Tier 1 capital ratio	6.00%	2.50%	8.50%	16.81%
Total capital ratio	8.00%	2.50%	10.50%	17.49%
Permanent capital ratio	7.00%	0.00%	7.00%	16.92%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	16.90%
UREE leverage ratio	1.50%	0.00%	1.50%	18.01%

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

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

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

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

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

The ratios are based on a 90-day average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other

System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

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

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

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

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**172,239,506**	**172,239,506**	**172,239,506**	**172,239,506**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**3,995,931**	**3,995,931**	**3,995,931**	**3,995,931**
Allowance for loan losses and reserve for credit losses subject to certain limitations*	**-**	**-**	**6,606,660**	**-**
Regulatory adjustments and deductions:				
Amount of allocated investments in other System institutions	**(14,625,950)**	**(14,625,950)**	**(14,625,950)**	**(14,625,950)**
	161,609,487	**161,609,487**	**168,216,147**	**161,609,487**
Denominator:				
Risk-adjusted assets excluding allowance	**976,194,299**	**976,194,299**	**976,194,299**	**976,194,299**
Regulatory adjustments and deductions:				
Regulatory deductions included in total capital	**(14,625,950)**	**(14,625,950)**	**(14,625,950)**	**(14,625,950)**
Allowance for loan losses	**-**	**-**	**-**	**(6,529,431)**
	961,568,349	**961,568,349**	**961,568,349**	**955,038,918**

*Capped at 1.25% of risk-adjusted assets

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

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**172,239,506**	**172,239,506**
Common cooperative equities:		
Statutory minimum purchased borrower stock	**3,995,931**	**-**
Regulatory adjustments and deductions:		
Amount of allocated investments in other System institutions	**(14,625,950)**	**-**
	161,609,487	**172,239,506**
Denominator:		
Total assets	**975,051,501**	**975,051,501**
Regulatory adjustments and deductions:		
Regulatory deductions included in tier 1 capital	**(18,874,587)**	**(18,874,587)**
	956,176,914	**956,176,914**

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

As mentioned in Note 2, "Summary of Significant Accounting Policies," the Association is required to purchase stock in the Bank. The level of stock required is calculated annually based on the average borrowings of the Association from the Bank. The required level is currently 2 percent of the average borrowing from the previous 12 months. This stock investment in the Bank reduces the amount of Association capital available for inclusion in the Association's capital adequacy calculations.

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 and participation certificates outstanding at a par value of $5 per share:

	2017	2016	2015
Class A stock	**741,899**	730,368	710,451
Participation certificates	**59,043**	52,407	48,540
Total	**800,942**	782,775	758,991

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

	2017	2016	2015
Accumulated other comprehensive loss at January 1	**$ (380,576)**	$ (387,660)	$ (693,286)
Amortization of prior service credit included in salaries and employee benefits	**(23,064)**	(23,064)	(23,675)
Amortization of actuarial loss	**17,239**	22,993	59,553
Net actuarial (loss) gain	**(195,833)**	7,155	269,748
Other comprehensive income (loss), net of tax	**(201,658)**	7,084	305,626
Accumulated other comprehensive loss at December 31	**$ (582,234)**	$ (380,576)	$ (387,660)

NOTE 10 — INCOME TAXES

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

	2017	2016	2015
Federal tax at statutory rate	**$ 5,894,678**	$ 5,531,542	$ 5,251,049
State tax, net	**1,094,726**	1,027,286	975,195
Effect of nontaxable FLCA subsidiary	**(6,763,191)**	(6,577,050)	(6,359,590)
Impact of change in statutory rate	**(225,173)**	-	-
Change in valuation allowance	**237,750**	9,012	65,951
Other	**(238,790)**	9,210	67,395
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

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

	2017	2016	2015
Deferred Tax Assets			
Allowance for loan losses	**$ 79,440**	$ 120,449	$ 49,226
Loss carryforwards	**977,217**	700,504	766,657
Deferred origination fees	**(7,658)**	(9,704)	(12,262)
Gross deferred tax assets	**1,048,999**	811,249	803,621
Deferred tax asset valuation allowance	**(1,048,999)**	(811,249)	(803,621)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

In December 2017, a new tax bill that lowers the 2018 corporate tax rate to 21 percent from the 2017 tax rate of 35 percent was signed into law. Generally Accepted Accounting Principles (GAAP) required the Association to revalue its deferred tax assets at the new lower tax rate and record any adjustment in 2017. As the association previously used a lower corporate rate to value deferred taxes based on the graduated rate tables, the revaluation under the new 21 percent corporate tax rate resulted in an increase in deferred tax assets and corresponding valuation allowance, with no impact to the financial statements.

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. The Association recorded a valuation allowance of $1,048,999, $811,249 and $803,621 during 2017, 2016 and 2015, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

The Association follows FASB guidance on accounting for uncertainty in income taxes. At December 31, 2017, 2016 and 2015, the Association did not recognize a tax liability for any uncertain tax positions.

NOTE 11 — EMPLOYEE BENEFIT PLANS

Employee Retirement Plans: As discussed in Note 2, "Summary of Significant Accounting Policies," employees of the Association participate in either the District's DB plan or the District's DC plan. For the DB plan, the Association recognized pension costs of $433,840, $577,997 and $510,757 for the years ended December 31, 2017, 2016 and 2015, respectively. The Association recognized pension costs for the DC plan of $289,503, $274,956 and $261,729 for the years ended December 31, 2017, 2016 and 2015, respectively.

Employees of the Association are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. The Association's contributions to the 401(k) plan were $252,587, $240,023 and $244,460 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

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

The Association elected to participate in the Restored Employer and Elective Deferrals programs of the Supplemental 401(k) Plan. For the Restored Employer Contributions program, the Association contributed $11,574, $11,840 and $9,625 for 2017, 2016 and 2015, respectively. To date no employees have made contributions to the Elective Deferrals program. There were no payments made from the Supplemental 401(k) Plan to active employees during 2017, 2016 and 2015.

The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The Association records current contributions to the DB plan as an expense in the current year.

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

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

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

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

	2017	2016	2015
Funded status of plan	**69.7 %**	66.4 %	66.8 %
Association's contribution	**$ 433,840**	$ 577,997	$ 510,757
Percentage of Association's contribution to total contributions	**3.7 %**	4.9 %	4.8 %

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 73.4 percent, 70.6 percent and 72.5 percent at December 31, 2017, 2016 and 2015, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care 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 on the consolidated balance sheet. Employees hired prior to January 1, 2004 and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premium paid on a percentage of cost-sharing basis, predicated on length of employment service. Employees hired before this date that have reached the age requirement and have 25 years of service will receive 100 percent of their medical premium paid. Employees hired after January 1, 2004 will be eligible for access only to retiree medical benefits for themselves, but will be responsible for 100 percent of the premium.

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	**2017**	2016	2015
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 2,663,291**	$ 2,556,261	$ 2,690,876
Service cost	**59,877**	61,367	73,208
Interest cost	**120,893**	119,047	121,727
Plan participants' contributions	**14,618**	22,517	19,654
Plan amendments	**-**	-	-
Special termination benefits	**-**	-	-
Actuarial loss (gain)	**195,833**	(7,155)	(269,748)
Benefits paid	**(73,955)**	(88,746)	(79,456)
Accumulated postretirement benefit obligation, end of year	**$ 2,980,557**	$ 2,663,291	$ 2,556,261
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Actual return on plan assets	**-**	-	-
Company contributions	**59,337**	66,229	59,802
Plan participants' contributions	**14,618**	22,517	19,654
Benefits paid	**(73,955)**	(88,746)	(79,456)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (2,980,557)**	$ (2,663,291)	$ (2,556,261)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (2,980,557)**	$ (2,663,291)	$ (2,556,261)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	**$ 599,530**	$ 420,936	$ 451,084
Prior service credit	**(17,296)**	(40,360)	(63,424)
Net transition obligation (asset)	**-**	-	-
Total	**$ 582,234**	$ 380,576	$ 387,660
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2017**	12/31/2016	12/31/2015
Discount rate	**4.00%**	4.60%	4.70%
Health care cost trend rate assumed for next year (pre-/post-65)	**7.70%/6.90%**	6.75%/6.50%	7.00%/6.50%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2026**	2025/2024	2025

Total Cost	**2017**	2016	2015
Service cost	**$ 59,877**	$ 61,367	$ 73,208
Interest cost	**120,893**	119,047	121,727
Expected return on plan assets	**-**	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	**-**	-	-
Unrecognized prior service cost (credit)	**(23,064)**	(23,064)	(23,675)
Unrecognized net loss	**17,239**	22,993	59,553
Net postretirement benefit cost	**$ 174,945**	$ 180,343	$ 230,813
Accounting for settlements/curtailments/special termination benefits	**$ -**	$ -	$ -
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 195,833**	$ (7,155)	$ (269,748)
Amortization of net actuarial gain (loss)	**(17,239)**	(22,993)	(59,553)
Prior service cost (credit)	**-**	-	-
Amortization of prior service cost (credit)	**23,064**	23,064	23,675
Recognition of prior service cost	**-**	-	-
Amortization of transition liability (asset)	**-**	-	-
Total recognized in other comprehensive income	**$ 201,658**	$ (7,084)	$ (305,626)
AOCI Amounts Expected to be Amortized Into Expense in 2016			
Unrecognized net transition obligation (asset)	**$ -**	$ -	$ -
Unrecognized prior service cost (credit)	**(17,296)**	(23,064)	(23,064)
Unrecognized net loss	**32,874**	17,239	22,993
Total	**$ 15,578**	$ (5,825)	$ (71)
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2016**	12/31/2015	12/31/2014
Discount rate	**4.60%**	4.70%	4.55%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**6.75%/6.50%**	7.00%/6.50%	7.25%/6.75%
Health care cost trend rate assumed for next year - Rx			
Ultimate health care cost trend rate	**4.50%**	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	**2025/2024**	2025/2023	2024

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)			
Fiscal 2018	**$ 84,997**	$ -	$ -
Fiscal 2019	**86,251**	-	-
Fiscal 2020	**83,543**	-	-
Fiscal 2021	**84,193**	-	-
Fiscal 2022	**100,714**	-	-
Fiscal 2023–2027	**632,639**	-	-
Expected Contributions			
Fiscal 2018	**$ 84,997**	$ -	$ -

NOTE 12 — RELATED PARTY TRANSACTIONS

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the Association amounted to $3,904,276, $5,250,364 and $10,994,793 at December 31, 2017, 2016 and 2015, respectively. During 2017, $5,406,877 of new loans were made, and repayments totaled $5,488,354. In addition, $1,264,611 was reclassified between related party and non-related party loans due to the election of a new director. In the opinion of management, no such loans outstanding at December 31, 2017, 2016 and 2015 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association’s proportionate usage. These expenses totaled $1,139,469, $1,205,074 and $894,751 in 2017, 2016 and 2015, respectively.

The Association received patronage payments from the Bank totaling $3,488,654, $3,322,464 and $3,215,836 during 2017, 2016 and 2015, respectively.

NOTE 13 — FAIR VALUE MEASUREMENTS

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

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. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transition. The following represent a brief summary of the valuation techniques used by the Bank and associations for assets and liabilities:

Assets Held in Nonqualified Benefits Trusts

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

Loans

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

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

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy. As of December 31, 2017, other property owned, net, is reported at $41,200 in the consolidated balance sheet.

With regard to 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 other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about other financial instruments fair value measurements:

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2017, 2016 and 2015 for each of the fair value hierarchy values are summarized below:

December 31, 2017	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 62,573**	**$ -**	**$ -**	**$ 62,573**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 41,835	$ -	$ -	$ 41,835

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 29,625	$ -	$ -	$ 29,625

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

December 31, 2017	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$4,179,616**	**$4,179,616**
Other property owned	**-**	**-**	**46,350**	**46,350**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 2,946,422	$ 2,946,422
Other property owned	-	-	-	-

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 5,599,681	$ 5,599,681
Other property owned	-	-	716,901	716,901

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

	December 31, 2017				
		Fair Value Measurement Using			
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 13,074**	**$ 13,074**	**$ -**	**$ -**	**$ 13,074**
Net loans	**944,149,230**	**-**	**-**	**921,672,237**	**921,672,237**
Total Assets	**$ 944,162,304**	**$ 13,074**	**$ -**	**$ 921,672,237**	**$ 921,685,311**
Liabilities:					
Note payable to Bank	**$ 793,712,363**	**$ -**	**$ -**	**$ 774,816,762**	**$ 774,816,762**
Total Liabilities	**$ 793,712,363**	**$ -**	**$ -**	**$ 774,816,762**	**$ 774,816,762**

	December 31, 2016				
		Fair Value Measurement Using			
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 20,897	$ 20,897	$ -	$ -	$ 20,897
Net loans	900,251,055	-	-	884,099,646	884,099,646
Total Assets	$ 900,271,952	$ 20,897	$ -	$ 884,099,646	$ 884,120,543
Liabilities:					
Note payable to Bank	$ 756,229,685	$ -	$ -	$ 742,662,164	$ 742,662,164
Total Liabilities	$ 756,229,685	$ -	$ -	$ 742,662,164	$ 742,662,164

	December 31, 2015 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 11,448	$ 11,448	$ -	$ -	$ 11,448
Net loans	850,679,294	-	-	841,934,311	841,934,311
Total Assets	$ 850,690,742	$ 11,448	$ -	$ 841,934,311	$ 841,945,759
Liabilities:					
Note payable to Bank	$ 716,390,864	$ -	$ -	$ 709,027,715	$ 709,027,715
Total Liabilities	$ 716,390,864	$ -	$ -	$ 709,027,715	$ 709,027,715

NOTE 14 — COMMITMENTS AND CONTINGENCIES

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

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2017, the Association had outstanding unfunded commitments totaling $69,181,812. Included in that total were, through participations, letters of credit of $580,191.

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

NOTE 15 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2017				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 6,816**	**$ 6,670**	**$ 6,678**	**$ 6,836**	**$ 27,000**
Provision for loan losses	**(4)**	**(320)**	**(243)**	**(125)**	**(692)**
Noninterest income (expense), net	**(2,574)**	**(2,815)**	**(2,758)**	**(1,320)**	**(9,467)**
Net income	**$ 4,238**	**$ 3,535**	**$ 3,677**	**$ 5,391**	**$ 16,841**

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,298	$ 6,366	$ 6,358	$ 6,384	$ 25,406
Provision for loan losses	(11)	(91)	(209)	(401)	(712)
Noninterest income (expense), net	(2,671)	(2,685)	(2,555)	(979)	(8,890)
Net income	$ 3,616	$ 3,590	$ 3,594	$ 5,004	$ 15,804

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,048	$ 6,144	$ 6,263	$ 6,234	$ 24,689
Provision for loan losses	(265)	(172)	(84)	(208)	(729)
Noninterest income (expense), net	(2,606)	(2,695)	(2,645)	(1,011)	(8,957)
Net income	$ 3,177	$ 3,277	$ 3,534	$ 5,015	$ 15,003

NOTE 16 — SUBSEQUENT EVENTS

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

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, “Organization and Operations,” included in this annual report.

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

DESCRIPTION OF PROPERTY

Alabama Ag Credit, ACA (the Association) serves its 40-county territory through its main administrative office at 2660 EastChase Lane, Suite 401, Montgomery, Alabama 36117. Additionally, there are nine branch lending offices located throughout the territory. The Association owns the office buildings in Montgomery (branch), Opelika, Enterprise, Dothan, Monroeville and Spanish Fort, free of debt. The Association leases the office buildings in Montgomery (administrative), Demopolis, Selma and Tuscaloosa.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, “Members’ Equity,” included in this annual report.

DESCRIPTION OF LIABILITIES

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

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 14 to the consolidated financial statements, “Summary of Significant Accounting Policies” and “Commitments and Contingencies,” respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association’s financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, “Organization and Operations,” included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders’ investment in the Association.

The Farm Credit Bank of Texas and District associations’ (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 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 annual and quarterly stockholder reports are also available free of charge, upon request. The quarterly reports will be available on the Association's website at *www.AlabamaAgCredit.com* approximately 40 days after quarter end and the Association's annual stockholder report will be available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end and can also be obtained by writing to Alabama Ag Credit, ACA, 2660 EastChase Lane, Suite 401, Montgomery, Alabama 36117 or calling (334) 270-8687. In addition, copies of the Association's annual and quarterly stockholder reports can also be requested by e-mailing *Kim.Bond@AlabamaAgCredit.com.*

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2017, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

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

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

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE EMPLOYED	TERM EXPIRES	TIME IN POSITION
James L. Bassett	Chairman	December 2008	2018	-
Larry H. Gibson, Jr.	Vice Chairman	April 2010	2019	-
Timothy D. Tucker	Director	April 2005	2020	-
John Carl Sanders	Director	April 2015	2018	-
Mark D. Platt	Director	April 2016	2019	-
David N. Hataway	Director	June 2017	2020	-
W. Thomas Dozier, III	Director	August 1990	2017	-
J.K. Love	Director-Elected Director	April 2006	2018	-
Ray Petty	Director-Elected Director	January 2007	2019	-
Douglas Thiessen	President/Chief Executive Officer	February 2007	-	11 years
Chris Higbe	Sr. VP/Chief Credit Officer	May 2011	-	6 years
M. Scott Sellers	Sr. VP/Chief Financial Officer	September 2003	-	13 years
Ed L. Boyd	Regional President	May 1992	-	7 years
J. Scott McCall	Regional President	January 2011	-	7 years

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes. All directors served on the Association's audit and compensation committees in 2017; other committee service is as noted below.

James L. Bassett, age 57. Mr. Bassett resides in Downs, Alabama, and has been a full-time farmer for 24 years. Mr. Bassett is co-owner of Beck's Turf, Inc., a Macon County, Alabama based farming operation where the primary commodities produced are turf, timber and nursery stock. Mr. Bassett is also part owner of Gold Kiwi Group, LLC and Southeast Kiwi Farming Cooperative, Inc., two entities organized for growing and selling kiwi fruit. Prior to going into farming, Mr. Bassett spent eight years as a commercial banker in Union Springs, Alabama. Since 2012, Mr. Bassett has been a stockholder and serves as a director of a locally-owned community bank, AmeriFirst Bank, based in Union Springs, Alabama. Mr. Bassett is a past president and currently serves as a board member of the Macon County Farmers Federation, and he is also a member of the Macon County Soil and Water Board. Mr. Bassett is a graduate of the LSU Graduate School of Banking, and he also has a bachelor of science in business administration from Auburn University Montgomery. Mr. Bassett serves as chairman of the Association's board of directors and he also serves as the Association's representative on the Texas District Stockholders Advisory Committee.

Larry H. Gibson, **Jr**., age 45. Mr. Gibson resides in Aliceville, Alabama, and is president and owner of Gibson Forest Management, Inc., a forestry consulting firm. He manages approximately 60,000 acres of timberland for clients in West Alabama and East Mississippi where he provides complete forest management services. A graduate of Mississippi State University with a bachelor degree in forest management, he owns approximately 1,600 acres of timberland where timber and wildlife are the primary commodities. Mr. Gibson is a member of the Alabama Forestry Association, the Society of American Foresters (past state chair) and the Association of Consulting Foresters (past state chair), having served on the boards of each organization. He also formerly served on the board of Alabama Farmers Federation for Pickens County. He currently serves as a member of the Pickens County Industrial Board and is a trustee at Hebron United Methodist Church. Mr. Gibson serves as vice chairman of the Association's board of directors.

Timothy D. (Tim) Tucker, age 58. Mr. Tucker resides in Uriah, Alabama, and has been farming full time all of his adult life. Mr. Tucker's farming operation, Tim Tucker Farm, consists primarily of cotton, cattle and peanuts. Mr. Tucker is also a stockholder and vice president and also serves on the board of Monroe County Gin, a cotton ginning and warehousing operation based in Monroe County, Alabama. He is a member of the Southeastern Livestock Exposition, and he serves as vice chairman and supervisor of Monroe County Soil and Water Conservation District. He also serves on the boards of Monroe County Cattlemen's Association and the Monroe County Farmers Federation, and he formerly served as the Area 6 VP of the Alabama Association of Conservation Districts. Mr. Tucker serves as the Association's representative on the board of the Texas District Farm Credit Council.

John Carl Sanders, age 63. Mr. Sanders resides in Roeton, Alabama, and has been farming full time all of his adult life. He farms in partnership with his son on 1,000 acres where the primary commodities produced are peanuts, cotton and corn. In addition, Mr. Sanders has a 100-head brood cow operation. He is president of Alabama Peanut Producers Association, a director of the Coffee County Farmers Federation, a director of the American Peanut Council, and a member of the Peanut Standards Board. Mr. Sanders obtained his bachelor of science in ag science from Auburn University.

Mark D. Platt, age 40. Mr. Platt resides in Fruitdale, Alabama, and has been farming full time for 18 years. He is co-owner of Platt Farms, a Washington County-based operation which includes 850 acres where principal commodities produced are poultry, cotton, peanuts, feed grains and timber. Mr. Platt has served three years as county commissioner for Washington County, and he also serves on the boards of Deer Park-Vinegar Bend Water Board, Fruitdale Volunteer Fire Department, Washington County Soil and Water Conservation District, Washington County Farmers Market Committee and Washington County Farmers Federation. He is a member of Alabama Farmers Federation, Alabama Cattlemen's Association, Alabama Peanut Producers Association, Alabama Poultry and Egg Association, Association of County Commissions of Alabama and Association of Volunteer Fire Departments. Mr. Platt attended Alabama Southern where he earned his associate degree in industrial and business technology. Mr. Platt is a member of Four Points Baptist Church.

David N. Hataway, age 62. Mr. Hataway received his associate degree in business from Troy University. He is a fifth generation farmer who has owned and operated an 800-acre timber, beef and hay farm in south Montgomery County for the past 44 years. Mr. Hataway is retired from the Alabama Department of Agriculture where he worked in the poultry, market news and animal health division. He also served in the Alabama National Guard and retired as an infantry major. Mr. Hataway is currently the president of the Montgomery County Farmers Federation and is a past president of the Montgomery County Cattleman's Association. He has also served as a past chairman of the Nominating Committee for Alabama Ag Credit. He and his wife Sharon have been married for 38 years and are active in Ramer United Methodist Church.

W. Thomas Dozier, **III**, age 77. Mr. Dozier has been farming for 50 years. He is majority owner of W.T. Dozier Farms, Inc., a farming operation based in Elmore County, Alabama. Principal commodities produced are cotton, grain, cattle and hay. Mr. Dozier is also a stockholder and a director on the board of Milstead Farm Group, Inc., a Milstead, Alabama-based business specializing in cotton ginning, irrigation systems, etc. He obtained his bachelor of science in agricultural economics from Auburn University. After college, Mr. Dozier served three years as an infantry officer in the Marine Corps. Mr. Dozier is a past chairman of the Texas District Stockholders Advisory Committee and District Nominating Committee and formerly served as chairman of the board of directors of the Association. Mr. Dozier's term as director ended in June 2017.

J.K. Love, age 76. Mr. Love resides in Montgomery, Alabama, and is a CPA. Mr. Love retired after 30 years in public accounting and served four years as the CFO for Hudson Industries, Inc., a Troy, Alabama-based business which specializes in manufacturing, packaging and distribution of food condiments. Mr. Love is part owner of and serves as CFO for Southeast Subway Development Co. Inc., a franchising business for Subway brand restaurants in parts of Alabama, Georgia and Florida. In addition, Mr. Love is part owner and serves as treasurer on the board of directors of 5i Solutions, Inc., a Ft. Lauderdale, Florida-based company specializing in electronic document management. He also serves on the board of directors for two other Montgomery-based businesses — Whitfield Foods, Inc., which specializes in manufacturing and packaging of syrup, hot sauce and other food products, and Best Glass, Inc., which is a subcontractor for commercial buildings. Mr. Love is a graduate of Auburn University with a bachelor of science in accounting. Mr. Love serves as the chairman of the Association's audit committee.

Ray Petty, age 67. Mr. Petty resides in Birmingham, Alabama, and is the chief development officer for an independent commercial bank, ServisFirst Bank, based in Birmingham, Alabama. Mr. Petty was serving on the board of directors of ServisFirst at the time of his appointment as chief development officer in July, 2008. Previously, Mr. Petty was retired after a 34-year career in commercial banking with SouthTrust Bank. Mr. Petty served 27 years in Montgomery, the last 20 as the Montgomery area president. During the last nine years of his Montgomery tenure, Mr. Petty also served as South Alabama/Mississippi regional president. In addition, he taught commercial lending for 15 years at University of South Alabama's banking school. Mr. Petty is a graduate of Auburn University with a bachelor of arts in history.

Douglas Thiessen, age 53, President/Chief Executive Officer. Mr. Thiessen has been with the Association since February 2007. Prior to joining the Association, Mr. Thiessen served for four years as senior vice president/chief financial officer of First Ag Credit, FCS, based in Lubbock, Texas. In addition, he held various financial positions with computer manufacturer Dell, Inc. and the Farm Credit Bank of Texas, and also served as a commissioned examiner with the Farm Credit Administration. Mr. Thiessen has a total of 20 years of service within the Farm Credit System. Mr. Thiessen serves on the boards of the Alabama Future Farmers of America Foundation, the Alabama 4-H Club Foundation, and formerly served on the boards of the Montgomery Area Chamber of Commerce, and the Alabama Agribusiness Council. He is also a member of the AgFirst/FCBT Plan Fiduciary Committee. Mr. Thiessen is a graduate of the LSU Graduate School of Banking, and he also has a bachelor of science in agricultural economics from Texas Tech University and an executive master of business administration degree from Troy University.

Chris Higbe, age 47, Senior Vice President/Chief Credit Officer. Mr. Higbe joined the Association in May 2011 as the Association's VP-credit, and in May 2012 was named chief credit officer. Prior to joining the Association, Mr. Higbe was employed in various credit-related positions in the commercial banking industry for approximately 19 years, most recently serving for two years as credit manager of a de novo bank in Prattville, Alabama. Mr. Higbe serves on the board of the Alabama Agribusiness Council. Mr. Higbe is a graduate of Auburn University Montgomery with a bachelor of science in general business and a bachelor of science in accounting.

M. Scott Sellers, age 49, Senior Vice President/Chief Financial Officer. Mr. Sellers has been with the Association since September 2003. He is a CPA with more than 10 years' experience in public accounting. Prior to joining the Association, Mr. Sellers worked for four years in a family-owned forestry consulting and rural real estate brokerage firm. Mr. Sellers is a graduate of Auburn University with a bachelor of science in accounting and he also has a master in business administration degree with an emphasis in finance from Auburn University Montgomery.

Ed L. Boyd, age 58, Regional President. Mr. Boyd grew up in Livingston, Alabama, where he attended Livingston University, majoring in business administration with emphasis in accounting. Mr. Boyd has been with the Association since May of 1992; in total he has 34 years of Farm Credit experience, working in various positions with Farm Credit institutions in South Carolina, Louisiana and Mississippi. Prior to being named as regional president in January 2011, Mr. Boyd served as regional vice president for two years. In addition, Mr. Boyd served as the Monroeville branch manager, a position he held for 22 years. Mr. Boyd is past president of the Alabama Cooperatives Council and serves on the board the Monroe County Heritage Museum Foundation, and is chairman of deacons for Monroeville Presbyterian Church. Mr. Boyd retired effective February 28, 2018.

J. Scott McCall, age 53, Regional President. Mr. McCall has been with the Association since January 2011. Prior to joining the Association, Mr. McCall was employed by Sterling Bank in Montgomery, Alabama, for 22 years, most recently serving as executive vice president/commercial banking lead for five years. Mr. McCall serves as chairman of the board and executive committee of the Baptist Health Care Foundation, and he also serves on the advisory board for Auburn University Montgomery School of Business. Mr. McCall is a graduate of the Southwestern Graduate School of Banking in Dallas, Texas and also has a bachelor of science in business administration from Auburn University Montgomery.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at base rate of $800 per day for directors traveling less than 100 miles. For directors traveling over 100 miles but less than 200 miles, the base rate increases by 25 percent to $1,000, and for directors traveling over 200 miles, the base rate increases by 50 percent to $1,200. For multi-day meetings, the increased base rate applies to the first day only; the normal base rate of $800 applies thereafter. In addition, this rule applies to meetings held at the Association administrative office only; for meetings held elsewhere the honorarium is set at the base rate of $800 per day. The directors are also compensated for scheduled conference calls at the base rate of $200 per day. Additionally, they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2017 was paid at the IRS-approved rate prevailing at the time. A copy of the travel policy is available to stockholders of the Association upon request.

	Number of Days Served Associated With		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2017**
James L. Bassett	16	24	$ 30,200
Larry H. Gibson, Jr.	16	17	26,800
W. Thomas Dozier, III	7	8	12,000
Timothy D. Tucker	14	14	22,600
John Carl Sanders	16	12	21,200
Mark D. Platt	15	8	20,200
David N. Hataway	6	6	8,400
J.K. Love	16	18	25,400
Ray Petty	16	16	24,400
			$ 191,200

The aggregate compensation paid to directors in 2017, 2016 and 2015 was $191,200, $206,800 and $189,400, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2017:

	Committee		
Director	**Audit**	**Compensation**	**Other Committees**
James L. Bassett	$ 3,200	$ 800	$ 4,000
Larry H. Gibson, Jr.	4,400	1,000	-
W. Thomas Dozier, III	1,600	-	800
Timothy D. Tucker	2,000	1,000	-
John Carl Sanders	1,600	800	800
Mark D. Platt	4,800	1,200	-
David N. Hataway	-	800	-
J.K. Love	4,000	800	-
Ray Petty	4,000	-	-
	$ 25,600	**$ 6,400**	**$ 5,600**

As noted earlier, James L. Bassett served on the Texas District Stockholders Advisory Committee. In addition, three directors served on a credit review committee. Compensation for serving on these committees is included in the "Other Committees" column, above.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $106,990, $90,883 and $83,660 in 2017, 2016 and 2015, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

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 results that maximize value to the stockholders. This objective holds particularly true for the Association's chief executive officer (CEO) and senior officers. The Association employs 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 stockholder/members. The Association's board of directors, through its compensation committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the Association's evaluation and establishment of salary and incentive plans used by the Association.

Chief Executive Officer (CEO) Compensation Policy and Table

The CEO's salary is set by the board, through its compensation committee, using the compensation market data of independent third party specialists, as well as peer comparisons of CEOs of similar sized Farm Credit associations, as a guideline to determine a fair and competitive salary. Factors considered by the compensation committee and board in determining the final established compensation amounts for the CEO include personal performance evaluation, Association performance relative to goals established in the annual business plan, profitability, credit quality and administration, ability to pay patronage to members, and overall abilities exhibited by the CEO. The CEO's incentive bonus is determined at the discretion of the compensation committee and board.

The following table summarizes the compensation paid to the CEO of the Association during 2017, 2016 and 2015. Amounts reflected in the table are presented in the year the compensation was earned.

Name of CEO	Year	Salary (a)	Bonus (b)	Deferred/ Perquisite (c)	Other (d)	Total
Douglas Thiessen	**2017**	**334,309**	**83,574**	**40,677**	**1,711**	**460,271**
Douglas Thiessen	2016	321,450	64,288	39,553	1,639	426,930
Douglas Thiessen	2015	300,420	75,102	37,615	1,524	414,661

(a) Gross salary.
(b) Bonuses paid within the first 30 days of the subsequent calendar year.
(c) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, and automobile benefits.
(d) Amounts in the "Other" column include premiums paid for group term life insurance.

The CEO participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Plan is a defined contribution plan and is sponsored and maintained by the AgFirst/FCBT Plan Sponsor Committee for the benefit of participating employers in the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Agreement Regarding Employee Benefit Plans (the Administrative Agreement) and their eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the Association's existing pension plan. During 2017, 2016 and 2015 the Association evaluated the benefits lost as a result of these limitations with regard to the CEO and funded the shortfall. The Association contributed $11,574, $11,840 and $9,625 to the Plan in 2017, 2016 and 2015, respectively.

The employment relationship between the Association and the CEO is "at-will," meaning the Association may terminate the CEO's employment at any time, and the CEO may choose to leave at any time.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to all senior officers (excluding the CEO) of the Association during 2017, 2016 and 2015. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Group (a)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/ Perquisite (e)	Other (f)	Total
Aggregate of five highest paid officers	**2017**	**$ 821,142**	**$ 225,684**	**$ 277,950**	**$ 101,880**	**$ 5,623**	**$ 1,432,279**
	2016	797,225	190,397	266,602	98,823	8,774	1,361,821
	2015	775,631	228,975	76,253	83,719	4,281	1,168,859

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary.
(c) Bonuses paid within the first 30 days of the subsequent calendar year.
(d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.
(e) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, and automobile benefits.
(f) Amounts in the "Other" column include premiums paid for group term life insurance, gift cards, and physical fitness program reimbursements. All amounts for gift cards were grossed up for taxes.

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 institution upon request.

Pension Benefits Table

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

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2017
Senior Officer Group	Farm Credit Bank of Texas Pension Plan	36.1	$ 2,475,444	$ -

Pension Benefits Table Narrative Disclosure

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

Employee Success-Sharing and Incentive Plan

Association employees, including senior officers, can earn compensation above base salary through the Association's Employee Success Sharing Plan (Incentive Plan). Incentive compensation is available to all full-time, permanent employees and is based upon the achievement of predetermined performance goals pertaining to the Association's profitability, credit quality, and loan growth. Performance against these criteria is measured on a calendar year basis. Incentive compensation, if any, is accrued prior to December 31 of the given year, with payout being made generally by the end of the following January. The Association's Incentive Plan and total incentive compensation dollars are approved annually by the compensation committee and are at the full discretion of the board of directors.

The Incentive Plan has four major programs, as follows:

- Administrative Program – Incentive compensation for all administrative employees is based on the Association's total actual results in four key performance areas, with each area receiving equal weight. The four key performance areas are: 1) accrual loan growth, 2) return on equity (ROE) ratio, 3) adverse assets ratio, and 4) efficiency ratio. Total incentive compensation under the Administrative Program is limited to 25 percent of base salary.
- Branch Program – Incentive compensation for loan officers and branch managers is based on their respective branch's actual results in four key performance areas, with each area receiving equal weight. The four key performance areas are: 1) accrual loan growth, 2) ROE, 3) adverse assets ratio, and 4) delinquencies. In addition to incentive compensation from the Branch Program, employees in this program may also receive one-half of the incentive compensation from the Administrative Program (limited to 12.5 percent of base salary). Total incentive compensation under the Branch Program is limited to 40 percent of base salary.
- Regional Presidents (RP's) – Incentive compensation for RP's is based on their respective region's performance using the same criteria as the Branch Program. In addition to incentive compensation from this program, which is not limited, RP's may also receive one-half of the incentive compensation from the Administrative Program (limited to 12.5 percent of base salary). Similar to the Branch Program, total incentive compensation for RP's is limited to 40 percent of base salary.
- New Volume and Sales Call Program – Branch managers and loan officers may receive an additional payout of 5 percent, 10 percent or 15 percent of base salary, depending on individual performance related to sales calls and new volume goals. Total incentive compensation under this program is subject to the 40 percent limit under the Branch and RP Programs above.

Other Compensation Plans Funded by the Association on Behalf of Senior Officers and Employees

The Association provides certain employees use of Association-owned vehicles. Personal use of these vehicles is governed by the Association's board-approved travel and vehicle policies as well as IRS rules. Employees assigned an Association vehicle are required to maintain a business mileage log, and the calculated value of personal use of the vehicles is included in respective employees' taxable earnings, in accordance with IRS regulations. Amounts for personal use of an Association vehicle are included in the "Deferred/Perquisite" column in the compensation tables above.

Employees who use their personal vehicle for business purposes were reimbursed during 2017 at the IRS-approved rate prevailing at the time.

As discussed in Note 2, "Summary of Significant Accounting Policies" and Note 12, "Employee Benefit Plans," the Association participates in the Farm Credit Benefits Alliance 401(k) Plan and the Defined Contribution (DC) Plan. Amounts contributed by the Association to the 401(k) and DC plans on behalf of the CEO and senior officers are included in the "Deferred/Perquisite" column in the compensation tables above.

The Association provides group term life insurance to all employees in an amount equal to double the employees' respective salaries. To the extent that the value of the insurance exceeds $50,000, an amount must be added to the employees' taxable earnings using the IRS-approved calculation. Amounts relating to excess life insurance are included in the "Other" column in the compensation tables above.

Association policy allows for reimbursement of tuition and related education expenses incurred in connection with approved undergraduate and/or graduate level coursework. The program is available to all full-time, permanent employees.

Association employees have the opportunity to earn commissions on revenue generated from sales of term or credit life insurance. The Association participates in a program with an outside insurance company to provide borrowers the opportunity to purchase the insurance. Employees who generate the insurance sales receive a portion of the commissions received by the Association.

The Association employs a program for the health and well-being of its employees. All full-time permanent employees are eligible to participate in the program, which allows for reimbursement of physical-fitness-related expenses up to $360 per year, per employee. Amounts paid for physical fitness reimbursements to the CEO and senior officers are included in the "Other" column in the compensation tables above.

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

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

FCA regulations require disclosure in this section of any events occurring within the last five years (bankruptcy, conviction or naming in a criminal proceeding, or judgment or finding limiting a right to engage in a business) that are material to the evaluation of the ability or integrity of any person who served as a director or senior officer. The Association has no directors or senior officers with any involvement in such legal proceedings as described in the FCA regulations.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association's audit committee engaged the independent accounting firm of PricewaterhouseCoopers LLP (PwC) to perform the annual audit of the Association's financial statements included in this annual report. The fees paid during 2017 for professional services rendered for the Association by PwC were $51,754 for audit services, and $11,050 for tax return preparation services. No other services were performed by PwC during the reporting period.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association has formed unincorporated business entities for the purpose of acquiring and managing unusual or complex collateral associated with loans. Each of the entities is a single-member limited liability company (LLC) with the Association being the sole member. SA Alabama Properties, LLC and SA Alabama Properties II, LLC were each organized for the purpose of holding and managing foreclosed properties. In addition the Association is also part owner of FCBT Biostar B, LLC, which was organized for the purpose of holding and managing foreclosed property related to a participation loan.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 14, 2018, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

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

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

The Association is committed to meeting the needs of Young, Beginning and Small (YBS) farmers and ranchers and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of YBS lending activities is a priority in the Association. Additional employee time and other resources are combined with the most liberal application of the Association's underwriting standards possible to meet the credit needs of YBS farmers and ranchers. In addition, the Association actively supports other programs, events, scholarships and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The Association sets minimum standards and monitors its YBS performance on a regular basis. These results are also compared to the demographics of the territory it serves as reflected in the USDA Census of Agriculture.

Definitions for "young," "beginning" and "small" farmers and ranchers used by the Association are:

- Young: Age 35 or younger as of the loan date
- Beginning: Ten years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than $250,000.00 in annual gross sales of agricultural products

The 2012 USDA Census of Agriculture for Alabama (Census) indicates that in our territory 4.1 percent of farm operators are "young," 18.5 percent are "beginning" and 91.9 percent of the farms are "small."

Slight differences noted between the Census and our YBS information is as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The Census shows years on present farm in a class up to 9 years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.
- USDA data is based on the number of farms, whereas the Association's data is based on the number of loans.

The Association's YBS loans, as a percentage of total loans outstanding on December 31, are reflected in the table below for the past three years.

	Young	Beginning	Small
2015	18.38%	54.07%	77.78%
2016	18.66%	54.88%	77.34%
2017	18.29%	54.67%	77.12%

The Association's goals over the succeeding three-year period is to reach the percentages of its number of loans outstanding in young, beginning and small farmer loans as shown below.

	Young	Beginning	Small
2018	18.50%	55.00%	77.25%
2019	18.75%	55.50%	77.40%
2020	19.00%	56.00%	77.50%

The Association continues to provide credit to YBS farmers and ranchers at high levels as reflected by the above comparative data. Emphasis on this area of the Association's lending business will continue to be a priority.