



2 0 1 7   A N N U A L   R E P O R T



Part of the Farm Credit System



## Message from the Chairman of the Board

Dear Louisiana Land Bank Stockholders,

On behalf of the Board of Directors of Louisiana Land Bank ACA (Association), I would like to thank you for your business. I would also like to provide some insight into the operation of your board as well as the ongoing commitment of your board members to effectively discharge our fiduciary duties to our financial institution and to our stockholder/customers who own our cooperative association. The board is responsible for establishing policies, providing strategic direction, hiring and compensating our CEO, providing for a plan of succession, and overseeing the major functions of our business. We operate in a regulated environment, and board members are keenly aware of the necessity to put safety and soundness first.

We take our jobs seriously, and we are strongly committed to seeing the Association continue to grow and prosper. We are honored and proud to serve as the stockholders' representatives, and we constantly seek to improve our individual director as well as our collective board skill sets, knowledge and abilities through internal and external director development opportunities. We hope to guard against complacency when times are good while being fully prepared and willing to make difficult decisions when challenges arise.

We have high confidence in our CEO, our executive group and our employee team, and we are proud of their steadfast commitment to serving our customers well. When you do business with Louisiana Land Bank, we expect our staff members to do whatever is reasonably possible to deliver timely personal service coupled with competitive high-quality loan products. We understand that the dollars that we provide are just like the dollars available from any other lender, but we believe our knowledge of agriculture, our focus on customer service and our recurring substantial cash patronage payments truly set us apart from other lenders.

But there is also the "rest of the story." We, and you as customers and stockholders, are part of the Farm Credit System. The System and its institutions, serving every county and parish across our great country, have recently entered our second century of service to agriculture and rural America. The System supplies over 40 percent of the credit used by the U.S. agricultural community and has over 500,000 customers and almost \$260 billion in loans outstanding. Operating results have been solid, reflecting combined earnings of over \$5 billion in 2017. As part of the Farm Credit System, we are strong advocates and ambassadors for agriculture, and we help tell the story of the unique food and fiber production benefits that our fellow citizens enjoy every day.

Our Association has progressed steadily over the past several years as assets, earnings and capital have grown while loan portfolio quality has remained very sound. Our mission is to remain a reliable consistent source of credit today and tomorrow, and I can assure you that your board will remain focused on carrying out that mission with vigilance, vision and vigor. We thank you for your continued loyalty to Louisiana Land Bank, and we sincerely hope that we can be worthy of earning more business from you, family members, friends and business associates. We have a good thing going with Louisiana Land Bank, and we want you to be a part of our future success.



J. Mark Morgan  
Chairman of the Board

## CEO's Letter to Association Members

Dear Louisiana Land Bank Stockholders,

I write this letter to you with a sincere sense of pride and appreciation for the solid financial and operating results posted by Louisiana Land Bank, ACA (Association) during 2017. The Association has grown stronger over the past five years and continues to be the premier agricultural and rural lender in the state of Louisiana. 2017 was a very positive year for the Association as essentially all key business metrics met or exceeded our business plan goals and expectations.

The Association's loan volume has grown by more than 23 percent over the last five years. That growth in earning assets is directly attributable to you, the members and owners of our Association. Without your frequent business referrals and unwavering support, we would not be able to grow and serve the financing needs of our customers. Our lending is focused on Louisiana-based agricultural operations and land purchases, and we continue to provide competitive credit to those key markets. This is a fundamental priority in our business plan initiatives.

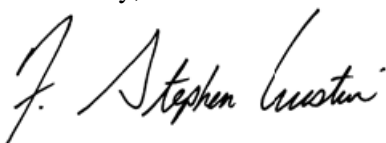
Through their diligent efforts, our branch lending staff closed loans totaling more than \$180 million during 2017, and that strong loan production represented record closings for our team. Average accrual loan volume, the primary earnings engine for our business, grew by just under 6 percent. This loan growth generated positive operating results through a healthy increase in our net interest income compared to 2016. The growth in loan volume and interest income over the last five years has allowed the Board of Directors to build on its pledge to put a substantial portion of our profits back into the pockets of our customers through recurring cash patronage payments.

The Board of Directors has approved another 1.00 percent cash patronage distribution to members from 2017 net earnings. This year's cash payout of \$7 million represents an increase of nearly 8 percent in dollars compared to last year's patronage payment. Qualifying members should expect to receive a patronage check around the end of the first quarter of 2018. Since 2013, the Association will have distributed nearly \$27 million in cash patronage payments to our Association members.

Technology is ever-changing, and we recognize that our stockholders expect enhanced services through technology. During 2018, we plan several network and information technology platform upgrades that will allow us to meet and exceed those expectations. We will also continue to invest in our employees through training and professional development activities. This ongoing commitment to staff proficiency helps make certain that our employees are armed with the proper skill sets and job expertise needed to meet the needs and expectations of all of our customers. Finally, our sound capital position and rigorous risk management practices allow us to position the Association for consistent growth paired with meaningful future patronage payments to our customers.

Again, thank you for being a vital part of this great organization. We strive every day to be a constructive force to competently meet the state's agricultural and rural financing needs. As we enjoy 2017's profitable results, we are already looking forward to serving you and your fellow Louisiana farmers, agribusiness and rural residents for many years to come.

Sincerely,



F. Stephen Austin  
Chief Executive Officer

## Table of Contents

Report of Management .....	4
Report of Audit Committee .....	5
Five-Year Summary of Selected Consolidated Financial Data .....	6
Management’s Discussion and Analysis of Financial Condition and Results of Operations (Unaudited).....	8
Report of Independent Auditors .....	15
Consolidated Financial Statements.....	16
Notes to Consolidated Financial Statements .....	21
Disclosure Information and Index (Unaudited).....	51

## REPORT OF MANAGEMENT

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

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (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 also conduct a review of internal controls to the extent necessary to comply with auditing standards solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

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

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



F. Stephen Austin, Chief Executive Officer

*March 14, 2018*



James Mark Morgan, Chairman, Board of Directors

*March 14, 2018*



Christopher E. Bentley, Chief Financial Officer

*March 14, 2018*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of Cecelia A. Hoyt – Chairman, Gert Hawkins, Cullen Kovac, and Ed Patrick. In 2017, 12 committee meetings were held. The Committee oversees the scope of Louisiana Land Bank, ACA’s system of internal controls and procedures, and the adequacy of management’s action with respect to recommendations arising from those auditing activities. The Committee’s approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Louisiana Land Bank, ACA’s website. The Committee approved the appointment of PricewaterhouseCoopers, LLP 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 Louisiana Land Bank, ACA’s consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The Committee’s responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed Louisiana Land Bank, ACA’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’s and Louisiana Land Bank, ACA’s internal auditors directly provide reports on significant matters to the committee.

The Committee discussed with PricewaterhouseCoopers, LLP its independence from Louisiana Land Bank, ACA. The Committee also reviewed the non-audit 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 include the audited consolidated financial statements in Louisiana Land Bank, ACA’s Annual Report to Stockholders for the year ended December 31, 2017.

### Audit Committee Members

*Cecelia A. Hoyt, Chairman*

*Gert Hawkins*

*Cullen Kovac*

*Ed Patrick*

*March 14, 2018*

LOUISIANA LAND BANK, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(unaudited)

(dollars in thousands)

	2017	2016	2015	2014	2013
<b>Balance Sheet Data</b>					
<u>Assets</u>					
Cash	\$ 27	\$ 3	\$ 82	\$ 70	\$ 50
Loans	747,344	724,081	659,483	627,120	611,195
Less: allowance for loan losses	5,412	5,427	5,377	5,203	5,313
Net loans	741,932	718,654	654,106	621,917	605,882
Investment in and receivable from the Farm Credit Bank of Texas	13,085	11,329	11,028	10,978	11,877
Other property owned, net	162	75	-	719	1,551
Other assets	11,522	12,398	9,718	8,276	8,214
Total assets	\$ 766,728	\$ 742,459	\$ 674,934	\$ 641,960	\$ 627,574
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 14,223	\$ 12,656	\$ 11,340	\$ 9,751	\$ 6,918
Obligations with maturities greater than one year	608,147	589,614	527,537	500,933	495,401
Total liabilities	622,370	602,270	538,877	510,684	502,319
<u>Members' Equity</u>					
Capital stock and participation certificates	2,734	2,653	2,548	2,481	2,900
Unallocated retained earnings	142,698	138,215	134,016	129,598	122,482
Accumulated other comprehensive income (loss)	(1,074)	(679)	(507)	(803)	(127)
Total members' equity	144,358	140,189	136,057	131,276	125,255
Total liabilities and members' equity	\$ 766,728	\$ 742,459	\$ 674,934	\$ 641,960	\$ 627,574
<b>Statement of Income Data</b>					
Net interest income	\$ 20,393	\$ 19,361	\$ 17,826	\$ 18,209	\$ 17,553
(Provision for loan losses) or loan loss reversal	38	(15)	(33)	(13)	(370)
Income from the Farm Credit Bank of Texas	2,784	2,701	2,517	2,498	2,544
Other noninterest income	370	453	875	1,641	982
Noninterest expense	(12,191)	(11,767)	(11,009)	(10,698)	(11,486)
Provision for (benefit from) income taxes	151	(2)	(1)	(22)	(43)
Net income (loss)	\$ 11,545	\$ 10,731	\$ 10,175	\$ 11,615	\$ 9,180
<b>Key Financial Ratios for the Year</b>					
Return on average assets	1.5%	1.5%	1.5%	1.8%	1.5%
Return on average members' equity	7.9%	7.7%	7.5%	8.8%	7.4%
Net interest income as a percentage of average earning assets	2.8%	2.7%	2.8%	2.9%	2.9%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	0.8%

	2017	2016	2015	2014	2013
<b><u>Key Financial Ratios at Year End *</u></b>					
Members' equity as a percentage of total assets	<b>18.8%</b>	18.9%	20.2%	20.4%	20.0%
Debt as a percentage of members' equity	<b>431.1%</b>	429.6%	396.1%	389.0%	401.0%
Allowance for loan losses as a percentage of loans	<b>0.7%</b>	0.7%	0.8%	0.8%	0.9%
Common equity tier 1 ratio	<b>17.8%</b>	n/a	n/a	n/a	n/a
Tier 1 capital ratio	<b>17.8%</b>	n/a	n/a	n/a	n/a
Total capital ratio	<b>18.5%</b>	n/a	n/a	n/a	n/a
Permanent capital ratio	<b>17.9%</b>	18.4%	19.5%	19.5%	18.5%
Tier 1 leverage ratio	<b>18.3%</b>	n/a	n/a	n/a	n/a
UREE leverage ratio	<b>19.5%</b>	n/a	n/a	n/a	n/a

**Net Income Distribution**

Cash dividends paid	\$	<b>6,494</b>	\$	5,822	\$	4,500	\$	2,999	\$	1,700
---------------------	----	--------------	----	-------	----	-------	----	-------	----	-------

\* 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 Louisiana Land Bank, ACA, including its wholly-owned subsidiaries, Louisiana Production Credit Association, PCA and Louisiana Federal Land Bank Association, FLCA (Association) for the years ended December 31, 2017, 2016 and 2015, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's Audit Committee.

**Forward-Looking Information:**

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

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

**Significant Events:**

The Association's Board of Directors (Board) elected to pay a patronage from 2017's earnings totaling approximately \$7 million. It is anticipated that the patronage will be paid to eligible stockholders in the first quarter of 2018. The patronage is in the form of a qualified patronage distribution. The increase in the qualified patronage distribution, compared to prior year, is just under 8 percent. This marks the fifth consecutive year that the Association has increased and paid the cash patronage to eligible borrowers.

In December 2017, the Association received a direct loan patronage of \$2,348,638 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 \$247,947 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$187,485 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's patronage pool program.

For more than 27 years, the Association has continued to provide its members with quality financial services. The Board 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 loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association’s loan portfolio, including principal less funds held of \$747,344,009, \$724,081,362 and \$659,483,139 as of December 31, 2017, 2016 and 2015, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, “Loans and Allowance for Loan Losses” included in this annual report.

**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 \$34,639,423, \$52,866,011 and \$46,813,295, or 4.6 percent, 7.3 percent and 7.1 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of \$274,604, \$770,175 and \$881,931, or 0.0 percent, 0.1 percent and 0.1 percent of loans, respectively. The Association has also sold participations of \$51,281,588, \$51,687,108 and \$36,403,576 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	\$ 3,315,988	37.5%	\$ 5,017,617	58.5%	\$ 4,136,284	75.7%
90 days past due and still accruing interest	25,666	0.3%	-	0.0%	-	0.0%
Formally restructured	5,351,716	60.4%	3,356,690	40.6%	1,324,751	24.3%
Other property owned, net	161,654	1.8%	74,587	0.9%	-	0.0%
Total	\$ 8,855,024	100.0%	\$ 8,448,894	100.0%	\$ 5,461,035	100.0%

At December 31, 2017, 2016 and 2015, loans that were considered impaired were \$8,693,370, \$8,374,307 and \$5,461,035, representing 1.2 percent, 1.2 percent and 0.8 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

At December 31, 2017, the Association had 20 loans to a single borrower totaling \$18,745,207, representing 2.50 percent of total loan volume.

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 real estate lender.

**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	\$ 5,411,851	\$ 5,426,945	\$ 5,376,702
Allowance for loan losses to total loans	0.7%	0.7%	0.8%
Allowance for loan losses to nonaccrual loans	163.2%	108.2%	130.0%
Allowance for loan losses to impaired loans	62.3%	63.8%	98.5%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$5,411,851, \$5,426,945 and \$5,376,702 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 \$11,545,353 as compared to \$10,731,144 for the year ended December 31, 2016, reflecting an increase of \$814,209, or 7.6 percent. The Association's net income for the year ended December 31, 2015 was \$10,175,374. Net income increased \$555,770, or 5.5 percent, in 2016 versus 2015.

Net interest income for 2017, 2016 and 2015 was \$20,393,270, \$19,361,496 and \$17,826,254, respectively, reflecting increases of \$1,031,774, or 5.3 percent, for 2017 versus 2016 and \$1,535,242, or 8.6 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	\$ 736,546,959	\$ 33,657,983	\$ 701,948,110	\$ 30,547,424	\$ 640,405,977	\$ 27,120,728
Total interest-earning assets	736,546,959	33,657,983	701,948,110	30,547,424	640,405,977	27,120,728
Interest-bearing liabilities	602,329,753	13,264,713	570,988,439	11,185,928	514,111,825	9,294,474
Impact of capital	\$ 134,217,206		\$ 130,959,671		\$ 126,294,152	
Net interest income		\$ 20,393,270		\$ 19,361,496		\$ 17,826,254

	2017	2016	2015
	Average Yield	Average Yield	Average Yield
Yield on loans	4.57%	4.35%	4.23%
Total yield on interest-earning assets	4.57%	4.35%	4.23%
Cost of interest-bearing liabilities	2.20%	2.07%	1.81%
Interest rate spread	2.37%	2.39%	2.43%

	2017 vs. 2016			2016 vs. 2015		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 1,505,673	\$ 1,604,886	\$ 3,110,559	\$ 2,606,248	\$ 820,448	\$ 3,426,696
Total interest income	1,505,673	1,604,886	3,110,559	2,606,248	820,448	3,426,696
Interest expense	613,976	1,464,809	2,078,785	1,028,272	863,182	1,891,454
Net interest income	\$ 891,697	\$ 140,077	\$ 1,031,774	\$ 1,577,976	\$ (42,734)	\$ 1,535,242

Interest income for 2017 increased by \$3,110,559, or 10.2 percent, compared to 2016, primarily due to an increase in accrual loan volume and rates. Interest expense for 2017 increased by \$2,078,785, or 18.6 percent, compared to 2016 due to an increase in debt outstanding and rates. The interest rate spread decreased by 2 basis points to 2.37 percent in 2017 from 2.39 percent in 2016, primarily due to less interest collected on non-accrual loans. The interest rate spread decreased by 4 basis points to 2.39 percent in 2016 from 2.43 percent in 2015, primarily because competitive pressure on rates in sections of the state.

Noninterest income for 2017 decreased by \$73, or 0.0 percent, compared to 2016. Noninterest income for 2016 decreased by \$238,141, or 7.0 percent, compared to 2015, due primarily to gains on sale of other property owned and sale of vehicles that occurred during 2015.

Provisions for loan losses decreased by \$52,839, or 361.9 percent, compared to 2016, due to less allowance needed as a result of credit quality.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Operating expenses increased by \$422,912 in 2017 when compared to 2016 primarily due to salaries. During 2017, salaries and employee

benefits increased by \$251,234 or 3.44 percent when compared to 2016. Other increases include Directors' expense \$52,840, Purchased services \$29,442, Occupancy and equipment \$21,155, Communications \$38,163, Advertising \$60,949, Public and Member relations \$71,869, Supervisory and exam expense \$45,708 and Other noninterest expense of \$88,724.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of \$548,130, \$584,374 and \$515,094 for 2017, 2016 and 2015, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling \$617,640 related to the origination of loans.

For the year ended December 31, 2017, the Association's return on average assets was 1.5 percent, as compared to 1.5 percent and 1.5 percent for the years ended December 31, 2016 and 2015, respectively. For the year ended December 31, 2017, the Association's return on average members' equity was 7.9 percent, as compared to 7.7 percent and 7.5 percent for the years ended December 31, 2016 and 2015, respectively.

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

### **Liquidity and Funding Sources:**

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$606,930,548, \$588,616,613 and \$526,697,949 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 2.37 percent, 2.07 percent and 1.91 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 an increase in accrual loan volume.

The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$139,791,810, \$134,851,502 and \$132,214,379 at December 31, 2017, 2016 and 2015, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2017, was \$735,000,000 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, 2020, 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 \$144,357,974, \$140,189,323 and \$136,057,708 at December 31, 2017, 2016 and 2015, respectively.

New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The 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 17.88 percent, 18.4 percent and 19.5 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 17.76 percent, tier 1 capital ratio was 17.76 percent, and total capital ratio was 18.48 percent at December 31, 2017. Under the new regulations, the Association is required to maintain a minimum tier 1 leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum unallocated retained earnings equivalents (UREE) leverage ratio of 1.5 percent. The Association's tier 1 leverage ratio was 18.31 percent and UREE leverage ratio was 19.46 percent 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 Association's core surplus ratio at December 31, 2016 and 2015 was 18.0 percent and 19.1 percent, respectively, which was in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measured available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio was an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2016 and 2015 was 18.0 percent and 19.1 percent, respectively, which was in compliance with the FCA's minimum ratio requirement of 7.0 percent. 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.

#### **Significant Recent Accounting Pronouncements:**

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

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

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

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

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

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

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

### **Regulatory Matters:**

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

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

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

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

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

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

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

The public comment period ended on October 23, 2014. FCA anticipates release of a final rule in the first quarter of 2018. In 2017, 2016 and 2015, the Association paid patronage distributions of \$6,494,491, \$5,822,288 and \$4,499,942, respectively. In December 2017, the Board approved a 1% or approximately \$7 million cash patronage for eligible stockholders. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

#### **Relationship With the Bank:**

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

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

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

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

#### **Other:**

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

#### **Summary:**

Over the past 27 years, regardless of the state of the agricultural economy, your Association's Board of Directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.



## Report of Independent Auditors

To the Board of Directors of Louisiana Land Bank, ACA

We have audited the accompanying consolidated financial statements of Louisiana Land Bank, 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 Louisiana Land Bank, ACA and its subsidiaries as of December 31, 2017, December 31, 2016 and December 31, 2015, and the results of their operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

March 14, 2018



**LOUISIANA LAND BANK, ACA**

**CONSOLIDATED BALANCE SHEET**

	December 31,		
	2017	2016	2015
<b><u>Assets</u></b>			
Cash	\$ 26,816	\$ 2,849	\$ 81,673
Loans	747,344,009	724,081,362	659,483,139
Less: allowance for loan losses	5,411,851	5,426,945	5,376,702
Net loans	741,932,158	718,654,417	654,106,437
Accrued interest receivable	7,308,907	6,561,617	5,597,145
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	12,002,890	11,329,475	10,228,330
Other	1,082,252	1,788,241	799,732
Other property owned, net	161,654	74,587	-
Premises and equipment	3,748,837	3,582,000	3,648,174
Other assets	464,760	465,835	472,913
Total assets	<b>\$ 766,728,274</b>	<b>\$ 742,459,021</b>	<b>\$ 674,934,404</b>
<b><u>Liabilities</u></b>			
Note payable to the Farm Credit Bank of Texas	\$ 606,930,548	\$ 588,616,613	\$ 526,697,949
Accrued interest payable	1,215,974	997,381	838,596
Drafts outstanding	490,355	79,464	638,919
Patronage distributions payable	7,035,046	6,467,395	5,757,683
Other liabilities	6,698,377	6,108,845	4,943,549
Total liabilities	<b>622,370,300</b>	<b>602,269,698</b>	<b>538,876,696</b>
<b><u>Members' Equity</u></b>			
Capital stock and participation certificates	2,733,540	2,652,945	2,548,415
Unallocated retained earnings	142,698,330	138,215,117	134,015,973
Accumulated other comprehensive income (loss)	(1,073,896)	(678,739)	(506,680)
Total members' equity	<b>144,357,974</b>	<b>140,189,323</b>	<b>136,057,708</b>
Total liabilities and members' equity	<b>\$ 766,728,274</b>	<b>\$ 742,459,021</b>	<b>\$ 674,934,404</b>

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

*LOUISIANA LAND BANK, ACA—2017 Annual Report*

**LOUISIANA LAND BANK, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2017	2016	2015
<b><u>Interest Income</u></b>			
Loans	\$ 33,657,983	\$ 30,547,424	\$ 27,120,728
Total interest income	<u>33,657,983</u>	<u>30,547,424</u>	<u>27,120,728</u>
<b><u>Interest Expense</u></b>			
Note payable to the Farm Credit Bank of Texas	13,264,713	11,185,928	9,294,474
Total interest expense	<u>13,264,713</u>	<u>11,185,928</u>	<u>9,294,474</u>
Net interest income	<u>20,393,270</u>	<u>19,361,496</u>	<u>17,826,254</u>
Provision for Loan Losses	(38,238)	14,601	32,801
Net interest income after provision for losses	<u>20,431,508</u>	<u>19,346,895</u>	<u>17,793,453</u>
<b><u>Noninterest Income</u></b>			
Income from the Farm Credit Bank of Texas:			
Patronage income	2,784,069	2,700,974	2,517,134
Loan fees	249,841	293,392	193,184
Financially related services income	2,271	2,814	2,633
(Loss) gain on other property owned, net	(10,631)	735	215,365
Gain on sale of premises and equipment, net	50,108	80,254	402,267
Other noninterest income	78,142	75,704	61,431
Total noninterest income	<u>3,153,800</u>	<u>3,153,873</u>	<u>3,392,014</u>
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	7,560,617	7,309,383	6,872,066
Directors' expense	408,498	355,658	377,049
Purchased services	614,172	584,730	530,896
Travel	533,646	475,031	481,516
Occupancy and equipment	562,634	541,479	569,714
Communications	210,902	172,739	143,288
Advertising	379,280	440,229	424,009
Public and member relations	363,424	291,555	257,633
Supervisory and exam expense	428,532	382,825	364,046
Insurance Fund premiums	927,922	989,961	721,771
Other noninterest expense	201,054	224,179	266,689
Total noninterest expenses	<u>12,190,681</u>	<u>11,767,769</u>	<u>11,008,677</u>
Income before income taxes	<u>11,394,627</u>	<u>10,732,999</u>	<u>10,176,790</u>
(Benefit from) provision for income taxes	(150,726)	1,855	1,416
<b>NET INCOME</b>	<u>11,545,353</u>	<u>10,731,144</u>	<u>10,175,374</u>
Other comprehensive income:			
Change in postretirement benefit plans	(395,157)	(172,059)	296,260
Other comprehensive income, net of tax	<u>(395,157)</u>	<u>(172,059)</u>	<u>296,260</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 11,150,196</u>	<u>\$ 10,559,085</u>	<u>\$ 10,471,634</u>

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

*LOUISIANA LAND BANK, ACA—2017 Annual Report*

LOUISIANA LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	<u>Capital Stock/ Participation Certificates</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2014	\$ 2,481,320	\$ 129,597,692	\$ (802,940)	\$ 131,276,072
Net income	-	10,175,374	-	10,175,374
Other comprehensive income	-	-	296,260	296,260
Capital stock/participation certificates and allocated retained earnings issued	339,640	-	-	339,640
Capital stock/participation certificates and allocated retained earnings retired	(272,545)	-	-	(272,545)
Patronage dividends:				
Cash	-	(5,757,093)	-	(5,757,093)
Balance at December 31, 2015	2,548,415	134,015,973	(506,680)	136,057,708
Net income	-	10,731,144	-	10,731,144
Other comprehensive income	-	-	(172,059)	(172,059)
Capital stock/participation certificates issued	341,060	-	-	341,060
Capital stock/participation certificates and allocated retained earnings retired	(236,530)	-	-	(236,530)
Patronage dividends:				
Cash	-	(6,532,000)	-	(6,532,000)
Balance at December 31, 2016	2,652,945	138,215,117	(678,739)	140,189,323
Net income	-	11,545,353	-	11,545,353
Other comprehensive income	-	-	(395,157)	(395,157)
Capital stock/participation certificates issued	329,455	-	-	329,455
Capital stock/participation certificates and allocated retained earnings retired	(248,860)	-	-	(248,860)
Patronage dividends:				
Cash	-	(7,062,140)	-	(7,062,140)
<b>Balance at December 31, 2017</b>	<b>\$ 2,733,540</b>	<b>\$ 142,698,330</b>	<b>\$ (1,073,896)</b>	<b>\$ 144,357,974</b>

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

LOUISIANA LAND BANK, ACA—2017 Annual Report

**LOUISIANA LAND BANK, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net income	\$ 11,545,353	\$ 10,731,144	\$ 10,175,374
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	(38,238)	14,601	32,801
Gain on other property owned, net	(10,655)	-	(215,994)
Gain on sale of other property owned, net	(10,655)	-	(215,994)
Depreciation	432,810	402,356	408,263
Gain on sale of premises and equipment, net	(50,108)	(80,254)	(402,346)
Increase in accrued interest receivable	(747,289)	(964,472)	(759,405)
Decrease (increase) in other receivables from the Farm Credit Bank of Texas	705,989	(988,509)	197,985
Decrease in deferred tax assets	3,596	2,269	1,416
Decrease (increase) in other assets	1,075	7,078	(43,387)
Increase in accrued interest payable	218,774	158,604	74,674
Increase in other liabilities	218,128	898,624	283,353
Net cash provided by operating activities	12,279,435	10,181,441	9,752,734
<b>Cash flows from investing activities:</b>			
Increase in loans, net	(23,497,361)	(64,836,495)	(32,428,792)
Cash recoveries of loans previously charged off	513	228,261	90,007
Proceeds from purchase of investment in the Farm Credit Bank of Texas	(673,415)	(1,101,145)	(248,420)
Purchases of premises and equipment	(1,276,189)	(314,613)	(1,211,069)
Proceeds from sales of premises and equipment	794,813	122,276	934,739
Proceeds from sales of other property owned	85,242	-	623,221
Net cash used in investing activities	(24,566,397)	(65,901,716)	(32,240,314)

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

*LOUISIANA LAND BANK, ACA—2017 Annual Report*

**LOUISIANA LAND BANK, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2017	2016	2015
<b>Cash flows from financing activities:</b>			
Net draws on note payable to the Farm Credit Bank of Texas	18,313,935	61,918,664	26,528,806
Increase (decrease) in drafts outstanding	410,890	(559,455)	402,882
Issuance of capital stock and participation certificates	329,455	341,060	339,640
Retirement of capital stock and participation certificates	(248,860)	(236,530)	(272,545)
Patronage distributions paid	(6,494,491)	(5,822,288)	(4,499,942)
Net cash provided by financing activities	12,310,929	55,641,451	22,498,841
Net increase (decrease) in cash	23,967	(78,824)	11,261
Cash at the beginning of the year	2,849	81,673	70,412
Cash at the end of the year	\$ 26,816	\$ 2,849	\$ 81,673
 <b>Supplemental schedule of noncash investing and financing activities:</b>			
Loans transferred to other property owned	161,654	74,587	-
Loans charged off	4,897	100,094	8,634
Patronage distributions declared	7,035,025	6,467,192	5,757,093
Unfunded Commitments	82,883,657	80,956,440	-
 <b>Supplemental cash information:</b>			
Cash paid during the year for:			
Interest	\$ 13,046,113	\$ 11,027,324	\$ 9,369,148

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

*LOUISIANA LAND BANK, ACA—2017 Annual Report*

**LOUISIANA LAND BANK, ACA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — ORGANIZATION AND OPERATIONS:**

- A. Organization: Louisiana Land Bank, ACA including its wholly-owned subsidiaries, Louisiana Production Credit Association, PCA and Louisiana Federal Land Bank, 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 parishes of Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Bienville, Bossier, Caddo, Calcasieu, Caldwell, Cameron, Catahoula, Claiborne, Concordia, DeSoto, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita, Plaquemines, Pointe Coupee, Rapides, Red River, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Union, Vermillion, Vernon, Washington, Webster, West Baton Rouge, West Carroll, West Feliciana and Winn in the state of Louisiana.

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

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

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

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

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

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

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

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

## **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates.

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

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

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

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

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

The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will



experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

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

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

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

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

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

- E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.
- F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

- G. **Advance Conditional Payments:** The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.
- H. **Employee Benefit Plans:** Employees of the Association participate in either the district defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2017, made on their behalf into various investment alternatives.

The 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 recognized pension costs for the DC plan of \$211,904, \$213,977 and \$242,399 for the years ended December 31, 2017, 2016 and 2015 respectively. For the DB plan, the Association recognized pension costs of \$318,569, \$345,983 and \$135,136 for the years ended December 31, 2017, 2016 and 2015, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the Associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$182,926, \$169,962 and \$193,131 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

- 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. Deferred taxes are provided on the Association's taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. 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 Acts of 2017 (TCJA) were enacted in late 2017. Among other things, the TCJA changed the federal corporate tax rate from 35 percent to 21 percent. 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). This will 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		2016		2015	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 635,864,454	85.1%	\$ 611,296,431	84.4%	\$ 558,290,493	84.7%
Production and intermediate term	51,186,630	6.8%	49,226,496	6.8%	42,096,061	6.4%
Agribusiness:						
Loans to cooperatives	5,111,370	0.7%	6,557,031	0.9%	5,262,571	0.8%
Processing and marketing	24,764,520	3.3%	20,654,968	2.9%	11,893,789	1.8%
Farm-related business	16,263,259	2.2%	17,827,744	2.5%	15,276,840	2.3%
Communication	2,498,214	0.3%	6,304,131	0.8%	8,232,747	1.2%
Energy	797,601	0.1%	868,370	0.1%	2,367,715	0.4%
Water and waste water	-	0.0%	-	0.0%	635,159	0.1%
Rural residential real estate	10,857,961	1.5%	11,270,643	1.6%	15,346,639	2.3%
Lease receivables	-	0.0%	75,548	0.0%	81,125	0.0%
<b>Total</b>	<b>\$ 747,344,009</b>	<b>100.0%</b>	<b>\$ 724,081,362</b>	<b>100.0%</b>	<b>\$ 659,483,139</b>	<b>100.0%</b>

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 1,870,041	\$ 25,892,614	\$ -	\$ -	\$ 1,870,041
Production and intermediate term	6,114,490	4,201,456	-	-	6,114,490	4,201,456
Agribusiness	23,084,473	20,014,846	274,604	1,172,672	23,359,077	21,187,518
Communication	2,498,214	-	-	-	2,498,214	-
Energy	797,601	-	-	-	797,601	-
<b>Total</b>	<b>\$ 34,364,819</b>	<b>\$ 50,108,916</b>	<b>\$ 274,604</b>	<b>\$ 1,172,672</b>	<b>\$ 34,639,423</b>	<b>\$ 51,281,588</b>

Geographic Distribution by loan volume as of December 31, 2017:

REGION	2017	2016	2015
<b>Louisiana</b>			
Northeast	30.68%	31.15%	33.82%
Northwest	12.72%	12.34%	11.89%
Southeast	20.17%	19.78%	20.37%
Southwest	17.76%	16.92%	16.75%
<b>Total Louisiana</b>	<b>81.33%</b>	<b>80.19%</b>	<b>82.83%</b>
<b>Out of State</b>	<b>18.67%</b>	<b>19.81%</b>	<b>17.17%</b>
	100.00%	100.00%	100.00%

The Association's concentration of credit risk in various agricultural commodities is shown in the following table.

Operation/Commodity	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
Timber	\$ 218,380,111	29.2%	\$ 209,574,254	28.9%	\$ 203,607,055	30.9%
Cash grains	163,277,087	21.9%	135,667,700	18.7%	134,803,233	20.4%
Field crops except cash grains	86,074,231	11.5%	98,650,922	13.6%	67,668,426	10.3%
Livestock, except dairy and poultry	74,293,047	9.9%	82,539,406	11.4%	82,033,727	12.4%
Hunting, trapping and game propagation	70,822,833	9.6%	57,321,917	7.9%	49,061,694	7.4%
Food and kindred products	25,052,194	3.5%	25,605,785	3.5%	19,095,652	2.9%
Rural home loans	18,937,748	2.5%	17,012,899	2.4%	15,587,419	2.4%
Poultry and eggs	17,303,240	2.3%	16,628,620	2.3%	14,074,603	2.1%
Wholesale trade - nondurable goods	13,767,436	1.8%	11,687,077	1.6%	10,578,227	1.6%
Animal specialties	11,343,600	1.5%	12,686,641	1.8%	14,226,136	2.2%
Farm and garden machinery equipment	9,910,224	1.3%	10,312,278	1.4%	3,060,440	0.5%
General farms, primarily crops	7,103,917	1.0%	13,880,387	1.9%	13,226,200	2.0%
Paper and allied products	5,446,622	0.7%	5,518,439	0.8%	-	0.0%
Chemical and allied products	4,083,344	0.6%	2,788,131	0.4%	1,361,440	0.2%
General farms, primarily livestock	2,508,458	0.3%	3,004,571	0.4%	3,468,278	0.5%
Communication	2,498,214	0.3%	6,304,131	0.9%	8,232,747	1.2%
Fruit and tree nuts	1,788,261	0.2%	1,481,725	0.2%	1,507,922	0.2%
Dairy farms	1,733,874	0.2%	1,831,982	0.3%	2,092,351	0.3%
Commercial fishing	1,481,442	0.2%	1,909,549	0.3%	1,778,603	0.3%
Public warehousing and storage	1,314,184	0.2%	930,509	0.1%	777,609	0.1%
Electric services	797,601	0.1%	868,370	0.1%	2,367,715	0.4%
Horticultural specialties	699,354	0.1%	746,425	0.1%	815,941	0.1%
Agricultural services	660,476	0.1%	566,638	0.1%	1,169,068	0.2%
Real estate	488,664	0.1%	443,336	0.1%	-	0.0%
Vegetables and melons	304,715	0.0%	323,162	0.0%	5,338,497	0.8%
Building materials, hardware and garden supplies	245,163	0.0%	261,292	0.0%	-	0.0%
Lumber and wood products, except furniture	71,532	0.0%	139,541	0.0%	241,071	0.0%
Other	6,956,437	0.9%	5,395,675	0.8%	3,309,085	0.6%
Total	\$ 747,344,009	100.0%	\$ 724,081,362	100.0%	\$ 659,483,139	100.0%

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.

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:

	<b>December 31, 2017</b>	December 31, 2016	December 31, 2015
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 2,788,893	\$ 3,955,169	\$ 2,931,807
Production and intermediate term	-	-	9,250
Agribusiness	274,604	770,175	881,931
Rural residential real estate	252,491	292,273	313,296
Total nonaccrual loans	<u>3,315,988</u>	<u>5,017,617</u>	<u>4,136,284</u>
<b>Accruing restructured loans:</b>			
Real estate mortgage	4,510,397	2,451,347	1,139,497
Production and intermediate term	681,752	735,960	-
Rural residential real estate	159,567	169,383	185,254
Total accruing restructured loans	<u>5,351,716</u>	<u>3,356,690</u>	<u>1,324,751</u>
<b>Accruing loans 90 days or more past due:</b>			
Real estate mortgage	25,666	-	-
Total accruing loans 90 days or more past due	<u>25,666</u>	<u>-</u>	<u>-</u>
Total nonperforming loans	<b>8,693,370</b>	8,374,307	5,461,035
Other property owned	161,654	74,587	-
Total nonperforming assets	<u>\$ 8,855,024</u>	<u>\$ 8,448,894</u>	<u>\$ 5,461,035</u>

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

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

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

	<u>2017</u>		<u>2016</u>		<u>2015</u>
Real estate mortgage					
Acceptable	<b>97.0</b>	%	97.8	%	98.0
OAEM	<b>1.2</b>		1.2		1.0
Substandard/doubtful	<b>1.8</b>		1.0		1.0
	<b>100.0</b>		100.0		100.0
Production and intermediate term					
Acceptable	<b>95.7</b>		97.4		100.0
OAEM	<b>0.2</b>		2.6		-
Substandard/doubtful	<b>4.1</b>		-		-
	<b>100.0</b>		100.0		100.0
Loans to cooperatives					
Acceptable	<b>100.0</b>		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<b>100.0</b>		100.0		100.0
Processing and marketing					
Acceptable	<b>100.0</b>		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<b>100.0</b>		100.0		100.0
Farm-related business					
Acceptable	<b>98.3</b>		95.7		81.0
OAEM	-		-		-
Substandard/doubtful	<b>1.7</b>		4.3		19.0
	<b>100.0</b>		100.0		100.0
Communication					
Acceptable	<b>100.0</b>		100.0		96.8
OAEM	-		-		-
Substandard/doubtful	-		-		3.2
	<b>100.0</b>		100.0		100.0
Energy					
Acceptable	<b>67.9</b>		66.9		100.0
OAEM	<b>32.1</b>		33.1		-
Substandard/doubtful	-		-		-
	<b>100.0</b>		100.0		100.0
Rural residential real estate					
Acceptable	<b>97.5</b>		97.2		96.9
OAEM	<b>0.2</b>		0.2		0.9
Substandard/doubtful	<b>2.3</b>		2.6		2.2
	<b>100.0</b>		100.0		100.0
Lease receivables					
Acceptable	-		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	-		100.0		100.0
Total Loans					
Acceptable	<b>97.0</b>		97.8		98.2
OAEM	<b>1.1</b>		1.2		0.5
Substandard/doubtful	<b>1.9</b>		1.0		1.3
	<b>100.0</b>	%	100.0	%	100.0

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

December 31, 2017:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,453,237	\$ 424,300	\$ 1,877,537	\$ 640,384,931	\$ 642,262,468	\$ 25,666
Production and intermediate term	46,824	-	46,824	51,805,542	51,852,366	-
Loans to cooperatives	-	-	-	5,172,061	5,172,061	-
Processing and marketing	-	-	-	24,837,358	24,837,358	-
Farm-related business	1,015,014	-	1,015,014	15,320,523	16,335,537	-
Communication	-	-	-	2,498,906	2,498,906	-
Energy	-	-	-	797,828	797,828	-
Rural residential real estate	-	-	-	10,896,392	10,896,392	-
<b>Total</b>	<b>\$ 2,515,075</b>	<b>\$ 424,300</b>	<b>\$ 2,939,375</b>	<b>\$ 751,713,541</b>	<b>\$ 754,652,916</b>	<b>\$ 25,666</b>

December 31, 2016:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 2,584,679	\$ 509,372	\$ 3,094,051	\$ 613,930,804	\$ 617,024,855	\$ -
Production and intermediate term	89,133	-	89,133	49,752,828	49,841,961	-
Loans to cooperatives	-	-	-	6,606,807	6,606,807	-
Processing and marketing	-	-	-	20,734,968	20,734,968	-
Farm-related business	-	-	-	17,877,826	17,877,826	-
Communication	-	-	-	6,305,014	6,305,014	-
Energy	-	-	-	869,353	869,353	-
Rural residential real estate	182,348	94,983	277,331	11,029,317	11,306,648	-
Lease receivables	-	-	-	75,548	75,548	-
<b>Total</b>	<b>\$ 2,856,160</b>	<b>\$ 604,355</b>	<b>\$ 3,460,515</b>	<b>\$ 727,182,465</b>	<b>\$ 730,642,981</b>	<b>\$ -</b>

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	\$ 2,020,399	\$ 236,959	\$ 2,257,358	\$ 561,062,598	\$ 563,319,956	\$ -
Production and intermediate term	88,386	9,250	97,636	42,363,403	42,461,039	-
Loans to cooperatives	-	-	-	5,303,333	5,303,333	-
Processing and marketing	-	-	-	11,914,366	11,914,366	-
Farm-related business	-	-	-	15,333,046	15,333,046	-
Communication	-	-	-	8,233,647	8,233,647	-
Energy	-	-	-	2,369,066	2,369,066	-
Water and waste water	-	-	-	635,341	635,341	-
Rural residential real estate	-	13,507	13,507	15,415,859	15,429,366	-
Lease receivables	-	-	-	81,125	81,125	-
<b>Total</b>	<b>\$ 2,108,785</b>	<b>\$ 259,716</b>	<b>\$ 2,368,501</b>	<b>\$ 662,711,784</b>	<b>\$ 665,080,285</b>	<b>\$ -</b>

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

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

As of December 31, 2017, the total recorded investment of troubled debt restructured loans was \$6,722,389, including \$1,370,643 classified as nonaccrual and \$5,351,716 classified as accrual, with specific allowance for loan losses of \$129,524. As of December 31, 2017, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$29,750.



The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring 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.

<b>December 31, 2017:</b>	<b>Pre-modification Outstanding Recorded Investment</b>	<b>Post-modification Outstanding Recorded Investment</b>
<b>Troubled debt restructurings:</b>		
<b>Real estate mortgage</b>	\$ 1,683,102	\$ 1,965,226
<b>Production and intermediate term</b>	287,827	111,209
<b>Total</b>	<b>\$ 1,970,929</b>	<b>\$ 2,076,435</b>
<b>December 31, 2016:</b>	<b>Pre-modification Outstanding Recorded Investment</b>	<b>Post-modification Outstanding Recorded Investment</b>
<b>Troubled debt restructurings:</b>		
Real estate mortgage	\$ 1,766,209	\$ 1,786,975
Production and intermediate term	729,934	734,424
<b>Total</b>	<b>\$ 2,496,143</b>	<b>\$ 2,521,399</b>
<b>December 31, 2015:</b>	<b>Pre-modification Outstanding Recorded Investment</b>	<b>Post-modification Outstanding Recorded Investment</b>
<b>Troubled debt restructurings:</b>		
Real estate mortgage	\$ 723,153	\$ 726,138
Rural residential real estate	212,462	204,101
<b>Total</b>	<b>\$ 935,615</b>	<b>\$ 930,239</b>

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). Charge-offs recorded at the modification date were \$4,897 for the year ending December 31, 2017.

The predominant form of concession granted for troubled debt restructuring includes rate reduction and term extension. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table presents information regarding loans that met the accounting criteria as a troubled debt restructuring 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:	<b>Recorded Investment at December 31, 2017</b>	Recorded Investment at December 31, 2016	Recorded Investment at December 31, 2015
Real estate mortgage	\$ 80,694	\$ -	\$ -
<b>Total</b>	<b>\$ 80,694</b>	<b>\$ -</b>	<b>\$ -</b>

Additional commitments to lend to borrowers whose loans have been modified in TDRs were \$29,750 at December 31, 2017, \$0 at December 31, 2016 and \$0 at December 31, 2015.

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

	Loans Modified as TDRs		
	December 31, 2017	December 31, 2016	December 31, 2015
Troubled debt restructurings:			
Real estate mortgage	\$ 5,449,785	\$ 4,284,762	\$ 3,057,646
Production and intermediate term	681,752	735,960	-
Farm-related business	274,604	770,174	881,931
Rural residential real estate	316,218	351,731	390,980
Total	<u>\$ 6,722,359</u>	<u>\$ 6,142,627</u>	<u>\$ 4,330,557</u>
		TDRs on Nonaccrual Status*	
	December 31, 2017	December 31, 2016	December 31, 2015
Troubled debt restructurings:			
Real estate mortgage	\$ 939,388	\$ 1,833,415	\$ 1,918,149
Farm-related business	274,604	770,175	881,931
Rural residential real estate	156,651	182,347	205,726
Total	<u>\$ 1,370,643</u>	<u>\$ 2,785,937</u>	<u>\$ 3,005,806</u>

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2017	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 301,364	\$ 301,367	\$ 42,374	\$ 261,864	\$ 3,186
Farm-related business	274,605	4,198,827	104,680	659,866	-
Total	<u>\$ 575,969</u>	<u>\$ 4,500,194</u>	<u>\$ 147,054</u>	<u>\$ 921,730</u>	<u>\$ 3,186</u>
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 6,963,205	\$ 7,085,265	\$ -	\$ 6,603,871	\$ 182,333
Production and intermediate term	669,692	670,923	-	687,917	33,925
Rural residential real estate	411,466	414,978	-	445,394	7,301
Total	<u>\$ 8,044,363</u>	<u>\$ 8,171,166</u>	<u>\$ -</u>	<u>\$ 7,737,182</u>	<u>\$ 223,559</u>
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 7,264,569	\$ 7,386,632	\$ 42,374	\$ 6,865,735	\$ 185,519
Production and intermediate term	669,692	670,923	-	687,917	33,925
Farm-related business	274,605	4,198,827	104,680	659,866	-
Rural residential real estate	411,466	414,978	-	445,394	7,301
Total	<u>\$ 8,620,332</u>	<u>\$ 12,671,360</u>	<u>\$ 147,054</u>	<u>\$ 8,658,912</u>	<u>\$ 226,745</u>

	Recorded Investment at 12/31/2016	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 448,063	\$ 446,158	\$ 29,543	\$ 213,625	\$ 15,296
Farm-related business	770,175	4,694,397	101,985	795,002	-
Rural residential real estate	94,983	98,467	123	69,078	743
Total	\$ 1,313,221	\$ 5,239,022	\$ 131,651	\$ 1,077,705	\$ 16,039
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 6,088,786	\$ 6,042,513	\$ -	\$ 5,381,931	\$ 150,584
Production and intermediate term	735,960	722,966	-	689,512	31,241
Rural residential real estate	366,673	366,073	-	384,646	7,735
Total	\$ 7,191,419	\$ 7,131,552	\$ -	\$ 6,456,089	\$ 189,560
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 6,536,849	\$ 6,488,671	\$ 29,543	\$ 5,595,556	\$ 165,880
Production and intermediate term	735,960	722,966	-	689,512	31,241
Farm-related business	770,175	4,694,397	101,985	795,002	-
Rural residential real estate	461,656	464,540	123	453,724	8,478
Total	\$ 8,504,640	\$ 12,370,574	\$ 131,651	\$ 7,533,794	\$ 205,599
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 145,814	\$ 148,595	\$ 5,518	\$ 73,553	\$ -
Farm-related business	881,931	4,806,154	101,985	894,543	-
Total	\$ 1,027,745	\$ 4,954,749	\$ 107,503	\$ 968,096	\$ -
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,925,491	\$ 3,920,419	\$ -	\$ 3,733,760	\$ 61,901
Production and intermediate term	9,250	9,273	-	4,688	-
Farm-related business	-	106,483	-	2	-
Rural residential real estate	498,549	499,393	-	512,623	8,897
Total	\$ 4,433,290	\$ 4,535,568	\$ -	\$ 4,251,073	\$ 70,798
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 4,071,305	\$ 4,069,014	\$ 5,518	\$ 3,807,313	\$ 61,901
Production and intermediate term	9,250	9,273	-	4,688	-
Farm-related business	881,931	4,912,637	101,985	894,545	-
Rural residential real estate	498,549	499,393	-	512,623	8,897
Total	\$ 5,461,035	\$ 9,490,317	\$ 107,503	\$ 5,219,169	\$ 70,798

<sup>a</sup> 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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Interest income which would have been recognized under the original terms	\$ 361,139	\$ 602,537	\$ 450,397
Less: interest income recognized	(60,049)	(323,841)	(222,139)
Foregone interest income	<u>\$ 301,090</u>	<u>\$ 278,696</u>	<u>\$ 228,258</u>

During 2016, management identified errors in the following table dating back to the year ended 2012. Specifically, the allowance for credit losses at each year end, the amount of provision for (reversal of) loan losses during each year presented as well as the ending balance collectively evaluated for impairment, by product type was incorrect. Management evaluated the impact of the errors to the disclosure and concluded that the disclosures were not materially misstated; however, it elected to revise the amounts presented in 2015 in order to accurately present the activity by product type and to appropriately state the allowance for credit losses at the end of the year presented. Accordingly, the following table has been revised as of and for the year ended December 31, 2015 to present the corrected amounts by product type. The error did not impact the total activity or the total allowance in any year presented nor were there other impacts to the previously issued financial statements.

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Total
<b>Allowance for Credit Losses:</b>									
Balance at									
December 31, 2016	\$ 4,480,889	\$ 356,859	\$ 418,177	\$ 47,326	\$ 11,998	\$ -	\$ 111,107	\$ 589	\$ 5,426,945
Charge-offs	\$ (4,897)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,897)
Recoveries	\$ 513	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 513
Provision for loan losses	\$ (44,937)	\$ 86,809	\$ (97,785)	\$ 57,910	\$ (5,275)	\$ -	\$ (34,960)	\$ -	\$ (38,238)
Other	\$ 57	\$ 15,253	\$ 10,927	\$ 352	\$ 939	\$ -	\$ -	\$ -	\$ 27,528
Balance at									
December 31, 2017	<u>\$ 4,431,625</u>	<u>\$ 458,921</u>	<u>\$ 331,319</u>	<u>\$ 105,588</u>	<u>\$ 7,662</u>	<u>\$ -</u>	<u>\$ 76,147</u>	<u>\$ 589</u>	<u>\$ 5,411,851</u>
Ending Balance:									
individually evaluated for impairment	\$ 42,374	\$ -	\$ 104,680	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 147,054
Ending Balance:									
collectively evaluated for impairment	<u>\$ 4,389,249</u>	<u>\$ 458,922</u>	<u>\$ 226,639</u>	<u>\$ 105,588</u>	<u>\$ 7,663</u>	<u>\$ -</u>	<u>\$ 76,147</u>	<u>\$ 589</u>	<u>\$ 5,264,797</u>
<b>Recorded Investment in Loans Outstanding:</b>									
Ending Balance at									
December 31, 2017	\$ 642,262,469	\$ 51,852,366	\$ 46,344,955	\$ 2,498,906	\$ 797,828	\$ -	\$ 10,896,392	\$ -	\$ 754,652,916
Ending balance for loans individually evaluated for impairment	\$ 7,264,570	\$ 669,692	\$ 274,604	\$ -	\$ -	\$ -	\$ 411,466	\$ -	\$ 8,620,332
Ending balance for loans collectively evaluated for impairment	<u>\$ 634,997,899</u>	<u>\$ 51,182,674</u>	<u>\$ 46,070,351</u>	<u>\$ 2,498,906</u>	<u>\$ 797,828</u>	<u>\$ -</u>	<u>\$ 10,484,926</u>	<u>\$ -</u>	<u>\$ 746,032,584</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Total
<b>Allowance for Credit Losses:</b>									
Balance at									
December 31, 2015	\$ 3,529,571	\$ 282,298	\$ 1,256,396	\$ 67,936	\$ 15,423	\$ 22,647	\$ 202,052	\$ 379	\$ 5,376,702
Charge-offs	(23,369)	-	(73,241)	-	-	-	(3,484)	-	(100,094)
Recoveries	5,279	23	106,483	116,294	-	-	182	-	228,261
Provision for loan losses	1,061,933	74,538	(871,461)	(136,904)	(3,425)	(22,647)	(87,643)	210	14,601
Other	(92,525)	-	-	-	-	-	-	-	(92,525)
Balance at									
December 31, 2016	\$ 4,480,889	\$ 356,859	\$ 418,177	\$ 47,326	\$ 11,998	\$ -	\$ 111,107	\$ 589	\$ 5,426,945

Ending Balance:  
individually evaluated for  
impairment

\$ 29,543	\$ -	\$ 101,985	\$ -	\$ -	\$ -	\$ -	\$ 123	\$ -	\$ 131,651
-----------	------	------------	------	------	------	------	--------	------	------------

Ending Balance:  
collectively evaluated for  
impairment

\$ 4,451,346	\$ 356,859	\$ 316,192	\$ 47,326	\$ 11,998	\$ -	\$ 110,984	\$ 589	\$ 5,295,294
--------------	------------	------------	-----------	-----------	------	------------	--------	--------------

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Total
<b>Recorded Investment in Loans Outstanding:</b>									
Ending Balance at									
December 31, 2016	\$ 617,024,856	\$ 49,841,962	\$ 45,219,600	\$ 6,305,014	\$ 869,353	\$ -	\$ 11,306,647	\$ 75,548	\$ 730,642,980
Ending balance for loans individually evaluated for impairment	\$ 6,429,595	\$ 721,735	\$ 770,175	\$ -	\$ -	\$ -	\$ 461,029	\$ -	\$ 8,382,534
Ending balance for loans collectively evaluated for impairment	\$ 610,595,261	\$ 49,120,227	\$ 44,449,425	\$ 6,305,014	\$ 869,353	\$ -	\$ 10,845,618	\$ 75,548	\$ 722,260,446

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Total
<b>Allowance for Credit Losses:</b>									
Balance at									
December 31, 2014	\$ 3,577,418	\$ 288,554	\$ 1,140,788	\$ 75,288	\$ 16,434	\$ 8,895	\$ 95,359	\$ 600	\$ 5,203,336
Charge-offs	(3,691)	(23)	-	-	-	-	(4,920)	-	(8,634)
Recoveries	12,931	-	63,414	12,084	-	-	1,578	-	90,007
Provision for loan losses	(116,279)	(6,233)	52,194	(19,436)	(1,011)	13,752	110,035	(221)	32,801
Other	59,192	-	-	-	-	-	-	-	59,192
Balance at									
December 31, 2015	\$ 3,529,571	\$ 282,298	\$ 1,256,396	\$ 67,936	\$ 15,423	\$ 22,647	\$ 202,052	\$ 379	\$ 5,376,702

Ending Balance:  
individually evaluated for  
impairment

\$ 19,873	\$ -	\$ 825,145	\$ -	\$ -	\$ -	\$ -	\$ 4,920	\$ -	\$ 849,938
-----------	------	------------	------	------	------	------	----------	------	------------

Ending Balance:  
collectively evaluated for  
impairment

\$ 3,509,698	\$ 282,298	\$ 431,251	\$ 67,936	\$ 15,423	\$ 22,647	\$ 197,132	\$ 379	\$ 4,526,764
--------------	------------	------------	-----------	-----------	-----------	------------	--------	--------------

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivable	Total
<b>Recorded Investment in Loans Outstanding:</b>									
Ending Balance at									
December 31, 2015	\$ 563,319,955	\$ 42,461,039	\$ 32,550,746	\$ 8,233,647	\$ 2,369,066	\$ 635,341	\$ 15,429,366	\$ 81,125	\$ 665,080,285
Ending balance for loans individually evaluated for impairment	\$ 4,199,184	\$ 9,250	\$ 2,901,245	\$ -	\$ -	\$ -	\$ 498,020	\$ -	\$ 7,607,699
Ending balance for loans collectively evaluated for impairment	\$ 559,120,771	\$ 42,451,789	\$ 29,649,501	\$ 8,233,647	\$ 2,369,066	\$ 635,341	\$ 14,931,346	\$ 81,125	\$ 657,472,586

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

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities, not fair value, in the accompanying balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owns 3.98% of the issued stock of the Bank as of December 31, 2017. As of that date, the Bank's assets totaled \$22.84 billion and members' equity totaled \$1.67 billion. The bank's earnings were \$196.0 million during 2017.

**NOTE 5 — PREMISES AND EQUIPMENT:**

Premises and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 523,104	\$ 523,104	\$ 455,060
Building and improvements	3,312,199	3,125,761	3,096,128
Furniture and equipment	663,127	766,031	775,032
Computer equipment and software	264,193	256,930	246,785
Automobiles	1,205,848	1,065,360	1,051,021
Construction in progress	59,405	-	-
	<u>6,027,876</u>	<u>5,737,186</u>	<u>5,624,026</u>
Accumulated depreciation	(2,279,039)	(2,155,186)	(1,975,852)
Total	<u>\$ 3,748,837</u>	<u>\$ 3,582,000</u>	<u>\$ 3,648,174</u>

The Association leases office space in Tallulah, Crowley, Arcadia, and Port Allen, Louisiana. Lease expense was \$112,117, \$109,221 and \$119,653 for 2017, 2016 and 2015, respectively. Minimum annual lease payments for the next five years are as follows:

	<u>Operating</u>
2018	\$107,841
2019	97,707
2020	76,007
2021	48,013
2022	-
Total	<u>\$329,568</u>

**NOTE 6 — OTHER PROPERTY OWNED, NET:**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Gain (loss) on sale, net	\$ 10,655	\$ 1,064	\$ 215,994
Operating income (expense), net	(21,286)	(329)	(629)
Net gain (loss) on other property owned	<u>\$ (10,631)</u>	<u>\$ 735</u>	<u>\$ 215,365</u>

**NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:**

Other assets comprised the following at December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Accounts Receivable	\$ 464,760	\$ 465,835	\$ 472,913
Total	<u>\$ 464,760</u>	<u>\$ 465,835</u>	<u>\$ 472,913</u>

Other liabilities comprised the following at December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Accumulated Postretirement Benefit Obligation	\$ 3,697,450	\$ 3,171,899	\$ 2,910,342
Insurance Premium Payable	816,073	876,750	603,552
Accounts Payable	78,104	147,627	39,907
Income Taxes Payable	12,087	8,491	6,222
Other	2,094,663	1,904,078	1,383,526
Total	<u>\$ 6,698,377</u>	<u>\$ 6,108,845</u>	<u>\$ 4,943,549</u>

“Other” includes items such as annual leave accrual for employees, incentive compensation accrual and allowance for loan losses on unfunded commitments.

#### **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 \$606,930,548 at 2.38 percent, \$588,616,613 at 2.07 percent and \$526,697,949 at 1.91 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 \$727,189,383, 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 in compliance 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.

The Association maintains an unallocated surplus account. The minimum for this account shall be prescribed by the FCA and FCA regulations. The Association does not have an allocated surplus account. Rather than earnings held therein and allocated to borrowers on a patronage basis, the Association funds 100 percent of any declared patronage through cash.

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

In accordance with the Act and the Association’s capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock (for farm loans) and participation certificates (for farm related business) is equal to 2 percent of the loan amount, up to a maximum amount of \$1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

Association bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with our capitalization plans, provided that prescribed capital standards have been met. At December 31, 2017, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock. All classes of stock are transferable to other customers who are eligible to hold such class as long as the Association meets the regulatory minimum capital requirements.

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

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

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower’s outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association’s Board. At December 31, 2017, the Association had no Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of 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.

Patronage distributions may be paid on the capital stock and participation certificates of the Association, as the Board 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:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage</u>
<b>December 2017</b>	<b>Anticipated March 2018</b>	<b>\$7,035,025</b>
December 2016	March 2017	\$6,494,491
December 2015	March 2016	\$5,822,288

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



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

<b>Risk-adjusted:</b>	<b>Regulatory Minimums</b>	<b>Conservation Buffer*</b>	<b>Total Required</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Permanent capital ratio	7.00%	0.00%	7.00%	17.88%	18.40%	19.50%
Common equity tier 1 ratio	4.50%	2.50%	7.00%	17.76%	n/a	n/a
Tier 1 capital ratio	6.00%	2.50%	8.50%	17.76%	n/a	n/a
Total capital ratio	8.00%	2.50%	10.50%	18.48%	n/a	n/a
<b>Non-risk-adjusted:</b>						
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	18.31%	n/a	n/a
UREE leverage ratio	1.50%	0.00%	1.50%	19.46%	n/a	n/a
<b>Prior Year Ratios</b>						
	<b>Regulatory Minimums</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total surplus ratio		18.0%	19.1%	19.1%	18.1%	17.0%
Core surplus ratio		18.0%	19.1%	19.1%	18.1%	17.0%

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

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

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolving, 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 revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	146,517,857	146,517,857	146,517,857	146,517,857
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,723,553	2,723,553	2,723,553	2,723,553
Allowance for loan losses and reserve for credit losses subject to certain limitations*			5,615,053	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	<u>(11,336,957)</u>	<u>(11,336,957)</u>	<u>(11,336,957)</u>	<u>(11,336,957)</u>
	137,904,453	137,904,453	143,519,506	137,904,453
Denominator:				
Risk-adjusted assets excluding allowance	788,003,339	788,003,339	788,003,339	788,003,339
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(11,336,957)	(11,336,957)	(11,336,957)	(11,336,957)
Allowance for loan losses				(5,410,228)
	<u>776,666,382</u>	<u>776,666,382</u>	<u>776,666,382</u>	<u>771,256,154</u>

\*Capped at 1.25% of risk-adjusted assets

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

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	146,517,857	146,517,857
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,723,553	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	<u>(11,336,957)</u>	<u>-</u>
	<u>137,904,453</u>	<u>146,517,857</u>
Denominator:		
Total Assets	766,029,166	766,029,166
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	<u>(13,061,193)</u>	<u>(13,061,193)</u>
	<u>752,967,973</u>	<u>752,967,973</u>

The Association has a capital adequacy plan (Plan) that includes capital targets necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standard. In addition to factors that must be considered in meeting the minimum standards, the Board considered the following factors in developing the Plan:

- Capability of Management
- Quality of operating policies, procedures and internal controls
- Quality and quantity of earnings
- Asset quality
- Sufficiency of liquid funds
- Needs of the ACA customer base
- Other operating risks

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.

Refer to Note 9, to the consolidated financial statements, “Members’ Equity” for additional information related to our capital and related requirements and restrictions.

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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Class A stock	<b>510,420</b>	494,027	474,078
Participation certificates	<b>36,288</b>	36,562	35,605
Total	<b><u>546,708</u></b>	<u>530,589</u>	<u>509,683</u>

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

<b>Accumulated Other Comprehensive Income (Loss)</b>			
<b>December 31, 2017</b>	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
<b>Nonpension postretirement benefits</b>	<b>\$ (1,073,896)</b>	<b>\$ -</b>	<b>\$ (1,073,896)</b>
December 31, 2016	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
Nonpension postretirement benefits	\$ (678,739)	\$ -	\$ (678,739)
December 31, 2015	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
Nonpension postretirement benefits	\$ (506,680)	\$ -	\$ (506,680)

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) and the location on the income statement for the year ended December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Accumulated other comprehensive income (loss) at January 1	<b>\$ (678,739)</b>	\$ (506,680)	\$(802,940)
Actuarial gains(losses)	<b>(390,224)</b>	(156,816)	280,879
Amortization of prior service (credit) costs included in salaries and employee benefits	<b>(51,010)</b>	(51,010)	(51,097)
Amortization of actuarial (gain) loss included in salaries and employee benefits	<b>46,077</b>	35,767	66,478
Other comprehensive income (loss), net of tax	<b>(395,157)</b>	(172,059)	296,260
Accumulated other comprehensive income at December 31	<b><u>\$(1,073,896)</u></b>	<u>\$ (678,739)</u>	<u>\$(506,680)</u>

**NOTE 10 — INCOME TAXES:**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current:			
Federal	\$ (154,322)	\$ -	\$ -
Total current	<u>(154,322)</u>	<u>-</u>	<u>-</u>
Deferred:			
Federal	3,596	1,855	1,416
Total deferred	<u>3,596</u>	<u>1,855</u>	<u>1,416</u>
Total provision for (benefit from) income taxes	<u>\$ (150,726)</u>	<u>\$ 1,855</u>	<u>\$ 1,416</u>

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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Federal tax at statutory rate	\$ 3,988,119	\$ 3,756,550	\$ 3,561,877
Effect of nontaxable FLCA subsidiary	(3,978,319)	(3,787,183)	(3,762,115)
Change in valuation allowance	122,884	(53,016)	88,615
Change in Statutory Rate	(103,146)	-	-
Refund of Prior Year Taxes	(154,322)	-	-
Other	(25,942)	85,504	113,039
Provision for (benefit from) income taxes	<u>\$ (150,726)</u>	<u>\$ 1,855</u>	<u>\$ 1,416</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 64,129	\$ 3,592	\$ 3,589
Annual leave	16,520	10,466	10,252
Loss carryforwards	287,620	232,214	283,835
Other	4,830	3,943	4,435
Gross deferred tax assets	<u>373,099</u>	<u>250,215</u>	<u>302,111</u>
Deferred tax asset valuation allowance	<u>(373,099)</u>	<u>(250,215)</u>	<u>(302,111)</u>
<u>Deferred Tax Liabilities</u>			
Other	(12,087)	(8,491)	(6,868)
Gross deferred tax liabilities	<u>(12,087)</u>	<u>(8,491)</u>	<u>(6,868)</u>
Net deferred tax asset (liability)	<u>\$ (12,087)</u>	<u>\$ (8,491)</u>	<u>\$ (6,868)</u>

The Association recorded valuation allowances of \$373,099, \$250,215 and \$302,111 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 enactment of federal tax legislation in late December 2017, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). The provision for income taxes in 2017 was mainly due to an increase in deferred tax assets with a corresponding valuation allowance resulting from the enactment of federal tax legislation in late December 2017.

During 2016, the Association submitted amended tax returns for the two prior years. The Association opted to not carry a receivable and not record the income until the status of the amended returns was finalized. This matter was finalized in late 2017, and the Association recorded the activity during the fourth quarter of 2017.

#### **NOTE 11 — EMPLOYEE BENEFIT PLANS:**

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

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

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

The Association elected to participate in Elective Deferrals. There were no payments made to or from the supplemental 401(k) plan to active employees during 2017, 2016 and 2015.

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

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Funded status of plan	<b>69.7 %</b>	66.4 %	66.8 %
Association's contribution	<b>\$ 318,569</b>	\$ 345,983	\$ 135,136
Percentage of association's contribution to total contributions	<b>2.8 %</b>	2.9 %	1.3 %

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

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

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

### Retiree Welfare Benefit Plans

<b>Disclosure Information Related to Retirement Benefits</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Change in Accumulated Postretirement Benefit Obligation</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 3,180,021	\$ 2,910,342	\$ 3,070,049
Service cost	71,863	67,877	74,534
Interest cost	144,285	135,184	138,135
Plan participants' contributions	46,087	52,738	58,523
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial loss (gain)	390,224	156,816	(280,879)
Benefits paid	(135,030)	(142,936)	(150,020)
Accumulated postretirement benefit obligation, end of year	\$ 3,697,450	\$ 3,180,021	\$ 2,910,342
<b>Change in Plan Assets</b>			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	88,943	90,198	91,497
Plan participants' contributions	46,087	52,738	58,523
Benefits paid	(135,030)	(142,936)	(150,020)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (3,697,450)	\$ (3,180,021)	\$ (2,910,342)
<b>Amounts Recognized in Statement of Financial Position</b>			
Other liabilities	\$ (3,697,450)	\$ (3,180,021)	\$ (2,910,342)
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>			
Net actuarial loss (gain)	\$ 1,112,151	\$ 768,004	\$ 646,955
Prior service cost (credit)	(38,255)	(89,265)	(140,275)
Net transition obligation (asset)	-	-	-
Total	\$ 1,073,896	\$ 678,739	\$ 506,680
<b>Weighted-Average Assumptions Used to Determine Obligations at Year End</b>			
Measurement date	12/31/2017	12/31/2016	12/31/2015
Discount rate	4.00%	4.60%	4.70%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.70% / 6.90%	6.75% / 6.50%	7.00% / 6.50%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2026/2026	2025/2024	2025

<b>Total Cost</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Service cost	\$ 71,863	\$ 67,877	\$ 74,534
Interest cost	144,285	135,184	138,135
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(51,010)	(51,010)	(51,097)
Unrecognized net loss (gain)	46,077	35,767	66,478
Net postretirement benefit cost	\$ 211,215	\$ 187,818	\$ 228,050
Accounting for settlements/curtailments/special termination benefits	\$ -	\$ -	\$ -
<b>Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income</b>			
Net actuarial loss (gain)	\$ 390,224	\$ 156,816	\$ (280,879)
Amortization of net actuarial loss (gain)	(46,077)	(35,767)	(66,478)
Prior service cost (credit)	-	-	-
Amortization of prior service cost	51,010	51,010	51,097
Recognition of prior service cost	-	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ 395,157	\$ 172,059	\$ (296,260)
<b>AOCI Amounts Expected to be Amortized Into Expense in 2016</b>			
Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(38,255)	(51,010)	(51,010)
Unrecognized net loss (gain)	77,671	46,077	35,767
Total	\$ 39,416	\$ (4,933)	\$ (15,243)
<b>Weighted-Average Assumptions Used to Determine Benefit Cost</b>			
Measurement date	12/31/2017	12/31/2016	12/31/2015
Discount rate	4.00%	4.60%	4.70%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.70%/6.9%	6.75%/6.50%	7.00%/6.50%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2026/2026	2025/2024	2025
<b>Expected Future Cash Flows</b>			
<b>Expected Benefit Payments (net of employee contributions)</b>			
Fiscal 2018	102,135	99,910	-
Fiscal 2019	118,423	116,869	-
Fiscal 2020	119,718	118,143	-
Fiscal 2021	120,713	119,117	-
Fiscal 2022	139,863	-	-
Fiscal 2023–2027	816,136	748,609	-
<b>Expected Contributions</b>			
Fiscal 2018	\$ 102,135	\$ -	\$ -



**NOTE 12 — RELATED PARTY TRANSACTIONS:**

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

Total loans to such persons for the Association amounted to \$29,319,134, \$16,839,990 and \$22,752,271 at December 31, 2017, 2016 and 2015, respectively. During 2017, \$8,843,760 of new loans were made, and repayments totaled \$8,224,320. 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 \$79,392, \$119,163 and \$140,619 in 2017, 2016 and 2015, respectively.

The Association received patronage payments from the bank totaling \$2,784,069, \$2,700,974 and \$2,517,134 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.

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

<b>December 31, 2017</b>	<b>Fair Value Measurement Using</b>			<b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Assets:				
Loans	\$ -	\$ -	\$ 446,445	\$ 446,445
Other property owned	-	-	179,616	179,616
 December 31, 2016	 <b>Fair Value Measurement Using</b>			 <b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Assets:				
Loans	\$ -	\$ -	\$1,063,623	\$1,063,623
Other property owned	-	-	82,874	82,874
 December 31, 2015	 <b>Fair Value Measurement Using</b>			 <b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Assets:				
Loans	\$ -	\$ -	\$ 919,546	\$ 919,546
Other property owned	-	-	-	-

The Association revised fair value measurements for the reporting of certain loans measured at fair value on a nonrecurring basis using Level 3 inputs at December 31, 2016 and 2015. The disclosure was revised to report impaired loans with specific reserves only. The Level 3 fair value was disclosed at \$4,985,230 on the 2016 Annual Report, for the December 31, 2016 disclosure, and has been revised to \$1,146,497. The Level 3 fair value was disclosed at \$4,028,781 on the 2016 Annual Report, for December 31, 2015 disclosure, and has been revised to \$919,546.

Management has evaluated the impact of these errors and concluded that the amounts are immaterial to previously issued financial statements; however, it has elected to revise the reporting of certain loans measured at fair value on a nonrecurring basis in order to correctly present such amounts. The correction had no effect on the balance sheet, the statement of comprehensive income, earnings or the financial ratios.

**December 31, 2017**  
**Fair Value Measurement Using**

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>					
Cash	\$ 26,816	\$ 26,816	\$ -	\$ -	\$ 26,816
Net loans	<u>741,485,713</u>	<u>-</u>	<u>-</u>	<u>721,586,115</u>	<u>721,586,115</u>
Total Assets	<u><u>\$ 741,512,529</u></u>	<u><u>\$ 26,816</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 721,586,115</u></u>	<u><u>\$ 721,612,931</u></u>
<b>Liabilities:</b>					
Note payable to Bank	<u>\$ 606,960,548</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 590,786,488</u>	<u>\$ 590,786,488</u>
Total Liabilities	<u><u>\$ 606,960,548</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 590,786,488</u></u>	<u><u>\$ 590,786,488</u></u>

**December 31, 2016**  
**Fair Value Measurement Using**

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>					
Cash	\$ 2,849	\$ 2,849	\$ -	\$ -	\$ 2,849
Net loans	<u>713,752,061</u>	<u>-</u>	<u>-</u>	<u>699,858,750</u>	<u>699,858,750</u>
Total Assets	<u><u>\$ 713,754,910</u></u>	<u><u>\$ 2,849</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 699,858,750</u></u>	<u><u>\$ 699,861,599</u></u>
<b>Liabilities:</b>					
Note payable to Bank	<u>\$ 588,616,613</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 576,277,711</u>	<u>\$ 576,277,711</u>
Total Liabilities	<u><u>\$ 588,616,613</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 576,277,711</u></u>	<u><u>\$ 576,277,711</u></u>

**December 31, 2015**  
**Fair Value Measurement Using**

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>					
Cash	\$ 81,673	\$ 81,673	\$ -	\$ -	\$ 81,673
Net loans	<u>650,077,656</u>	<u>-</u>	<u>-</u>	<u>646,542,657</u>	<u>646,542,657</u>
Total Assets	<u><u>\$ 650,159,329</u></u>	<u><u>\$ 81,673</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 646,542,657</u></u>	<u><u>\$ 646,624,330</u></u>
<b>Liabilities:</b>					
Note payable to Bank	<u>\$ 526,697,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 518,740,117</u>	<u>\$ 518,740,117</u>
Total Liabilities	<u><u>\$ 526,697,949</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 518,740,117</u></u>	<u><u>\$ 518,740,117</u></u>

### Valuation Techniques

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

## Loans

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

## Other Property Owned

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

## Note Payable to the Bank

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

### Information about Other Financial Instrument Fair Value Measurements:

	<u>Valuation Technique(s)</u>	<u>Input</u>
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

## NOTE 14 — COMMITMENTS AND CONTINGENCIES

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2017, \$82,883,657 of commitments and \$614,357 of commercial letters of credit were outstanding.

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

value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

**NOTE 15 — REGULATORY ENFORCEMENT MATTERS**

The Association entered into an Agreement with the FCA on March 15, 2011. Per the Agreement, the Association was subject to various operational, financial, compliance and reporting requirements. The conditions which led to this Agreement were unsafe and unsound conditions, including excessive portfolio risk and asset quality weakness which stemmed from weaknesses in the credit underwriting function which became apparent with the downturn in the overall economy. The Board and management worked to remediate the underlying causes which led to the need for the Agreement with the FCA. Effective January 23, 2014, the FCA terminated the Agreement with the Association.

**NOTE 16 — 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	\$ 5,025	\$ 5,029	\$ 5,174	\$ 5,188	\$ 20,416
(Provision for) reversal of loan losses	35	(11)	21	(6)	39
Noninterest income (expense), net	(2,301)	(2,330)	(2,128)	(2,151)	(8,910)
Net income	<u>\$ 2,759</u>	<u>\$ 2,688</u>	<u>\$ 3,067</u>	<u>\$ 3,031</u>	<u>\$ 11,545</u>

	2016				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,868	\$ 4,743	\$ 4,871	\$ 4,879	\$ 19,361
(Provision for) reversal of loan losses	62	(33)	(22)	(22)	(15)
Noninterest income (expense), net	(2,257)	(2,041)	(2,185)	(2,132)	(8,615)
Net income	<u>\$ 2,673</u>	<u>\$ 2,669</u>	<u>\$ 2,664</u>	<u>\$ 2,725</u>	<u>\$ 10,731</u>

	2015				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,396	\$ 4,561	\$ 4,494	\$ 4,445	\$ 17,896
(Provision for) reversal of loan losses	(5)	(10)	(9)	(9)	(33)
Noninterest income (expense), net	(2,316)	(2,026)	(1,786)	(1,560)	(7,688)
Net income	<u>\$ 2,075</u>	<u>\$ 2,525</u>	<u>\$ 2,699</u>	<u>\$ 2,876</u>	<u>\$ 10,175</u>

**NOTE 17 — 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.

Prior to the release of the annual report, the Association had \$7.4 million in adverse assets pay in full. These transactions will be reflected in the Association's first quarter 2018 stockholders report.

## **DISCLOSURE INFORMATION AND INDEX**

(Unaudited)

*Disclosures Required by Farm Credit Administration Regulations*

### **DESCRIPTION OF BUSINESS**

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

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

### **DESCRIPTION OF PROPERTY**

The Louisiana Land Bank, ACA (Association) serves its 64-parish territory through its main administrative and lending office at 2413 Tower Drive, Monroe, Louisiana, 71201. Additionally, there are 10 branch lending offices located throughout the territory. The Association owns the office buildings in Hammond, Monroe, Opelousas, Shreveport, Winnsboro and Alexandria, free of debt. The Association leases the office buildings in Arcadia, Crowley, Port Allen, and Tallulah, Louisiana.

The Association organized Louisiana White Energy, LLC and Louisiana ASA, LLC for the purpose of managing complex, out of state adverse credit relationships. These entities have no assets as of the date of this report and management believes that the business of these LLC's has concluded.

### **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 Bank, as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

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

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Louisiana Land Bank, ACA 2413 Tower Drive, Monroe, Louisiana, 71201 or calling 318-387-7535. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing [debbie.bond@louisianalandbank.com](mailto:debbie.bond@louisianalandbank.com). The Association’s annual stockholder report is available on its website at [www.louisianalandbank.com](http://www.louisianalandbank.com) 75 days after the fiscal year end. Copies of the Association’s annual stockholder report can also be requested 90 days after the fiscal year end.

### SELECTED FINANCIAL DATA

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

### MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### DIRECTORS AND SENIOR OFFICERS

The Association’s member-elected and director-elected Board of Directors and senior officers are as follows:

<u>NAME</u>	<u>POSITION</u>	<u>DATE ELECTED/ EMPLOYED</u>	<u>TERM EXPIRES</u>
James Mark Morgan	Chairman & Stockholder Elected Director	2011	2020
John L. “Jack” Dailey	Vice Chairman & Stockholder Elected Director	2012	2019
Donald Berken	Stockholder Elected Director	2015	2018
Henry A. Capdeboscq, Jr.	Stockholder Elected Director	2008	2020
Grady E. Coburn	Stockholder Elected Director	2012	2019
John F. Earles	Stockholder Elected Director	2010	2019
Gertrude Hawkins	Stockholder Elected Director	2002	2020
Cecelia A. Hoyt	Board Appointed Director	2013	2019
Cullen M. Kovac	Stockholder Elected Director	2011	2018
Edward W. Patrick, Jr.	Stockholder Elected Director	1994	2018
Robert James “Bobby” Soileau	Board Appointed Director	2015	2018
F. Stephen Austin	CEO	2011	
Christopher E. Bentley	CFO	2008	
Brian D. Turner	CCO	2012	
Robert “Wes” Lowe	Chief Appraisal Officer	2012	
David A. Ogletree	Senior VP of Lending & Field Operations	1988	

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

**James Mark Morgan** has been employed since 1974 by Atco Investment Company, a privately owned investment group. He has served as the general manager of Atco for the last 25 years, and this has been his principal occupation for the last five years. Mr. Morgan is the managing partner of Louisiana Timber Partners, LLC, a timber land investment organization. Mr. Morgan is also the managing partner of Morgan Brothers Land Co., Morgan Land and Timber, LLC and Morgan Timber Partners, LLC, all family-owned land and timber investment companies. He is also the manager of three farming operations located in Natchitoches Parish, La. They are Bayou Camitte Lands, LLC, Oaklawn Chico, LLC and Melrose Plantation, LLC. Mr. Morgan is Louisiana Land Bank’s representative and serves as secretary on the Farm Credit Bank of Texas Stockholder Advisory Council and member of the 10<sup>th</sup> District Farm Credit Council. He is a member of the Louisiana Forestry Association and the Texas Forestry Association and serves on the board for the Shreveport/Bossier Military Affairs Council.

**Donald Berken** is a self-employed rice and soybean farmer. He has been farming for the last 45 years. Mr. Berken is also president of Berken Farms, Inc., a family farm corporation. Mr. Berken serves on the boards of Jeff Davis Farm Bureau, Jeff Davis

Rice Growers, La. Rice Council, La. Rice Research board, and La. Agricultural Commodities commission. Mr. Berken is vice president of The Berken Estate, Inc. Mr. Berken serves on the Regulatory and Food Safety, PAC, and Communications committees of the USA Rice Federation. Mr. Berken also serves as chairman of the La. Farm Bureau Rice Advisory Committee.

**John L. “Jack” Dailey** is an owner and operator of Boeuf Prairie Farm, which produces cotton, corn, soybeans, and cattle, and this has been his principal occupation for the past five years. Mr. Dailey serves as board member of the Franklin Parish Fire Protection District 2, Franklin Parish Farm Bureau, Louisiana Boll Weevil Eradication Commission, and Matthews Cemetery, Inc. Mr. Dailey is a manager for the Franklin Farmer Alliance, LLC, which is a farmer-owned agriculture retail store. Mr. Dailey also serves on the Executive Committee of the Louisiana Cotton and Grain Association and the Water Management Task Force under Louisiana Department of Natural Resources.

**Henry A. Capdeboscq, Jr.** is a self-employed dairy and beef cattle operator, which has been his principal occupation for the past five years. Mr. Capdeboscq is also owner of Capdeboscq Farm Trucking, LLC and Capdeboscq Farm Hauling, LLC. Mr. Capdeboscq serves on the board of the Tangipahoa Parish Cattlemen’s Association and is a board member on the Louisiana Brand Commission. Mr. Capdeboscq is also a member of the Tangipahoa Parish Farm Bureau, Tangipahoa Parish Forestry Association, Tangipahoa Parish Dairy Advisory Committee, and Louisiana Cattlemen’s Association.

**Grady E. Coburn, Ph.D.** is the owner and president of Pest Management Enterprises, which has been his principal occupation for the past five years. Mr. Coburn has worked as an agricultural consultant and independent contract researcher for 40 years. He is a board member and chairman of the Louisiana Department of Agriculture Pesticide Advisory Commission, board member of the Boll Weevil Eradication Technical Advisory Board, member of the Bayou Boeuf Cooperative board of directors and vice chairman of the Global Alliance of Independent Agricultural Consultants.

**John F. Earles** co-owns and operates Triple E Farms, which has been his principal occupation for the past five years. Mr. Earles is president of Townsend Brothers Farms and serves as secretary/treasurer for Triple E Land Grading. He is president of Earles, Inc., a land and rice dryer organization, Gold Dust Hunting Club Inc., and Black Lake Hunting Club, Inc. Mr. Earles serves as secretary/treasurer of Triple E Land Grading, a precision land leveling and development organization, Townsend Brother Farms, Inc., Cenla Fuels, LLC, and Bunkie Flying Service, Inc. He currently serves as a police juror for Avoyelles Parish. Mr. Earles is also co-owner of Express Car Wash, LLC and a member of the Cajun Sugar II Coop.

**Gertrude Hawkins** is employed by the LSU AgCenter Sugar Research Station, where she is a research associate. This has been her principal occupation for the past five years. She farms cotton, corn, soybeans, sugarcane and wheat with her brother. She manages the Edgar LaCour Land Company, LLC, which is a family-owned business consisting of timber and row crops. Mrs. Hawkins also manages LaCour & Blake, LLC, and Blue Lake Farms, LLC, and is a partner in G&L Farm Partnership and GNG Farm Partnership. She is a board member of the Pointe Coupee Parish Farm Bureau, Edgar LaCour Land Company, LLC, LaCour & Blake, LLC, and Blue Lake Farms, LLC. Mrs. Hawkins is also the president of Schwab Farms, Inc. and secretary for Bouanchaud Farms, Inc., Gilmer Farms, Inc., and G&M Farms, Inc. Mrs. Hawkins serves as a member of American Sugar Cane League, Louisiana Sugar Growers, American Society of Sugar Cane Technologists, and Tri Parish Gin.

**Cecelia A. Hoyt** is a Certified Public Accountant with over 30 years of broad accounting and business experience and expertise. She earned a B.S. degree in Biology from the University of New York at Buffalo and a B.S degree in Accounting from Canisius College. Mrs. Hoyt’s principal occupation for the past five years has been as a part-time controller and accounting manager for Hoyt and Stanford, LLC and as a part-time tax associate for Darnall, Sikes, Gardes & Frederick, ACCPAs. Mrs. Hoyt is a member of the American Institute of Certified Public Accountants and the Louisiana State Society of Certified Public Accountants.

**Cullen M. Kovac** is a co-owner/operator in Kovac Cattle, Inc., which is a cow/calf and stocker operation and has been his principal occupation for the past five years. Mr. Kovac is a partner in Kovac Land, LLC which is an agricultural land buying and holding corporation. Mr. Kovac is vice president of the Fiske Union Water System. He serves as a director of the West Carroll Soil and Water Conservation District Board and is president of the West Carroll Parish Farm Bureau Board. Mr. Kovac is also vice president of the West Carroll Parish School Board.

**Edward W. Patrick, Jr.** is a self-employed farmer of cotton, rice, corn and soybeans, which has been his principal occupation for the past five years. Mr. Patrick is co-owner and operator of Joe’s Bayou Gin. Mr. Patrick serves as president and director of Joe’s Bayou Farm Supply, PP&E Corporation and Pop Pat, Inc. PP&E Corporation and Pop Pat, Inc. are both farming entities. He is also vice-president and director of Joe’s Bayou Gin. Mr. Patrick is a director on the East Carroll Farm Bureau Board.

**Robert James “Bobby” Soileau** received an M.S. and a Ph.D. in agricultural education and leadership from Louisiana State University. Since 2005, Mr. Soileau has been the associate director and now is director of agricultural leadership for LSU

AgCenter. Mr. Soileau oversees the leadership programs for people in agriculture and agribusiness and the LSU AgCenter and College of Agriculture facility. Mr. Soileau is a member of the International Association of Programs for Agricultural Leadership and Agricultural Leaders of Louisiana. Mr. Soileau is also a treasurer for the Louisiana County Agricultural Agents Association.

**F. Stephen Austin** serves as the **Chief Executive Officer** for Louisiana Land Bank, ACA. Mr. Austin joined the Association in 2011 as chief credit officer and was promoted to CEO in 2013. Mr. Austin's principal occupation for the past five years has been with the Association. Mr. Austin earned a B.S. degree in Agriculture with a minor in Marketing from Southeast Missouri State University. He also completed the Graduate School of Banking at Louisiana State University. His work experience includes over 17 years in lending and branch manager positions with the Farm Credit System entities in Illinois and Missouri. Prior to his tenure with the Association, he served for over eight years as the senior lender of a regional five-bank holding company in southeast Missouri.

**Christopher E. Bentley, Chief Financial Officer**, joined the Association in July 2008 and was promoted to CFO during 2012. He is a graduate of Louisiana Tech University with a Bachelor of Science Degree in Finance. Mr. Bentley has previously served as senior accountant, controller, and director of compliance, controls and risk management for the Association. Prior to his employment with the Association, Mr. Bentley spent over four years working for a regional commercial bank, primarily with the commercial real estate lending group. Mr. Bentley also serves as chairman of the Association's Asset/Liability Committee.

**Brian D. Turner, Chief Credit Officer**, joined the Association in January 2012 as director of compliance, controls and risk and was promoted to chief credit officer during 2013. His principal occupation during the past five years has been with the Association. Prior to joining the Association, Mr. Turner had been employed in commercial banking for 17 years with experience in credit analysis, commercial lending, and risk management. He received a B.A. degree in Legal Studies from the University of Louisiana at Monroe and an M.B.A. in Finance from Louisiana Tech. He has completed the Graduate School of Banking at Louisiana State University. Mr. Turner also serves as chairman of the Association's Loan Committee.

**David A. Ogletree** has been with the Association since 1988 and currently serves as **Senior Vice-President of Lending and Field Operations**. He has B.S. degrees in Animal Science and Agricultural Business from Louisiana Tech University and completed the Graduate School of Banking at Louisiana State University. Mr. Ogletree also serves as chairman on the board of the Ark-La-Tex Agricultural Council, which is a nonprofit organization that promotes agriculture in the state of Louisiana.

**Robert "Wes" Lowe** joined the Association as senior appraiser in July 2012 and was promoted to **Chief Appraisal Officer** in 2013. His principal occupation during the past five years has been with the Association. Prior to that, Mr. Lowe worked as a review appraiser for the U.S. Corps of Engineers in the New Orleans and Vicksburg Districts. He also worked as an independent fee appraiser and real estate broker in northeast Louisiana and southeast Arkansas for over 15 years specializing in agricultural and recreational properties. Mr. Lowe received a B.S. degree in Construction Management from the University of Louisiana at Monroe and is an accredited ARA member of the American Society of Farm Managers and Rural Appraisers.



## COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium. The Chairman of the Board received a monthly retainer of \$2,500 in lieu of any other payment for Board or committee meeting attendance and received the same compensation as any other director for training days, attending the FCBT annual meeting, attending national meetings or special assignments. The Vice Chairman received a monthly retainer of \$1,250, and all other directors received a monthly retainer of \$1,000. Mileage for attending official meetings during 2017 was paid at the IRS-approved rate of 53.5 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Directors, other than the Chairman of the Board, received \$750 for attending each Board meeting, with no additional compensation for attending committee meetings on the same day of the Board meeting being paid. The compensation or honorarium for attending external training sessions, attending District or national Farm Credit meetings, attending a committee meeting on a non-board meeting day, or undertaking special assignments as directed by the Chairman of the Board will be \$500 per day. Committee chairs except for the Audit Committee chair received an additional \$150 for organizing, attending and presiding at committee meetings, whether on the same day as the Board meeting or on a different day. The Audit Committee Chair received an additional \$250 per Audit Committee meeting until September 2017, when the Board approved an increase to \$500 per Audit Committee meeting. Conference call with the exception of the Chairman of the Board was \$150.

Director	Number of Days Served Associated With		Total Compensation in 2017
	Board Meetings	Other Official Activities	
James Mark Morgan	10	12	\$ 36,000
John L. "Jack" Dailey	10	18.5	33,650
Donald Berken	10	15	28,800
Henry Capdeboscq, Jr.	10	5.5	24,050
Grady E. Coburn	10	8.5	25,450
John F. Earles	10	10	25,550
Gertrude Hawkins	10	5.5	25,000
Cecelia A. Hoyt	10	14	33,950
Cullen M. Kovac	10	12.5	27,550
Edward W. Patrick, Jr.	9	9	23,450
Robert James "Bobby" Soileau	10	10.5	27,200
			<u>\$310,650</u>

The aggregate compensation paid to directors in 2017, 2016 and 2015 was \$310,650, \$277,350 and \$298,900, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2017:

Director	Committee		
	Audit	Compensation	Governance
James Mark Morgan	\$ -	\$ -	\$ -
John L. "Jack" Dailey	-	-	600
Donald Berken	750	-	-
Henry Capdeboscq, Jr.	750	-	-
Grady E. Coburn	-	150	-
John F. Earles	-	-	-
Gertrude Hawkins	300	900	-
Cecelia A. Hoyt	5,050	-	-
Cullen M. Kovac	300	-	300
Edward W. Patrick, Jr.	750	150	-
Robert James "Bobby" Soileau	-	900	-
	<u>\$ 7,900</u>	<u>\$ 2,100</u>	<u>\$ 900</u>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$89,263, \$74,696 and \$63,949 in 2017, 2016 and 2015, respectively.

## COMPENSATION OF SENIOR OFFICERS

### Compensation Discussion and Analysis – Senior Officers

Fair and uniform salary administration is important and an integral part of the success of Louisiana Land Bank, ACA. The Board, through its Compensation Committee (Committee), has pursued a Salary Administration Plan for the Association that includes the specific objectives as listed below:

- To attract, retain and motivate all personnel needed for the Association to achieve its strategic goals and project plans;
- To ensure fair and equitable compensation opportunities for those who hold positions of comparable responsibility and importance to the Association;
- To meet legal requirements in all compensation practices;
- To provide objective methods for measuring the relative value of jobs within the Association;
- To encourage the highest possible degree of employee performance, motivation and overall contribution to the Association;
- To provide for recognition of and reward for differences in individual ability and performance;
- To establish and maintain salaries and grade ranges which position the Association to be competitive in the marketplace;
- To establish procedures that will provide for the fair and consistent monitoring of the salary administration system and application of salary practices within our organization.

The Committee establishes the overall compensation structure and executive compensation philosophy and principles of the Association in order to ensure competitive compensation programs and retention of key management and staff talent. The Committee annually reviews the Salary Administration Plan which addresses merit increases, salary adjustments, incentive plans, bonuses and employee benefits and approves these programs for senior officers and employees. Market salary data is derived from an independent third-party vendor through the Bank which is utilized to ensure that proper compensation structures are in line with market-comparable positions with similarly situated financial institutions. The study provides the basis for actions by the Committee to review, recommend and present to the Board plans for final approval. The Committee makes recommendations to the Board with regard to base salary, incentive and/or bonus payments and other compensation for the CEO and also approves the overall compensation program for senior officers. The Association's compensation program encompasses four primary elements: (1) base salary, (2) discretionary and/or incentive bonus compensation, (3) Association-paid retirement benefits and (4) secondary benefits such as annual leave, Association-paid life insurance and Association-provided vehicles.

Certain employees of the Association participate in the Farm Credit Bank of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave 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 of monthly eligible compensation after 1996 (FAC60). The Pension Plan's benefit formula for a normal retirement pension is the sum of (a) 1.65 percent of FAC60 times Years of Benefit Service and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) Years of Benefit Service (not to exceed 35).

## Chief Executive Officer (CEO) Compensation Policy

### Summary Compensation Table

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

Name of Individual or number in group (a)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/ Perquisite (e)	Other (f)	Total
F. Stephen Austin							
CEO	2017	\$ 271,215	\$ 64,575	\$ -	\$ 28,853	\$ -	\$ 364,643
	2016	258,300	50,350	-	28,096	-	336,746
	2015	246,000	49,550	-	28,640	-	324,190
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)							
5	2017	\$ 851,916	\$ 207,162	\$ 357,267	\$ 108,021	\$ -	\$ 1,524,366
5	2016	824,646	128,074	253,878	102,793	-	1,309,391
5	2015	788,595	176,037	61,573	99,931	10,449	1,136,585

- (a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
- (b) Gross salary, including retention plan compensation for certain senior officers.
- (c) Bonuses paid within the first 30 days of the subsequent calendar year.
- (d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.
- (e) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance, AD&D, business travel insurance, and LTD insurance.
- (f) Amounts in the "Other" column include annual leave hours and/or severance pay at time of retirement, resignation, or termination.

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 and/or highly compensated employee included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

Salary is the base salary compensation earned and paid during the respective year. Incentive compensation is earned and accrued in the current year, pursuant to the Association's Incentive Compensation Plan. Over and above base salary, incentive compensation is available to all full-time, permanent employees, based upon the achievement of predetermined performance goals. The Association's Incentive Compensation Plan and total incentive compensation dollars are approved and recommended annually by the Committee to the full Board for final approval.

The incentive plan is a metric-based plan that measures Association key result areas including specific Association target checks. The CEO, senior officers and employees are covered by the same plan approved by the Committee and the Board. The plan allocates potential incentive pay of a percentage of salary based on performance. Key result areas include loan volume growth, loans closed volume, credit administration, past due percentages, interest rate spread, and fees collected on loans closed. The weighting of these areas is consistent with Association business goals as approved by the Board. In addition, targets are incorporated into the plan so that if the Association does not perform as required, then no incentive compensation is allocated to individuals. The target checks include minimum and zero compensation measurement of Association credit quality and earnings to derive a final incentive payout. Payment of incentive compensation is paid on a lump sum basis after the Committee recommends and the Board approves the final payouts.

The plan contains a maximum funding ceiling capped at a Board-approved percentage (25 percent) of the combined base salaries of the administrative and branch employees. The plan is focused on helping the Association fulfill its charter to serve the borrowers' needs of the agribusiness community of Louisiana.

Deferred and perquisite compensation includes retirement plan activity, which is contributions to 401(k) plans, defined benefit plans, premiums paid for life, accidental, death and dismemberment, business travel, and long-term disability insurance. Other compensation includes any severance pay and/or accrued annual leave paid at termination. Group term life insurance is provided to all eligible employees in an amount equal to two times the employees' base salary, up to \$1 million. To the extent that the value of this life insurance exceeds \$50,000, an amount is added to each respective employee's taxable earnings using the IRS-approved calculations. Accidental, death and dismemberment insurance is provided to all eligible employees in an amount equal to two times the employees' base salary, up to \$1 million. Business travel accident insurance is provided to all eligible employees in an amount equal to five times the employees' base salary, up to \$2 million. Long-term disability insurance is provided to all eligible employees with a benefit amount equal to two-thirds of the employees' monthly base salary, up to \$15,000 per month. Amounts relating to life, AD&D, business travel and LTD insurance are included in "Deferred/Perquisite" in the table of CEO/Top 5 Compensation.

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

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 procedures is available to shareholders upon request.

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

Disclosure of the compensation paid during 2017 to any senior officer or officer included in the table is available and will be disclosed to stockholders of the Association upon written request.

## Pension Benefits Table

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

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2017
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)	Farm Credit Bank of Texas			
1	Pension Plan	36	\$ 2,047,447	\$ -

## Pension Benefits Table Narrative Disclosure

Certain senior officers and other highly compensated employees of the Association participate in the Farm Credit Bank of Texas Pension Plan (the “Pension Plan”), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation, and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (“FAC60”). The Pension Plan’s benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times “Years of Benefit Service” and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items and (ii) “Years of Benefit Service” (not to exceed 35). The present value of the senior officers’ accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan’s benefit formula for the Normal Retirement Pension assumes that the senior officer is married on the date the annuity begins, that the spouse is exactly two years younger than the senior officer and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

## Other Supplemental Retirement Plans Funded by the Association on Behalf of Senior Officers and Employees

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

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

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

## **TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS**

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

### **DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

During the past five years, none of the Association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1, 2014, or any time during the fiscal year just ended.

### **RELATIONSHIP WITH INDEPENDENT AUDITOR**

There were no changes in the relationship with the independent auditor during 2017. The fees for professional services rendered for the Association by PricewaterhouseCoopers, LLP during 2017 were \$91,591 for audit and \$18,135 for tax services.

### **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. Louisiana White Energy, LLC and Louisiana ASA, LLC were organized for the purpose of holding and managing foreclosed properties

## **FINANCIAL STATEMENTS**

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

## **MEMBER/SHAREHOLDER PRIVACY**

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

## **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 farmers (YBS) and ranchers and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of the 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 standard possible to meet the credit needs of YBS farmers and ranchers. In addition, the Association actively supports other programs, events and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The Association sets annual goals 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 loan date
- Beginning: 10 years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than \$250,000 in annual gross sales of agricultural products

The 2012 USDA Census of Agriculture for Louisiana indicates that 5.29 percent of the total number of Louisiana farmers were classified as Young, 25.25 percent were classified as Beginning, and 91.24 percent were classified as Small.

Goals for YBS lending, as a percentage of the total loan portfolio, and strategic performance levels are established as follows: *(The following percentages are cumulative in volume, and categories are inclusive)*

Overall Portfolio	9/30/17 – Actual <i>(LA4190RS)</i>		Goals					
			2018		2019		2020	
	% Loans	% Volume	% Loans	% Volume	% Loans	% Volume	% Loans	% Volume
Young	20.85	13.69	20.90	13.75	20.95	13.80	21.00	13.85
Beginning	53.63	51.11	53.65	51.15	53.70	51.20	53.75	51.25
Small	74.26	60.22	74.30	60.25	74.35	60.30	74.40	60.35

Goals for YBS lending, as a percentage of the annual new business activity for the year, are established as follows: *(The following percentages are cumulative in volume, and categories are inclusive)*

New Loans	9/30/17 – Actual <i>(LA4190RS)</i>		Goals					
			2018		2019		2020	
	% Loans	% Volume	% Loans	% Volume	% Loans	% Volume	% Loans	% Volume
Young	18.02	16.80	18.05	16.85	18.10	16.90	18.15	16.95
Beginning	43.83	45.74	43.85	45.80	43.90	45.95	43.95	46.00
Small	67.17	53.31	67.20	53.35	67.25	53.40	67.30	53.45