Legacy Ag Credit, ACA

2014 ANNUAL REPORT

Part of the Farm Credit System

Letter from the Chairman and the President/CEO

Dear Legacy Stockholders:

The Merriam-Webster dictionary defines the word cooperative, as it relates to a business, as an organization that is owned and operated by the people who use its services. This business model is one which Legacy Ag Credit and the Farm Credit System have operated under for nearly 100 years. Generations of farmers, ranchers, and rural property owners across our nation have benefited from the cooperative model for nearly a century. As stockholders of Legacy Ag Credit, you already know the many benefits of this business model, such as the reliable source of financing for agriculture, return of Association profits to its members through the patronage program, and enhancement of the quality of life in rural America, just to name a few. We are proud of the achievements we have made together and the benefits available to our members under the cooperative model, and we look forward to continuing to serve your financing needs and introducing others to the benefits of doing business with Legacy Ag Credit. As we look into the future, the Board of Directors and employees of Legacy Ag Credit are dedicated to positioning the Association to continue to meet the needs of its members.

For 2014, it is clear that the benefits of the cooperative model are at work and the results are in. We are pleased to report net income for 2014 of just over $5 million. Due to the continued unity of Legacy Ag Credit's stockholders, its Board of Directors and employees, strong financial results are being achieved. Additionally, your Association's permanent capital ratio, the foundation of any business including ours, increased to over 21 percent. This level of capital positions the Association to meet the future needs of its member/borrowers by providing consistent financing to you and your operations as well as allowing for strong future growth. Legacy Ag Credit is dedicated to the mission of being the premier agricultural lender within our territory while ensuring a superb customer experience.

As a result of the financial achievements of 2014, the Board of Directors declared a cash patronage of $1.60 million which will be paid in March 2015. This year's declared cash patronage reflects an approximate 80 basis point reduction in the effective borrowing rate of an average borrower of Legacy Ag Credit for 2014.

Throughout 2014, the Association continued to meet objectives, goals, and its mission, but most importantly, continued to serve its valued stockholders. Due in part to the relationship-based culture embraced by the Board of Directors and employees, the Association experienced positive loan growth in 2014. During 2014, the Association continued to improve credit quality and enhanced market penetration, while at the same time, filling key open positions within the organization with professional, talented individuals. The continued identification of key strategic objectives by your Association's Board and management has positioned the Association to continue to meet stockholder expectations and serve its chartered territory.

Our member/borrowers benefit from the success of our cooperative model and over the last year, Legacy Ag Credit remained dedicated to introducing our model, products, and services to new member/borrowers within our territory while deepening our relationship with current member/borrowers. Growth and prosperity benefit all member/borrowers of Legacy Ag Credit, and our Association is prepared to meet your financing needs.

On behalf of the Board of Directors and employees of Legacy Ag Credit, we look forward to continuing to serve you and your financing needs.

We sincerely appreciate your business!

Joseph Crouch, President

Jerry Cordell, Chairman of the Board

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REPORT OF MANAGEMENT

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

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

The 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 or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge or belief.

Joseph Crouch, Chief Executive Officer
March 12, 2015

Jerry Cordell, Chairman, Board of Directors
March 12, 2015

Daryl D. Belt, Chief Financial Officer
March 12, 2015

Wayne Bawcum, CPA, Chairman, Audit Committee
March 12, 2015

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Legacy Ag Credit, ACA. In 2014, 16 committee meetings were held. The committee oversees the scope of Legacy Ag Credit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Legacy Ag Credit, ACA's website. The committee approved the appointment of PricewaterhouseCoopers LLP for 2014.

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

In this context, the committee reviewed and discussed Legacy Ag Credit, ACA's audited consolidated financial statements for the year ended December 31, 2014 (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 Legacy Ag Credit, ACA's internal auditors directly provide reports on significant matters to the committee.

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

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Legacy Ag Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2014.

Audit Committee Members

Wayne Bawcum, CPA, Chairman
Jerry Cordell, Vice Chairman
Cody Newman
A.G. Sandifeer
Terry D. Milligan
Paul Nicklas
Ron Gabriel

March 12, 2015

LEGACY AG CREDIT, ACA

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

	2014	2013	2012	2011	2010
Balance Sheet Data					
Assets					
Cash	**$ 97**	$ 84	$ 84	$ 88	$ 63
Loans	**228,889**	216,168	212,343	216,045	250,449
Less: allowance for loan losses	**3,026**	3,299	3,269	5,788	10,396
Net loans	**225,863**	212,869	209,074	210,257	240,053
Investment in and receivable from the Farm Credit Bank of Texas	**3,677**	4,236	4,188	4,492	6,379
Other property owned, net	**296**	787	3,957	5,113	3,809
Other assets	**1,990**	1,877	2,026	2,136	2,522
Total assets	**$ 231,923**	$ 219,853	$ 219,329	$ 222,086	$ 252,826
Liabilities					
Obligations with maturities of one year or less	**$ 1,808**	$ 2,125	$ 919	$ 714	$ 601
Obligations with maturities greater than one year	**178,025**	169,534	173,302	180,005	212,999
Total liabilities	**179,833**	171,659	174,221	180,719	213,600
Members' Equity					
Capital stock and participation certificates	**1,080**	1,022	998	1,017	1,122
Unallocated retained earnings	**50,857**	46,935	44,020	40,194	37,899
Accumulated other comprehensive income (loss)	**153**	237	90	156	205
Total members' equity	**52,090**	48,194	45,108	41,367	39,226
Total liabilities and members' equity	**$ 231,923**	$ 219,853	$ 219,329	$ 222,086	$ 252,826
Statement of Income Data					
Net interest income	**$ 7,816**	$ 7,784	$ 7,317	$ 6,327	$ 6,422
(Provision for loan losses) or loan loss reversal	**171**	(765)	713	(713)	(8,465)
Income from the Farm Credit Bank of Texas	**838**	826	850	963	1,337
Other noninterest income	**1,407**	521	646	139	503
Noninterest expense	**(5,060)**	(4,451)	(5,400)	(4,421)	(3,703)
Net income (loss)	**$ 5,172**	$ 3,915	$ 4,126	$ 2,295	$ (3,906)
Key Financial Ratios for the Year					
Return on average assets	**2.3%**	1.8%	1.9%	0.97%	-1.4%
Return on average members' equity	**10.2%**	8.3%	9.4%	5.8%	-8.9%
Net interest income as a percentage of average earning assets	**3.5%**	3.7%	3.4%	2.7%	2.3%
Net charge-offs (recoveries) as a percentage of average loans	**0.05%**	0.4%	0.8%	2.3%	2.9%

LEGACY AG CREDIT, ACA

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

	2014	2013	2012	2011	2010
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**22.5%**	21.9%	20.6%	18.6%	15.5%
Debt as a percentage of members' equity	**345.2%**	356.2%	386.2%	436.9%	544.5%
Allowance for loan losses as a percentage of loans	**1.3%**	1.5%	1.5%	2.7%	4.2%
Permanent capital ratio	**21.4%**	20.9%	19.1%	15.8%	14.3%
Core surplus ratio	**20.9%**	20.4%	18.7%	15.4%	13.8%
Total surplus ratio	**20.9%**	20.4%	18.7%	15.4%	13.8%
Net Income Distribution					
Cash patronage distributions	**$ 1,250**	$ 1,000	$ 304	$ -	$ 1,000

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Legacy Ag Credit, ACA, including its wholly-owned subsidiaries, Legacy, PCA and Legacy Land Bank, FLCA (association) for the years ended December 31, 2014, 2013 and 2012, 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 Farm Credit Administration (FCA) terminated the Supervisory Agreement (Agreement) with Legacy Ag Credit, ACA effective January 23, 2014. The Association has been returned to normal supervision. Details regarding the Agreement can be found in the Notes to the consolidated financial statements, "Regulatory Enforcement Matters," for Annual reports 2009-2013.

In December 2014, the association received a direct loan patronage of $757,517 from the bank, representing 43 basis points on the average daily balance of the association's direct loan with the bank. During 2014, the association received $69,406 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 $11,003 from the bank, representing 75 basis points on the association's average balance of participations in the bank's patronage pool program.

In January 2015, the Board of Directors approved a patronage payment related to 2014 earnings of $1,600,000. The patronage will be paid in March 2015.

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 $228,889,211, $216,168,241 and $212,343,402 as of December 31, 2014, 2013 and 2012, 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 2014, 2013 and 2012, the association was participating in loans with other lenders. As of December 31, 2014, 2013 and 2012, these participations totaled $25,181,834, $21,936,254 and $19,757,810, or 11.0 percent, 10.1 percent and 9.3 percent of loans, respectively. The association had no participations purchased with entities outside the District. The association has also sold participations of $1,146,412, $1,098,215 and $1,132,500 as of December 31, 2014, 2013 and 2012, respectively.

During 2013, the Association sold loans related to two borrowers to local lending institutions which resulted in the recognition of a gain of $77,871.

During 2012, the Association sold four loans relating to one borrower to a local lending institution which resulted in the recognition of a gain of $159,761.

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:

	2014		2013		2012	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 2,791,617**	**43.8%**	$ 3,957,739	48.4%	$ 7,574,544	49.3%
Formally restructured	**3,289,626**	**51.6%**	3,440,598	42.0%	3,832,732	24.9%
Other property owned, net	**295,631**	**4.6%**	787,368	9.6%	3,956,869	25.8%
Total	**$ 6,376,874**	**100.0%**	$ 8,185,705	100.0%	$ 15,364,145	100.0%

At December 31, 2014, 2013 and 2012, loans that were considered impaired were $6,081,243, $7,398,337 and $11,407,276, representing 2.7 percent, 3.4 percent and 5.4 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

Other property owned consisted of two properties at December 31, 2014. This included inventory and a house and land. The net carrying value of the properties is equivalent to its fair value of $295,631, which is net of an allowance of $261,277. During 2014, there was one sale of other property owned that resulted in a gain of $1,286,079. Net operating expenses incurred on other property owned were $266,377.

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:

	2014	2013	2012
Allowance for loan losses	**$ 3,026,371**	$ 3,299,523	$ 3,269,104
Allowance for loan losses to total loans	**1.3%**	1.5%	1.5%
Allowance for loan losses to nonaccrual loans	**108.4%**	83.4%	43.2%
Allowance for loan losses to impaired loans	**49.8%**	44.6%	28.7%
Net charge-offs to average loans	**0.05%**	0.4%	0.8%

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 considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $3,026,371, $3,299,523 and $3,269,104 at December 31, 2014, 2013 and 2012, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Management's process for the evaluation of allowance for loan losses includes a portfolio analysis and historical loss experience. In view of the above process, management believes that the allowance is adequate.

Results of Operations:

The association's net income for the year ended December 31, 2014, was $5,171,871 as compared to $3,915,034 for the year ended December 31, 2013, reflecting an increase of $1,256,837, or 32.1 percent. The association's net income for the year ended December 31, 2012 was $4,126,249. Net income decreased $211,215, or 5.1 percent, in 2013 versus 2012.

Net interest income for 2014, 2013 and 2012 was $7,816,285, $7,784,097 and $7,317,038, respectively, reflecting increases of $32,188, or 0.4 percent, for 2014 versus 2013 and $467,059, or 6.4 percent, for 2013 versus 2012. 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:

	2014		2013		2012	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 223,635,918**	**$ 11,644,220**	$ 211,497,863	$ 11,406,892	$ 212,936,637	$ 11,853,236
Interest-bearing liabilities	**176,245,254**	**3,827,935**	169,368,597	3,622,795	175,118,710	4,536,198
Impact of capital	**$ 47,390,664**		$ 42,129,266		$ 37,817,927	
Net interest income		**$ 7,816,285**		$ 7,784,097		$ 7,317,038

	2014	2013	2012
	Average Yield	Average Yield	Average Yield
Yield on loans	**5.21%**	5.39%	5.57%
Cost of interest-bearing liabilities	**2.17%**	2.14%	2.59%
Interest rate spread	**3.03%**	3.25%	2.98%

	2014 vs. 2013			2013 vs. 2012		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 654,654**	**$ (417,326)**	**$ 237,328**	$ (80,126)	$ (366,218)	$ (446,344)
Interest expense	**147,092**	**58,048**	**205,140**	(148,951)	(764,452)	(913,403)
Net interest income	**$ 507,562**	**$ (475,374)**	**$ 32,188**	$ 68,825	$ 398,234	$ 467,059

Interest income for 2014 increased by $237,328, or 2.1 percent, compared to 2013, primarily due to an increase in average loan volume. Interest expense for 2014 increased by $205,140, or 5.7 percent, compared to 2013 due to an increase in interest-bearing liabilities. The interest rate spread decreased by 22 basis points to 3.03 percent in 2014 from 3.25 percent in 2013, primarily because of the changes outlined above. The interest rate spread increased by 27 basis points to 3.25 percent in 2013 from 2.98 percent in 2012, primarily due to a decrease in the cost of interest-bearing liabilities but offset by a decrease in yield on loans. The Association controls interest rate margins through its loan pricing and matched funding provided by interest rate programs with the Bank. See "Liquidity and Funding Sources" below for further information.

Noninterest income for 2014 increased by $898,774, or 66.8 percent, compared to 2013, due primarily to the gain on sale of other property owned. Noninterest income for 2013 decreased by $149,848, or 10.0 percent, compared to 2012, due primarily to a

$159,761 gain on sale of loans and a $271,076 refund distribution from the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), both of which occurred in 2012. Distributions from the FCSIC received in 2012 included reserves it held in excess of its secure base amount.

Provisions for loan losses decreased by $935,817, or 122.4 percent, compared to 2013, due primarily to a reduction in impaired loan balances.

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 $609,942, or 13.7 percent, in 2014 compared to 2013. Salaries and employee benefits increased by $280,156, or 10.7 percent, due to an increase in staffing levels. Provision for other property owned increased by $164,674, or 227.2 percent due to a decrease in appraisal values. Advertising and public and member relations increased by $39,020, or 17.8 percent, primarily due to advertising activities. The increase in operating expenses included an increase of $32,725 in premiums to the Insurance Fund, resulting from an increase in the premium rates from 10 basis points in 2013 to 12 basis points in 2014. The $948,973 decrease in operating expenses in 2013 from 2012 is primarily related to a $1,071,374 reduction in provision for other property owned. 2013 operating expenses also included an increase of $59,183 in premiums to the Insurance Fund, resulting from an increase in the premium rates from 5 basis points in 2012 to 10 basis points.

For the year ended December 31, 2014, the association's return on average assets was 2.3 percent, as compared to 1.8 percent and 1.9 percent for the years ended December 31, 2013 and 2012, respectively. For the year ended December 31, 2014, the association's return on average members' equity was 10.2 percent, as compared to 8.3 percent and 9.4 percent for the years ended December 31, 2013 and 2012, respectively.

Because the association depends on the bank for funding, any significant positive or negative factors affecting the operations of the bank would have a similar effect on the operations of the association.

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $177,687,550, $169,229,588 and $172,960,131 as of December 31, 2014, 2013 and 2012, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.17 percent, 2.14 percent and 2.38 percent at December 31, 2014, 2013 and 2012, 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, 2013, is due to an increase in average loan volume. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $51,034,308, $45,249,278 and $39,221,904 at December 31, 2014, 2013 and 2012, respectively. The maximum amount the association may borrow from the bank as of December 31, 2014, was $214,645,859 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, 2015, 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 in the future. 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 $52,090,314, $48,194,243 and $45,108,003 at December 31, 2014, 2013 and 2012, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The association's permanent capital ratio at December 31, 2014, 2013 and 2012 was 21.4 percent, 20.9 percent and 19.1 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The association's core surplus ratio at December 31, 2014, 2013 and 2012 was 20.9 percent, 20.4 percent and 18.7 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the association. The association's total surplus ratio at December 31, 2014, 2013 and 2012 was 20.9 percent, 20.4 percent and 18.7 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2014, 2013 and 2012, the association paid patronage of $1,250,000, $1,000,000 and $300,000, respectively. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Regulatory Matters:

On July 25, 2014, the Farm Credit Administration published 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.

On September 4, 2014, the Farm Credit Administration published a proposed rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

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

The public comment period ended on February 16, 2015.

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 Farm Credit Bank of Texas."

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

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

Summary:

Over the past 98 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.

pwc

Independent Auditor's Report

To the Board of Directors of Legacy Ag Credit, ACA:

We have audited the accompanying consolidated financial statements of Legacy Ag Credit, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2014, 2013 and 2012, and the related consolidated statements of comprehensive income, of changes in members' equity and of 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.

Auditor's 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 Legacy Ag Credit, ACA and its subsidiaries at December 31, 2014, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2015

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LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2014	2013	2012
Assets			
Cash	**$ 96,944**	$ 83,987	$ 83,981
Loans	**228,889,211**	216,168,241	212,343,402
Less: allowance for loan losses	**3,026,371**	3,299,523	3,269,104
Net loans	**225,862,840**	212,868,718	209,074,298
Accrued interest receivable	**1,275,553**	1,174,518	1,289,288
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**3,506,090**	3,398,855	3,514,195
Other	**170,855**	837,026	673,863
Other property owned, net	**295,631**	787,368	3,956,869
Premises and equipment	**576,391**	584,179	634,284
Other assets	**138,809**	118,073	102,271
Total assets	**$ 231,923,113**	$ 219,852,724	$ 219,329,049
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 177,687,550**	$ 169,229,588	$ 172,960,131
Advance conditional payments	**-**	4,323	1,690
Accrued interest payable	**337,241**	303,766	341,626
Drafts outstanding	**725,500**	1,282,129	231,371
Other liabilities	**1,082,508**	838,675	686,228
Total liabilities	**179,832,799**	171,658,481	174,221,046
Members' Equity			
Capital stock and participation certificates	**1,080,365**	1,021,690	997,825
Unallocated retained earnings	**50,856,949**	46,935,078	44,020,044
Accumulated other comprehensive income (loss)	**153,000**	237,475	90,134
Total members' equity	**52,090,314**	48,194,243	45,108,003
Total liabilities and members' equity	**$ 231,923,113**	**$ 219,852,724**	**$ 219,329,049**

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2014	2013	2012
Interest Income			
Loans	$ **11,644,220**	$ 11,406,892	$ 11,853,236
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**3,827,916**	3,622,748	4,536,190
Advance conditional payments	**19**	47	8
Total interest expense	**3,827,935**	3,622,795	4,536,198
Net interest income	**7,816,285**	7,784,097	7,317,038
Provision for Loan Losses	**(170,969)**	764,848	(712,551)
Net interest income after provision for losses	**7,987,254**	7,019,249	8,029,589
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**837,926**	825,845	850,371
Loan fees	**128,723**	125,499	182,709
Refunds from Farm Credit System Insurance Corporation	**-**	-	271,076
Financially related services income	**577**	556	563
Gain on other property owned, net	**1,256,861**	285,334	4,210
Gain on sale of loans	**-**	77,871	159,761
Other noninterest income	**21,054**	31,262	27,525
Total noninterest income	**2,245,141**	1,346,367	1,496,215
Noninterest Expenses			
Salaries and employee benefits	**2,888,265**	2,608,109	2,638,619
Directors' expense	**225,859**	239,701	222,394
Purchased services	**422,737**	409,624	427,793
Travel	**253,370**	220,957	177,973
Occupancy and equipment	**251,946**	229,107	205,122
Communications	**82,697**	62,268	46,116
Advertising	**138,442**	122,807	101,283
Public and member relations	**119,759**	96,374	77,416
Supervisory and exam expense	**86,788**	94,901	118,100
Insurance Fund premiums	**243,030**	210,305	151,122
Provision for other property owned	**237,159**	72,485	1,143,859
Loss on sale of premises and equipment, net	**-**	309	3,901
Other noninterest expense	**110,472**	83,635	85,857
Total noninterest expenses	**5,060,524**	4,450,582	5,399,555
NET INCOME	**5,171,871**	3,915,034	4,126,249
Other comprehensive income:			
Change in postretirement benefit plans	**(84,475)**	147,341	(65,750)
COMPREHENSIVE INCOME	$ **5,087,396**	$ 4,062,375	$ 4,060,499

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2011	$ 1,016,900	$ 40,193,795	$ 155,884	$ 41,366,579
Comprehensive income	-	4,126,249	(65,750)	4,060,499
Capital stock/participation certificates issued	99,380	-	-	99,380
Capital stock/participation certificates and allocated retained earnings retired	(118,455)	-	-	(118,455)
Patronage paid	-	(300,000)	-	(300,000)
Balance at December 31, 2012	997,825	44,020,044	90,134	45,108,003
Comprehensive income	-	3,915,034	147,341	4,062,375
Capital stock/participation certificates issued	138,990	-	-	138,990
Capital stock/participation certificates and allocated retained earnings retired	(115,125)	-	-	(115,125)
Patronage paid	-	(1,000,000)	-	(1,000,000)
Balance at December 31, 2013	1,021,690	46,935,078	237,475	48,194,243
Comprehensive income	-	5,171,871	(84,475)	5,087,396
Capital stock/participation certificates issued	157,380	-	-	157,380
Capital stock/participation certificates and allocated retained earnings retired	(98,705)	-	-	(98,705)
Patronage paid	-	(1,250,000)	-	(1,250,000)
Balance at December 31, 2014	**$ 1,080,365**	**$ 50,856,949**	**$ 153,000**	**$ 52,090,314**

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	**$ 5,171,871**	$ 3,915,034	$ 4,126,249
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	**(170,969)**	764,848	(712,551)
Provision for other property owned, net	**237,159**	72,485	1,143,859
Gain on other property owned, net	**(1,256,861)**	(285,334)	(4,210)
Gain on sale of loans	**-**	(77,871)	(159,761)
Depreciation and amortization	**130,788**	179,795	72,828
Loss on sale of premises and equipment, net	**-**	309	3,901
(Increase) decrease in accrued interest receivable	**(101,035)**	114,770	120,296
Decrease (increase) in other receivables from the Farm Credit Bank of Texas	**666,171**	(163,163)	(156,493)
(Increase) decrease in other assets	**(20,736)**	(15,802)	26,348
Increase (decrease) in accrued interest payable	**33,475**	(37,860)	(116,007)
Increase in other liabilities	**159,358**	299,788	1,529
Net cash provided by operating activities	**4,849,221**	4,766,999	4,345,988
Cash flows from investing activities:			
Increase in loans, net	**(13,462,276)**	(5,083,469)	(1,194,197)
Cash recoveries of loans previously charged off	**73,091**	12,300	233,644
Proceeds from redemption (purchase) of investment in the Farm Credit Bank of Texas	**(107,235)**	115,340	460,485
Purchases of premises and equipment	**(98,329)**	(63,759)	(174,542)
Proceeds from sales of premises and equipment	**-**	-	31,800
Proceeds from sales of other property owned	**2,052,800**	3,905,882	3,061,448
Net cash (used in) provided by investing activities	**(11,541,949)**	(1,113,706)	2,418,638

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2014	2013	2012
Cash flows from financing activities:			
Net draws on (repayment of) note payable to the Farm Credit Bank	**8,457,962**	(3,730,543)	(6,592,825)
(Decrease) increase in drafts outstanding	**(556,629)**	1,050,758	146,968
(Decrease) increase in advance conditional payments	**(4,323)**	2,633	487
Issuance of capital stock and participation certificates	**157,380**	138,990	99,380
Retirement of capital stock and participation certificates	**(98,705)**	(115,125)	(118,455)
Cash patronage distributions	**(1,250,000)**	(1,000,000)	(304,315)
Net cash provided by (used in) financing activities	**6,705,685**	(3,653,287)	(6,768,760)
Net increase (decrease) in cash	**12,957**	6	(4,134)
Cash at the beginning of the year	**83,987**	83,981	88,115
Cash at the end of the year	**$ 96,944**	$ 83,987	$ 83,981
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**$ 512,143**	$ 1,167,664	$ 2,925,222
Loans charged off	**175,274**	746,729	2,039,902
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 3,726,900**	$ 3,737,565	$ 4,652,205

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

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Legacy Ag Credit, ACA, including its wholly-owned subsidiaries, Legacy, PCA and Legacy 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 counties of Franklin, Gregg, Harrison, Hopkins, Kaufman, Marion, Rains, Upshur, Van Zandt and Wood in the state of Texas.

   The association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2014, 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, 2014, the district consisted of the bank, one FLCA and 14 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

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

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

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

   The association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

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

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Recently Issued or Adopted Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (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. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The Association is in the process of reviewing contracts to determine the effect, if any, on the Association's financial condition or its results of operations.

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

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

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

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 considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects 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, 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, 2014, 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 $106,871, $88,785 and $103,668 for the years ended December 31, 2014, 2013 and 2012, respectively. For the DB plan, the association recognized pension costs of $0, $33,810 and $32,372 for the years ended December 31, 2014, 2013 and 2012, 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 $84,413, $68,435 and $76,895 for the years ended December 31, 2014, 2013 and 2012, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plans above, the association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; however, to date no contributions to the plan have been made. Therefore, there are no associated liabilities included in the association's consolidated balance sheet. Likewise, there have been no employee benefit costs related to the nonqualified plan included in the Association's consolidated statement of comprehensive income.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. For further information of the Associations employee benefit plans, see Note 11, “Employee Benefit Plans.”

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

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:

	2014		2013		2012	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 193,114,291**	**84.4%**	$ 186,292,980	86.2%	$ 184,136,993	86.8%
Production and intermediate term	**10,016,152**	**4.4%**	9,377,704	4.3%	7,312,162	3.4%
Agribusiness:						
Processing and marketing	**7,971,551**	**3.5%**	5,037,275	2.3%	8,040,305	3.8%
Farm-related business	**999,124**	**0.4%**	-	0.0%	-	0.0%
Energy	**7,875,308**	**3.4%**	7,565,963	3.5%	6,992,953	3.3%
Rural residential real estate	**5,670,567**	**2.5%**	4,652,548	2.2%	2,431,042	1.1%
Water and waste water	**1,991,857**	**0.9%**	1,819,168	0.8%	1,853,165	0.9%
Communication	**1,250,361**	**0.5%**	1,422,603	0.7%	1,576,782	0.7%
Total	**$ 228,889,211**	**100.0%**	$ 216,168,241	100.0%	$ 212,343,402	100.0%

The association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,929,790	$ 1,146,412	$ -	$ -	$ 1,929,790	$ 1,146,412
Production and intermediate term	3,225,220	-	-	-	3,225,220	-
Agribusiness	8,970,674	-	-	-	8,970,674	-
Communication	1,250,360	-	-	-	1,250,360	-
Energy	7,813,933	-	-	-	7,813,933	-
Water and waste water	1,991,857	-	-	-	1,991,857	-
Total	$ 25,181,834	$ 1,146,412	$ -	$ -	$ 25,181,834	$ 1,146,412

Geographic Distribution

County	**2014**	2013	2012
Van Zandt	**16.9%**	18.3%	19.5%
Hopkins	**14.7%**	15.0%	16.9%
Kaufman	**11.6%**	11.9%	13.5%
Wood	**8.2%**	7.7%	8.7%
Upshur	**6.7%**	6.1%	7.6%
Harrison	**5.6%**	5.1%	5.7%
Franklin	**5.0%**	4.5%	4.7%
Marion	**2.0%**	1.7%	1.8%
Rains	**1.3%**	1.3%	0.6%
Gregg	**1.0%**	1.1%	1.2%
Other	**27.0%**	27.3%	19.8%
Totals	**100.0%**	**100.0%**	**100.0%**

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

	2014		2013		2012	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock, except dairy and poultry	**$ 69,950,992**	**30.7%**	$ 82,302,640	38.1%	$ 77,354,201	36.4%
Field crops except cash grains	**45,219,229**	**19.8%**	34,373,413	15.9%	36,494,862	17.2%
Timber	**23,386,284**	**10.2%**	18,607,424	8.6%	16,041,683	7.6%
Poultry and eggs	**20,577,705**	**9.0%**	21,673,277	10.0%	22,523,822	10.6%
Dairy farms	**13,121,811**	**5.7%**	14,049,285	6.5%	18,063,216	8.5%
Hunting, trapping and game propagation	**12,648,384**	**5.5%**	8,700,621	4.0%	6,840,152	3.2%
Electric services	**7,385,789**	**3.2%**	7,004,478	3.2%	6,431,004	3.0%
Real estate	**6,314,983**	**2.8%**	6,149,207	2.8%	6,314,983	3.0%
Rural home loans	**5,215,353**	**2.3%**	2,730,896	1.3%	1,300,137	0.6%
Animal specialties	**5,125,456**	**2.2%**	3,937,959	1.8%	2,522,453	1.2%
Food and kindred products	**4,233,602**	**1.8%**	2,595,103	1.2%	3,471,430	1.6%
Wholesale trade - nondurable goods	**2,508,144**	**1.1%**	2,417,925	1.1%	902,469	0.4%
Metal cans	**2,133,866**	**0.9%**	532,348	0.3%	2,538,146	1.2%
Water supply	**1,991,857**	**0.9%**	1,819,168	0.9%	1,853,165	0.9%
Chemical and allied products	**1,508,315**	**0.7%**	942,764	0.4%	2,067,086	1.0%
Agricultural services	**1,466,120**	**0.6%**	1,612,860	0.7%	2,473,448	1.2%
Wheat	**1,463,051**	**0.6%**	1,939,049	0.9%	2,000,000	1.0%
Communication	**1,318,218**	**0.6%**	1,492,307	0.7%	1,579,004	0.7%
Paper and allied products	**730,355**	**0.3%**	1,113,918	0.6%	727,392	0.4%
Cash grains	**659,320**	**0.3%**	816,729	0.4%	185,375	0.1%
Fruit and tree nuts	**580,745**	**0.3%**	386,036	0.2%	-	0.0%
Trucking and courier services, except air	**447,352**	**0.2%**	28,994	0.0%	50,942	0.0%
Bituminous coal and lignite mining	**428,144**	**0.2%**	498,873	0.2%	498,603	0.2%
General farms, primarily crops	**282,405**	**0.1%**	332,616	0.2%	-	0.0%
Horticultural specialties	**54,089**	**0.0%**	55,428	0.0%	56,691	0.0%
General farms, primarily livestock	**48,748**	**0.0%**	-	0.0%	-	0.0%
Vegetables and melons	**47,291**	**0.0%**	50,357	0.0%	53,138	0.0%
Farm and garden machinery equipment	**39,163**	**0.0%**	-	0.0%	-	0.0%
Lumber and wood products, except furniture	**2,440**	**0.0%**	4,566	0.0%	-	0.0%
Total	**$ 228,889,211**	**100.0%**	$ 216,168,241	100.0%	$ 212,343,402	100.0%

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

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

	December 31, 2014	December 31, 2013	December 31, 2012
Nonaccrual loans:			
Real estate mortgage	**$ 2,650,134**	$ 3,799,919	$ 5,553,086
Production and intermediate term	**120,867**	134,682	917,254
Agribusiness	**-**	-	1,078,545
Rural residential real estate	**20,616**	23,138	25,659
Total nonaccrual loans	**2,791,617**	3,957,739	7,574,544
Accruing restructured loans:			
Real estate mortgage	**3,289,626**	3,440,598	3,832,732
Total accruing restructured loans	**3,289,626**	3,440,598	3,832,732
Total nonperforming loans	**6,081,243**	7,398,337	11,407,276
Other property owned	**295,631**	787,368	3,956,869
Total nonperforming assets	**$ 6,376,874**	$ 8,185,705	$ 15,364,145

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:

	2014	2013	2012
Real estate mortgage			
Acceptable	**83.2 %**	78.1 %	68.2 %
OAEM	**12.6**	14.9	23.2
Substandard/doubtful	**4.2**	7.0	8.6
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**83.1**	76.7	72.0
OAEM	**0.3**	1.0	4.2
Substandard/doubtful	**16.6**	22.3	23.8
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**100.0**	100.0	86.6
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	13.4
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	-	-
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	-	-
Communication			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Energy			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Water and waste water			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	**99.0**	95.1	87.2
OAEM	**0.6**	4.4	11.8
Substandard/doubtful	**0.4**	0.5	1.0
	100.0	100.0	100.0
Total Loans			
Acceptable	**85.1**	80.1	70.9
OAEM	**10.6**	13.0	20.4
Substandard/doubtful	**4.3**	6.9	8.7
	100.0 %	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of December 31, 2014, 2013 and 2012:

December 31, 2014:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 1,833,508**	**$ -**	**$ 1,833,508**	**$ 192,387,629**	**$ 194,221,137**	**$ -**
Production and intermediate-term	**37,499**	**-**	**37,499**	**10,029,649**	**10,067,148**	**-**
Processing and marketing	**-**	**-**	**-**	**7,977,546**	**7,977,546**	**-**
Farm-related business	**-**	**-**	**-**	**999,482**	**999,482**	**-**
Communication	**-**	**-**	**-**	**1,250,464**	**1,250,464**	**-**
Energy	**-**	**-**	**-**	**7,939,269**	**7,939,269**	**-**
Water and waste water	**-**	**-**	**-**	**2,019,635**	**2,019,635**	**-**
Rural residential real estate	**-**	**-**	**-**	**5,690,083**	**5,690,083**	**-**
Total	**$ 1,871,007**	**$ -**	**$ 1,871,007**	**$ 228,293,757**	**$ 230,164,764**	**$ -**

December 31, 2013:	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	$ 2,013,580	$ 171,498	$ 2,185,078	$ 185,218,833	$ 187,403,911	$ -
Production and intermediate-term	-	-	-	9,419,070	9,419,070	-
Processing and marketing	-	-	-	5,039,375	5,039,375	-
Communication	-	-	-	1,422,762	1,422,762	-
Energy	-	-	-	7,573,872	7,573,872	-
Water and waste water	-	-	-	1,819,956	1,819,956	-
Rural residential real estate	-	-	-	4,663,813	4,663,813	-
Total	$ 2,013,580	$ 171,498	$ 2,185,078	$ 215,157,681	$ 217,342,759	$ -

December 31, 2012:	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	$ 1,693,968	$ 390,127	$ 2,084,095	$ 183,223,167	$ 185,307,262	$ -
Production and intermediate-term	239,361	-	239,361	7,116,833	7,356,194	-
Processing and marketing	-	1,049,056	1,049,056	6,994,728	8,043,784	-
Communication	-	-	-	1,577,039	1,577,039	-
Energy	-	-	-	7,057,654	7,057,654	-
Water and waste water	-	-	-	1,853,926	1,853,926	-
Rural residential real estate	-	-	-	2,436,831	2,436,831	-
Total	$ 1,933,329	$ 1,439,183	$ 3,372,512	$ 210,260,178	$ 213,632,690	$ -

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, 2014, the total recorded investment of troubled debt restructured loans was $3,748,903, including $459,277 classified as nonaccrual and $3,289,626 classified as accrual, with specific allowance for loan losses of $693,113. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of December 31, 2014, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

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, 2014, 2013 and 2012. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

December 31, 2014:	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
Troubled debt restructurings:		
Real estate mortgage	**$ 1,224,534**	**$ 1,158,343**
Production and intermediate term	**88,633**	**84,162**
Total	**$ 1,313,167**	**$ 1,242,505**

March 31, 2013:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	$ 58,745	$ 60,246
Total	$ 58,745	$ 60,246

Loans were paid off during the second quarter of 2013.

December 31, 2012:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 501,378	$ 426,132
Total	$ 501,378	$ 426,132

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). There were no charge-offs recorded at the modification date for the year ending December 31, 2014.

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

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:	**Recorded Investment at December 31, 2014**	Recorded Investment at December 31, 2013	Recorded Investment at December 31, 2012
Real estate mortgage	**$ 150,970**	$ -	$ -
Total	**$ 150,970**	$ -	$ -

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2014, 2013 and 2012.

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, 2014	December 31, 2013	December 31, 2012
Troubled debt restructurings:			
Real estate mortgage	**$ 3,674,258**	$ 3,506,694	$ 3,904,062
Production and intermediate term	**74,645**	-	451,176
Total	**$ 3,748,903**	$ 3,506,694	$ 4,355,238

	TDRs on Nonaccrual Status*		
	December 31, 2014	December 31, 2013	December 31, 2012
Troubled debt restructurings:			
Real estate mortgage	**$ 384,632**	$ 66,096	$ 71,330
Production and intermediate term	**74,645**	-	451,176
Total	**$ 459,277**	$ 66,096	$ 522,506

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2014	**Unpaid Principal Balance[a]**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	**$ 2,808,638**	**$ 2,857,814**	**$ 693,114**	**$ 2,607,770**	**$ 194,071**
Production and intermediate term	**104,306**	**112,729**	**52,816**	**113,519**	**-**
Total	**$ 2,912,944**	**$ 2,970,543**	**$ 745,930**	**$ 2,721,289**	**$ 194,071**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	**$ 3,131,122**	**$ 3,165,359**	**$ -**	**$ 2,750,827**	**$ 44,064**
Production and intermediate term	**16,561**	**2,758,068**	**-**	**11,377**	**3,487**
Rural residential real estate	**20,616**	**20,678**	**-**	**21,806**	**-**
Total	**$ 3,168,299**	**$ 5,944,105**	**$ -**	**$ 2,784,010**	**$ 47,551**
Total impaired loans:					
Real estate mortgage	**$ 5,939,760**	**$ 6,023,173**	**$ 693,114**	**$ 5,358,597**	**$ 238,135**
Production and intermediate term	**120,867**	**2,870,797**	**52,816**	**124,896**	**3,487**
Rural residential real estate	**20,616**	**20,678**	**-**	**21,806**	**-**
Total	**$ 6,081,243**	**$ 8,914,648**	**$ 745,930**	**$ 5,505,299**	**$ 241,622**

	Recorded Investment at 12/31/2013	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 3,581,383	$ 3,581,383	$ 811,407	$ 3,090,783	$ 198,463
Production and intermediate term	122,739	131,320	73,196	145,145	5,398
Total	$ 3,704,122	$ 3,712,703	$ 884,603	$ 3,235,928	$ 203,861
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,659,134	$ 3,672,081	$ -	$ 3,691,829	$ 114,649
Production and intermediate term	11,943	2,958,603	-	3,429	136,955
Rural residential real estate	23,138	23,200	-	24,310	-
Total	$ 3,694,215	$ 6,653,884	$ -	$ 3,719,568	$ 251,604
Total impaired loans:					
Real estate mortgage	$ 7,240,517	$ 7,253,464	$ 811,407	$ 6,782,612	$ 313,112
Production and intermediate term	134,682	3,089,923	73,196	148,574	142,353
Rural residential real estate	23,138	23,200	-	24,310	-
Total	$ 7,398,337	$ 10,366,587	$ 884,603	$ 6,955,496	$ 455,465

	Recorded Investment at 12/31/2012	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 5,284,921	$ 5,304,271	$ 890,563	$ 5,161,924	$ 51,453
Production and intermediate term	294,024	297,959	96,421	248,983	3,879
Processing and marketing	570,541	570,541	334,336	448,950	-
Total	$ 6,149,486	$ 6,172,771	$ 1,321,320	$ 5,859,857	$ 55,332
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,100,896	$ 4,104,401	$ -	$ 4,133,953	$ 110,537
Production and intermediate term	623,231	3,603,907	-	901,236	30,665
Processing and marketing	508,004	508,004	-	399,741	-
Rural residential real estate	25,659	25,721	-	26,891	-
Total	$ 5,257,790	$ 8,242,033	$ -	$ 5,461,821	$ 141,202
Total impaired loans:					
Real estate mortgage	$ 9,385,817	$ 9,408,672	$ 890,563	$ 9,295,877	$ 161,990
Production and intermediate term	917,255	3,901,866	96,421	1,150,219	34,544
Processing and marketing	1,078,545	1,078,545	334,336	848,691	-
Rural residential real estate	25,659	25,721	-	26,891	-
Total	$ 11,407,276	$ 14,414,804	$ 1,321,320	$ 11,321,678	$ 196,534

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2014, 2013 and 2012.

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

	2014	2013	2012
Interest income which would have been recognized under the original terms	**$ 494,267**	$ 785,227	$ 848,793
Less: interest income recognized	**(241,622)**	(455,465)	(196,534)
Foregone interest income	**$ 252,645**	$ 329,762	$ 652,259

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2013	$ 2,995,027	$ 252,804	$ 6,279	$ 3,064	$ 25,845	$ 10,319	$ 6,185	$ 3,299,523
Charge-offs	(151,891)	(23,383)	-	-	-	-	-	(175,274)
Recoveries	1,829	71,262	-	-	-	-	-	73,091
Provision for loan losses	(68,220)	(99,627)	5,120	(1,734)	(4,892)	995	(2,611)	(170,969)
Balance at December 31, 2014	$ 2,776,745	$ 201,056	$ 11,399	$ 1,330	$ 20,953	$ 11,314	$ 3,574	$ 3,026,371
Ending Balance: individually evaluated for impairment	$ 693,114	$ 52,816	$ -	$ -	$ -	$ -	$ -	$ 745,930
Ending Balance: collectively evaluated for impairment	$ 2,083,631	$ 148,240	$ 11,399	$ 1,330	$ 20,953	$ 11,314	$ 3,574	$ 2,280,441
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2014	$194,221,137	$10,067,148	$ 8,977,028	$ 1,250,464	$ 7,939,269	$2,019,635	$ 5,690,083	$230,164,764
Ending balance for loans individually evaluated for impairment	$ 5,939,760	$ 120,867	$ -	$ -	$ -	$ -	$ 20,616	$ 6,081,243
Ending balance for loans collectively evaluated for impairment	$188,281,377	$ 9,946,281	$ 8,977,028	$ 1,250,464	$ 7,939,269	$2,019,635	$ 5,669,467	$224,083,521

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2012	$ 2,668,962	$ 223,875	$ 341,542	$ 3,312	$ 16,014	$ 11,015	$ 4,384	$ 3,269,104
Charge-offs	(412,618)	-	(334,111)	-	-	-	-	(746,729)
Recoveries	-	12,300	-	-	-	-	-	12,300
Provision for loan losses	738,683	16,629	(1,152)	(248)	9,831	(696)	1,801	764,848
Balance at December 31, 2013	$ 2,995,027	$ 252,804	$ 6,279	$ 3,064	$ 25,845	$ 10,319	$ 6,185	$ 3,299,523
Ending Balance: individually evaluated for impairment	$ 811,407	$ 73,196	$ -	$ -	$ -	$ -	$ -	$ 884,603
Ending Balance: collectively evaluated for impairment	$ 2,183,620	$ 179,608	$ 6,279	$ 3,064	$ 25,845	$ 10,319	$ 6,185	$ 2,414,920
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2013	$187,403,911	$ 9,419,070	$ 5,039,375	$ 1,422,762	$ 7,573,872	$1,819,956	$ 4,663,813	$217,342,759
Ending balance for loans individually evaluated for impairment	$ 7,240,517	$ 134,682	$ -	$ -	$ -	$ -	$ 23,138	$ 7,398,337
Ending balance for loans collectively evaluated for impairment	$180,163,394	$ 9,284,388	$ 5,039,375	$ 1,422,762	$ 7,573,872	$1,819,956	$ 4,640,675	$209,944,422

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2011	$ 5,125,016	$ 603,133	$ 35,904	$ 1,006	$ 8,375	$ 11,015	$ 3,464	$ 5,787,913
Charge-offs	(1,915,205)	(124,697)	-	-	-	-	-	(2,039,902)
Recoveries	200	233,444	-	-	-	-	-	233,644
Provision for loan losses	(541,049)	(488,005)	305,638	2,306	7,639	-	920	(712,551)
Balance at December 31, 2012	$ 2,668,962	$ 223,875	$ 341,542	$ 3,312	$ 16,014	$ 11,015	$ 4,384	$ 3,269,104
Ending Balance: individually evaluated for impairment	$ 890,563	$ 96,421	$ 334,336	$ -	$ -	$ -	$ -	$ 1,321,320
Ending Balance: collectively evaluated for impairment	$ 1,778,399	$ 127,454	$ 7,206	$ 3,312	$ 16,014	$ 11,015	$ 4,384	$ 1,947,784
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2012	$185,307,262	$ 7,356,194	$ 8,043,784	$ 1,577,039	$ 7,057,654	$1,853,926	$ 2,436,831	$213,632,690
Ending balance for loans individually evaluated for impairment	$ 9,385,817	$ 917,255	$ 1,078,545	$ -	$ -	$ -	$ 25,659	$ 11,407,276
Ending balance for loans collectively evaluated for impairment	$175,921,445	$ 6,438,939	$ 6,965,239	$ 1,577,039	$ 7,057,654	$1,853,926	$ 2,411,172	$202,225,414

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, 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 1.5 percent of the issued stock of the bank as of December 31, 2014. As of that date, the bank's assets totaled $18.0 billion and members' equity totaled $1.479 billion. The bank's earnings were $188.3 million during 2014.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2014	2013	2012
Land and improvements	**$ 97,859**	$ 97,859	$ 97,859
Building and improvements	**508,040**	508,040	508,040
Furniture and equipment	**63,984**	54,384	54,384
Computer equipment and software	**88,538**	121,093	133,818
Automobiles	**413,378**	326,134	299,429
	1,171,799	1,107,510	1,093,530
Accumulated depreciation	**(595,408)**	(523,331)	(459,246)
Total	**$ 576,391**	$ 584,179	$ 634,284

The association owns buildings in Sulphur Springs, Canton and Gilmer and leases office space in Kaufman, Longview and Sulphur Springs (two locations). The Kaufman and Longview building leases are on a month-to-month basis. Both Sulphur Springs building leases are one-year leases which expire in 2015. General office equipment is leased with expiration in 2019. Lease expense was $50,328 $48,499 and $39,268 for 2014, 2013 and 2012, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2015	$ 31,702
2016	3,552
2017	3,552
2018	3,552
2019	2,664
Thereafter	-
Total	$ 45,022

NOTE 6 — OTHER PROPERTY OWNED, NET:

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

	2014	2013	2012
Gain (loss) on sale, net	**$ 1,286,079**	$ 314,651	$ 94,338
Provision expense	**(237,159)**	(72,485)	(1,143,859)
Operating income (expense), net	**(29,218)**	(29,317)	(90,128)
Net gain (loss) on other property owned	**$ 1,019,702**	$ 212,849	$ (1,139,649)

Other property owned consisted of two properties at December 31, 2014. This included inventory and a house and land. The net carrying value of the properties is equivalent to its fair value of $295,631, which is net of an allowance of $261,277. During 2014, there was one sale of other property owned that resulted in a gain of $1,286,079. Net operating expenses incurred on other property owned were $266,377.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2014	2013	2012
Accounts receivable - other	**$ 127,142**	$ 118,073	$ 98,708
Other	**11,667**	-	3,563
Total	**$ 138,809**	$ 118,073	$ 102,271

Other liabilities comprised the following at December 31:

	2014	2013	2012
Accounts payable	**$ 746,340**	$ 564,333	$ 289,691
Post-retirement benefits liability	**199,676**	158,406	303,088
Accrued annual leave	**126,152**	98,308	93,449
Other	**10,340**	17,628	-
Total	**$ 1,082,508**	$ 838,675	$ 686,228

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, 2015, 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, 2014, 2013 and 2012, was $177,687,550 at 2.17 percent, $169,229,588 at 2.14 percent and $172,960,131 at 2.38 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, 2014, 2013 and 2012, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2014, was $214,645,859, 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, 2014 and 2013, the association was not subject to remedies associated with the covenants in the general financing agreement. In 2012, the Association was in compliance with all covenants of the GFA except for adverse assets to risk funds being 51.8 percent, in excess of 50 percent but less than 75 percent, which is not considered an "event of default" of the GFA covenants as a Bank approved corrective action plan was in place.

NOTE 9 — MEMBERS' EQUITY:

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

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

In accordance with the Act and the association's capitalization bylaws, each borrower is required to invest in the association as a condition of borrowing. The investment in Class A capital stock (for farm loans) or participation certificates (for rural home and farm related business loans) 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.

If needed to meet regulatory capital adequacy requirements, the board of directors of the association may increase the percentage of stock requirement for each borrower up to a maximum of 5 percent of the loan amount.

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

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the association's board of directors. At December 31, 2014, 2013 and 2012, 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, Class C capital stock and participation certificates. In the event of liquidation of the association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the association's obligations to external parties and to the bank would be distributed to the association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2014, 2013 and 2012, respectively:

Date Declared	Date Paid	Patronage
January 2014	March 2014	1,250,000
January 2013	March 2013	1,000,000
February 2012	April 2012	300,000

The FCA's capital adequacy regulations require the association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the association's financial statements. The association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2014, the association is not prohibited from retiring stock or distributing earnings. The association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2014, were 21.4 percent, 20.9 percent and 20.9 percent, respectively.

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

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

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

	2014	2013	2012
Class A stock	**209,928**	199,286	195,817
Participation certificates	**6,145**	5,052	3,748
Total	**216,073**	204,338	199,565

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

	2014	**2013**	**2012**
Nonpension postretirement benefits	**$ 153,000**	$ 237,475	$ 90,134

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:

	2014	2013	2012
Accumulated other comprehensive income (loss) at January 1	**$ 237,475**	$ 90,134	$ 155,884
Actuarial gains/(losses)	**(42,482)**	156,991	(43,087)
Amortization of prior service credit (costs) included in salaries and employee benefits	**(8,547)**	(8,547)	(17,149)
Amortization of actuarial gain (loss) included in salaries and employee benefits	**(33,446)**	(1,103)	(5,514)
Other comprehensive income (loss), net of tax	**(84,475)**	147,341	(65,750)
Accumulated other comprehensive income at December 31	**$ 153,000**	$ 237,475	$ 90,134

NOTE 10 — INCOME TAXES:

There was no provision for income taxes for the years ended December 31, 2014, 2013 or 2012.

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:

	2014	2013	2012
Federal tax at statutory rate	**$ 1,810,155**	$ 1,370,262	$ 1,402,925
Effect of nontaxable FLCA subsidiary	**(2,356,157)**	(1,839,079)	(1,739,774)
Change in valuation allowance	**531,817**	596,580	344,587
Other	**14,185**	(127,763)	(7,738)
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

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

	2014	2013	2012
Deferred Tax Assets			
Allowance for loan losses	**$ 69,438**	$ 87,714	$ 76,124
Loss carryforwards	**5,560,321**	5,010,228	4,425,238
Gross deferred tax assets	**5,629,759**	5,097,942	4,501,362
Deferred tax asset valuation allowance	**(5,629,759)**	(5,097,942)	(4,501,362)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The association recorded valuation allowances of $5,629,759, $5,097,942 and $4,501,362 during 2014, 2013 and 2012, respectively. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings. The association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

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 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, 2014.

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, 2014, 2013 and 2012:

	2014	2013	2012
Funded status of plan	**67.5** %	77.3 %	65.0 %
Association's contribution	**$ -**	$ 33,810	$ 32,372
Percentage of association's contribution to total contributions	**0.0** %	0.2 %	0.2 %

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 74.5 percent, 86.1 percent and 72.7 percent at December 31, 2014, 2013 and 2012, 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. Employees hired prior to January 1, 2004, and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premium paid on a percentage of cost sharing basis predicated on length of employment service. Employees hired before this date that have reached the age requirement and have 25 years of service will receive 100 percent of their medical premium paid. Employees hired after January 1, 2004, will be eligible for access only to retiree medical benefits for themselves, but will be responsible for 100 percent of the premium.

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2014	2013	2012
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 158,406**	$ 303,088	$ 250,489
Service cost	**3,985**	11,774	9,364
Interest cost	**7,953**	13,093	12,504
Plan participants' contributions	**667**	630	613
Actuarial loss (gain)	**42,482**	(156,991)	43,087
Benefits paid	**(13,817)**	(13,188)	(12,969)
Accumulated postretirement benefit obligation, end of year	**$ 199,676**	$ 158,406	$ 303,088
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Company contributions	**13,150**	12,558	12,356
Plan participants' contributions	**667**	630	613
Benefits paid	**(13,817)**	(13,188)	(12,969)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (199,676)**	$ (158,406)	$ (303,088)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (199,676)**	$ (158,406)	$ (303,088)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	**$ (122,246)**	$ (198,174)	$ (42,286)
Prior service cost (credit)	**(30,754)**	(39,301)	(47,848)
Total	**$ (153,000)**	$ (237,475)	$ (90,134)
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2014**	12/31/2013	12/31/2012
Discount rate	**4.55%**	5.20%	4.40%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.25%/6.75%**	7.50%/6.50%	7.25%/6.50%
Health care cost trend rate assumed for next year - Rx	**6.75%**	6.50%	7.75%
Ultimate health care cost trend rate	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2024**	2024	2023

Total Cost	2014	2013	2012
Service cost	**$ 3,985**	$ 11,774	$ 9,364
Interest cost	**7,953**	13,093	12,504
Amortization of:			
Unrecognized prior service cost	**(8,547)**	(8,547)	(17,149)
Unrecognized net loss (gain)	**(33,446)**	(1,103)	(5,514)
Net postretirement benefit cost	**$ (30,055)**	$ 15,217	$ (795)
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 42,482**	$ (156,991)	$ 43,087
Amortization of net actuarial loss (gain)	**33,446**	1,103	5,514
Amortization of prior service cost	**8,547**	8,547	17,149
Total recognized in other comprehensive income	**$ 84,475**	$ (147,341)	$ 65,750
AOCI Amounts Expected to be Amortized Into Expense in 2015			
Unrecognized prior service cost	**(8,215)**		
Unrecognized net loss (gain)	**(21,296)**		
Total	**$ (29,511)**		
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2013**	12/31/2012	12/31/2011
Discount rate	**5.20%**	4.40%	5.10%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.50%/6.50%**	7.25%/6.50%	8.50%/6.75%
Health care cost trend rate assumed for next year - Rx	**6.50%**	7.75%	8.00%
Ultimate health care cost trend rate	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2024**	2023	2018

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2015	**$ 11,977**
Fiscal 2016	**12,606**
Fiscal 2017	**13,502**
Fiscal 2018	**14,802**
Fiscal 2019	**16,407**
Fiscal 2020–2024	**83,713**
Expected Contributions	
Fiscal 2015	**$ 11,977**

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 $2,121,471, $1,865,140 and $944,888 at December 31, 2014, 2013 and 2012, respectively. During 2014, $257,488 of new loans were made, and repayments totaled $337,907. In the opinion of management, no such loans outstanding at December 31, 2014, 2013 and 2012 involved more than a normal risk of collectibility.

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 $412,630, $336,596 and $241,526 in 2014, 2013 and 2012, respectively.

The association received patronage payments from the bank totaling $837,926, $825,845 and $850,371 during 2014, 2013 and 2012, 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:

December 31, 2014	**Fair Value Measurement Using**			**Total Fair**	**Total**
	Level 1	**Level 2**	**Level 3**	**Value**	**Gains (Losses)**
Assets:					
Loans	**$ -**	**$ -**	**$ 2,167,014**	**$ 2,167,014**	**$ -**
Other property owned	**-**	**-**	**316,695**	**316,695**	**-**

December 31, 2013	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Gains (Losses)
Assets:					
Loans	$ -	$ -	$ 3,762,018	$ 3,762,018	$ -
Other property owned	-	-	787,368	787,368	-

December 31, 2012	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Gains (Losses)
Assets:					
Loans	$ -	$ -	$ 6,586,875	$ 6,586,875	$ -
Other property owned	-	-	3,956,869	3,956,869	-

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

	December 31, 2014 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 96,944	$ 96,944	$ -	$ -	$ 96,944
Net loans	223,695,826	-	-	223,650,048	223,650,048
Total Assets	$223,792,770	$ 96,944	$ -	$223,650,048	$223,746,992
Liabilities:					
Note payable to bank	$177,687,550	$ -	$ -	$177,652,012	$177,652,012
Total Liabilities	$177,687,550	$ -	$ -	$177,652,012	$177,652,012

	December 31, 2013 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 83,987	$ 83,987	$ -	$ -	$ 83,987
Net loans	209,106,700	-	-	208,116,649	208,116,649
Total Assets	$209,190,687	$ 83,987	$ -	$208,116,649	$208,200,636
Liabilities:					
Note payable to bank	$169,229,588	$ -	$ -	$168,454,516	$168,454,516
Total Liabilities	$169,229,588	$ -	$ -	$168,454,516	$168,454,516

	December 31, 2012 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 83,981	$ 83,981	$ -	$ -	$ 83,981
Net loans	202,487,423	-	-	204,763,331	204,763,331
Total Assets	$202,571,404	$ 83,981	$ -	$204,763,331	$204,847,312
Liabilities:					
Note payable to bank	$172,960,131	$ -	$ -	$174,813,926	$174,813,926
Total Liabilities	$172,960,131	$ -	$ -	$174,813,926	$174,813,926

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

The Association had no assets or liabilities measure at fair value on a recurring basis for 2014, 2013 or 2012.

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

Information about Other Financial Instrument Fair Value Measurements:

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

Valuation Techniques

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

Loans

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

Other Property Owned

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

Note payable to the Farm Credit Bank of Texas

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

NOTE 14 — COMMITMENTS AND CONTINGENCIES

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

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2014, $10,972,478 of commitments and $480,920 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 Farm Credit Administration (FCA) terminated the Supervisory Agreement (Agreement) with Legacy Ag Credit, ACA effective January 23, 2014. The Association has been returned to normal supervision. Details regarding the Agreement can be found in the Notes to the consolidated financial statements, "Regulatory Enforcement Matters" for Annual reports 2009-2013.

NOTE 16 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2014				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 1,953**	**$ 1,910**	**$ 1,926**	**$ 2,027**	**$ 7,816**
(Provision for) reversal of loan losses	**39**	**(16)**	**(48)**	**196**	**171**
Noninterest income (expense), net	**(809)**	**(982)**	**(9)**	**(1,015)**	**(2,815)**
Net income	**$ 1,183**	**$ 912**	**$ 1,869**	**$ 1,208**	**$ 5,172**

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,865	$ 1,949	$ 2,031	$ 1,939	$ 7,784
(Provision for) reversal of loan losses	(478)	(326)	81	(42)	(765)
Noninterest income (expense), net	(709)	(653)	(934)	(808)	(3,104)
Net income	$ 678	$ 970	$ 1,178	$ 1,089	$ 3,915

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,007	$ 1,751	$ 1,716	$ 1,843	$ 7,317
(Provision for) reversal of loan losses	276	240	7	190	713
Noninterest income (expense), net	(834)	(494)	(763)	(1,813)	(3,904)
Net income	$ 1,449	$ 1,497	$ 960	$ 220	$ 4,126

NOTE 17 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 12, 2015, which is the date the financial statements were issued or available to be issued.

In January 2015, the board of directors approved a patronage payment related to 2014 earnings of $1,600,000. The patronage will be paid in March 2015.

There are no subsequent events requiring disclosure as of March 12, 2015.

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

The Legacy Ag Credit, ACA (association) serves its 10-county territory through its main administrative and lending office at 303 Connally St., Sulphur Springs, TX 75482. Additionally, there are four branch lending offices located throughout the territory. The association owns the office buildings in Sulphur Springs, Gilmer and Canton, free of debt. The association leases two office buildings in Sulphur Springs and one office building each in Kaufman and Longview.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

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

DESCRIPTION OF LIABILITIES

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

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

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

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

The association's 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 Legacy Ag Credit, ACA 303 Connally St., Sulphur Springs, TX 75482 or calling 903-885-9566. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *sherry.jennings@legacyaca.com*. The association's annual stockholder report is available on its website at *www.legacyaca.com* 75 days after the fiscal year end or 40 days after quarter end for quarterly reports. 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, 2014, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

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

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

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Jerry Cordell	Chairman of the Board	1979	2017
Wayne Bawcum, CPA	Director at Large	2008	2016
Terry D. Milligan	Director	2010	2016
Cody Newman	Vice Chairman	2000	2016
A.G. Sandifeer	Director	2001	2017
Ron Gabriel	Director	2011	2015
Paul Nicklas	Director	2013	2015
Joseph Crouch	CEO	2008	-
Al Conner	CCO	2012	-
Sherry Jennings	SVP/CAO	2007	-
Daryl D. Belt	SVP/CFO	2007	-

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

Jerry Cordell, chairman of the board. Mr. Cordell owns and operates a beef cattle operation in Kaufman County and previously owned an agricultural retail business. Mr. Cordell currently serves as director and vice president of the Farmer's Market in Kaufman, Texas, and formerly served as a member of the Kaufman County Hay Show board. He has served as a director of Legacy Ag Credit, ACA since 1979. He was elected board chairman in 2010 and has served continuously in this position since that time.

Wayne Bawcum, CPA, chairman of the audit committee. Mr. Bawcum is a CPA and is currently a partner with Bawcum and Preuss, CPAs in Sulphur Springs, Texas. He has served as director at large since 2008.

Terry D. Milligan, director. Mr. Milligan has been employed by the USDA since 1981. He owns and operates a beef yearling grazing operation in Van Zandt County. He has served as director since his election in 2010.

Cody Newman, vice chairman of the board. Mr. Newman is president and a partner in a family business, the Newman Corporation, which manages and develops oil, gas, real estate and ranch properties, serves as director/treasurer of NH, Inc., a family business which purchases and sells livestock, and serves as trustee of Newman Ranches, a family business which purchases and sells real estate. Additionally, Mr. Newman serves on the board of the Upshur Rural Electric Cooperative Corporation and previously served as a school board member for Harleton ISD for 12 years. He served as director at large for the association since 2000 and was elected director in 2008. He was elected board vice chairman in 2010 and has served continuously in that position since that time. Additionally, he serves as audit committee vice chairman and previously served as chairman of the compensation committee.

A.G. Sandifeer, director. Mr. Sandifeer retired from TXU after 36 years of service and from J & L Utility Construction Co. after 16 years of service. He owns and operates a cow/calf operation in Hopkins County, Texas, and is a member, and former chief, of the Dike Volunteer Fire Department. He has served as a director since 2001.

Ron Gabriel, director. Mr. Gabriel resides in Grand Saline, Texas, where he owns and operates oil field service companies and a beef cattle, horse and hay operation. He is the owner, director and president/CEO of Energy Devices, Inc., and Lubri-Pump, Inc., owner and President/CEO of Turbo Drilling Fluids, Inc., and Four Star Rentals, L.L.C., owner and president/secretary/treasurer of Gabriel Land Holdings, LLC and owner/director of Energy Devices of Texas, Inc. He currently serves as chairman of the Legacy Ag Credit, ACA Compensation Committee, is past chairman of the Legacy Ag Credit, ACA Nominating Committee, and served on the Spring Hill School Board for six (6) years.

Paul Nicklas, director. Mr. Nicklas resides in Canton, Texas, where he owns and operates a commercial cow/calf operation, concentrating on alternative marketing strategies, breed composition and sire selection. Additionally, he owns and operates a small business in Van Zandt, Kaufman and Henderson counties. Mr. Nicklas is a licensed Texas real estate agent, a professional bondsmen of Texas, and a retired Texas peace officer. He has served as director since his election in 2013.

Joseph Crouch, chief executive officer. Mr. Crouch joined Legacy Ag Credit, ACA in 2008 where he has served as senior credit officer, special assets manager and chief credit officer prior to being appointed CEO in April 2013. Mr. Crouch began his banking career in 1997 and performed various roles for commercial banks located in the Panhandle of Texas and throughout West Texas. Mr. Crouch also previously served as a director on the board of the Hopkins County Memorial Hospital. Mr. Crouch received a degree in agribusiness and economics from West Texas A&M University in Canyon, Texas.

Al Conner serves as chief credit officer. Mr. Conner joined Legacy Ag Credit, ACA in December 2012. Mr. Conner began his Farm Credit career in 1976 as a loan officer for the Federal Land Bank of Vidalia, Georgia, and Ohoopee PCA. Mr. Conner served as branch manager for the Federal Land Bank of Gainesville, Florida and North Florida, PCA in Lake City, Florida, from 1979 to 1982. Mr. Conner moved to Columbia, South Carolina, in April 1982 where he continued his Farm Credit career until his retirement from the AgFirst Farm Credit Bank in March 2011. Mr. Conner gained extensive lending experience during this 29-year tenure with the AgFirst Farm Credit Bank where he served as a senior loan officer, senior credit reviewer, vice president in charge of credit review, and vice president/relationship manager. Mr. Conner holds a B.S. in dairy science from the University of Georgia.

Sherry Jennings joined Legacy Ag Credit, ACA in 2007 and serves as SVP and chief administrative officer. Ms. Jennings has over 20 years' banking experience in the Sulphur Springs area, most recently serving as senior administrative officer with Guaranty Bond Bank. Ms. Jennings began her banking career in 1988 with Texas Commercial Savings, continuing while under the management of the Resolution Trust Corporation, and served as administrative officer of First American Bank & Mortgage until the merger with Guaranty Bond Bank. She has extensive operational experience, including credit operations and human resource management. She attended Texas A&M University in Commerce, Texas (formerly East Texas State University).

Daryl D. Belt serves as SVP and chief financial officer. Mr. Belt joined the Association in 2007 and has been with the Farm Credit System since 1993 in various capacities with associations and the district bank (FCBT). Mr. Belt was with JPMorgan Chase & Co. for 10 years prior to joining Farm Credit and was also a Realtor with Sotheby's International Realty in Austin, Texas from 2006 through 2007. Mr. Belt holds a B.B.A. in finance from the University of Texas.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of $650 per day for official activities and $150 per day for teleconference meetings, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2014 was paid at the IRS-approved rate of 56.0 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

	Number of Days Served Associated With		
Director	Board Meetings	Other Official Activities	Total Compensation in 2014
Jerry Cordell	15	32	$ 27,200
Wayne Bawcum, CPA	15	26	22,450
Terry D. Milligan	14	21	20,750
Cody Newman	15	19	19,600
A.G. Sandifeer	15	22	22,050
Ron Gabriel	15	18	19,450
Paul Nicklas	15	21	21,400
			$ 152,900

The aggregate compensation paid to directors in 2014, 2013 and 2012 was $152,900, $178,850 and $162,050, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee	
Director	Audit	Other Official Activities
Jerry Cordell	$ 600	$ 16,850
Wayne Bawcum, CPA	600	12,100
Terry D. Milligan	600	11,050
Cody Newman	600	9,250
A.G. Sandifeer	600	11,700
Ron Gabriel	600	9,100
Paul Nicklas	600	11,050
	$ 4,200	$ 81,100

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $72,959, $60,755 and $60,344 in 2014, 2013 and 2012, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

The compensation plan for all employees provides for base salaries to be administered consistent with competitive financial industry survey data of like-sized financial institutions. In 2014, 2013 and 2012 bonuses were paid in accordance with the bonus plan as discussed below in the Chief Executive Officer (CEO) Compensation Table Policy.

Chief Executive Officer (CEO) Compensation Policy

The CEO's base salary is benchmarked against that paid to CEOs of other financial institutions. Effective November 1, 2012, the CCO, Joseph Crouch, was appointed Interim CEO by the association board and was named CEO in April 2013.

A critical factor to the association's success is its ability to attract, develop and retain staff that is knowledgeable and efficient in their ability to support the association in the execution of its strategic objectives and delivery of association results that maximize the value to the stockholders. This objective holds particularly true for the association's chief executive officer (CEO) and senior officer group. The association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the association's financial and operational objectives, all for the ultimate benefit of its stockholder/members. The association's board of directors, through its compensation committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the association's evaluation and establishment of salary and incentive plans used by the association.

All association employees, including senior officers, can earn compensation above base salary through an annual success-sharing incentive plan. The term of the plan is each calendar year beginning January 1 through December 31. The plan is based upon the achievement of predetermined association performance goals for net income, new loan growth, credit quality and adverse asset to risk funds levels. The following criteria is also used for determining eligibility for the incentive pay: (1) the association must receive an overall rating of "satisfactory" on credit administration on its Internal Credit Review and (2) eligible employees must receive an annual performance rating of "meets standards" on his/her individual performance review.

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the association during 2014, 2013 and 2012. 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)	Deferred/ Perquisite(e)	Other(f)	Total
Joseph Crouch						
CEO/President	2014	$ 212,188	$ 34,479	$ 48,050	$ -	$ 294,717
	2013	206,008	36,000	42,443	-	284,451
	2012	153,506	43,500	35,205	-	232,211
Gregory M. Cunningham CEO	2012	185,965	-	37,564	25,579	249,108
Aggregate Number of Senior Officers & other highly compensated empoyees (a)						
(5)	2014	$ 590,590	$ 95,968	$ 128,845	$ -	$ 815,403
(5)	2013	545,355	87,019	118,512	-	750,886
(3)	2012	302,750	68,498	73,348	-	444,596

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary
(c) Bonuses paid within the first 31 days of the subsequent calendar year.
(d) Deferred/Perquisites include all non salary related benefits provided to the employee such as 401(K) matching and contributions to the Defined Contribution retirement plan (as discussed in Note 2 H), medical and dental insurance premiums paid by the employer, imputed income on employer paid life insurance and imputed income for personal use of association vehicles (as described below).
(e) Amounts in the "Other" column for 2012 represent a cash payment of accrued annual leave for Mr. Cunningham.

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

Certain employees are assigned association-owned vehicles for use in normal business operations. For all personal mileage traveled in association vehicles, the association includes in the earnings of the respective employees an amount derived by an IRS established method. Amounts relating to personal use of association vehicles are included in the "Deferred/Perquisite" column in the table above along with other association-provided benefits. Employees who use their personal automobile for business purposes were reimbursed during 2014 at the IRS-approved rate of 56.0 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2014, 2013 or 2012.

All employees 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

There have been no events that have occurred in the last five years (bankruptcy, conviction or naming in a criminal proceeding, or judgment or finding limiting a right to engage in a business) that are material to the evaluation of the ability or integrity of any person who served as director or senior officer of the association.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The association selected PricewaterhouseCoopers LLP to audit its financial statements and provide an opinion thereon for its 2014 annual report. The total fees paid for professional services rendered by PricewaterhouseCoopers LLP for the association during 2014 were $43,000 for audit services and $8,000 for tax services.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The association has business relationships with LWES, LLC and LAC Asset Holding, LLC, both of which are limited liability companies, formed for the purpose of acquiring and managing unusual and complex collateral (acquired property).

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of Pricewaterhouse Coopers LLP dated March 12, 2015, 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

2015 CREDIT AND SERVICES PLAN TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS

MISSION:
The association will make a concerted and cooperative effort to offer credit and related services to young, beginning or small (YBS) farmers, ranchers, producers or harvesters of aquatic products as supported by their creditworthiness. Sound and constructive credit to YBS farmers may include credit for nonagricultural purposes (Other Credit Needs) as well as agricultural purposes.

DEFINITIONS:

- Young Farmer – age 35 or younger
- Beginning Farmer – 10 years or less experience
- Small Farmer - $250,000 or less gross agricultural income

DEMOGRAPHIC DATA:

	Per 2012 USDA Census of			Legacy Ag Credit, ACA 2014 Loans	% of Portfolio	2013 Loans	% of Portfolio
Young Farmers	1,091	7.5%	Young Farmers	270	17.3%	270	18.1%
Beginning Farmers	4,239	29.1%	Beginning Farmers	893	57.2%	866	58.0%
Small Farmers	14,169	97.3%	Small Farmers	1,314	84.1%	1,263	84.7%
Total Farms	14,562		Total Loans	1,562		1,492	

* For ten chartered Associaton counties.

ASSOCIATION GOAL:

Each year, the board and management establish quantitative targets in the business plan to measure and evaluate progress toward serving young, beginning and small farmers and ranchers in our territory. The association's YBS loans, as a percentage of total loans outstanding at year end, are reflected in the above tables for 2014 and 2013. While volume-based performance goals for outstanding loans at year-end 2014 did not meet expectations for the young farmer segment only, volume-based targets for new credits were exceeded in all YBS segments for 2014.

Based on the United States Department of Agriculture's 2012 Census of Agriculture data for the ten chartered association counties, the largest potential for future penetration continues to be in the small farmer category. While small farmers currently represent roughly 84 percent of the association's loan portfolio, we recognize that, based on the demographics, there remains additional opportunity to serve this segment within the association's territory.

As the association continues to build momentum in the marketplace, the association has established similar goals for 2015 as in 2014. Legacy Ag Credit is proud to introduce Farm Credit products and services to the YBS farmers and ranchers of our agricultural community. We are committed to providing consistent financing to young, beginning, and small farmers producing the food and fiber that we enjoy today in this great country. The level by which our number of new young, beginning, and small relationships in 2014 exceeded goal evidences the association's desire to provide financing to all creditworthy YBS farmers within our territory.

The following chart identifies the association's goals for years 2015, 2016, and 2017. Based on these goals, the association expects that the volume and number of YBS farmers served throughout this timeline in our territory will continue to grow.

2014 Actual Numbers

(000's omitted)

	Loans Outstanding		Gross New Business	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	270	$23,447	56	$4,274
Beginning	893	$127,263	147	$25,966
Small	1,314	$154,658	255	$36,987

2014 Goals

	Loans Outstanding		Gross New Business	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	279	$26,507	38	$3,921
Beginning	896	$126,152	143	$24,881
Small	1,307	$152,795	239	$31,265

2015 Goals (5% Increase/2014)

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	284	$24,619	59	$4,488
Beginning	938	$133,626	154	$27,264
Small	1,380	$162,391	268	$38,836

2016 Goals (5% increase/2015)

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	298	$25,850	62	$4,712
Beginning	985	$140,307	162	$28,628
Small	1,449	$170,510	281	$40,778

2017 Goals (5.5% increase/2016)

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	314	$27,272	65	$4,971
Beginning	1,039	$148,024	171	$30,202
Small	1,528	$179,889	297	$43,021

RELATED SERVICES:

The association works to identify and meet the unique needs of young, beginning and small operations by offering related services such as:

Workshops providing borrowers and local producers valuable information regarding farm planning and management, product marketing, and risk management
Title insurance, credit life insurance, and fee appraisal services
Allocation of additional time, from inquiry through closing, to assist qualified borrowers with real estate purchases
Recognition and allowance for circumstances unique to YBS applicants
Support of federal and state sponsored guarantee programs for YBS borrowers
Facilitation of loan processing with Farm Service Agency and Small Business Administration

OUTREACH TO YBS SEGMENT:

The association realizes the future of agriculture rests with young and budding producers, and outreach was evidenced through continued participation in numerous local activities, such as:

Support and participation of career day events at local universities
Sponsorship of an association borrower for the 2014 Farm Credit Young Leaders Program, which gives current and future leaders insight into the ways that Farm Credit supports agriculture
Participation in the Texas district membership and sponsorship program through FCBT, which supports various YBS statewide organizations and events
Supporting local 4-H and FFA chapter events
Sponsoring Texas AgriLife Extension Service events which train and address beginning farmers needs
Purchasing of livestock show animals
Maintaining a visible presence at territory hay shows and rodeos
Exhibiting and distributing marketing material at trade shows and equipment auctions
Sponsoring local charitable and civic events

STRATEGIES:

- Through staff meetings and periodic memorandums, review the Association’s YBS Farmer and New Generation loan programs and policies with association personnel to ensure an understanding of and compliance with policies and procedures.

- Ensure YBS loans are properly identified and classified in accordance with system wide classification standards.

- Internal controls, and more specifically, the lines of responsibility in administering the YBS program, are contained within existing association loan policies and procedures regarding standard and New Generation loan programs. Each loan officer is charged with maintaining soundness and monitoring performance results within the YBS loan portfolio.

- Increase utilization of the association’s New Generation loan program. The association’s goal is to close five loans for $25,000 in 2015, seven loans for $35,000 in 2016, and 10 loans for $50,000 in 2017.

- Ensure the association’s Marketing Program adequately targets YBS farmers and ranchers by requiring that branch offices participate in at least one YBS marketing activity on a quarterly basis. Activities will include but not be limited to 4-H and FFA events, youth livestock shows, hay shows, chamber events, support to local charitable and service organizations and other related service events. Documentation of all such activities is required and reported quarterly to Legacy’s board of directors.

- Review and update, when needed, the association Lending Standards to ensure maximum penetration in the YBS farmer market based on their creditworthiness and the financial ability of the association.

- Promoting the YBS Program with a positive attitude is required by the entire staff.

- Opportunities to cooperate will include utilization of the association’s New Generation Program, with coordinated efforts with USDA on its young and beginning farmer participation programs.

- ✶ An annual report of the association's YBS loan related data is submitted to the Farm Credit Bank of Texas after each calendar year end. The Farm Credit Bank of Texas compiles YBS data on a district-wide basis and submits to FCA and to the association board of directors. A capsule report of YBS loan-related statistics is provided to the association board of directors on a quarterly basis. Reporting to stockholders is contained in the Annual Report, which is completed during the first quarter of each calendar year for the preceding full calendar year.

- ✶ Monitor closely the clear lines of responsibility for YBS program implementation by loan officers. Additionally, track performance and results of the association's YBS Program and report quarterly to the association's board of directors.